London Borough of Harrow Pension Fund

Report to the Governance, Audit and Risk Management Committee

28 September 2010

Contents

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.

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)

Identified misstatements	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.
Accounting and internal control systems	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: • Updating Statement of Investment Principles to reflect allow for a range in investment holdings; • Requirement for a pension fund bank account; and • Regular review of the Fund Managers internal control reports.
Current accounting and regulatory issues	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	
Risk	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.
Response	We have performed the following testing to address the specific risk: • 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; • 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; • 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 • reconciled the membership numbers to the Financial Statements, ensuring that these included members from the admitted bodies. 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.

1. Key audit risks (continued)

Benefits	
Risk	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. 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.
Response	The following tests were performed to address the specific risk around benefits: • 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; • 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 • 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. Our testing proved satisfactory.

1. Key audit risks (continued)

Private Equity and Derivatives	
Risk	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.
Response	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. We also performed the following detailed procedures: • understood the pricing methods adopted for private equity investments and assessed these as appropriate; and • 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. 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. 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.

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.

Appendix 3

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)

Emergency budget 2010	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.

Tax compliance process for pension Plans	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. 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. 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.

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)

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.

Independence	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.
Non-audit services	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.
Liaison with internal audit	The audit team, following an assessment of the independence and competence of the internal audit department, reviewed the findings of internal audit. There were no areas where we needed to adjust our audit approach as a result of the findings of internal audit.
Written representations	A copy of the representation letter to be signed on behalf of the board is included in Appendix 2.

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.

Appendix 3

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

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***

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.

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

Appointed Auditor
St Albans, UK
28 September 2010

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