

# **Pension Fund Investments Panel**

## **SUPPLEMENTAL AGENDA**

**DATE: Tuesday 19 October 2010**

### **AGENDA - PART I**

7. **PENSION FUND ANNUAL ACCOUNTS AND THE REPORT OF THE AUDITOR**  
(Pages 1 - 66)

Report of the Corporate Director Finance.

8. **REVIEW OF THE PENSION FUND'S INVESTMENT STRATEGY** (Pages 67 - 70)

Report of the Corporate Director Finance.

### **AGENDA - PART II**

11. **INFORMATION REPORT - UPDATE REPORT AND ACTION POINTS FROM PREVIOUS MEETINGS** (Pages 71 - 76)

Report of the Corporate Director Finance.

12. **INFORMATION REPORT - PRESENTATION BY LONGVIEW** (Pages 77 - 80)

Presentation by Longview (8 pm)

13. **INFORMATION REPORT - REPORT ON LONGVIEW BY HYMANS ROBERTSON**  
(Pages 81 - 86)

Report of the Corporate Director Finance.

**14. PERFORMANCE OF FUND MANAGERS - QUARTER ENDING 30 JUNE 2010**  
(Pages 87 - 92)

Report of the Corporate Director Finance.

**15. TENDER FOR INVESTMENT CONSULTING AND ACTUARIAL SERVICES**  
(Pages 93 - 96)

Report of the Corporate Director Finance.

*[Please note that Hymans Robertson LLP, Advisers to the Fund, will be attending this meeting.]*

**REPORT FOR: Pension Fund Investment Panel**

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<b>Date of Meeting:</b>	19 <sup>th</sup> October 2010
<b>Subject:</b>	Pension Fund Annual Accounts and the Report of the Auditor
<b>Responsible Officer:</b>	Myfanwy Barrett, Corporate Director Finance
<b>Exempt:</b>	No
<b>Enclosures:</b>	Appendix 1- Pension Fund Annual Report Appendix 2- Report of the Auditor

## **Section 1 – Summary and Recommendations**

The Pension Scheme Annual Report has been approved by GARM and signed. The paper summarises the main issues raised in the Auditor's Report and the proposed actions.

**Recommendation:**

1. Note the proposed actions in response to the matters raised by the Auditor.

## **Section 2 – Report**

1. The Pension Scheme Accounts to 31<sup>st</sup> March 2010 were considered by GARM on 28<sup>th</sup> September 2010 and approved. They have subsequently been signed both by the Corporate Director of Finance and the Auditor. The Auditor concluded that there are no uncorrected misstatements or any disclosure deficiencies in the Accounts.
2. Four issues were identified by the Auditor as requiring attention. These are summarised below together with planned action.

### Inclusion of Investment Ranges in the SIP

3. At present the Statement of Investment Principles makes no allowance for investment allocations to vary from the agreed strategy. Neither does it discuss a rebalancing policy.
4. At the special meeting on 21<sup>st</sup> September 2010, the Panel agreed control ranges for asset classes and a rebalancing policy. These will be added to the SIP and a revised version submitted to the Panel, preferably as part of the Strategic Review but at the latest prior to 31<sup>st</sup> March 2011.

### Separate Pension Scheme Bank Account

5. Cash balances for the pension scheme are managed through the Council's bank account. Regulations require a separate bank account to be operational by 31<sup>st</sup> March 2011. Work is underway to meet this deadline and to consider how surplus cash can be invested in the name of the Pension Fund.

### Monitoring Operational Controls at Investment Managers

6. Investment managers and custodians have access to the assets of the Pension Fund and it is essential to ensure that they have robust controls to protect our assets against loss through error and fraud. While reviews will have been performed prior to new manager appointment it is essential that these are updated regularly and that procedures are in place to identify possible weaknesses in internal controls. Increased transparency in this area is essential.
7. It is proposed that a plan to monitor and provide assurance on the operational controls operated by Investment Managers and Custodians is presented to the next Panel meeting.

### Tax Efficiency

8. The Auditor's report identified improved tax efficiency as a means of improving investment returns. While pension schemes are generally exempt from tax in the UK on investment income and gains, this is not necessarily the case overseas and custodians have a key role in managing withholding tax and submitting tax returns and claims. The Pension Scheme is wholly invested in pooled funds, where the investment

manager and its custodian are responsible for the tax efficiency of the fund. In addition, there are a range of options for managing VAT within the Pension Fund that can lead to different tax impacts.

9. Given the scope of this issue, it is not possible to make any general statements about the efficiency of the arrangements in place. Officers will engage with Investment Managers and Custodians to ensure that optimum tax arrangements are in place and report back to the Panel in 2011.

### **Financial Implications**

10. Financial matters are integral to the report

### **Risk Management Implications**

11. Risk included on Directorate risk register? No
12. Separate risk register in place? No
13. Risk issues are discussed within the Report of the Auditor (appendix 2).

### **Corporate Priorities**

14. Corporate Priorities are not applicable to Pension Fund as it does not have a direct impact on Council's resources.

## **Section 3 - Statutory Officer Clearance**

Name: Jennifer Hydari	<input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date: 7 October 2010		

## **Section 4 - Contact Details and Background Papers**

**Contact:** George Bruce (Treasury and Pension Fund Manager) Tel: 020-8424-1170 / Email: george.bruce@harrow.gov.uk

**Background Papers:** Nil

If appropriate, does the report include the following considerations?

1.	Consultation	N/A
2.	Corporate Priorities	N/A

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# Pension Fund Annual Report 2009-10

## London Borough of Harrow Pension Fund

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## 1 Introduction

The purpose of this report is to account for the income, expenditure and net assets of the Harrow Council Pension Fund ('the Pension Fund') for the financial year to 31 March 2010.

Information about the economic resources controlled by the Pension Fund is provided by the net assets statement. The actuarial funding level is reported on page 10 and in the Statement of the Consulting Actuary. The triennial valuation as at 31 March 2010 is currently underway.

The financial markets gained confidence over the year and resulted in a strong recovery in both the UK and Global equity markets. The market value of the Fund as at 31 March 2010 was £435.9m compared to £307.4m as at 31 March 2009. The London Borough of Harrow Pension was ranked 11<sup>th</sup> highest out of 99 in the Local Authority Annual League Table of investment returns for the year ended March 2010.

Myfanwy Barrett  
CPFA  
Corporate Director of Finance  
30<sup>th</sup> September, 2010

## 2 Administration of the Fund

The London Borough of Harrow Pension Fund is administered in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and The Local Government Pension Scheme (Administration) Regulations 2008. Its purpose is to provide pensions to all the Council's employees with the exception of teaching staff. Also included are certain employees of admitted and scheduled bodies who have gained admittance to the Fund in accordance with the Fund's admittance criteria. The London Borough of Harrow is the administrating employer.

### Scheduled:

This is a statutorily defined body listed within Local Government Pension Scheme (LGPS) Regulations and has a statutory obligation to participate in the LGPS (e.g. a local authority, a further or higher education establishment). The scheduled employers within the Fund are:

- Harrow Council;
- St Dominic's Sixth Form College;
- Stanmore College; and
- Harrow College.

### Admitted:

There are two types of admission body:

**Community Admission Body** – These are typically charities or other public sector bodies providing a public service otherwise than for profit and which has sufficient links with the Scheme Employer to be regarded as having a community of interest.

**Transferee Admission Body** – These are typically private sector companies or charities who will have taken on staff from a local authority as a result of an outsourcing of services.

The organisations listed below have been admitted to the fund:

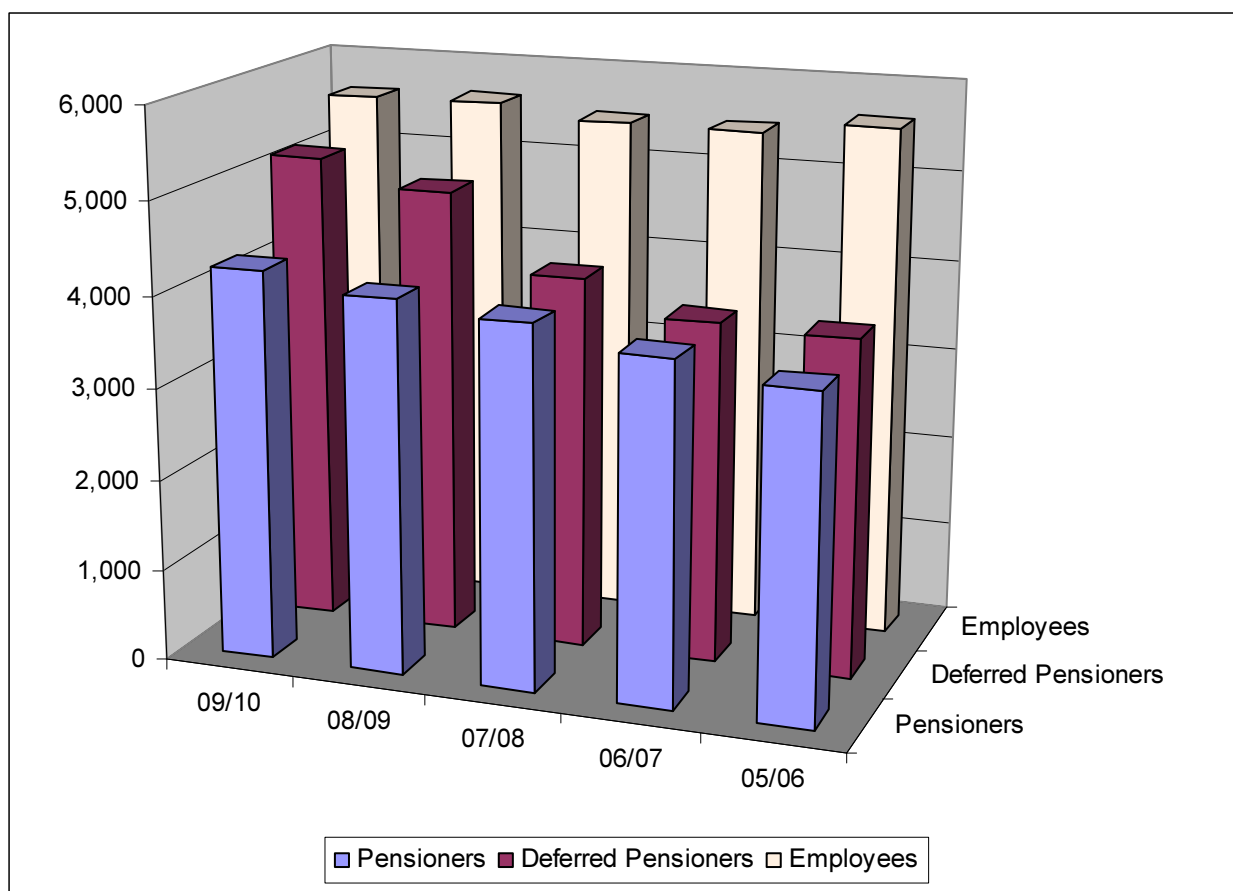
- Care UK;
- Harrison Catering;
- Haywards Services;
- Hughes Gardner;
- Kier;
- North London Collegiate School; and
- Supporta Care.

Membership of the Fund is voluntary. Full-time, part-time and casual employees where there is a mutuality of obligation and who have a contract of more than three months are brought into the Fund automatically, but have the right to "opt out" if they so wish. Casual employees with no mutuality of obligation are not eligible for membership. Contributors to the Fund are contracted out of the State Second Pension.

The Fund is financed by accumulated contributions paid by employees and their employers together with returns from the investment of fund monies. The pension benefits

payable out of the Fund are primarily determined by legislation and not by the local authority.

## Membership of the Fund



### Membership Data as at 31 March 2010

	Status	Actives	Deffereds	Pensioners	Total	%
<b>LB Harrow</b>	Scheduled	5,082	4,834	4,073	<b>13,989</b>	93.02
<b>Harrow College</b>	Scheduled	190	216	95	<b>501</b>	3.33
<b>Stanmore College</b>	Scheduled	120	80	34	<b>234</b>	1.56
<b>St Dominic's Sixth Form College</b>	Scheduled	44	21	17	<b>82</b>	0.55
<b>Care UK</b>	Admitted	43	6	6	<b>55</b>	0.37
<b>Harrisons Catering</b>	Admitted	14	-	-	<b>14</b>	0.09
<b>Hayward Services</b>	Admitted	4	2	1	<b>7</b>	0.05
<b>Hughes Gardner</b>	Admitted	3	-	1	<b>4</b>	0.03
<b>Kier</b>	Admitted	7	2	1	<b>10</b>	0.07
<b>North London Collegiate School</b>	Admitted	51	16	26	<b>93</b>	0.62
<b>Supporta Care</b>	Admitted	42	2	6	<b>50</b>	0.33
<b>Total</b>		<b>5,600</b>	<b>5,179</b>	<b>4,260</b>	<b>15,039</b>	100.00

## Key Elements of the Fund

**Eligibility for Membership** - Virtually all employees of relevant employers (who have a contract of more than 3 months) aged under 75 can join the Fund, other than those covered by other statutory schemes (for example, teachers, police officers and fire-fighters). Membership is automatic for all employees (including those of scheduled bodies) other than employees of admitted bodies and those who have opted out in the past.

**Employee Contributions** – Fund changes effective from 1 April 2008 saw the introduction of banded employee contribution rates according to an employee whole time equivalent (WTE) pensionable pay as shown below:

WTE Pensionable Pay	Contribution Rate
Up to £12,000	5.5%
More than £12,000 and up to £14,000	5.8%
More than £14,000 and up to £18,000	5.9%
More than £18,000 and up to £30,000	6.5%
More than £30,000 and up to £40,000	6.8%
More than £40,000 and up to £75,000	7.2%
More than £75,000	7.5%

Employees previously paying a protected rate of 5% paid the contribution rate of 5.50% in 2009/10. The rate will be increased on a phased basis, bringing it into line with all other Fund members by 1 April 2011.

**Benefits on Retirement** – From April 2008 the payment of a pension is calculated at 1/60th of the final year's pay multiplied by the number of years service, with an option to exchange part of the pension into a tax free lump sum. The calculation of benefits in respect of pre April 2008 pensionable service is based on the accrual rate of 1/80th of the final year's pay for each year of membership plus a lump sum of three times the pension. Actual membership may be enhanced in cases of ill health retirement. Employers may choose to augment the active members number of years service (other than on ill health grounds). In all cases, it is possible to exchange part of the pension for a tax free lump sum.

**Age of Retirement** - Normal retirement date for Fund members is at age 65, subject to:

1. Pension benefits are payable at any age if retirement results from ill health.
2. Members may retire with full accrued benefits from age 55 onwards (other than those with protection at age 50 until 31 March 2010) if their retirement is on redundancy or efficiency grounds.
3. Members who have not reached normal retirement date and to whom ill health or redundancy/efficiency retirement does not apply may elect from age 55 (other than those with protection at age 50 until 31 March 2010) onwards to draw their accrued benefits. Employer consent is required for elections made before age 60, however, benefits may be actuarially reduced.

**Benefits on Death in Service** - A lump sum death grant is payable, normally equivalent to three years pay. Harrow Pension Fund, as administering authority, has absolute discretion over the distribution of this lump sum among the deceased's family, dependants, personal representatives or nominated beneficiaries. Pensions may also be payable to the member's widow, widower, civil partner, nominated partner and/or children.

**Benefits on Death after Retirement** - In some circumstances a lump sum death grant is payable, normally equivalent to ten times annual pension less pension paid (post April 2008 retirements). If so, Harrow Pension Fund has absolute discretion over the distribution of this lump sum among the deceased's family, dependants, personal representatives or nominated beneficiaries. Pensions may also be payable to the member's widow, widower, civil partner, nominated partner and/or children.

**Cost of Living Increases** - Pensions payable to members who retire on ill health grounds and to members' spouses and children are increased in line with the Retail Price Index. Pensions payable to other members who have reached the age of 55 also benefit from annual inflation proofing. Where a pensioner has a Guaranteed Minimum Pension (relating to membership up to 5 April 1997), some or all of the statutory inflation proofing may be provided by the Department for Work and Pensions.

**Extra Benefits** - The Fund offers several ways for members to improve benefits.

- Payment of additional periodical payments to increase annual pension;
- A money purchase AVC Fund which is operated with Equitable Life (closed to new members), Clerical Medical or Prudential.

## **Taxation**

**UK Tax** - The Fund is an exempt approved fund and is therefore not liable to UK tax on capital gains and investment income. Where a taxation agreement exists between this country and another whereby a proportion of withholding tax deducted from investment income can be recovered, this will be reclaimed, although the amount and timescales vary from one country to another.

**Overseas Tax** – Income earned from investments in stocks and shares and securities in the United States is exempt from tax. Similar arrangements exist with Australia and Hong Kong, whereby investment income is transmitted to Britain, gross of foreign income tax. Taxation arrangements exist between Britain and certain EC and other European Countries whereby a proportion of the tax deducted locally from investment earnings may be reclaimed. The proportion reclaimable and the timescale involved varies from country to country.

**Transfer Value Calculations**-The methodology used in calculating the transfer values is in accordance with the Local Government Pensions Scheme Regulations and is also in line with the guidance received from the Government Actuarial Department.

## More Information

All publications relating to the Fund, such as Harrow's [Pension Communications Policy](#), [Fund Guides](#) and [Governance Compliance Statement](#), can be found on the Council website at [www.harrow.gov.uk](http://www.harrow.gov.uk) - Advice & Benefits - Local Government Pension Scheme.

For information on joining / leaving the Fund and Fund benefits, please contact the Pensions Section at Harrow Council.

The Council office is open from 9:00am to 5:00pm, Monday to Friday. The address is:

Shared Services – Pensions  
Harrow Council  
3rd Floor South Wing  
Civic Centre  
Station Road  
Harrow  
HA1 2XF

Email address: [Pension@harrow.gov.uk](mailto:Pension@harrow.gov.uk)  
Telephone Number: 020 8424 1186.

For pension investments matters please contact the Corporate Finance Section, Treasury and Pensions on 020 8424 1172.

## Audit Responsibilities

The Audit Commission is responsible for appointing the auditors to the London Borough of Harrow Pension Fund. For the audit of the 2009/10 accounts, Deloitte LLP have been reappointed.

## Custodian

The Custodians for the Pension Fund are JP Morgan and Bank of New York Mellon. Most investments are held within pooled funds who appoint their own custodians.

## The Pensions Ombudsman

The Pensions Ombudsman can investigate complaints of maladministration as well as disputes about decisions which have been made about your pension rights at the address below:

The Pensions Ombudsman  
11 Belgrave Road  
London SW1V 1RV

Tel No. 0207 834 9144  
Fax No. 0207 821 0065  
Email: [enquiries@pensions-ombudsman.org.uk](mailto:enquiries@pensions-ombudsman.org.uk)

### 3 Management and Investments

The Authority has delegated its responsibility for the determining of investment policy and the monitoring of investment performance to the Pension Fund Investment Panel which meets at least every two months. The Panel sets guidelines for and assesses the investment decisions of the Fund's investment managers.

As at 31 March 2010, the membership of the Pension Fund Investment Panel was as follows:

Councillor Romain (Chairman)  
Councillor Ferrari  
Councillor Dharmarajah  
Councillor Idaikkadar

The membership of the panel is determined at the Annual Council meeting each May, at the start of the Council's municipal year. A change in the membership of the panel can only be made by a Non-Executive (agreed by the Leaders of all political parties) or by full Council.

The Pension Fund Investment Panel has the following powers and duties:

- To administer all matters concerning the Council's pension investments in accordance with the law and Council policy;
- To establish a strategy for the disposition of the Council's Investment in accordance with the law and Council policy; and
- To determine the managers' delegation of powers of management of the Fund.

The Pension Fund Investment Panel receives a quarterly update report on the Fund and individual fund manager's performance.

The investment objective of the Fund is to achieve a return that is sufficient to meet the primary funding objective of minimising the level of employer contribution in order to meet the cost of pension fund benefits as required by statute, subject to an appropriate level of risk (implicit in the target) and liquidity.

The Council has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the LGPS regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

The day-to-day management of the Fund's investments as at 31 March 2010 was carried out by the following nine external managers:

**Managers**

BlackRock Investment Management (UK) Limited  
 Fidelity International  
 Longview Partners Investments  
 BNY Mellon Asset Management  
 Pantheon Private Equity  
 Record Currency Management Limited  
 State Street Global Advisors Limited  
 UBS Global Asset Management (UK) Limited  
 Wellington Management International Limited

**Mandate**

Global Bonds and Property  
 Global Equities  
 Global Equities  
 Active Currency  
 Private Equity  
 Active and Passive Currency  
 UK Equities Passive  
 Property  
 Global Equities

The UK and Global equities mandate with Baillie Gifford was terminated during November 2009. Manager fees are paid as a percentage of the value of each mandate.

**Investment Adviser**

The Panel is advised by independent adviser, Hymans Robertson LLP.

**Actuary**

The actuarial service is provided by Lorna Tonner of Hymans Robertson LLP.

**Actuarial Valuation**

An actuarial valuation of the Fund was carried out as at 31 March 2007. The market value of the Fund's assets at the valuation date was £435m and the total accrued liabilities of the Fund were £503m. The Fund deficit was therefore £68m producing a funding level of 87% (compared to 82% at 31 March 2004, the date of the last valuation).

To reach the funding level of 100% over a period of 20 years, the common employers' contribution rate is 19.4% of pensionable pay. The Projected Unit method is used to determine this rate. Adjustments have been made to the common rate of employers' contributions to take account of certain circumstances that are peculiar to individual employers.

The main actuarial assumptions used at 31 March 2007 are detailed below:

<b>Assumption</b>	<b>Nominal</b>
Price Inflation (RPI)	3.2%
Pay Increases	4.7%
Gilt based discount rate	4.5%
Funding basis discount rate	6.1%

The next triennial actuarial valuation will be carried out as at 31 March 2010. The results will be known in November 2010 and the employer's contribution rate will be adjusted in the light of this.



## Statement of Investment Principles

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999 require administering authorities to prepare, maintain and publish a written statement of principles governing their decisions about investments. The Pension Fund has adopted a formal Statement of Investment Principles which is published on the council website at [www.harrow.gov.uk](http://www.harrow.gov.uk) – Advice & Benefits - Local Government Pension Scheme – Pension Fund Policies / Statements.

The Fund's Statement of Investment Principles (SIP) will be updated to include control ranges around the strategic asset allocations and the policy on rebalancing. Pending this update, the Fund is technically not in compliance with the SIP as the impact of market movements has moved actual allocations away from the strategic benchmark. The Pension Fund Investment Panel monitor's actual against strategic allocations and take action when appropriate.

## Funding Strategy Statement

The 'Funding Strategy Statement' (FSS) is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues. The purpose of the FSS is to:

- establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
- take a prudent longer-term view of funding those liabilities.

The Pension Fund's '[Funding Strategy Statement](http://www.harrow.gov.uk)' can be found on the Council website at [www.harrow.gov.uk](http://www.harrow.gov.uk) - Advice & Benefits - Local Government Pension Scheme - Pension Fund Policies/Statements.

## Funding Policy

The objectives of the Fund's funding policy are as detailed below:

- To ensure the long-term solvency of the Fund;
- To ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- To maximise investment returns for an appropriate level of risk;
- To help employers recognise and manage pension liabilities as they accrue; and
- To minimise the degree of short-term change in the level of each employer's contributions.

## 4 Market performance

2009/10 saw a welcome recovery in equity markets from the lows following the credit crisis that began in 2007 and escalated in 2008. Governments around the world provided further support to their respective banking sectors and various initiatives were taken to stimulate economic activity. The actions of policy makers around the world in easing monetary policy and supporting banks directly did much, eventually, to ease the conditions in money markets. The Bank of England and other central banks suspended their quantitative easing programmes in Q1, 2010 as the outlook for a double dip recession receded. However, the economic outlook remains challenging and base interest rates in developed markets remain at historic lows close to 0%, being 0.5% in the UK.

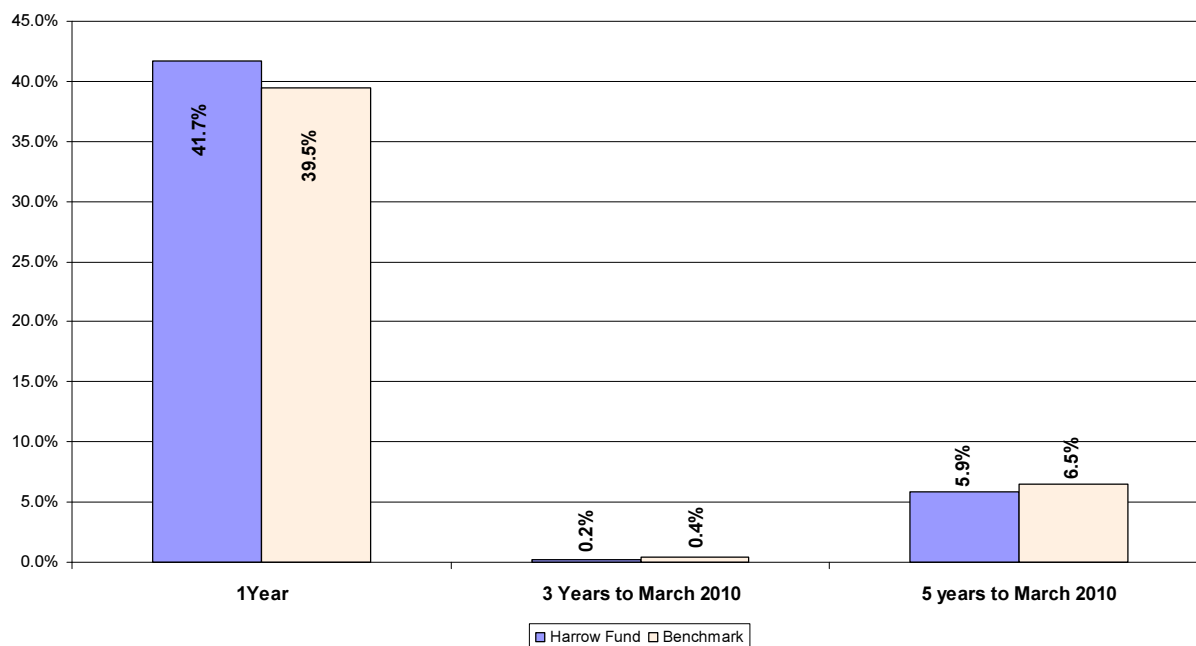
In the UK, after six consecutive quarters of economic contraction, the economy returned to modest growth in Q4, 2009 after a contraction of 6.4% between Q2 of 2008 and Q3 of 2009. Global equity markets, looking forward to improved growth and corporate earnings, responded strongly. In the UK equity markets returned 52%, while those in the US and Europe (ex-UK) returned 49% and 51% respectively in local currency. Japan returned a more modest 30% while emerging markets romped ahead with returns of approximately 70%. In Sterling terms the returns were generally a little lower as Sterling recovered some of its prior year losses.

UK gilts returned less than 1% as yields increased partly due to concern about the massive increase in government borrowing, although yields remain close to historic lows. Corporate bonds returned 31% as credit spreads narrowed due to lower default expectations. Index linked bonds returned 10%. Property also benefited from the improved economic outlook and returned 12%.

The economic outlook remains uncertain with concern shifting between recession and inflation as governments face the problem of addressing debt levels. Volatility in markets remain high with the focus remaining on growth in the US and China to sustain the global recovery.

## 5 Fund performance

The Committee uses WM Performance Services as its independent investment performance measurer. Investment returns over 1, 3 and 5 years is shown below.



Source: WM Performance Services

The Fund benefited from the recovery in financial markets described above together with its high allocation to equity markets and achieved a return of 41.7% in the year to 31<sup>st</sup> March 2010, exceeding the benchmark by 1.6% (calculated on a geometric basis). The excess return was derived from superior returns from the equity and bond portfolios but suffered from manager underperformance in the property and private equity portfolios.

The average fund in the local authority universe (as per WM performance services) returned 35% - the best ever performance, bringing 10 year returns back above inflation. The Harrow Fund was the 11<sup>th</sup> best performing fund out of 99 local authorities.

The longer term performance continues to disappoint with underperformance of 0.2% and 0.6% over three and five years. The Panel expect that the changes to the investment manager structure implemented in the year will support improved performance.

## Investment strategy

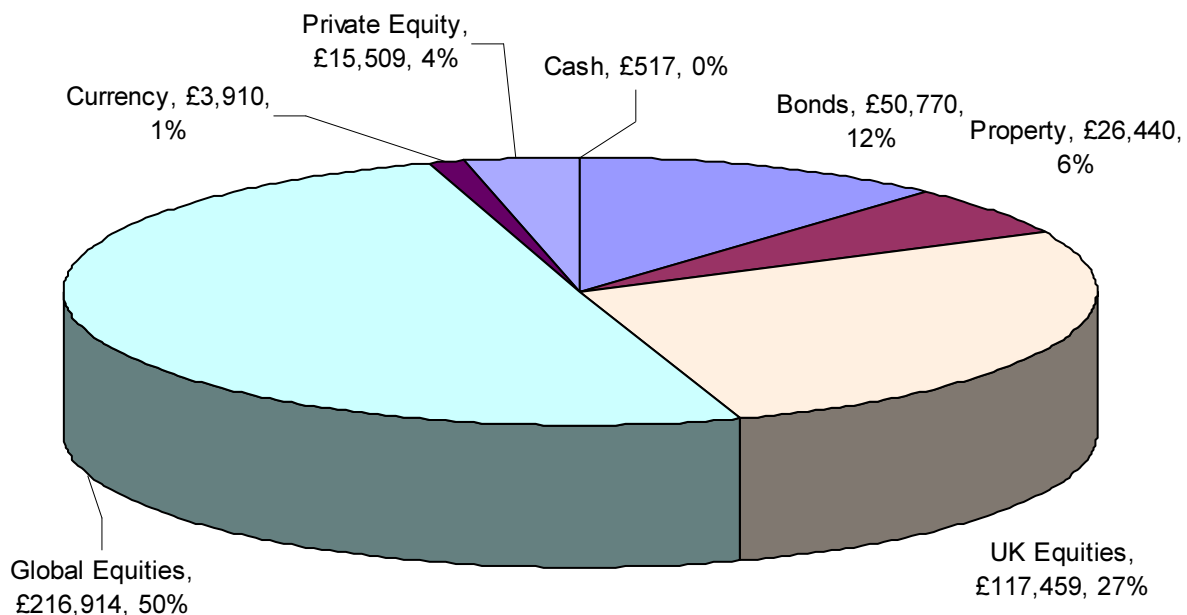
The strategic allocations approved in 2008 and reported in the Statement of Investment Principles are shown in the table below. The strategy was fully implemented in the year following the completion of a review of the manager structure.

The Panel aims to achieve its investment objective by maintaining a high allocation to growth assets, mainly equities, reflecting the security of the sponsor's covenant, the funding level, the long time horizon of the fund and the projected asset class returns and volatility.

The Panel monitors the continued appropriateness of the strategic allocations with the next formal review due to take place following completion of the 2010 actuarial review.

Strategic Asset Allocations 31 March 2010	%
UK Equities	26
Global Equities	45
Fixed and Index Linked Bonds	13
Property	10
Private Equity	3
Active currency	3
<b>Total</b>	<b>100</b>

The actual allocations to asset classes (£'000) are shown in the chart below. The Panel monitors any divergence from strategy and rebalances when appropriate.



## Investments held by Fund Managers

	2009-10		2008-09	
	£000	%	£000	%
Black Rock	64,956	15	39,921	13
UBS	12,771	3	134,880	44
Baillie Gifford	0	0	117,813	39
State Street Global Advisors	117,459	27	0	0
Longview Partners	32,736	7	0	0
Fidelity International	85,927	20	0	0
Wellington Management	98,251	23	0	0
Record Currency	1,499	0	-2,333	-1
Pantheon	15,509	4	11,784	4
Bank of New York Mellon	2,411	1	1,452	1
Total Fund	<b>431,519</b>	<b>100</b>	<b>303,517</b>	<b>100</b>

The above amounts include the investment assets, cash deposits and negative valued derivatives included in each mandate.

During the year the Panel appointed three new active global equity managers (Fidelity, Wellington and Longview) together with awarding a passive UK equity mandate to State Street. In addition, Blackrock were awarded additional fixed income and property mandates. These new mandates were funded by the termination of the appointments of UBS (completed post year-end) and Baillie Gifford. These changes reflected the increased strategic allocation to global equities and a desire to consolidate the property and fixed income portfolios with one manager each. Most of the UK equities will be managed passively as the capacity to deliver out performance net of fees in this market has diminished. As reported last year, the fixed income portfolio is now benchmarked wholly against corporate bonds.

The Panel believes in appointing fund managers with clear performance benchmarks that place maximum accountability for performance against that benchmark with the investment manager. Post the completion of the UBS transition, the Fund will have eight investment managers to give diversification of investment style and spread of risk. The Panel will continue to monitor the ability of their Investment Managers to achieve their target returns.

The Record balance of £1.499m includes net derivative liabilities of £1.891m shown under assets (£1.354m) and liabilities (£3.245m), being the value of forward currency contracts comprising the 50% currency hedge on non-sterling investments. The hedge is designed to reduce volatility due to currency movements. The recent weakness in sterling has had a positive impact on the value of non-sterling assets, partially offset by losses on the currency hedge.

## **6 Statement of Responsibilities for the Statement of Accounts**

### **The Council's Responsibilities**

The Council is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In Harrow, that officer is the Chief Financial Officer, ie, the Corporate Director of Finance;
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- To approve the statement of accounts.

### **The Director of Finance's Responsibilities**

The Director of Finance is responsible for the preparation of the Fund's statement of accounts in accordance with proper practices set out in the CIPFA Code of Practice on Local Authority Accounting.

In preparing this statement of accounts, the Director of Finance has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code of Practice on Local Authority Accounting;
- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that these accounts present fairly the financial position of the London Borough of Harrow Fund of the Local Government Pension Scheme as at 31 March 2010 and its income and expenditure for the year then ended.

Myfanwy Barrett

CORPORATE DIRECTOR OF FINANCE

30<sup>th</sup> September, 2010

## 7 London Borough of Harrow Pension Fund Account

### Pension Fund Account for the year ended 31st March 2010

2008-09 £000		Notes	2009-10 £000
	<b>Contributions and Benefits</b>		
24,415	Contributions receivable	8.2	25,170
2,250	Individual Transfers in from other schemes		4,315
104	Other Income (including Capital cost)		93
	Less:		
-21,015	Benefits Payable	8.3	-23,526
-2,089	Leavers	8.4	-3,805
-1,109	Administrative expenses	8.5	-816
2,556	<b>Net additions from dealings with members</b>		<b>1,431</b>
	<b>Returns on Investments</b>		
8,813	Investment Income	8.6	5,668
-112,346	Change in market value of investments	8.7	122,033
-1,005	Investment management expenses	8.5	-630
-104,538	<b>Net returns on investments</b>		<b>127,071</b>
-101,982	Net (Increase)/decrease in Fund during the year		128,502
409,403	Net assets at start of year		307,421
307,421	<b>Net assets at end of year</b>		<b>435,923</b>

### Net Assets Statement

2008-09 £000		Notes	2009-10 £000
	<b>Investment Assets</b>		
2,584	Fixed interest securities		0
167,386	Equities		0
133,702	Pooled investment vehicles	8.9	<b>432,893</b>
3,642	Derivative contracts	8.10	<b>1,354</b>
307,314			<b>434,247</b>
	<b>Investment Liabilities</b>		
-8,452	Derivative contracts	8.10	-3,245
298,862			<b>431,002</b>
4,655	Cash deposits	8.7	<b>517</b>
303,517	<b>Net Investment Assets</b>		<b>431,519</b>
3,904	<b>Net current assets and liabilities</b>	8.12	<b>4,404</b>
307,421	<b>Net assets of the scheme at 31 March 2010</b>		<b>435,923</b>

The accounts summarise the transactions of the Fund and deal with the net assets. They do not take account of the obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in the actuarial statement included on pages 23 and 24 and these accounts should be read in conjunction with it.

Myfanwy Barrett

CORPORATE DIRECTOR OF FINANCE  
30<sup>th</sup> September, 2010

## 8 Notes to the Pension Fund Accounts

### 8.1 Accounting Policies

The accounts have been compiled in accordance with chapter 2 of the Statement of Recommended Practice "Financial Reports of Pension Schemes" (revised May 2007) ("the SORP") and the CIPFA code of practice on local authority accounting in the United Kingdom 2009. The accounting policies have been drawn up in line with recommended accounting principles as specified in the Code of Practice on Local Authority Accounting and as disclosed below.

**Basis of Preparation** - Except where otherwise stated, the accounts have been prepared on an accruals basis.

**Investments** - These are shown in the accounts at market value which has been determined as follows:

- All listed investments are quoted at the bid price at the close of business on 31 March of each financial year;
- Unlisted securities are valued having regard to latest dealings, professional valuations, asset values and other appropriate financial information adjusted to reflect cash transactions up to 31 March 2010;
- Investments in pooled investment vehicles are stated at the bid value of the latest prices quoted by their respective managers; and
- Derivatives are valued at the appropriate closing exchange rate or the bid spot or forward rates. Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Where appropriate, investments held in foreign currencies have been valued on the relevant basis and translated into sterling at the rate ruling on 31 March of each financial year.

**Benefits, Refunds of Contributions and Transfer Values** - Benefits payable and refunds of contributions are accounted for in the period in which they are payable.

Transfer values are those sums paid to, or received from, other pension schemes and relate to periods of previous pensionable employment. Transfer values have been included in the accounts on a payments and receipts basis. The transfers can take a considerable time to determine and amounts can vary depending upon the date of settlement.

**Investment Income** - Dividends and interest on government stocks, loans and deposits have been accounted for on an accrued basis. Foreign income has been converted into sterling at the date of the transaction.

**Investment Management and Administration** - Regulations published in 1989 permit the Council to charge administration costs to the Pension Fund. A proportion of the relevant



Council officers' salaries, including related on-costs, have been charged to the Fund based on estimated time spent on Fund administration and investment related business. The fees of the Fund's investment managers have been accounted for on the basis contained within their respective management agreements.

## 8.2 Contributions

2008-09 £000		2009-10 £000
	<b>Employers - normal</b>	
15,953	London Borough of Harrow	16,623
1,330	Scheduled Bodies	1,367
551	Admitted Bodies	530
	<b>Members - normal</b>	
5,868	London Borough of Harrow	5,977
495	Scheduled Bodies	500
218	Admitted Bodies	173
<u>24,415</u>		<u>25,170</u>

## 8.3 Benefits

2008-09 £000		2009-10 £000
	<b>Pensions</b>	
-16,340	London Borough of Harrow	-17,664
-286	Scheduled Bodies	-348
-72	Admitted Bodies	-108
		<u>-18,120</u>
	<b>Commutation of Pensions and Lump Sum Retirement Benefits</b>	
-3,599	London Borough of Harrow	-4,364
-205	Scheduled Bodies	-331
-196	Admitted Bodies	-82
		<u>-4,777</u>
	<b>Lump Sum Death Benefits</b>	
-240	London Borough of Harrow	-629
-77	Admitted Bodies	0
		<u>-629</u>
<u>-21,015</u>		<u>-46,423</u>

## 8.4 Leavers

2008-09 £000		2009-10 £000
-8	Refunds to members	-9
-2,082	Individual transfers to other schemes	-3,797
1	NI contributions	1
<u>-2,089</u>		<u>-3,805</u>

## 8.5 Investment Management and Administration Expenses

2008-09 £000		2009-10 £000
-1,005	Investment management expenses	-630
	Scheme administration	
-790	Harrow Council	-690
-319	Misc. (including Actuary Fees)	-126
<u>-1,109</u>	<b>Total Administration Expenses</b>	<u>-816</u>
<u>-2,114</u>	<b>Total Expenses</b>	<u>-1,446</u>

## 8.6 Investment Income

2008-09 £000		2009-10 £000
731	Interest from fixed interest securities	889
5,037	Dividends from equities	3,534
340	Income from index-linked securities	310
1,682	Income from pooled investment	1,371
531	Interest on cash deposits	168
190	Income from derivatives	0
302	Foreign exchange	-604
<u>8,813</u>		<u>5,668</u>

Income from dividends has been accrued from the point when securities have been quoted ex-dividend.

## 8.7 Investments

	Value at 01-Apr-09 £000	Purchases at Cost & Derivative Payments £000	Sale Proceeds & Derivative Receipts £000	Change in Market Value £000	Value at 31-Mar-10 £000
Public Sector Overseas Fixed Interest Securities	2,584	0	-2,286	-298	0
Equities					
UK	97,251	205,681	-436,359	133,427	0
Overseas	70,135	40,625	-88,152	-22,608	0
Pooled Investment Vehicles					
Property	24,808	5,513	-4,861	980	26,440
Other	108,894	591,426	-303,905	10,038	406,453
Derivatives	-4,810	7,408	-4,983	494	-1,891
	<u>298,862</u>	<u>850,653</u>	<u>-840,546</u>	<u>122,033</u>	<u>431,002</u>
Cash Deposits	4,655				517
	<u>303,517</u>				<u>431,519</u>

The significant change in market values is mainly due to the increase in equity values as the global economic background improved over the last year (see pages 12 & 13). £85.1m of the change was in respect of unrealised net gains at 31 March 2010.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include fees, commissions, stamp duty and other fees.

Transaction costs incurred during the year amounted to £0.279m (£0.369m in 2008-09). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately available.

Derivative payments (£7.4m) and receipts (£5.0m) are in respect of realised losses and profits on forward foreign exchange trades settled during the period.

All fund managers operating the pooled investment vehicles are registered in the United Kingdom.

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

## 8.8 Investments Exceeding 5% of the Total Value of Net Assets

2008-09 £m		2009-10 £m
0.0	SSGA MPF UK Equity Index Sub-Fund	117.6
0.0	Wellington Global Pooled Value Equity Portfolio	98.2
0.0	Fidelity Inst Select Global Pooled Equities	74.9
0.0	BlackRock Institutional Bond Fund-Corp Bond 10 Yrs A class	40.4
0.0	Longview Partners Invest - Global Pooled Equities FD K Class	32.7
51.1	UBS Life Global Optimal Thirds 'A' Units	0.0
<u>51.1</u>		<u>363.8</u>

## 8.9 Pooled Investment Vehicles

2008-09 £000		2009-10 £000
24,808	UK Managed Funds - Property	26,440
37,338	UK Managed Funds - Other	174,030
71,556	Overseas Other	232,423
<u>133,702</u>		<u>432,893</u>

## 8.10 Derivatives

31-Mar-09 £000		31-Mar-10 £000
<b>Investment Assets</b>		
3,551	Forward Foreign exchange contracts	1,354
91	Equitisation account	0
<u>3,642</u>		<u>1,354</u>
<b>Investment Liabilities</b>		
-8,452	Forward Foreign exchange contracts	-3,245
<u>-4,810</u>	<b>Net Derivatives</b>	<u>-1,891</u>

Counterparty	Duration	No. of Contracts	Value at 31-Mar-10	
			Assets £000	Liabilities £000
HSBC Bank - London	7 days - 6 mths	6	178	-24
Northern Trust - London	7 days - 6 mths	6	98	-191
Royal Bank of Canada - London	7 days - 6 mths	11	418	-228
Royal Bank of Scotland-London	3 mths - 6 mths	5	90	-808
UBS AG - London	7 days - 6 mths	9	553	-1,977
Westpac - Sydney	7 days - 4 mths	2	17	-17
		<b>39</b>	<b>1,354</b>	<b>-3,245</b>

The scheme objective in using derivatives is to reduce risk in the portfolio by entering into forward contracts to mitigate the effect of currency risk from overseas investments held in the portfolio without disturbing the underlying assets. The overseas equity portfolio is 50% hedged against the currency risk, and the value of the economic exposure is £59.9m.

### 8.11 Additional Voluntary Contributions (AVCs)

Members of the Fund make AVCs. These amounts are not included in the Pension Fund Accounts in accordance with regulation 5c of the Pension Scheme (Management and Investment of Funds) Regulations 1998.

2008-09 £000		2009-10 £000
2,298	Value of AVC Fund at 1 April	2,120
191	Employee contributions	223
-86	Investment income and change in market value	166
-283	Benefits paid and transfers out	-276
<u>2,120</u>	<b>Value of AVC Fund at 31 March</b>	<u>2,233</u>

### 8.12 Current Assets & Liabilities

31-Mar-09 £000		31-Mar-10 £000
	<b>Current Liabilities</b>	
-302	Unpaid Benefits	-516
-534	Other Unpaid liabilities	-202
<u>-836</u>		<u>-718</u>
	<b>Current Assets</b>	
3,473	Cash balances held by London Borough of Harrow	4,378
200	Contributions due from employers	114
1,067	Other Current Assets	630
<u>4,740</u>		<u>5,122</u>
<u>3,904</u>	<b>Net Assets</b>	<u>4,404</u>

Contributions due from employers are received in line with the regulations and timings.

### 8.13 Related Party Transactions

2008-09 £000		2009-10 £000
15,794	Employer's pension contribution to the fund	<b>16,621</b>
<b>-790</b>	Administration expenses paid to the Council	<b>-690</b>
3,473	Cash in hand held by Council	<b>4,378</b>

The fund is required under FRS8 to disclose details of material transactions with related parties.

The Council is a related party to the Pension fund. Details of the contributions made to the Fund by the Council and expenses refunded to the Council are set out above. Details of total contributions made in the year are set out in note 2 to the accounts.

The Pension Fund does not have a separate bank account – rather cash balances are maintained by the Council on the Pension Fund's behalf. Details of the year end cash balances maintained by the London Borough of Harrow on behalf of the Pension Fund are set out above.

## 9 Statement of the Consulting Actuary

As required by Regulation 77 of the Local Government Pension Scheme Regulations 1997, the last actuarial valuation of the London Borough of Harrow Pension Fund's assets and liabilities was carried out as at 31 March 2007.

### Security of prospective rights

In my opinion, the resources of the Fund are likely in the normal course of events to meet the liabilities of the Fund as required by the Regulations. In giving this opinion, I have assumed that the following amounts will be, and have been, paid to the Fund:

Contributions by the members in accordance with the Local Government Pension Scheme Regulations 1997 until 31 March 2008, then in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007;

Contributions by employers in accordance with the Rates and Adjustments Certificate dated 10 February 2005 for the year ending 31 March 2008. Thereafter for the three years commencing 1 April 2008 as specified in our Rates and Adjustments certificate dated 29 February 2008.

### Summary of methods and assumptions used

Full details of the method and assumptions are described in our valuation report dated 29 February 2008 and the Rates and Adjustments certificate contained therein. Copies of these documents are available on request from the Finance Department of the London Borough of Harrow.

My opinion on the security of the prospective rights is based on:

- the projected unit valuation method where there is an expectation that new employees will be allowed to join an employer; or
- the attained age valuation method for employers who are closed to new entrants; where appropriate.

These methods allow for future salary increases and assess the cost of benefits accruing to existing members during:

- the year following the valuation; or
- the remaining working lifetime, respectively.

The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities and the assessed value of assets.

## 9. Statement of the Consulting Actuary (continued)

### Valuation of assets

A "market related" valuation method has been used for the actuarial valuation as at 31 March 2007. This is consistent with the methodology adopted at the 2004 valuation. The Fund's assets are taken at their market value on the date of the valuation (in this case 31 March 2007).

Assumption	Derivation	Rate at 31 March 2007	
		Nominal	Real
Price Inflation (RPI)	Market expectation of long-term future inflation as measured by the difference between yields on fixed and index-linked Government bonds as at the valuation date	3.2%	-
Pay Increases*	Assumed to be 1.5% p.a. in excess of price inflation	4.7%	1.5%
Funding basis discount rate	Assumed to be 1.6% p.a. above the yield on fixed interest Government bonds	6.1%	2.8%

\* Plus an allowance for promotional pay increases.

The 2007 valuation revealed that the Fund's assets, which at 31 March 2007 were valued at £435 million, were sufficient to meet approximately 87% of the liabilities accrued up to that date.

### The next actuarial valuation

The next valuation of the Fund will be carried out as at 31 March 2010 and the results known later that year. This valuation will allow for the experience of the Fund from 31 March 2007 and up-to-date financial assumptions at that time.

I am aware that some employers may pay contributions in excess of the minimum contributions shown in the Rates and Adjustments certificate. These extra payments will be taken into account in the 2010 valuation and will act to reduce the contributions that would otherwise have been payable.

Prepared by:



Lorna Tonner  
For and on behalf of Hymans Robertson LLP

## 10 Pension Fund Annual Report Opinion

### Independent auditor's report to the Members of London Borough of Harrow Pension Fund

We have audited the pension fund accounting statements for the year ended 31 March 2010. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes 8.1 to 8.13. The pension fund accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of London Borough of Harrow Pension Fund in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Chief Financial Officer and auditor

The Chief Financial Officer is responsible for preparing the pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice. In preparing this pension fund accounting statements, the Chief Financial Officer is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgments and estimates that were reasonable and prudent;
- keeping proper accounting records which were up to date;
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Our responsibility is to audit the pension fund accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year. We also report to you whether, in our opinion, the information which comprises the commentary on the financial performance included within the Pension Fund Annual Report, is consistent with the pension fund accounting statements. That information comprises the Management Report for the year ended 31 March 2010.

We review whether the governance compliance statement published in the Pension Fund Annual Report reflects compliance with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. We report if it does not meet the requirements specified by the Department of Communities and Local Government or if the statement is misleading or inconsistent with other information we are aware of from our audit of the accounting statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures



## 10. Pension Fund Annual Report Opinion (continued)

We read other information published with the accounting statements and related notes as described in the contents section and consider whether it is consistent with the audited accounting statements.

### Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the pension fund accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the pension fund accounting statements and related notes.

### Opinion

In our opinion:

- the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- the information given in the commentary on financial performance included within the Pension Fund Annual Report is consistent with the pension fund accounting statements.

Paul Schofield (Engagement Lead)  
For and on behalf of Deloitte LLP

Appointed Auditor

St Albans, UK

30 September 2010

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# London Borough of Harrow Pension Fund

Report to the Governance, Audit and Risk  
Management Committee

28 September 2010

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# Executive summary

We have pleasure in setting out in this document our report to the Governance, Audit and Risk Management Committee (GARM) for the year ended 31 March 2010 for discussion at the meeting scheduled on 28 September 2010. This report summarises the principal matters that have arisen from our audit for the year ended 31 March 2010.

On 13 August 2010, the Secretary of State for Communities and Local Government announced the proposed abolition of the Audit Commission. The proposed abolition will be from March 2012 and the Audit Commission has confirmed that there is no immediate change to your audit arrangements. New audit arrangements are likely to apply from the start of the 2012/13 financial year. Both we and the Audit Commission will keep you informed of further developments.

This summary is not intended to be exhaustive but highlights the most significant matters to which we would like to bring your attention. It should, therefore, be read in conjunction with the report and the appendices thereto.

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## Key findings on audit risks and other matters

In our audit plan we identified three key audit risks in relation to:

- calculation of contributions in light of there being more than one admitted bodies;
- the calculation of benefits given the complexities of calculating retirement, ill health and death benefits as a result of changes introduced in 2008; and
- the valuation of private equity investments and derivative financial instruments.

We carried out testing in line with our approach set out in our Audit Plan and there were no exceptions to report to you.

## Audit status

The audit is substantially complete and subject to the finalisation of the following:

- completion of internal review processes;
- review of final draft of financial statements;
- receipt of the signed representation letter (Appendix 2); and
- update of post balance sheet event review to the date of signing.

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

On satisfactory completion of the outstanding matters, we anticipate issuing an unmodified audit opinion (Appendix 3) on the truth and fairness of the financial statements.

# Executive summary (continued)

<b>Identified misstatements</b>	Audit materiality has increased to £5.5m from £4.4m (2009 £4.3m) as set out in our Audit Plan. This is to reflect the final outturn for the year ended 31 March 2010 as opposed to the materiality determination forecasted result. There were no uncorrected misstatements or any disclosure deficiencies.
<b>Accounting and internal control systems</b>	During our audit we observed the following areas of improvement in relation to the internal control system. These matters have been discussed in detail in Section 2 and are briefly summarised below: <ul style="list-style-type: none"><li>• Updating Statement of Investment Principles to reflect allow for a range in investment holdings;</li><li>• Requirement for a pension fund bank account; and</li><li>• Regular review of the Fund Managers internal control reports.</li></ul>
<b>Current accounting and regulatory issues</b>	We have included within this report current accounting and regulatory issues that affect the pension fund industry, particularly focus areas of the Pensions Regulator (TPR). Although the London Borough of Harrow Pension Fund is not regulated by TPR these are guidelines for improving process and for best practice in the industry.



# 1. Key audit risks

The results of our audit work on the key audit risk are set out below:

Contributions	
<p><b>Risk</b></p> <p><b>Response</b></p>	<p>Contributions are a material income stream for the Pension Fund and in view of the complexity introduced by the participation of more than one employer in the scheme, together with changes made to the Local Government Pension Fund in April 2008 which mean that members pay different rates on the basis of their pensionable pay, we have identified this as a specific risk.</p> <p>We have performed the following testing to address the specific risk:</p> <ul style="list-style-type: none"> <li>• reviewed the design and implementation of controls present at the Authority for ensuring contributions from all admitted bodies are identified and calculated correctly. No issues were noted;</li> <li>• analytical review was performed to gain assurance over the completeness of contributions. We built an expectation for the employer and employee contributions based on the 2008/9 contributions and adjusted for the change in member numbers and contribution rates. The difference between our expectation and the actual contributions fell within our tolerance level;</li> <li>• detailed testing, by selecting a sample of employees and recalculating the employee and employer contributions to ensure these are in accordance with the contribution rates in force during the year; and</li> <li>• reconciled the membership numbers to the Financial Statements, ensuring that these included members from the admitted bodies.</li> </ul> <p>Based on the procedures performed, we are satisfied that contributions have been made in accordance with the Rate of Contributions schedule and have been accurately reported in the accounts.</p>

# 1. Key audit risks (continued)

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Benefits	
<b>Risk</b>	<p>In respect of benefits in retirement, benefits are accumulated on two different bases for service pre and post 1 April 2008; the calculation of the pensionable pay on which benefits will depend may be varied by the individual opting to take account of pay earned in any of the 10 years prior to retirement and individuals now enjoy greater flexibility in their choice of the mix of pension and lump sum.</p> <p>In respect of ill health and death benefits, the calculation of the pensionable pay on which benefits will depend may be varied by the individual opting to take account of pay earned in any of the 10 years prior to retirement. Some employers may not have retained all the necessary records.</p>
<b>Response</b>	<p>The following tests were performed to address the specific risk around benefits:</p> <ul style="list-style-type: none"> <li>• reviewed the design and implementation of key controls over benefits. This involved identifying key controls in place to ensure the accuracy, completeness and validity of benefits through discussion with the pension team and testing to ensure these are in force during the year. No issues were noted;</li> <li>• analytical review was performed over pensions payments by building an expectation for 2009/10 based on the 2008/9 pension paid and adjusting for pension increases and change in membership numbers. This was compared to the actual pension paid in the year and the difference between the two was within our tolerance level. Pensions payable account for 77% of the total benefits paid; and</li> <li>• for a sample of pension and other benefit payments, we performed detailed substantive tests on their benefit calculations and compared these calculations to the Fund rules. Member files were reviewed to verify the necessary documentation for the sample chosen. No exceptions were noted in the sample tested.</li> </ul> <p>Our testing proved satisfactory.</p>

# 1. Key audit risks (continued)

Private Equity and Derivatives	
<b>Risk</b>	<p>The Pension Fund makes some use of investments in private equity funds and derivative financial instruments. These investments may be complex to value and include an element of judgement on the part of the fund manager and accordingly have been identified as an area of specific risk.</p>
<b>Response</b>	<p>Our key audit procedure for testing private equity managed funds was to request direct confirmations from the fund manager of the year end (Pantheon) and agree the investment holding and valuation. Further, we obtained the audited AAF/01 control report relating to internal controls in place at Pantheon and gained assurance that their internal controls were operating adequately.</p> <p>We also performed the following detailed procedures:</p> <ul style="list-style-type: none"> <li>• understood the pricing methods adopted for private equity investments and assessed these as appropriate; and</li> <li>• obtained the latest audited financial statements of the underlying investment funds at December 2009 and confirmed that they agreed to forecast values, gaining assurance that the fund managers accurately forecast their valuations. We also then reviewed the assumptions behind the change in market value from December to March.</li> </ul> <p>To gain assurance over the valuation of derivatives, we tested a sample of derivative contracts and confirmed that they were accounted, measured and disclosed as per the requirements of the SORP.</p> <p>As a result of our testing, we have concluded that the private equity and derivative valuations and disclosed included in the financial statements are not materially misstated.</p>

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## 2. Accounting and Internal Control Systems

### Pension Fund Bank Account

**Observation:**

The Pension Fund currently operates its cash flows through the main Harrow Council bank account. Therefore when contributions are 'made' there is no physical movement of cash, i.e. a journal entry is booked between the expense to the Authority and the income/contributions to the Pension Fund. At year end, the total cash balance is reconciled and allocated between the Pension Fund and the Authority.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, regulation 6 introduces a new requirement for each pension fund to have, by 1 April 2011, a bank account which is separate from any which the administering authority has in its capacity as a local authority. This change is being adopted because it will enable pension fund monies to be clearly ring-fenced from other monies of the local authority, and thus reflects a longstanding Audit Commission view on best practice.

**Recommendation:**

As noted previously, Harrow Pension Fund should have a separate bank account. A CIPFA review in November 2008 'Local Government Pension Scheme Investment Regulations: Options for Change' made a recommendation that all amounts payable to and from Local Government Pension Scheme funds be transacted out of a separate bank account for transparency and to avoid the pension fund 'investing' in the authority through offsetting the cash balance with the authority's cash balance. This was a recommendation in 2008/09, and it has been noted that a more detailed review of the implications was required and would be carried out once the IFRS work has been completed.

**Management response:**

Agreed. It is accepted that a separate bank account will be established and operational by 31st March 2011.



## 2. Accounting and Internal Control Systems (continued)

### Non compliance with the Statement of Investment Principles

**Observation:**

During the year, the Statement of Investment Principles was revised to reflect the Authority's latest investment strategy. However, the revised SIP did not include control ranges around the strategic asset allocations and the policy on rebalancing these. As a consequence, the investment holdings at year end are not in line with the Statement of Investment Principles.

**Recommendation:**

We recommend that the Statement of Investment Principles is updated to include control ranges around the strategic asset allocations. We are satisfied that non compliance with the Statement of Investment Principles has been adequately disclosed within the Pension Fund's Annual Report.

**Management response:**

The Fund's Statement of Investment Principles (SIP) will be updated to include control ranges and the Pension Fund Investment Panel will monitor actual against strategic allocations and take action when appropriate.

## 2. Accounting and Internal Control Systems (continued)

### Review of Fund Manager's internal control reports

**Observation:**

From our review of the fund managers' internal control reports, we noted that most of the reports included a number of control deficiencies. For each deficiency, a response has been obtained from the fund management setting out the reason for the failure in the control and the remedial action taken to address the matter, where applicable. Based on our discussions with management it does not appear that the Pension Fund Investment Panel (PFIP) has assessed the impact, if any, that the breakdowns in these controls may have on the investments held by Harrow Pension Fund.

**Recommendation:**

Demonstrating strong governance is an increasing area of focus by Pension Trustees. We recommend that the PFIP perform due diligence on the investment manager internal control reports and request that the fund managers report back to them on the impact that the deficiencies noted had on the Fund. The Panel may wish to supplement these reviews with visits to each of the key investment managers such as State Street, Wellington and Fidelity.

**Management response:**

Monitoring the robustness of operational controls in place at our investment managers, custodians, administrators and others with access to Fund assets is taken extremely seriously both prior to appointments and regularly thereafter.

Reviews of third party internal control reports such as SAS70's and AAF 01/06 reports are an essential element of operational due diligence but only part of the assurance that is required.

It is the role of officials to demonstrate to PFIP that we have robust procedures to monitor the operational environment and to report both when the control environment is considered strong and when remedial action is required. It is appreciated that greater depth and improved visibility is required on the work undertaken in this area, which is a priority for the current year.

### 3. Current Accounting and Regulatory Issues

#### The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

The key changes on The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 are detailed below:

Firstly, new regulation 3(4) will revoke a longstanding provision – regulation 3(4) - which allows an administering authority to use money from its pension fund for any purpose for which it has a statutory right to borrow.

A pension fund will often hold a small percentage of its assets in cash. Where such a cash balance is available for short-term investment and is used by the administering authority under regulation 3(4), the authority may in some cases then pool the pension fund cash with its own cash and invest both together on the money markets, in a way that accords with the authority's treasury management strategy. However, such use is unconventional when compared with the provisions of current legislation in relation to occupational pensions, as a fund administering authority is one of the employers participating in the pension fund.

The new regulation 3(4) now provides that from 1 April 2010 such use will no longer count as an investment for the purposes of these Regulations.

Secondly, regulation 5 gives administering authorities a limited power to borrow on behalf of the pension fund for up to 90 days. The power cannot be used to invest, but only for cash flow management in specified circumstances which should in practice be exceptional, i.e. to ensure that benefits are paid on time and in transition management situations when the allocation of a pension fund's assets is being changed. Money can only be borrowed for the purposes mentioned in regulation 5(2) if, at the time of borrowing, the administering authority reasonably believes that the sum borrowed, and any interest charged as a result, can be repaid out of the pension fund within 90 days of the date when the money is borrowed.

Thirdly, regulation 6 introduces a new requirement for each pension fund to have, by 1 April 2011, a bank account which is separate from any which the administering authority has in its capacity as a local authority. This change is being adopted because it will enable pension fund monies to be clearly ring-fenced from other monies of the local authority, and thus reflects a longstanding Audit Commission view on best practice. Some pension funds already have a separate bank account, but this change will ensure consistency across all 89 administering authorities in England and Wales.



### 3. Current Accounting and Regulatory Issues (continued)

<b>Emergency budget 2010</b>	Since 1972, each April, public-sector pensions have been increased in line with the Retail Prices Index ('RPI'). HM treasury has confirmed that from April 2011 the increase in pensions will be linked to the Consumer Prices Index ('CPI'). Historically, the CPI has usually been lower than the RPI. Local authorities may therefore see a reduction in FRS 17 liabilities.
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<b>Tax compliance process for pension Plans</b>	<p>Management's role includes ensuring that the Fund is in compliance with all relevant legislation and also to maximise the returns to the Fund's stakeholders. In relation to tax, this role should include ensuring that all tax filings are made correctly and that the tax suffered on investment returns is minimised. With the recent changes in the tax filing requirements, this is an opportunity for those charged with governance to address these issues and enhance the investment returns of the Fund.</p> <p>The tax compliance process for pension funds is an important mechanism to ensure that all tax that is recoverable by the pension fund is indeed reclaimed, and also to ensure that reasonable care has been taken to ensure that any tax liabilities have indeed been identified. A review of the tax position of the fund falls outside the scope of this audit. However, to ensure that the Committee is meeting its fiduciary duties, we would recommend that consideration is given to the tax compliance process to ensure that all obligations are met and that all tax reclaimable is indeed reclaimed.</p> <p>In addition, our experience is that, although most pension funds do not expect to pay tax, in practice many pay sizeable amounts in the form of withholding taxes, VAT and potentially even income taxes. Therefore, a potential way to improve the performance of a pension fund is to consider and mitigate the tax currently suffered (whether apparent or hidden). We are seeing an increased level of awareness and consideration of tax issues facing pension Funds and so mention them for management's ongoing consideration.</p>
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### 3. Current Accounting and Regulatory Issues (continued)

#### Emerging issues in the industry

The pensions industry is experiencing a period of significant change. This is not only due to changes in the Pension Fund legislation and the industry itself, but also as a consequence of changes in the general business environment. In our experience, current areas of particular focus are:

- Governance: effectiveness of governance structures and activity;
- Fraud: effectiveness of management's procedures to detect and prevent fraud;
- Data security: effectiveness of management's procedures to protect and ensure data security;
- Liability-driven investment strategies: impact on investment arrangements and, in particular, understanding and management of the operational risks and reporting issues underlying long-term derivative products and alternative investments; and
- Socially responsible business: transparency, communication and implementation of Committee's policies with respect to investment, managing their own Fund and selecting service providers.

We believe that it would be good practice for the Committee to consider their responses to these changes.

### 3. Current Accounting and Regulatory Issues (continued)

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#### The Pensions Regulator- Record-keeping

Following consultation the Pensions Regulator issued targets for record-keeping in a further guidance paper on 2 June 2010.

The regulator expects all schemes to measure their member records and, where necessary, have plans in place for improvement. The final guidance sets out a strengthened approach that includes:

- recommending specific targets for standards of common data;
- using regulatory powers to investigate standards within schemes including sampling schemes for data audit;
- potential enforcement action where there is a breach of legislation;
- setting a deadline of December 2012 for the resolution of outstanding data issues; and
- enhancing the education material on its website.

The regulator stated that poor standards of member record-keeping can lead to additional costs in areas such as administration, claims from members, and wind-ups. They will continue to monitor how the industry responds and will report again in 2011.

#### The Pensions Regulator- New requirements for Trustee Knowledge and Understanding

The Pensions Regulator's revised Trustee Knowledge and Understanding (TKU) code of practice is now in effect. The code sets minimum requirements for those charged with governance to help ensure pension funds are run effectively.

The learning requirements, set out in the code, which have been in force for over two years have been updated, and the key changes are:

- in order to know the essential elements of the Fund's documentation, those charged with governance will be required to read it all thoroughly;
- it is more explicit that the regulator expects those charged with governance to use the Trustee toolkit unless they can find an alternative learning programme.

Given the focus of the Pensions Committee on implementing the Myner's principles and better governance this is a useful toolkit.

### 3. Current Accounting and Regulatory Issues (continued)

#### Accounting Standards Board Discussion Paper – The Financial Reporting of Pensions

The Accounting Standards Board (“ASB”) released a discussion paper in January 2008 titled ‘The Financial Reporting of Pensions’ to stimulate discussion on the principles that might be reflected in future accounting standards on pension benefits. In addition to considering how pension liabilities are reflected in companies’ financial statements the paper included a chapter (Chapter 11) on financial reporting by pension schemes.

The ASB considered the responses to its discussion paper and issued an updated paper, in November 2009 titled “The Financial Reporting of Pensions – Feedback and Redeliberations”.

The paper affirms the ASB’s preliminary view that:

- pension scheme financial statements should recognise the liability to pay future benefits (but notes that a more detailed study of the potential costs should be undertaken);
- the employer’s covenant should be recognised as an asset in pension schemes’ financial statements. However, due to the practical difficulties that this could cause, the ASB highlighted a preferred alternative approach – i.e. a narrative disclosure detailing how the gap between the assets and liabilities would be funded.

A copy of these papers can be obtained from the ASB’s website.

These papers will be used by the ASB to develop its views in order to shape a future or a revised accounting standard and also to contribute to the International Accounting Standards Board debate on the financial reporting of pensions as part of its development of international financial reporting standards.

Given the lack of clarity on accounting for pension schemes, CIPFA have issued a code of practice on local authority accounting in the United Kingdom 2010/11, which is based on International Financial Reporting Standards. The Code involves interpretations and adaptations of International Accounting Standards and other pronouncements by the International Accounting Standards Board (IASB). In all other cases, the Code implements the requirements of the International Accounting Standards.

### 3. Current Accounting and Regulatory Issues (continued)

**Accounting Standards Board  
Discussion Paper – The  
Financial Reporting of  
Pensions (continued)**

Under the new governance framework CIPFA/LASAAC remains the accounting standard setter for local authorities. The Code will also continue to be the authoritative source of accounting guidance for local authorities across the UK, although it will no longer be badged as a Statement of Recommended Practice (SORP). This Code takes effect for financial years commencing on or after 1 April 2010.

As additional changes to the accounting may occur when in due course, we will continue to advise you as any further developments emerge.

# 4. Other matters for communication

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

<b>Independence</b>	We consider that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and the objectivity of the audit engagement partner and audit staff is not compromised. If the audit committee wishes to discuss matters relating to our independence, we would be happy to arrange this.
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<b>Non-audit services</b>	An analysis of fees earned by Deloitte in the period from 1 April 2009 to 31 March 2010 is included in Appendix 1. We have not received any non-audit fees.
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<b>Liaison with internal audit</b>	The audit team, following an assessment of the independence and competence of the internal audit department, reviewed the findings of internal audit. There were no areas where we needed to adjust our audit approach as a result of the findings of internal audit.
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<b>Written representations</b>	A copy of the representation letter to be signed on behalf of the board is included in Appendix 2.
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## 5. Responsibility statement

The Audit Commission published a 'Statement of responsibilities of auditors and of audited bodies' alongside the Code of Audit Practice. The purpose of this statement is to assist auditors and audited bodies by summarising where, in the context of the usual conduct of the audit, the different responsibilities of auditors and of the audited body begin and end, and what is expected of the audited body in certain areas. The statement also highlights the limits on what the auditor can reasonably be expected to do.

Our audit plan has been prepared on the basis of, and our audit work carried out in accordance with the Code and the Statement of Responsibilities, copies of which have been provided to the Boroughs by the Audit Commission.

The audit may include the performance of national studies developed by the Audit Commission, where the auditors are required to follow the methodologies and use the comparative data provided by the Commission. Responsibilities for the adequacy and appropriateness of these methodologies and the data rests with the Audit Commission. The audit may also include reviews such as this report which address locally determined risks and issues the scope of which is agreed with management in advance of the work. In this case it is for management to determine whether the scope is adequate and appropriate to their needs.

While our reports may include suggestions for improving accounting procedures, internal controls and other aspects of your business arising out of our audit, we emphasise that our consideration of the Pension Fund's system of internal control was conducted solely for the purpose of our audit having regard to our responsibilities under Auditing Standards and the Code of Audit Practice. We make these suggestions in the context of our audit but they do not in any way modify our audit opinion which relates to the financial statements as a whole. Equally, we would need to perform a more extensive study if you wanted us to make a comprehensive review for weaknesses in existing systems and present detailed recommendations to improve them.





## 5. Responsibility statement (continued)

Any conclusion, opinion or comments expressed herein are provided within the context of our opinion on the financial statements and our conclusion on value for money as a whole, which was expressed in our auditors' report.

We view this report as part of our service to you for Corporate Governance purposes and it is to you alone that we owe a responsibility for its contents. We accept no duty, responsibility or liability to any other person as the 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

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**Deloitte LLP**

Chartered Accountants

St. Albans

September 2010

# Appendix 1: Analysis of professional fees

The professional fees earned by Deloitte in the period from 1 April 2009 to 31 March 2010 are as follows:

	2009/10 £
Fees payable to the company's auditors for the audit of London Borough of Harrow's Financial Statements	282,472
Fees payable to the company's auditors for the audit of London Borough of Harrow's Use of Resources / VFM Conclusion	80,000
Fees payable to the company's auditors for the audit of London Borough of Harrow's WGA	4,870
Fees payable to the company's auditors for the audit of London Borough of Harrow's Audit Pension Fund	38,500



# Appendix 2: Representation letter

Deloitte LLP

3 Victoria Square

Victoria Street

St Albans AL1 3TF

*Our Ref: PJS/HP/DH/2010*

*Date: 28 September 2010*

59 Dear Sirs

## **London Borough of Harrow Pension Fund (the “Fund”)**

This representation letter is provided in connection with your audit of the financial statements of the fund for the year ended 31 March 2010 for the purpose of expressing an opinion as to whether the financial statements present a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund’s asset and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the fund year.

## Appendix 2: Representation letter (continued)

We acknowledge as members of the London Borough of Harrow our responsibilities for ensuring that the financial statements are prepared which give a true and fair view, for keeping records in respect of active members of the Fund 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 Fund have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and committee 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 are not aware of any significant facts relating to any frauds or suspected frauds affecting the Fund 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.
5. We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Fund'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. Where required, the value at which assets and liabilities are recorded in the net asset statement is, in the opinion of the Authority, 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 Fund. Any significant changes in those values since the balance sheet date have been disclosed to you.

8. 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 Fund and confirm that we have disclosed in the financial statements all transactions relevant to the Fund 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 (revised May 2007) (“Pensions SORP 2007”) or other requirements.
9. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to wind up the fund. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Fund’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.
10. You have been informed of all changes to the Fund rules during the year and up to the current date.
11. We have not commissioned advisory reports which may affect the conduct of your work in relation to the Fund’s financial statements.
12. No claims in connection with litigation have been or are expected to be received.
13. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.
14. There have been no events subsequent to 31 March 2010 which require adjustment of or disclosure in the financial statements or notes thereto.
15. There have been no irregularities involving management or employees who have a significant role in the accounting and internal control systems or that could have a material effect on the financial statements.
16. The pension fund accounts and related notes are free from material misstatements, including omissions.
17. 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. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

## Appendix 2: Representation letter (continued)

18. The Fund has satisfactory title to all assets.
19. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.
20. No transactions have been made which are not in the interests of the members of the Fund during the Fund year or subsequently.
21. 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.
22. We confirm that the Pension Fund Annual Report is compliant with the requirements of Regulations 34(1)(e) of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance.
23. We confirm that the information that is contained within the Pension Fund Annual Report and Accounts for the year to 31 March 2010 is complete, accurate and consistent with the information that is contained within the Accounts.

We confirm that the above representations are made on the basis of adequate enquiries of other officials of the Fund (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 the London Borough of Harrow



# Appendix 3: Draft Opinion

## **Independent auditor's report to the Members of London Borough of Harrow Pension Fund**

We have audited the pension fund accounting statements for the year ended 31 March 2010. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 13. The pension fund accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of London Borough of Harrow Pension Fund in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of the Chief Financial Officer and auditor**

The Chief Financial Officer is responsible for preparing the pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice. In preparing this pension fund accounting statements, the Chief Financial Officer is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgments and estimates that were reasonable and prudent;
- keeping proper accounting records which were up to date;
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

# Appendix 3: Draft Opinion (continued)

Our responsibility is to audit the pension fund accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year. We also report to you whether, in our opinion, the information which comprises the commentary on the financial performance included within the Pension Fund Annual Report, is consistent with the pension fund accounting statements. That information comprises the Management Report for the year ended 31 March 2010.

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We review whether the governance compliance statement published in the Pension Fund Annual Report reflects compliance with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. We report if it does not meet the requirements specified by the Department of Communities and Local Government or if the statement is misleading or inconsistent with other information we are aware of from our audit of the accounting statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

We read other information published with the accounting statements and related notes as described in the contents section and consider whether it is consistent with the audited accounting statements.

## **Basis of audit opinion**

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

# Appendix 3: Draft Opinion (continued)

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the pension fund accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the pension fund accounting statements and related notes.

## Opinion

In our opinion:

- the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- the information given in the commentary on financial performance included within the Pension Fund Annual Report is consistent with the pension fund accounting statements.

Paul  
For and on behalf of Deloitte LLP

Schofield

(Engagement

Lead)

Appointed Auditor  
St Albans, UK  
28 September 2010

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**Member of Deloitte Touche Tohmatsu**

**REPORT FOR: Pension Fund Investment Panel**

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**Date of Meeting:** 19<sup>th</sup> October 2010

**Subject:** Review of the Pension Fund's Investment Strategy

**Responsible Officer:** Myfanwy Barrett, Corporate Director Finance

**Exempt:** No

**Enclosures:** None

**Section 1 – Summary and Recommendations**

Hymans Robertson will lead a training discussion on the options open to the Panel to review the current investment strategy and the Statement of Investment Principles following the actuarial review at 31<sup>st</sup> March 2010.

**Recommendation:**

The Panel are invited to consider the issues raised by Hymans and ask the officers to develop detailed proposals for the next meeting.

## **Section 2 – Report**

1. With the actuarial valuation of the fund at 31<sup>st</sup> March 2010 nearing completion, it is appropriate to consider the impact of the current funding position and any changes in investment assumptions on the optimum balance of asset classes within the fund. Such a review would encompass an updating of the Statement of Investment Principles. The current strategic allocation has 84% in growth assets (equities and property) with the balance in bonds and active currency.
2. The last strategic review was conducted in 2008 and was based around an asset liability study undertaken by Hymans Robertson. Given the level of work undertaken between 2008 and 2009 to review and implement the revised strategy it is appropriate to consider the options available to challenge the current investment strategy and ask whether a full asset liability study is again required.
3. The initial discussion on the strategy review will take the form of a training session from Hymans Robertson in which they will introduce the panel to the various modelling techniques available to the Panel, the inputs and assumptions that will be required and the outputs that will aid the Panel in their strategy deliberations. Possible timetables will also be explored. No decisions will be made at this meeting, but the Panel may wish to express preferences as to how the strategy review is conducted.

### **Financial Implications**

4. The Strategic asset allocation of the fund is the most significant driver of future returns and risk and the level of contributions required.

### **Risk Management Implications**

5. Risk included on Directorate risk register? No
6. Separate risk register in place? No
7. Setting risk tolerances and measuring outcomes will be central to the strategy review.

### **Corporate Priorities**

8. Corporate Priorities are not applicable to Pension Fund as it does not have a direct impact on Council's resources.

### **Section 3 - Statutory Officer Clearance**

Name: Jennifer Hydari



on behalf of the  
Chief Financial Officer

Date: 8 October 2010

### **Section 4 - Contact Details and Background Papers**

**Contact:** George Bruce (Treasury and Pension Fund Manager) Tel: 020-8424-1170 / Email: [george.bruce@harrow.gov.uk](mailto:george.bruce@harrow.gov.uk)

**Background Papers:** Nil

If appropriate, does the report include the following considerations?

1.	Consultation	N/A
2.	Corporate Priorities	N/A

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