

London Borough of Redbridge Pension Fund

Report to those
charged with
governance (2013)

*Year ended 31 March
2013*

*Prepared for the
Policy and Resources
Committee*

*Committee Meeting
19 September 2013*

Table of Contents

1	Executive summary.....	3
2	Audit findings	4
3	Audit adjustments.....	8

Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

1 Executive summary

The purpose of this report is to provide you with feedback from the work we have performed and to communicate relevant issues which have come to our attention during the audit for the year ended 31 March 2013.

Scope of our work

Our audit was performed under International Standards on Auditing (UK & Ireland) and followed the approach set out in our Audit Plan prepared for the Committee in March 2013. We have included a summary of our audit approach and specific findings from our audit work for each of the key components within section 2 of this report. There has been no cause for us to vary the planned scope of work.

Audit status

We communicated our initial findings from the audit with key members of management on 16 August 2013 and agreed required actions prior to completion.

Our audit of the accounts of the London Borough of Redbridge Pension Fund (“the Fund”) for the year ended 31 March 2013 is now complete, subject to:

- review for subsequent events
- approval of the accounts by the Committee
- receipt of the letter of representation circulated separately

Our conclusions

Our final conclusions are subject to satisfactory completion of the outstanding matters above but are expected to be as follows:

- Our audit report on the truth and fairness of the accounts will be **unqualified**.
- No matters have arisen that we have been required to report to the Pensions Regulator in accordance with our whistle-blowing responsibilities under the Pensions Act 2004.

Audit issues, findings and internal control recommendations

The main issues and findings from our audit are included in section 2, minor internal control recommendations were noted during the audit and these have been shared with management as part of our insights report on the 2012/13 Audit of the Authority’s financial statements.

Independence and objectivity

Our reputation and continued success as a firm depends on our maintaining auditor independence. We are required to communicate with you matters that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

There are no such matters that we wish to bring to your attention.

2 Audit findings

Financial highlights

Fund account

£m	2013
Contributions	34.0
Benefits, leavers and transfers	(28.1)
Transfers in	2.5
Administrative expenses	(0.5)
Investment returns	58.7
Net increase	66.6
Opening net assets	467.1
Net assets	533.7

Net assets statement

£m	2013
Investments	534.2
Net current assets	(0.5)
Net assets	533.7

Contributions

Key figures

£m	2013	2012
Employer normal	15.5	15.2
Augmentations	0.5	0.6
Cessation Payment	3.0	0.0
Deficit funding	8.3	8.2
Member normal	6.7	6.7
Contributions	34.0	30.7

Commentary

Contributions have increased slightly in the year, due to additional employers contributions

Planned approach	Matters arising
Review the controls over payroll and validate on a sample basis that these are operating as expected.	None
Undertake analytical review of contributions for reasonableness compared with the prior year, allowing for changes in membership, pay and rates of contributions.	None
Test on a sample basis that the contributions are calculated and paid in accordance with the relevant schedules.	<p>Minor differences were noted in the contribution rate applied to term time employees, control improvement recommendations have been shared with management.</p> <p>We have obtained sufficient evidence that this control point does not result in material misstatements of the statement of the accounts, through the analytical review performed above and substantively testing additional contributions.</p>

Planned approach	Matters arising
Review the timing of the payment of contributions according to bank details compared with statutory requirements.	See note on late contributions below

There were three instances of late contributions during the year amounting to £105,535. These occurred because one entity became an academy in the year and joined the Fund, there were delays in the academy setting up its payroll function resulting in delays in contribution payments (£13,574). In addition, two entities Redbridge Homes Ltd (£50,507) and Morrison Facilities Management Ltd (£41,552) paid one monthly contribution a day late. We are satisfied that these items are not reportable to the Pensions Regulator as they are immaterial in value and there are no other factors that give cause for concern.

Benefits

Key figures

£m	2013	2012
Pensions	20.5	18.7
Lump sums – retirement	5.4	5.0
Lump sums – death	0.7	0.6
Transfers out and refunds	1.4	2.0
Total	28.0	26.3

Commentary

The average pension per pensioner increased by 5.2% from last year, matching the 5.2% increase awarded to pensions in payment in April 2012. Other benefits payable are related to membership movements and have remained broadly consistent year on year.

Average pension per pensioner member

£	2013	2012
Pension	4,794	4,549

Planned approach	Matters arising
Review the controls operated by the administration team (including over the pension payroll) and validate on a sample basis that these are operating as expected.	None
Perform substantive testing on a sample basis over material types of benefit payments.	None
Undertake analytical review of pensions paid for reasonableness compared to the prior year, allowing for changes in membership and the effects of the pensions increase.	None
Consider the monthly total pensions paid and investigate any unusual fluctuations.	None
Compare membership statistics and movements reported against the supporting data from the administration system and review for reasonableness compared with our expectations.	None
Review the results of any pensioner existence checking exercise completed during the year.	None

Investments

Key figures

£m	2013	2012
Fixed interest securities	153.3	156.6
Index Linked	1.9	5.9
Equities	99.9	73.8
Pooled Equity Unit Trusts	212.0	178.8
Property Unit Trusts	42.5	27.8
Commodities	5.2	5.3
Derivative contracts	(1.6)	(0.5)
Cash deposits	18.2	17.4
Other	2.8	1.8
Investments	534.2	466.9

Investment returns

£m	2013	2012
Investment income	12.1	15.0
Change in market value (CIMV)	48.3	8.0
Investment management expenses	(1.7)	(1.4)
Investment returns	58.7	21.6

Commentary

The movements in investments are broadly in line with market indices.

The overall investment return in the year was around 10.3%. This closely reflects equity indices in the year which is as we would expect as most of the Fund's investments are in equities or equity based funds.

Planned approach	Matters arising
<p>Existence</p> <p>Understand the Committee and management monitoring controls, including reviewing Committee meeting minutes.</p> <p>Obtain independent confirmations of assets from the custodian and investment managers.</p> <p>Review internal controls reports (ISAE/SSAE etc) on investment management and custody.</p>	None
<p>Valuation</p> <p>Test valuation of quoted investments against third party sources.</p> <p>Understand how the Committee and management validate asset values provided by investment managers for investments which are not quoted.</p> <p>Review valuations for pooled investment vehicles, including reviewing recent transaction prices, the most recent audited accounts and any available internal controls reports as applicable to achieve comfort.</p>	None
<p>Completeness</p> <p>Review the reconciliations of cash inflows and outflows from the Fund's bank account compared to contributions and other income, benefits and expenses and the movements in investments.</p> <p>Review the reconciliations performed in-house between investment manager and custodian assets.</p>	None
Complete an analytical review of investment returns for reasonableness compared with the Fund's benchmark and other external indices.	None
Review the allocation of investments compared with the requirements of the SIP.	None

Significant risks

ISAs recommend that we communicate how we propose to respond to significant risks (those which require special audit consideration) identified during the audit. Because of the potential link to fraud, the risk of **management override of controls** is always considered a significant risk. We addressed this risk by performing testing of journals, reviewing any estimates made by management, and reviewing minutes in connection with any significant or unusual transactions. There are no matters to report as a result of this testing.

3 Audit adjustments

The following adjustment has been made to correct misstatements that have come to our attention during the audit process. They have all been agreed with management and have been corrected in the latest statement of accounts.

No	Description	Income statement		Balance sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Investments – Pooled Equity Unit Trusts			21,774	
	Investments – Equities				21,774
	<i>Reclassification of Schroder Life Global Emerging Market Fund to pooled equity unit trusts.</i>				

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