



**London Borough of
Hillingdon Pension Fund**

Initial audit results report

Year ended 31 March 2021

16 September 2021



EY

Building a better
working world



16 September 2021

Dear Audit Committee Members

We are pleased to attach an initial audit results report for the forthcoming meeting of the Audit Committee. We will update the Committee at its meeting on 29 September 2021 on further progress to that date and explain the remaining steps for the issue of our final opinion.

The audit is designed to express an opinion on the 2020/21 financial statements and address current statutory and regulatory requirements. This report contains our initial findings related to the areas of audit emphasis, our views on London Borough of Hillingdon Pension Fund's (the 'Pension Fund') accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process. This report is intended solely for the information and use of the Audit Committee, Pensions Committee and management. It is not intended to be, and should not be, used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Committee meeting on 29 September 2021.

Yours faithfully



Helen Thompson

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

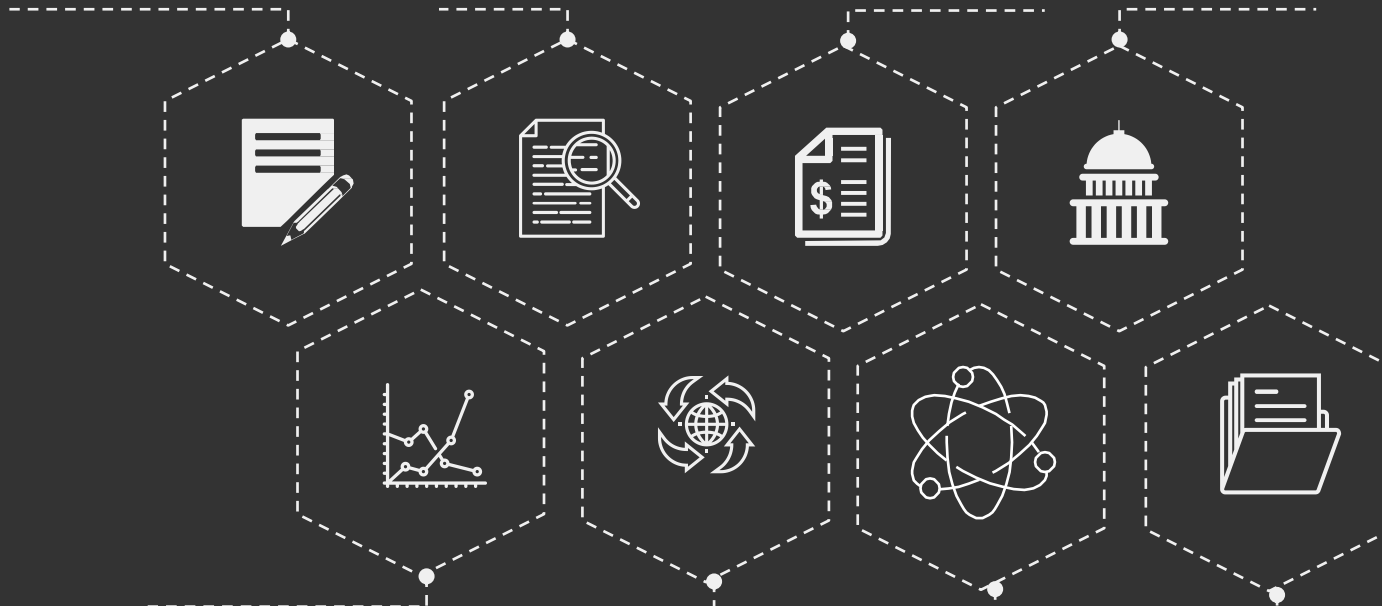
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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities 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 April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the 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 Hillingdon Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Hillingdon Pension Fund 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 Hillingdon Pension Fund 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 Executive Summary

Executive Summary

Scope update

In our outline audit planning report presented to the 20 April 2021 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan with the following updates.

Changes in materiality

We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment.

	Planning Materiality	Performance Materiality	Audit Differences
	Our planning materiality represents 1% of the Fund's net assets, consistent year on year.	Performance materiality represents 75% of planning materiality and is the top of our range, consistent year on year.	We will report all uncorrected misstatements relating to the primary statements (net asset statement and fund account) greater than 5% of planning materiality.
Planned	£9.9 million	£7.4 million	£0.5 million
Final	£11.6 million	£8.7 million	£0.6 million

Auditing accounting estimates

A revised auditing standard has been issued for the audit of accounting estimates. The revised standard requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors now consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether or not there is a significant risk. At the same time, we may see the number of significant risks we report for accounting estimates to increase as a result of the revised guidance in this area. The changes to the standard have affected the nature and extent of information requested and increased the level of audit work required.



Executive Summary

Status of the audit

Our audit work in respect of the Fund opinion is in progress. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

- ▶ Completion of testing of unquoted level 2 investments valuation
- ▶ Completion of necessary assurance procedures for the valuation of defined benefit pension liability disclosed in the statement of accounts
- ▶ Journal entry testing
- ▶ Going concern assessment review and disclosures
- ▶ Completion of internal reviews
- ▶ Agreement of all final amendments to the financial statements
- ▶ Update of our subsequent events procedures to the date of our opinion
- ▶ Receipt of a signed letter of management representation
- ▶ We must give an opinion on the consistency of the Pension Fund financial statements included within the Statement of Accounts 2020/21 with the Pension Fund Annual Report. Our review of the Annual Report, which was made available to us by management on 10 September 2021, has not been completed.

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the accounts which could influence our final audit opinion.

Audit differences

At the date of this report there are no unadjusted or adjusted audit differences which require your attention.



Executive Summary

Areas of audit focus

Our outline audit plan identified significant risks and areas of focus for our audit of the Pension Fund's financial statements. We summarise below our latest findings. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised in the "Areas of Audit Focus" section of this report.

Fraud risks	Findings & conclusions
Misstatements due to fraud or error, including misstatement of investment amounts through fraudulent journal entries	<p>We are carrying out procedures to address fraud risks as set out in our outline audit plan, including identifying risks, considering controls and their effectiveness, testing journal entries and looking at estimates for evidence of management bias. Using data analytics is central to our approach.</p> <p>We performed a reconciliation between the fund managers reports and the custodian reports to address the risk of manipulation of asset valuations.</p> <p>Our work in this area is in progress and we have no matters to bring to your attention considering our progress to date.</p>
Significant risk	Findings & conclusions
Valuation of complex investments (Level 3 Fair Value hierarchy)	<p>We undertook additional procedures, as described more fully in Section 2 of this report, to gain material assurance over the year-end valuation of the Fund's complex investments disclosed as level 3 in the fair value hierarchy, and therefore inherently more difficult to value.</p> <p>We have completed our work in this area and have no matters to bring to your attention.</p>
Areas of audit focus	Findings & conclusions
Disclosure on Going Concern	<p>We obtained management's going concern assessment and the adequacy of the disclosures in the financial statements.</p> <p>The work in this area is ongoing.</p>
IAS 26 disclosure - Actuarial Present Value of Promised Retirement Benefits	<p>Our procedures include assessing the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team.</p> <p>Our work in this area is ongoing in light of the latest developments in the estimates auditing standard.</p>

Executive Summary

Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

Independence

Please refer to Section 07 for our update on Independence.



02

Areas of Audit Focus



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error, including misstatement of investment amounts through fraudulent journal entries

What is the risk?

There is a risk that the financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 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.

There is a risk that due to fraud or error, journals posted into the general ledger for the investment values are incorrect.

What judgements are we focused on?

The risk of management override at the Pension Fund is mainly through the possibility that management could override controls and manipulate in-year financial transactions which intend to adjust the reported Fund Account.

This could be done through manipulation of estimates including investment valuation, or through journals amending the values in the production of the financial statements from those provided by the custodian or fund managers.

What did we do?

- We enquired of management about risks of fraud and the controls put in place to address those risks.
- We gained an understanding of the oversight given by those charged with governance of management's processes over fraud.
- We ensured that journal entries are supported by the fund manager/custodian reports.

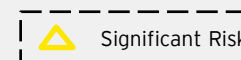
The following procedures are in progress:

- We are utilising our data analytics capabilities to assist with our work, including journal entry testing. We are assessing journal entries for evidence of management bias, we are evaluating journals for business rationale and that appropriate authorisations have been obtained.
- We are reviewing accounting estimates for evidence of management bias.

What are our conclusions?

Our work in this area is ongoing, however to date we:

- have not identified any material weaknesses in controls or evidence of material management override,
- have not identified any instances of inappropriate judgements being applied,
- did not identify any journal entries without a valid business purpose,
- did not identify any other transactions during our audit which appeared unusual or outside Hillingdon Pension Fund's normal course of business,
- have not identified unexplained differences between the fund's investment values provided by the custodian or fund managers, to those presented in the financial statements.





Areas of Audit Focus

Significant risk

Valuation of complex Investments (Level 3 Fair Value hierarchy)

What is the risk?

Investments at Level 3 are those where at least one input that could have a significant effect on the asset's valuation is not based on observable market data.

Significant judgements are made by the investment managers or administrators to value these investments whose prices are not publicly available. The material nature of Investments means that any error in judgement could result in a material valuation error.

Market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the Fund year end. Such variations could have a material impact on the financial statements.

What judgements are we focused on?

The judgements we are focussed on are the valuation data used when the information is not publicly available.

What did we do?

We:

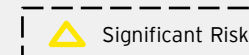
- ▶ reviewed the relevant funds' latest available audited accounts for modifications and corroborated the extracted information with the relevant valuations
- ▶ where the latest audited accounts were not as at 31 March 2021, we performed analytical procedures, market indexations and cash flow roll-forward to assess the valuation for reasonableness against our own expectations;
- ▶ reviewed the fund managers' latest controls reports to assess whether the fund manager maintained appropriate controls to prevent and detect material misstatement in the pricing of assets; and
- ▶ tested that accounting entries were correctly processed in the financial statements.

What are our conclusions?

We have completed our testing and our findings are as follows:

- the underlying funds' latest available audited accounts were not qualified or otherwise modified, nor did they contain material uncertainties in respect of going concern or other matters emphasised that would impact valuation;
- the audit reports of the underlying funds were issued by reputable auditors;
- where the latest audited accounts were not as at 31 March 2021, we found that the rolled forward cash flows to 31 March 2021, combined with market movement indexation resulted in value ranges that reasonably approached the pension fund's valuations;
- management correctly reflected the valuation adjustments due to timing differences in the updated draft accounts.

We have not noted any issues with the judgements used in the valuation of level 3 investments.





Areas of Audit Focus

What is the risk/area of focus?	What are we doing?
<p><u>Disclosures on going concern</u></p> <p>There is a presumption that the Pension Fund will continue as a going concern for the foreseeable future. However, the Pension Fund is required to carry out a going concern assessment that is proportionate to the risks it faces.</p> <p>In light of the continued impact of Covid-19, there is a need for the Pension Fund to ensure its going concern assessment, including its cashflow forecast, is comprehensive.</p> <p>The Pension Fund is then required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.</p> <p>Given the available levels of liquid investment assets, we do not consider there to be a risk to the Fund's going concern status. We do consider the unpredictability of the current environment to give rise to a risk that the Pension Fund may not appropriately disclose the key factors relating to going concern, consistent with managements assessment with particular reference to Covid-19</p>	<ul style="list-style-type: none">▶ Assessing the adequacy of disclosures required in 2020/21;▶ Reviewing management's going concern assessment for any evidence of bias and consistency with the accounts;▶ Reviewing the financial modelling and forecasts prepared by the Pension Fund;▶ Ensuring that an appropriate going concern disclosure has been made within the financial statements; <p>The work in this area remains ongoing.</p>



Areas of Audit Focus

What is the risk/area of focus?	What are we doing?
<p>IAS 26 disclosure - Actuarial Present Value of Promised Retirement Benefits</p> <p>The Fund's IAS 26 calculation shows that the present value of promised retirement benefits amount to £2,039 million as at 31 March 2021.</p> <p>The figure is material and subject to complex estimation techniques and judgements by the Actuary, Hymans Robertson. The estimate is based on a roll-forward of data from the previous triennial valuation in 2019/20, updated where necessary, and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation and investment yields when calculating the liability.</p> <p>There is a risk that the valuation uses inappropriate assumptions to value the liability as at the 31 March 2021.</p>	<ul style="list-style-type: none">▶ Assessing the competence of management experts, Hymans Robertson;▶ Engaging with the NAO's consulting actuary and our EY Pensions team to review whether the IAS26 approach applied by the actuary is reasonable and compliant with IAS26; and▶ Ensuring that the IAS26 disclosure is in line with the relevant standards and consistent with the valuation provided by the Actuary. <p>As at the date of this report, our planned work in this area is largely complete, but an issue has arisen across all local government audits that needs to be resolved prior to us being able to fully conclude our work. This is in relation to the impact of the new auditing standard on accounting estimates.</p> <p>We planned to take an audit approach to this estimate based on procedures to evaluate management's process. The revised auditing standard requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. Neither we, nor PWC as consulting actuaries commissioned by the NAO for all local government sector audits, are able to access the detailed models of the actuaries in order to evidence these requirements. Therefore, we have been required to modify our planned approach and undertake alternate procedures to create an auditor's estimate, to provide a different method of gaining assurance. We will provide the Audit Committee with a verbal update on progress at the 29 September 2021 meeting.</p>



03 Audit Report



Audit Report

Draft audit report

NB This is an example report - our audit report will not be completed and issued until the work is complete

Our opinion on the financial statements

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

Opinion

We have audited the pension fund financial statements for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Pension Fund Account, the Net Assets Statement and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2021 and the amount and disposition of the fund's assets and liabilities as at 31 March 2021; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the pension fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Corporate Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Corporate Director of Finance with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Pension Fund's ability to continue as a going concern.

Other information

The other information comprises the information included in the Statement of Accounts 2020/21, other than the financial statements and our auditor's report thereon. The Corporate Director of Finance is responsible for the other information contained within the Statement of Accounts 2020/21.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;



Audit Report

Draft audit report

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Our opinion on the financial statements

- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Corporate Director of Finance

As explained more fully in the Statement of the Corporate Director of Finance's Responsibilities set out on pages [...], the Corporate Director of Finance is responsible for the preparation of the pension fund's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Corporate Director of Finance is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the pension fund either intends to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the pension fund and determined that the most significant are the Local Government Pension Scheme Regulations 2013 (as amended), and the Public Service Pensions Act 2013.

We understood how Hillingdon Pension Fund is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, Head of Internal Audit, and those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Pensions Committee and Pensions Board minutes and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation



Audit Report

Draft audit report

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Our opinion on the financial statements

We assessed the susceptibility of the pension fund's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and opportunities for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures we identified management override of controls, including misstatement of investment amounts through fraudulent journal entries, to be our fraud risk.

To address our fraud risk we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately. We assessed journal entries for evidence of management bias and evaluated for business rationale using specific criteria we considered to be relevant to the risk. We also tested the consistency of the investment asset valuation from the independent sources of the custodian and the fund managers to the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any identified significant transactions that were unusual or outside the normal course of business.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of London Borough of Hillingdon, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the London Borough of Hillingdon and London Borough of Hillingdon members as a body, for our audit work, for this report, or for the opinions we have formed.



04 Audit Differences





Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of audit differences

At the date of this report there are no unadjusted or adjusted audit differences which require your attention.

We note, however, that management has not been able to obtain the relevant information from the third party to disclose the additional voluntary contributions for 2020/21. The market value of the additional voluntary contributions as of 31 March 2020 was £5,249k. We do not currently expect this to impact our audit opinion.



05 Other reporting issues

Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2020/21 with the audited financial statements. Our review of the Pension Fund's Annual Report, which was made available to us by management on 10 September 2021, has not been completed.

In addition, we also perform procedures to ensure the consistency of the Pension Fund accounts with the version presented in the Pension Fund's Annual Report. This is not yet complete and we received the annual report on 10 September 2021.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Pension Fund to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We also have a duty to make written recommendations to the Pension Fund, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We have had no reason to exercise these duties.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Fund's financial reporting process. We have no matters to report.



06

Assessment of Control Environment



Assessment of Control Environment

Financial controls

Our responsibilities

It is the responsibility of the Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

Findings

We have not identified any significant deficiencies in internal control.



07

Independence

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Fund, and its members and senior management and its affiliates, including all services provided by us and our network to the Fund, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2020 to the date of this report which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The table below sets out a summary of the fees that you have paid to us in the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

	Final fee 2020/21	Scale fee 2020/21	Final Fee 2019/20
	£	£	£
Total Fee - Code work (1)	TBC	16,170	33,306
Total audit	TBC**	16,170**	33,306*

All fees exclude VAT.

There were no fees receivable outstanding at the time of writing this report.

*The 19/20 Code work includes an additional fee of £17,136, which relates to additional procedures to address the significant risk around investments valuation, procedures on IAS19 assurances provided to the auditor of the LB of Hillingdon, the triennial membership data testing used in IAS19 valuations, additional specific one-off work required for Covid-19 considerations in relation to Going Concern and professional consultation, as well as work performed on restated membership numbers. We have discussed the variation with officers and received partial approval from PSAA.

**The scale fee for 2020/21 is set by PSAA as indicative and does not reflect the actual costs of undertaking the audit, to address all risks identified and to meet current regulatory standards. We set out the key areas of focus of our work in Section 02. In our outline audit planning report, we included an estimate of the scale fee increase by £28,290 to reflect those underlying costs. We will discuss and agree a final fee with management and PSAA, and communicate progress to the Audit Committee.

Other communications

EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil 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 year end 30 June 2020:

[EY UK Transparency Report 2020 | EY UK](#)

A close-up photograph of a person's hand reaching into a filing cabinet to touch a folder. The cabinet is filled with numerous folders of various colors (yellow, blue, white) and sizes, each containing stacks of papers. The background is a textured, light-colored wall.

08 Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of net asset statement and any changes to this approach from the prior year audit.




Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- ▶ Existence: An asset, liability and equity interest exists at a given date
- ▶ Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- ▶ Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- ▶ Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- ▶ Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Investment assets	Substantively tested all assertions	Substantively tested all assertions	No change
Cash balances	Substantively tested all assertions	Substantively tested all assertions	No change

Appendix B

Summary of communications





Date 	Nature 	Summary 
Throughout the year	Meetings, calls and emails.	The Associate Partner and Manager have been in regular contact with the Corporate Director of Finance and the finance team in respect of the Council's risks, audit timeline and resource planning, accounts closedown and the audit approach.
8 July 2021	Meeting	Introduction of Helen Thompson as the new partner in charge to the Council's Corporate Director of Finance.
6 September 2021	Meeting	We held a meeting with the Council's Corporate Director of Finance, the Deputy Director of Corporate Finance, the Head of Finance and with EY's Associate Partner and Manager, where we discussed audit progress and the timescale.
14 September 2021	Meeting	We held a meeting with the Council's Chief Executive, the Cabinet Member for Finance, the Corporate Director of Finance and the Head of Finance and with EY's Associate Partner and Manager, where we discussed the status of the audit, the key steps to complete the work and the timetable impact.
All Audit Committee meetings held in the year	Committee attendance	The Associate Partner and Manager have attended the meetings of the Audit Committee held throughout the financial year and to the date of issue of this report. Specific reports issued and communications with the Committee are detailed in Appendix C.

In addition to the above specific meetings the audit team met with the finance team multiple times throughout the audit to discuss audit progress and findings.




Appendix C

Required communications with the Audit Committee





There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

 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.	Outline audit planning report April 2021
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Outline audit planning report April 2021
Significant findings from the audit	<ul style="list-style-type: none"> ▶ 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 	This Audit results report and an update at the Audit Committee - 29 September 2021 Final Audit Results Report in due course




Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ 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 	This Audit results report and an update at the Audit Committee - 29 September 2021 Final Audit Results Report in due course
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	This Audit results report and an update at the Audit Committee - 29 September 2021 Final Audit Results Report in due course
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit Committee - 29 September 2021
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Pension Fund ▶ 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 Pension Fund, any identified or suspected fraud involving: <ol style="list-style-type: none"> 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 ▶ Any other matters related to fraud, relevant to Audit Committee responsibility. 	Formal enquiry letter sent and response received from Chair of Audit Committee. and This Audit results report - 29 September 2021 Final Audit Results Report in due course




Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	<p>Significant matters arising during the audit in connection with the Pension Fund’s related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ 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 Pension Fund 	This Audit results report - 29 September 2021 Final Audit Results Report in due course
Independence	<p>Communication of all significant facts and matters that bear on EY’s, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ 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 <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Outline audit planning report April 2021 and</p> <p>This Audit results report - 29 September 2021 Final Audit Results Report in due course</p>

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ 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 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	This Audit results report - 29 September 2021 Final Audit Results Report - in due course

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	This Audit results report - 29 September 2021 Final Audit Results Report in due course
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	This Audit results report - 29 September 2021 Final Audit Results Report in due course
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	This Audit results report - 29 September 2021 Final Audit Results Report in due course
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit planning report is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Outline Audit Planning Report April 2021 and This Audit results report - 29 September 2021 Final Audit Results Report in due course

Management representation letter

NB This is an example letter - the final letter template will not be available until the work is complete

Management Representation Letter - draft

xx September 2021

Helen Thompson
Associate Partner
Ernst & Young LLP
Grosvenor House
Grosvenor Square
Southampton
SO15 2BE

This letter of representations is provided in connection with your audit of the financial statements of London Borough of Hillingdon Pension Fund (“the Fund”) for the year ended 31 March 2021. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the period from 01 April 2020 to 31 March 2021 and of the amount and disposition of the Fund’s assets and liabilities as at 31 March 2021, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

We understand that the purpose of your audit of the Fund’s financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.
3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and are free of material misstatements, including omissions. We have approved the financial statements.

Management representation letter

NB This is an example letter - the final letter template will not be available until the work is complete

4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. As members of management of the Fund, we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/2021 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
6. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented *as at the date of this report*.

B. Non-compliance with laws and regulations including fraud

1. We acknowledge that we are responsible for determining that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
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 not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.
5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of non-compliance with any legal duty.
6. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - ▶ Involving financial improprieties
 - ▶ Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements
 - ▶ Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue, or to avoid material penalties
 - ▶ Involving management, or employees who have significant roles in internal control, or others
 - ▶ In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - ▶ Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters.
 - ▶ Additional information that you have requested from us for the purpose of the audit.
 - ▶ Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

Management representation letter

NB This is an example letter - the final letter template will not be available until the work is complete

2. You have been informed of all changes to the Fund rules.
3. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic.
4. We have made available to you all minutes of the meetings of Audit Committee and Pensions Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on the following [date].
5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.
6. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.
8. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/2021
9. From the date of our last management representation letter through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

E. Going Concern

3. Note [X] to the financial statements discloses all the matters of which we are aware that are relevant to the Fund's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1. Other than the events described in Note [X] to the financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

Management representation letter

NB This is an example letter - the final letter template will not be available until the work is complete

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and Annual Governance Statement within the Statement of Accounts, and the Pension Fund Annual Report.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Independence

1. We confirm that, under section 27 of the Pensions Act 1995, no members of the management of the Fund of the Scheme is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

I. Derivative Financial Instruments

1. We confirm that the Fund has made no direct investment in derivative financial instruments.

J. Pooling investments, including the use of collective investment vehicles and shared services

1. We confirm that all investments in pooling arrangements, including the use of collective investment vehicles and shared services, meet the criteria set out in the November 2015 investment reform and criteria guidance and that the requirements of the LGPS Management and Investment of Funds Regulations 2016 in respect of these investments has been followed.

K. Actuarial valuation

1. The latest report of the actuary Hymans Robertson as at 31 March 2021 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on their report.

L. Estimates

1. We confirm that the significant judgments made in estimating the investment valuations and the IAS26 disclosure of Present Value of Promised Retirement Benefits (“the accounting estimates”) have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the accounting estimates.
3. We confirm that the significant assumptions used in making the accounting estimates appropriately reflect our intent and ability to carry out the specific courses of action on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21
5. We confirm that appropriate specialized skills or expertise has been applied in making the accounting estimates.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.

Yours faithfully,

Paul Whaymand - Corporate Director of Finance
Councillor Martin Goddard - Chairman of Pensions Committee

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