

Non-Executive Report of the: Pensions Committee Thursday, 10 March 2022	 TOWER HAMLETS
Report of: Corporate Director, Resources	Classification: Restricted
Responses to Pension Fund Accounts Audit Report	

Originating Officer(s)	Miriam Adams
Wards affected	(All Wards);

Executive Summary

This report provides officer response to the 2018/19 and 2019/20 Pension Fund ISA 260 as well as update on the 2020/21 audit.

Recommendations:

The Pensions Committee is recommended to:

1. Note the content of this report and updated ISA 260 reports.
2. Note that Deloitte have yet to issue the audit plan for 2020/21 although the audit has since commenced.

1. REASONS FOR THE DECISIONS

- 1.1 This report is for information. it provides officers response to the 2018/19 and 2019/20 pension fund ISA260 as well as progress on the 2020/21 audit.

2. ALTERNATIVE OPTIONS

- 2.1 There are no alternative options to this report.

3. DETAILS OF THE REPORT

- 3.1 It is a requirement for a separate annual audit to be carried out on the Tower Hamlets Pension Fund.

- 3.2 In November, the Committee was presented with draft ISA260 for 2018/19 and 2019/20 audits. These reports remain draft positions. Deloitte the Fund external auditor have informed officers that audit opinions will not be formally issued until the council's own audit is completed. This is due to a number of reasons mainly:
- Possibility of the issues in the council's own audit which might have an impact on the pension fund.
 - It is customary for one Audit Opinion covering both accounts to be issued. However, the attached Audit Report states Deloitte anticipating issuing an unqualified opinion of the pension fund accounts for both 2018/19 and 2019/20.

2020/21 Accounts Audit Update

- 3.3 Deloitte completed an interim audit virtual visit in February/March 2021 but did not issue an interim report as they had not concluded the 2018/19 and 2019/20 audits at that time. Although both audits have now been concluded, Deloitte will not issue an interim audit report for 2020/21 until the council's 2018/19 and 2019/20 audits are concluded.

Work has however commenced on 2020/21 pension fund accounts audit and certification on the Tower Hamlets Pension Fund Annual Report.

2018/19 Considerations for the Committee

- 3.4 This report
At the time of writing this report there are no outstanding items which officers have not provided to Deloitte. Majority of issues raised in the ISA260 were already known to the Fund and officers in many instances already resolved before the audit commenced or part way through resolving.

Review of journals

Records show that a review process of pension fund journals have historically been absent, this was introduced from September 2019 however it meant that while preparing the revised 2018/19 pension fund accounts, majority of existing journals had to be reviewed and in some cases, cancelled. There were added complexity of clarity as pension fund transactions were located in a mix of council and pension fund ledgers and resource constraints for clear segregation of duties.

Since 2020, a clear process for the review of journals now exists which has also been improved upon in 2021 with the addition of more staff in the team to reflect proper segregation and sign off.

Testing of Fund Investment Assets

As part of the audit, Deloitte reconciled all investment holdings to both year-end custodian and investment manager reports however there was a £1.18m over statement noted in relation to the Equity Protection Bespoke

Schroders Fund. As this is below their materiality, this was included in their schedule of uncorrected misstatements.

It should be noted that the Fund accounts are prepared using the custodian records, although officers reconcile investment manager reports to custodian records. Managers and custodians are instructed to review and amend their reports if differences relate to number of units. There are however some instances where differences relate to how the manager decides to price internally and such information is not available in the public domain where the custodian can verify them.

Yearend processed initiated in 2020 now include meetings between investment managers, custodian and officers to go through any reconciliation issues picked up by officers during the year.

Calculation of Scheme Actuarial Liability (annual estimate in pension fund accounts)

In calculating the actuarial liability of the plan in accordance with IAS 26, Deloitte's are of the opinion that the Fund actuary Hymans Robertson LLP did not allow for the McCloud / Sargeant ruling. It is their opinion that incorporating this factor would result in an increase of c.£1.8m of the actuarial liability.

Officers raised this issue with the Fund actuary who disagrees Deloitte's "findings". Officers have asked Deloitte to provide their actuary's workings so this can be passed to the Fund actuary unfortunately this has not been forthcoming. The fund actuary was clear in his response that the McCloud judgement was not issued before 31 March 2019 neither was the government's appeal. The Fund's Funding Strategy Statement in 2019/20 addressed this issue and a revised Funding Strategy Statement was approved by the Committee.

It should be noted that since Deloitte presented the draft ISA260 at the November 21 Committee meeting, their estimate from £7m to £1.18m

Disclosure deficiencies 2017/18 Comparative Figures

Deloitte have raised the fact that the Fund Account 2017/18 comparative amounts for investment income and accrued investment income as an investment asset do not reconcile to their records and subsequent notes to the financial statements to the value of £0.8m. They recommend that a robust review of the draft financial statements is performed to avoid this recurring in the future.

It should be noted that the 2017/18 accounts were audited by KPMG therefore officers when preparing revised 2018/19 pension fund accounts did not consider the 2017/18 accounts.

Use of Council bank account in relation to the pension fund

Deloitte comment - Whilst having a separate account for the Fund as per applicable regulations, the Fund has also used the bank account of the Council itself for transactions. This is not in line with regulations which require

that only the Fund bank account is used. We note that this practice ceased in May 2019. We recommend that this breach of the regulations is reported to the Pension Regulator (TPR).

The legislation behind the use of separate bank account was in place since 2010, it is not clear why the council did not implement all the work required to ensure this was correctly actioned. A separate bank account was opened but pension fund transactions still went through the council's bank account including the investing of operational cash in money market funds via council's bank account. This practice ceased in June 2019 not May 2019 as quoted in the ISA 260. Since then, all major transactions have been separated involving AP and AR modules and solutions for remaining residual transaction types being considered.

Monthly Salary Exceptions Report

Deloitte have noted that this control is operated by the council payroll team and utilises salary thresholds that have not been updated since they were first introduced, as a result they are not reflective of the current salaries in place. Due to this, similar employees are selected every time the exception report is run, while not representing actual exceptions. This has led to a basic "tick-off" exercise and could potentially distract from relevant issues.

This relates to council's responsibility as an employer in the scheme to provide monthly employee payroll data for its employees in the LGPS. This is an ongoing issue.

Work is ongoing with the respective council team to resolve Resource Link identified issues which have been preventing correct pensions data provision. The Interim Corporate Director of Resources and Director of Finance Procurement & Audit are part of a council working group set up to resolve this problem.

Delay in the production of the audited financial statements

Due to the matters discussed in the ISA 260, Deloitte have stated that the audited financial statements of the Fund have been prepared outside of the timelines required by the regulations. They recommend that this breach of the regulations is reported to the Pension Regulator (TPR)

2019/20 Considerations for the Committee

Issues raised by Deloitte reduced significantly in the 2019/20 ISA 260 report

Calculation of Scheme Actuarial Liability (annual estimate in pension fund accounts)

Deloitte have raised the fact that in their opinion, in calculating the actuarial liability of the plan in accordance with IAS 26, the actuary in their opinion has

not allowed for the Goodwin ruling. Incorporating this factor would result in an increase of £4m (0.2%) of the actuarial liability.

The Fund actuary disagrees with the estimate provided by Deloitte in house actuary. Officers have requested Deloitte to provide the in-house scheme actuary calculations, but this is yet to be received.

Disclosure deficiency

Deloitte in the 2019/20 ISA 260 stated that the material valuation uncertainty clause included within the valuation statement for the one of the Schroders property fund underlying sub-funds - Nuveen Retail Warehouse Fund as at the year-end should be disclosed in the financial statements. The fund value at the year-end is c.£2.1m, which is not material.

Adjustments to the 2018/19 and 2019/20 Pension Fund Accounts

Deloitte did not require officers to adjust the pension fund accounts bottom line.

4. EQUALITIES IMPLICATIONS

4.1 There are no direct equality implications.

5. OTHER STATUTORY IMPLICATIONS

5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:

- Best Value Implications,
- Consultations,
- Environmental (including air quality),
- Risk Management,
- Crime Reduction,
- Safeguarding.
- Data Protection / Privacy Impact Assessment.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 There are no direct financial considerations resulting from this paper. The paper provides answers to 2018/19 and 2019/20 ISA260 report.

6.2 The Pension Fund Accounts sets out the financial position of the Pension Fund and as such acts as the basis for understanding the financial wellbeing

of the Pension Fund. it also enables Members to manage and monitor the Scheme effectively and be able to take decisions understanding the financial implications of those decisions.

- 6.3 The Pension Fund audit is being undertaken by Deloitte and the original fee scale set by PSSA was £16,170 for 2018/19 and 2019/20 respectively. However due to the issues encountered during the course of the audit, Deloitte anticipate charging additional fees however this will need to be approved by PSAA. No non-audit fees have been charged by Deloitte in the period in respect of services to the Pension Fund.

7. COMMENTS OF LEGAL SERVICES

- 7.1 The Council is an Administering Authority, as defined in Regulation 53 of the Local Government Pension Scheme Regulations 2013 (“the Regulations”). As such, it must maintain at least one fund for the Local Government Pension Scheme In accordance with Regulation 55 of the Regulations, a governance compliance statement must be produced, and published, and kept under review. In accordance with Regulation 57 of the Regulations, a document known as the “pension fund annual report” must be produced each year. It must be published no later than 1 December following the Scheme year end.

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- LBTHPF Audit ISA260 report 18-19
- LBTHPF Audit ISA260 report 19-20

Local Government Act, 1972 Section 100D (As amended)

List of “Background Papers” used in the preparation of this report

List any background documents not already in the public domain including officer contact information.

- NONE

Officer contact details for documents:

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