

# Annual Audit Letter

## London Borough of Harrow Pension Fund

Year ending 31 March 2020





## Contents

- 01** Executive summary
- 02** Audit of the financial statements
- 03** Other reporting responsibilities
- 04** Our fees
- 05** Forward look

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# 1. EXECUTIVE SUMMARY

## Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for London Borough of Harrow Pension Fund (the Fund) for the year ended 31 March 2020. Although this letter is addressed to the Fund, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 6 July 2021 included our opinion that the financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the Fund's financial position as at 31 March 2020 and of its expenditure and income for the year then ended; and</li><li>• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20</li></ul>
Other information published alongside the audited financial statements	<p>Our auditor's report included our opinion that:</p> <ul style="list-style-type: none"><li>• the other information in the Statement of Accounts is consistent with the audited financial statements.</li></ul>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Fund.</p>
Consistency Report	<p>Information within the Pension Fund Annual Report is consistent with the financial statements within London Borough of Harrow Statement of Accounts.</p>



## 2. AUDIT OF THE FINANCIAL STATEMENTS

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Opinion on the financial statements

**Unqualified**

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### The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Fund and whether they give a true and fair view of the Fund's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, stated that in our view, the financial statements give a true and fair view of the Fund's financial position as at 31 March 2020 and of its financial performance for the year then ended. As described further within our response to the significant risk over the valuation of the Fund's unquoted investment portfolio (pooled property investments), our draft auditor's report includes an emphasis of matter paragraph with respect to the Fund's disclosures of these valuation uncertainties. Our opinion on the Council's financial statements is not modified in respect of these matters.

### Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.



## 2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

**Unqualified**

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Governance, Audit, Risk management and Standards Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2020:

Net asset statement materiality	Our net asset statement materiality is based on 1.5% of net assets.	£11,666k
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£350k
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: - Fund Account	£3,591k



## 2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

**Unqualified**

### Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Fund's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Governance, Audit, Risk management and Standards Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<p><b>Management override of controls</b></p> <p>In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits</p>	<p><b>How we addressed this risk</b></p> <p>We addressed this risk by performing audit work in the following areas:</p> <ul style="list-style-type: none"> <li>• accounting estimates included in the financial statements for evidence of management bias;</li> <li>• any significant transactions outside the normal course of business; and</li> <li>• journals and other adjustments recorded in the general ledger in preparing the financial statements.</li> </ul>	<p><b>Audit conclusion</b></p> <p>There were no significant findings arising from our review of areas of potential management override of controls. We have no matters to report.</p>



## 2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

**Unqualified**

### Our response to significant risks

Identified significant risk	Our response	Our findings and conclusions
<p><b>Valuation of unquoted investments</b></p> <p>As at 31 March 2020, the Pension Fund held investments which were not quoted on an active market with a fair value of £72.2m, accounting for 9.3 per cent of the Fund's net investment assets. This is a decrease from the values held as at 31 March 2019 of £79.7m. The assets are held within overall investment vehicles and are only analysed in full at year end, with the proportion of the Fund's net investment assets included.</p> <p>Inherently such assets are harder to value, as they do not have publicly available quoted prices from a traded market, and as such they require professional judgement or assumptions to be made when valuing them at year end.</p> <p>As the pricing of these investment assets is subject to judgements, they may be susceptible to pricing variances due to the assumptions underlying the valuation. We therefore consider that there is an increased risk of material misstatement.</p>	<p><b>How we addressed this risk</b></p> <p>We addressed this risk by completing the following additional procedures:</p> <ul style="list-style-type: none"> <li>• agreeing holdings from fund manager reports to the global custodian's report;</li> <li>• agreeing the valuation to supporting documentation including investment manager valuation statements and cashflows for any adjustments made to the investment manager valuation;</li> <li>• agreeing the investment manager valuation to audited accounts or other independent supporting documentation, where available;</li> <li>• where audited accounts are available, confirming that they are supported by a clear opinion; and</li> <li>• considering the appropriate analysis of the investment as level 2 or 3 and management's judgement of investment analysis.</li> </ul> <p>In response to the potential valuation uncertainty arising from the Covid-19 pandemic we have completed additional review procedures. We have:</p> <ul style="list-style-type: none"> <li>• obtained and documented our understanding of the market data used by the valuer in forming the valuations of unquoted (level 3) investments.</li> </ul>	<p><b>Audit conclusion</b></p> <p>The Pension Fund has included a disclosure of material valuation uncertainty in note 5 to the financial statements with regard to property fund valuations which in light of the Covid-19 pandemic have had a 'material valuation uncertainty' attached to their 31 March 2020 valuation. In our view, this matter is fundamental to the users' understanding of the financial statements and as such we intend to include an 'Emphasis of Matter' paragraph in respect of this disclosure within our auditors report set out in Appendix B. This is not a modification of opinion.</p> <p>There are no further significant findings from our work on investment valuations.</p>





### 3. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	Consistent
Other information published alongside the audited financial statements	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Fund's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

#### Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

#### Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Fund. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.





## 4. OUR FEES

### Fees for work as the Fund's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to governance, audit, risk management and standards committee in January 2020.

Having completed our work for the 2019/20 financial year, we can confirm that our final fees are as follows:

Area of work	2019/20 proposed fee	2019/20 final fee
Delivery of audit work under the NAO Code of Audit Practice	£16,170	£16,170

### Fees for other work

We confirm that we have not undertaken any non-audit services for the Fund in the year.



## 5. FORWARD LOOK

### Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1<sup>st</sup> April 2020 a new Code came in to force and will apply to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

There are however significant changes to the way we report the outcomes of our work to you.

### Reporting the results of the auditor's work

We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit.

The guidance supporting the new Audit Code is being developed by the National Audit Office and we will provide you with any further updates to our approach arising from this guidance when it is released.

### Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local authority financial reporting. The report makes several recommendations that, if implemented, could affect both the financial statements that local authorities are required to prepare and the work that we as auditors are required to do.

The report and recommendations are wide-ranging, and includes:

- the creation of the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit;
- reviewing reporting deadlines;
- reviewing governance arrangements in local authorities, including the membership of the Audit Committee; and
- increasing transparency and reducing the complexity of local authority financial statements.

The recommendations and findings will now be considered by the Ministry of Housing, Communities and Local Government and we look forward to working with all stakeholders to implement changes to ensure the development and sustainability of local audit.

The full report is available here: <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>



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