



Havering Pension Fund Audit results report

Year ended 31 March 2020

24 February 2021



Havering Pension Fund

24 February 2021

Dear Audit Committee Members,

We are pleased to attach our Audit Results Report for the forthcoming meeting of the Audit Committee. This report summarises our audit conclusion in relation to the audit of Havering Pension Fund for 2019/20.

At the date of this report our audit of the Fund's accounts for the year ended 31 March 2020 is substantially complete, subject to concluding the outstanding matters listed in our report. We anticipate issuing an unqualified audit opinion on the financial statements in the form at Section 3 of this report. The Covid-19 pandemic has impacted the Pension Fund's financial statements and also the scope of audit procedures we were required to perform as outlined in our Audit Planning Report.

We would like to thank your officers for their assistance during the audit given the additional pressures they have faced responding to the pandemic and working remotely.

We welcome the opportunity to discuss the contents of this report with you, as well as provide a verbal update, at the Audit Committee meeting on 24 February 2021.

This report is intended solely for the use of the Audit Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

Yours faithfully

Debbie Hanson

Associate Partner

For and on behalf of Ernst & Young LLP

Enc

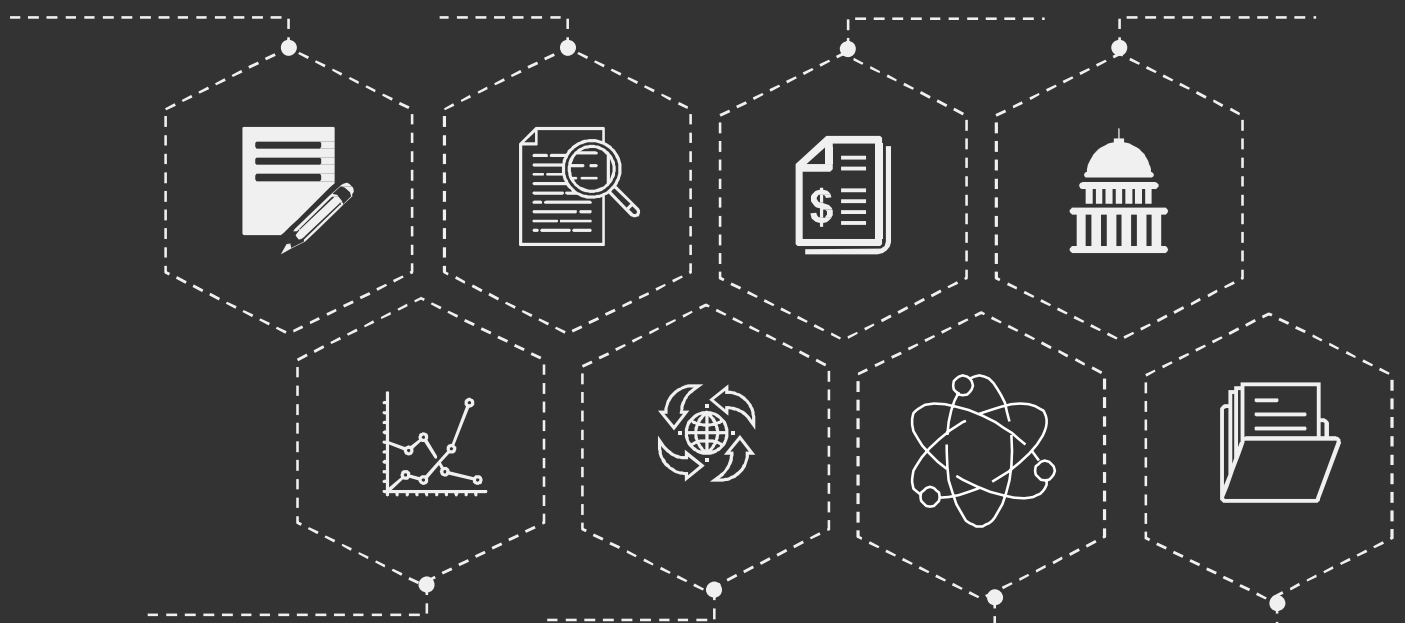
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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01

Executive Summary

Executive Summary

Scope update

In our Audit Planning Report presented to the Audit Committee meeting on 28 July 2020, we provided you with an overview of our audit scope and approach for the audit of the Pension Fund's 2019/20 financial statements. The Covid-19 pandemic has impacted both the scope and delivery of the Pension Fund's financial statement audit for the year end 31 March 2020. The key changes were outlined in our Audit Plan. We have delivered our audit as outlined in our Plan with the following updates.

Changes to reporting timescales

As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

Changes in materiality

We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. The updated materiality figures are set out below.

	Planning Materiality	Performance Materiality	Audit Differences
	Our planning materiality represents 1% of the prior year's net assets, consistent on year on year.	Performance materiality represents 75% of planning materiality and is the top of our range, consistent year on year	We will report all uncorrected misstatements related to the primary statements (net asset statement and fund account) greater than 5% of planning materiality
Planned	£7.33 million	£5.5 million	£0.37 million
Final	£7.28 million	£5.46 million	£0.36 million



Executive Summary

Status of the audit

We have substantially completed our audit of Havering Pension Fund's financial statements for the year 31 March 2020 and have performed the procedures outlined in our Audit Plan.

Subject to satisfactory completion of the outstanding items noted in Appendix B of this report, we expect to issue an unqualified opinion on the financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise.

Audit differences

To date we have identified audit differences totalling £2.9 million, in relation to investment valuations. Management's view is that this difference is not material to the Pension Fund accounts, and they have therefore elected not to make the amendments.

Our audit has also identified a small number of disclosure differences which management has agreed to adjust. We include further details in Section 4

Executive Summary

Areas of audit focus

Our Audit Plan identified significant risks and areas of focus for our audit of the Fund's financial statements. We summarise below our latest findings.

Significant risk	Findings & conclusions
Misstatements due to fraud or error – Incorrect posting of journals relating to investment income and assets	We have completed our audit procedures in relation to this risk and we have found no indications of misstatements due to fraud or error as a result management override of controls. We have no issues to report.
Valuation of complex investments (Level 3 investments including pooled property funds)	We have completed our audit procedures in relation to this risk and we have identified an audit difference totalling £2.9 million in respect of investment valuations as at 31 March 2020.
Other area of audit focus	Findings & conclusions
Going concern disclosures (to reflect the impact of Covid-19)	We are currently completing our going concern procedures. This includes, reviewing the evidence provided (going concern assessment including cash flow forecast) and accompanying disclosure for the financial statements, to ensure they reflect the impact of Covid-19. We will also consult internally on the adequacy of the going concern disclosures.
Disclosures of events after the balance sheet date (in context of Covid-19)	We have reviewed the disclosures in the accounts and has assessed them as adequate and appropriate.



Executive Summary

Areas of audit focus (continued)

We request that you review these and other matters set out in this report to ensure:

- There are no residual further considerations or matters that could impact these issues
- You concur with the resolution of the issue
- There are no further significant issues you are aware of to be considered before the financial report is finalised

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

Other reporting issues

We are required to give a consistency opinion on the Pension Fund's Annual Report. Our final review and consistency check procedures, comparing the Pension Fund's Annual Report to the Pension Fund's financial statements, are currently in progress. We anticipate that we will have no matters to report in relation to this.

Independence

Please refer to Section 7 for our update on Independence.



02

Areas of Audit Focus



Areas of Audit Focus

Significant risk

Misstatements due to fraud and error

What is the risk?

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

We have concluded that the main area where management override may occur is the incorrect posting of investment journals posted into the general ledger. We have outlined our response to this risk on the next slide.

What judgements are we focused on?

In addition to the standard areas of risk related to fraud and error we have identified management override of controls relating to the posting of journals relating to the valuation of investment assets, as the main area of risk.

What are our conclusions?

Based on our procedures performed to date, which are substantially complete:

- We have not identified any material weaknesses in controls or evidence of material management override.
- We have not identified any instances of inappropriate judgements being applied.
- We did not identify any other transactions during our audit which appeared unusual or outside the Fund's normal course of business.

What did we do?

In order to address this risk we:

- Identified potential fraud risks during the planning stages of the audit
- Made inquiries of management about risks of fraud and the controls put in place to address those risks.
- Made inquiries of those charged with governance to understanding the oversight given in management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.
- Performed mandatory procedures regardless of specifically identified fraud risks which included:
 - Testing of journal entries and other adjustments in the preparation of the financial statements,
 - Review of material estimates for evidence of management bias,
 - Review of any significant unusual transactions for the Pension Fund.



Areas of Audit Focus

Significant risk

Misstatements due to fraud and error: Incorrect posting of investment valuation journals

What is the risk?

The Pension Fund posts year end manual journals in relation to the valuation of its investments as well as investment income. There is a risk that, due to fraud or error, investment journals posted into the general ledger are incorrect. This could result in a misstatement of year-end investment values and in year investment income.

What did we do and what judgements did we focus on?

In respect of year end investment valuations and investment income journal entries we have:

- Verified agreement of the Custodian's valuation report to that of individual Fund Manager valuation reports for the pension fund's investment assets valuations as of 31 March 2020 and investment income recognised during 2019/20
- Agreed the reconciliation of holdings included in the Net Assets Statement to the source reports from the Pension Fund's Custodian and Investment Fund Managers.

What are our conclusions?

We did not identify any differences between the valuation of investment or investment income, as recognised in the Pension Fund's net asset statement and fund account, and independent third party valuation reports. We are therefore satisfied that there is no evidence of incorrect posting of investment valuation and investment income journals for the year end 31 March 2020.



Areas of Audit Focus

Significant risk

Valuation of complex investments (Level 3 investments including pooled property funds)

What is the risk?

The Fund's investments include complex investments, such as pooled property investments. The valuation of such investments are classified under IFRS 13 as Level 3 investments. As such the valuation of Level 3 investments are based on 'unobservable' inputs.

Judgements are taken by the Investment Managers to value those investments whose prices are not publicly available. The material nature of Investments means that any error in judgement could result in a material valuation error. Market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.

Covid-19 has created an uncertain economic environment immediately prior to the Pension Fund's reporting date of 31 March 2020. As a result, the valuation of these complex investment assets as of 31 March 2020 are subject to increased estimation and potentially significant judgements as to the valuation method adopted.

What did we do and what judgements did we focus on?

To gain assurance over the valuation of complex investments, for a sample of Level 3 investments, including pooled property funds we have:

- Made enquiries of the Pension Fund and its Investment Managers to understand how the valuation impact of Covid-19 has been assessed.
- Reviewed the basis of valuation for level 3 investments and assessed the appropriateness of valuation methods used.
- Compared the investment value included in the Pension Fund's financial statements to direct confirmations from the Fund Managers.
- Reviewed the latest audited financial statements of the investment funds to corroborate net asset values used in determination of investment valuations.
- Performed analytical procedures, in light of Covid-19, to verify the valuation output (from fund managers) for reasonableness against our own expectations.
- Reviewed investment valuation disclosures to verify that significant judgements surrounding the valuation of Level 3 investments have been appropriately made in the Pension Fund's financial statements.



Areas of Audit Focus

Significant risk

Valuation of complex investments (Level 3 investments including pooled property funds)

What are our conclusions?

We have identified audit differences with a net impact of £2.9 million, in relation to the valuation investment assets. Management have chosen not to amend these based on their assessment that these differences are not material to the Pension Fund accounts.

Consideration of the potential impact of Covid-19 on the valuation of Level 3 investment assets including pooled property funds

- The Royal Institute of Chartered Surveyors (RICS) issued guidance in light of Covid-19 advising the use of a material valuation uncertainty clause in 31 March 2020 valuations due to the uncertainty associated with the market value of property. Upon the receipt of the draft 2019/20 financial statements it was confirmed that such material valuation uncertainty clauses have been included across some of the pooled property funds included in the Pension Fund financial statements.
- The value of the pension fund's Level 3 investments, including pooled property funds, as at 31 March 2020, was £133.7 million (18.9% of the pension fund's total net assets).
- We will need to consult on whether we need to include an 'Emphasis of Matter' paragraph in our audit report in respect of the material uncertainty disclosures included by valuers regarding the valuation of property assets due to the impact of Covid-19 as at 31 March 2020. We have highlighted this within an 'Emphasis of Matter' paragraph within our Audit Report and through enhanced disclosures in Note 5 and 14. This assessment is based on a sensitivity analysis that indicates that there would need to be a 5.4% change in value of level 3 investments for there to be a material impact of the pension fund's financial statements. As such we consider that there is a potential impact of Covid-19 of the pension fund's level 3 investment asset valuations.



Areas of Audit Focus



Going concern disclosure

What is the risk?

We have identified a risk regarding the impact of the Covid-19 pandemic on the Pension Fund and the adequacy of related going concern disclosures. Considering the financial position of the Pension Fund we do not believe this as a significant risk, but is an area of audit focus.

There is presumption that the Pension Fund accounts should be prepared on a going concern basis under CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20. Covid-19 has however created a number of financial pressures and uncertainties throughout local government and the wider economy that could directly impact the Pension Fund. As a result the Pension Fund needs to undertake a more detailed going concern assessment and provide an expanded disclosure in its financial statements.

International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, also requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'. To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements. The auditor's report in respect of going concern covers a 12-month period from the date of the audit report, therefore the Pension Fund's assessment will also need to cover this period, which for the current year will therefore extend to December 2021.

What did we do and what are our findings

The Pension Fund's draft accounts included limited disclosure in respect of going concern. The Pension Fund have provided a revised going concern disclosure and supporting assessment, including cash flow forecast analysis.

We have yet to conclude our review of this updated disclosure, assessment and cash flow forecast. As part of this work, we will consider:

- the impact on the carrying value of Fund assets;
- the level of reliance on investment income to pay benefits; and
- the ease and speed with which investment assets can be converted to cash if necessary to support liquidity.

Once we have completed these procedures we are required to consult internally on the conclusion from this assessment and the adequacy of the disclosure in the financial statements.



Areas of Audit Focus



Events after the balance sheet date

We have also identified a risk regarding disclosures of events after the balance sheet date relating to the impact of the Covid-19 pandemic on the Pension Fund. As the Covid-19 lockdown was a pre balance sheet event we did not identify this as a significant risk, but an area of focus.

The Pension Fund is required to disclose material events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Covid-19 has resulted in unprecedented circumstances and economic uncertainty on the global markets. Therefore, it is important that the Pension Fund gives due consideration to the disclosure of events after the reporting date within their financial statements. Examples of notable subsequent events include significant movement of investment asset valuations since 31 March 2020 or if there are significant problems with admitted bodies making pension contributions.

We have reviewed the disclosures in the accounts and has assessed them as adequate and appropriate.



03 Audit Report



Draft Audit Report

Our draft opinion on the financial statements is subject to final EY consultation

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF HAVERING – DRAFT

Opinion

We have audited the Pension Fund financial statements for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the Pension Fund financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2020 and the amount and disposition of the fund's assets and liabilities as at 31 March 2020; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Pension Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Pooled property funds

We draw attention to Note 5 – Assumption made about the future and Other Major Sources of estimation uncertainty and Note 14 – Analysis of Investments, of the financial statements, which describe the valuation uncertainty the Pension Fund is

facing as a result of COVID-19 in relation to pooled property funds. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Operating Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Operating Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Pension Fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the "Statement of Accounts 2019/20", other than the London Borough of Havering and London Borough of Havering Pension Fund financial statements and our auditor's report thereon. The Chief Operating Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.



Audit Report

Our opinion on the financial statements

Matters on which we report by exception

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Chief Operating Officer

As explained more fully in the Statement of the Responsibilities for the Statement of Accounts set out on page 17, the Chief Operating Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the Pension Fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Operating Officer is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Pension Fund either intends to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of London Borough of Havering, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the London Borough of Havering Pension Fund and the London Borough of Havering members as a body, for our audit work, for this report, or for the opinions we have formed.



04 Audit Differences



Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of unadjusted and adjusted differences

We highlight misstatements greater than £0.36 million which have been identified during the course of our audit.

Unadjusted Audit Differences

Valuation of investments:

We have identified audit differences in relation to the valuation of level 3 investment assets as of 31 March 2020, with a net impact totalling £2.9 million.

This audit difference has arisen due to the fact that the valuations included within the Pension Fund’s accounts are based on estimated values. As part of our audit we have obtained and considered the most recently available information for the valuation of level 3 investment assets as of 31 March 2020. This has identified a net reduction in the value of investment assets of £2.9 million. It is likely that this reduction is due to the impact of Covid-19.

Adjusted Differences

Our audit also identified a limited number of minor disclosure misstatements mostly relating to the narrative of the Annual report which our team have highlighted to management for amendment. These have been corrected during the course of the audit and relate to disclosure and presentational matters in the Statement of Accounts.



05 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements

We must give an opinion on the consistency of the financial and non-financial information in Havering Pension Fund Annual Report with the audited financial statements. This work is substantially complete and is subject to final review. We anticipate that we will have no matters to report in relation to this matter.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We have had no reason to exercise these duties.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Fund's financial reporting process. We have no matters to report.



06

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Pension Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Pension Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.



07

Independence

Independence

Confirmation

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Planning Report dated 28 July 2020. We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you and your Audit Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 24 February 2021.

We confirm we have undertaken non-audit work outside of the Statement of responsibilities of auditors and audited bodies as issued by the Public Sector Audit Appointments Ltd. We have adopted the necessary safeguards in our completion of this work.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, senior management and its affiliates, including all services provided by us and our network to your Authority, senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The table overleaf includes a summary of the fees that you have paid to us in the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2020.

In our Audit Plan and subsequent reporting to the Audit Committee, we have communicated our proposal to increase the scale fee for 2019/20 to £55,000. This proposal is currently being considered by PSAA as part of their national consideration of EY's fee proposals. The table below does not reflect those proposals but does include an estimate of the fee increases due to the additional audit procedures we have taken due to changes in the scope of our work and risks identified as outlined in this report. On completion of the audit we will finalise our fees and provide supporting details to the Chief Finance Officer for agreement. Any fee increases in relation to Code work also need to be approved by PSAA.

	Final fee 2019/20	Planned fee 2019/20	Final Fee 2018/19
	£	£	£
Scale Fee – Code work	16,170	16,170	16,170
Additional work and associated fees:			
IAS 19 Assurance Work – annual approach (note 1) - non Code work	8,000	TBC	5,500
Triennial Review Procedures (note 2) – non Code work	3,000 - 4,000	-	-
Going concern and PBSE assessments and disclosures, including EY consultations (note 3)	4,000 - 8,000	-	-
Total indicative Pension Fund fee	31,170 – 36,170	TBC	21,670

Fee analysis

Notes

1. The auditors of London Borough of Havering request IAS 19 assurances over information that the Pension Fund submits to the actuary on an annual basis to inform the Council's IAS 19 pensions results report. As auditors of the Pension Fund, we perform the assurance procedures requested and report, via an assurance letter, back to the auditors of London Borough of Havering. The scope of these procedures are not include in the PSAA base scale fee and is non code work.
2. We reported in our Audit Plan that as a result of the triennial valuation of the Pension Fund, we would be required to undertake additional testing of membership data submitted to the actuary on a triennial basis. This work is complete (subject to Manager and Associate Partner's review) and we will quantify the final fee on completion. This is again non Code work.
3. We noted in this report that we needed to carry out additional work to review, assess and challenge the Pension Fund's going concern assessment and associated disclosure, as well as events after the reporting period disclosures. We have also had to consider the impact of the material uncertainty referred to in relation to the valuation of the Funds poled property assets and whether we need to include an emphasis of matter in relation to this in our audit report. We also highlighted that to ensure that we are giving the appropriate level of assurance to the Pension Fund, EY have put in place a consultation process involving the Firm's Professional Practice Directorate. We will confirm the final fees associated with this additional work on completion of the audit.

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
 - Tax advocacy services Remuneration advisory services Internal audit services Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the Audit Committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 2020. We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020: https://www.ey.com/en_uk/who-we-are/transparency-report-2020



08

Appendices

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.




Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Appendix B

Outstanding matters




The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item 	Actions to resolve 	Responsibility 
Membership data testing	We selected a sample of 125 fund members to test to inform our work on the triennial valuation – this work is complete subject to review by Manager and Associate Partner	EY
Going concern	We are currently completing our going concern procedures, which may result in further queries for Management. We also need to undertake internal consultation on the adequacy of going concern disclosures	EY and Management
Level 3 Investments and Journals testing	Work completed subject to clearance of review notes from Manager and Associate partner review.	EY
Final version of the Financial Statements	Review of the final version of the financial statements; Completion of final consistency checks between the Pension Fund's Annual Report and the London Borough of Havering full Statement of Accounts pack, which includes the Pension Fund's financial statements	EY and Management
Conclusion procedures	This is currently in progress	EY
Clearance of queries arising from review by Associate Partner and Manager	In progress	EY
Management representation letter	To be sent by EY and signed by Management once audit complete	EY and Management
Completion of subsequent events review	Procedures to be performed up to the date of signing	EY and Management





Appendix C

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

 Our Reporting to you		
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report July 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report July 2020
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit results report February 2021

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	Audit Results Report February 2021
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	Audit Results Report February 2021
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit Results Report February 2021
Fraud	<ul style="list-style-type: none"> • Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ul style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility. 	Audit Results Report February 2021

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Authority 	Audit Results Report February 2021
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit planning report July 2020</p> <p>Audit Results Report February 2021</p>
Fee Reporting	<ul style="list-style-type: none"> • Breakdown of fee information when the audit planning report is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work 	<p>Audit planning report July 2020</p> <p>Audit Results Report February 2021</p>



Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> Management's refusal for us to request confirmations Inability to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations.
Consideration of laws and regulations	<ul style="list-style-type: none"> Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit. 	Audit Results Report February 2021
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	Audit Results Report February 2021
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit Results Report February 2021
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report February 2021

Appendix D

Regulatory update

There have been a number of recent regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on London Borough of Havering Pension Fund 
Code of Audit Practice 2020	<ul style="list-style-type: none"> The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21. 	<ul style="list-style-type: none"> The NAO are currently updating the Auditor Guidance Notes which will set out how the new Code of Audit Practice should be applied when carrying out value for money work. As such, the impact remains to be confirmed. Further updates will be provided when possible.
Going Concern - ISA (UK) 570 (Revised September 2019)	<ul style="list-style-type: none"> The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, however EY expects to early-adopt the revised standard for all of our audits of periods ending on or after 30 June 2020. This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. 	<ul style="list-style-type: none"> Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage. Further updates will be provided when possible.
Independence	<ul style="list-style-type: none"> The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and will be effective from 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to companies that are UK Public Interest Entities (PIEs). This prohibition will also extend to any UK parent and apply to all worldwide subsidiaries. A narrow list of permitted services will continue to be allowed. 	<ul style="list-style-type: none"> We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under the FRC Revised Ethical Standard 2019 which will be effective from 15 March 2020. Non-audit services which are in progress as at 15 March 2020 and are permitted under the existing ethical standard will be allowed to continue under the existing engagement terms until completed. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales. We do not undertake any non-audited services for the Fund.

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