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# Report to those charged with governance (ISA 260) 2012/13

London Borough of Hammersmith &  
Fulham Pension Fund

13 September 2013



**The contacts at KPMG in connection with this report are:**

**Michael McDonagh**

*Partner*

*KPMG LLP (UK)*

Tel: 0207 694 5546

michael.a.mcdonagh@kpmg.co.uk

**Sally-Anne Eldridge**

*Senior Manager*

*KPMG LLP (UK)*

Tel: 0207 311 2146

sally-anne.eldridge@kpmg.co.uk

**Grant Slessor**

*Assistant Manager*

*KPMG LLP (UK)*

Tel: 0207 311 3849

grant.slessor@kpmg.co.uk

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at [www.auditcommission.gov.uk](http://www.auditcommission.gov.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Michael McDonagh, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3<sup>rd</sup> Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to [complaints@audit-commission.gsi.gov.uk](mailto:complaints@audit-commission.gsi.gov.uk). Their telephone number is 03034448330.

This report summarises the key issues identified during our audit of the London Borough of Hammersmith & Fulham Pension Fund's (the Fund's) financial statements for the year ended 31 March 2013.

**Scope of this report**

The Audit Commission's *Code of Audit Practice* requires us to summarise the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified and report to those charged with governance (in this case the Audit, Pensions and Standards Committee). We are also required to comply with International Standard on Auditing ('ISA') 260 which sets out our responsibilities for communicating with those charged with governance.

This report meets both these requirements. It summarises the key issues identified during our audit of the Fund's financial statements for the year ended 31 March 2013.

Some of our responsibilities under ISA 260 relate to London Borough of Hammersmith & Fulham ('the Authority') as administering authority as a whole and are discharged through our reporting to the Authority's Audit, Pensions and Standards Committee. This includes:

- Declaring our independence and objectivity;
- Obtaining management representations; and
- Reporting matters of governance interest, including our audit fees.

**Audit of the pension fund**

As with the main audit of the Authority, our audit of the Fund follows a four stage audit process.



This report focuses on the second, third and fourth stages of the process: control evaluation, substantive procedures and completion. Our on site work for these took place in two tranches during July and August.

We carried out the following work:

<b>Control Evaluation</b>	<ul style="list-style-type: none"> <li>■ Evaluate and test selected controls over key financial systems, placing reliance on our work on the Authority's systems, where relevant.</li> <li>■ Review accounts production process</li> <li>■ Review progress on critical accounting matters</li> </ul>
<b>Substantive Procedures</b>	<ul style="list-style-type: none"> <li>■ Plan and perform substantive audit procedures.</li> <li>■ Conclude on critical accounting matters .</li> <li>■ Identify audit adjustments.</li> </ul>

**Structure of this report**

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out the findings from our audit work on the Fund's financial statements in more detail.

Our recommendations are included in Appendix 1.

**Acknowledgements**

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

This table summarises the headline messages. The remainder of this report provides further details on each area.

<b>Proposed audit opinion</b>	<p>Subject to completion of our final closing procedures and final Partner review, we anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2013.</p> <p>At the date of this report our audit of the Fund's financial statements is substantially complete. Our remaining completion procedures are carried out jointly with those for the main audit. This includes obtaining a signed management representation letter, which covers the financial statements of both the Authority and the Fund.</p>
<b>Audit adjustments</b>	<p>We are pleased to report that our audit of the Fund's financial statements did not identify any material adjustments. The Authority made two trivial adjustments, which were of a presentational nature.</p>
<b>Accounts production and audit process</b>	<p>The Authority has good processes in place for the production of the Fund's financial statements and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p> <p>We have worked with officers throughout the year to discuss the specific risk areas for this year's audit. The Authority addressed the issues appropriately.</p>
<b>Control environment</b>	<p>Controls over the Fund's key financial systems are sound. However we have raised one low priority recommendation arising from our work, which is summarised in Appendix 1.</p>

**We have identified no issues in the course of the audit that are considered to be material.**

**Subject to the completion of our closing procedures and final Partner review, we anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report, by 30 September 2013.**

### **Proposed audit opinion**

We anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by the Audit, Pensions and Standards Committee on 26 September 2013, following completion of our final closing procedures and satisfactory clearance of our review process.

### **Audit differences**

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

We did not identify any material misstatements

In addition, we identified two presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2012/13 ('the Code')*. The Authority will address these in the final version of the financial statements.

### **Completion**

At the date of this report, our audit of the Fund's financial statements is substantially complete.

Before we can issue our opinion we require a signed management representation letter. The representations in relation to the Fund will be included in the Authority's representation letter.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Fund's financial statements. A full declaration of our independence is set out in the main *ISA 260 Report* for the Authority.

### **Annual Report**

We have reviewed the Pension Fund Annual Report and confirmed that:

- it complies with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008; and
- the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

We anticipate issuing an unqualified opinion on the Pension Fund Annual Report at the same time as our opinion on the Statement of Accounts, subject to completion of our closing procedures and review process.

The Authority has good processes in place for the production of the Fund’s financial statements and good quality supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

**Accounts production and audit process**

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the accounting practices and financial reporting relating to the Fund. We also assessed the Authority’s process for preparing the Fund’s financial statements and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
<b>Accounting practices and financial reporting</b>	The Authority has good financial reporting arrangements over the Fund’s financial statements in place. We consider that accounting practices are appropriate.
<b>Completeness of draft accounts</b>	We received a complete set of draft accounts in June 2013, in advance of the statutory deadline.
<b>Quality of supporting working papers</b>	Our <i>Accounts Audit Protocol</i> , which we issued in May 2013 and discussed with Bob Pearce (Pension Fund Accountant), set out our working paper requirements for the audit. The quality of working papers provided met the standards specified.
<b>Critical accounting matters (key audit risks)</b>	We have discussed with officers throughout the year the areas of specific audit risk and undertaken specific audit procedures. There are no matters to draw to your attention.
<b>Response to audit queries</b>	Officers resolved all audit queries in a reasonable time.

**Controls over the Fund's key financial systems are sound.**

During July and August 2013 we completed our control evaluation work. We did not issue an interim report as there were no significant issues arising from this work. For completeness we reflect on key findings from this work.

#### **Organisational and control environment**

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We therefore obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented.

Most of the controls we look at do not just relate to the Fund but the Authority as a whole.

We found that your organisational and control environment is effective overall.

#### **Controls over key financial systems**

Where we have determined that this is the most efficient audit approach to take, we test selected controls that address key risks within the financial systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Based on the work of your internal auditors, and our own work on controls over the year end process, the controls over the financial systems are sound.

We noted one minor weakness in respect of individual financial systems:

- The Pension Fund Accountant does not review the reconciliations performed by the custodian between their own valuations and that of the fund managers for the pension fund's investment assets.

Recommendations are included in Appendix 1.

We have given each recommendation a risk rating and agreed what action management will need to take.

Priority rating for recommendations		
<p><b>1</b> <b>Priority one:</b> issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p>	<p><b>2</b> <b>Priority two:</b> issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p><b>3</b> <b>Priority three:</b> issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	<b>3</b>	<p><b>Pension Fund Review of Custodian Reconciliations</b></p> <p><b>Issue:</b> The Pension Fund relies on the valuations provided by the Custodian (Northern Trust) for financial reporting purposes. Although reconciliations are performed by the Custodian on a monthly basis between their own valuation of the pension fund's assets and that of the fund managers, the pension fund is not provided with these and there is no oversight of the process.</p> <p><b>Risk:</b> Lack of oversight by the Authority limits the ability to challenge the valuations and the robustness of the Custodian's reconciliation processes and their investigations of any differences. Ultimately these are figures which are included in the financial statements and for which the Authority is accountable.</p> <p><b>Recommendation:</b> Request that the Custodian provides these reconciliations on at least a quarterly basis with evidence that any significant discrepancies between fund manager and Custodian valuations are investigated.</p>	<p><b>Management Response:</b></p> <p>Discussions are already underway with the Fund's custodian to ensure that the reconciliations are received quarterly and all necessary investigations are undertaken.</p> <p><b>Responsible Officer:</b></p> <p>Director of Corporate Finance &amp; Investment</p> <p><b>Due Date:</b></p> <p>31st October 2013</p>





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