

The Audit Findings

London Borough of Barnet Pension Fund

Year ended 31 March 2014

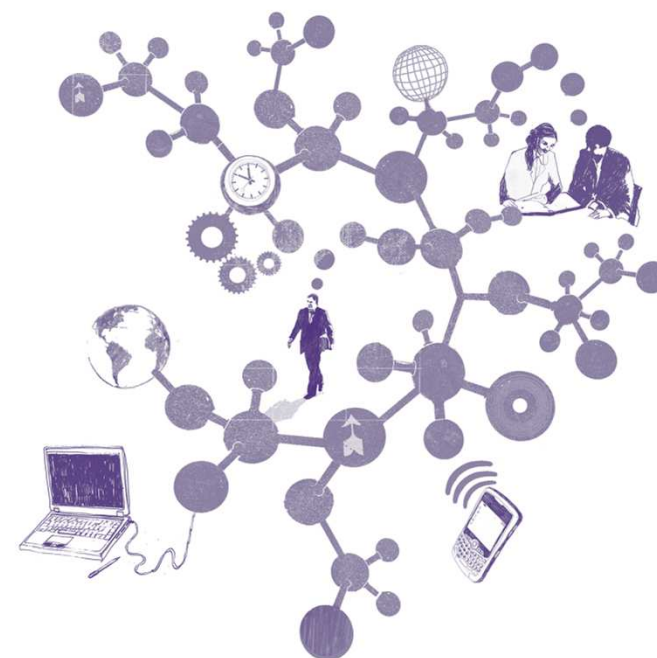
3 July 2014

Updated 16 July 2014

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Section 1: Executive summary

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of London Borough of Barnet Pension Fund's ('the Fund') financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Fund's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated April 2014.

During the year, Barnet Council awarded to Capita plc the contract for the running of the council's back office services including the administration of the Council's pension fund. The change had an impact on our audit arrangements which was not envisaged in the scale fee. Specifically, the Borough had used its existing pension fund member database Axis for the first 10 months of the year. The data was then transferred to a Capita owned system called Hartlink for the last 2 months of the year. This member database which is managed off site contributes to the information within the pension fund year end statements. In response, we documented our understanding of the nature and significance of the services provided by Capita and their effect on your internal controls, sufficient to identify and assess the risks of material misstatement. We designed and performed audit procedures as part of our testing of the financial statements and the results are set out in section 2 of this report.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- receipt of direct bank account confirmations
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation and
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and some of the accompanying working papers at the start of our audit. The pension fund annual report and journal listings was only made available a few days before our fieldwork was due to end. Evidence to support our sample of pension strain (early retirees contributions) included within Note 3 is outstanding as at the start of July 2014. We commented on a similar issue in last year's Audit Findings report. We have completed our testing of the pension strain balance and the results are summarised within this updated report.

Overall, the quality of the working papers has improved from last year, however delays in production, gaps in working papers such as the pension strain and testing of member data off site have contributed to the increased the cost of auditing the Fund statement.

Key issues arising from our audit

Financial statements opinion

Our audit is substantially complete although we are yet to complete our review of the pension strain balance (early retirees contributions) included in Note 3

Our review identified one non trivial error within the notes to the Pension Fund Account statements which management agreed to amend:

- investment sales and purchases were overstated by an equal value within unrealised gains.

We also identified one non-trivial error and a trivial error within the Pension Fund Account and Net Assets statements respectively which management have decided not to amend:

- pension strain difference of £136k included within Contribution Receivable, and
- benefit payment accrual overstated by £227k.

Further details are set out in section 2 of this report.

We identified some disclosure and trivial classification errors within the notes to the Fund Accounts which officers have agreed to amend.

The draft financial statements recorded net assets carried forward of £829,782k which remains unchanged post audit.

Subject to the satisfactory conclusion of our work, we anticipate that we will provide the Fund with an unmodified opinion confirming the Pension Fund account give a true and fair view of the transactions of the fund for the year ended 31 March 2014.

We will update this report on conclusion of our work. The updated report will be presented to the Audit Committee on 24 July 2014 showing the outcome of remaining tests before the accounts are approved.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the Capita team and other staff during our audit.

Grant Thornton UK LLP
July 2014

Section 2: Audit findings

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Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 29 April 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 29 April 2014.

Audit opinion

Subject to the satisfactory conclusion of our work, we anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	Improper revenue recognition Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	<ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions 	<p>We have rebutted this presumption as we do not consider this to be a significant risk for the London Borough of Barnet Pension Fund since:</p> <ul style="list-style-type: none"> • the nature of the Pension Fund's revenue is in many respects relatively predictable and does not generally involve cash transactions • the split of responsibilities between the Pension Fund, your fund managers and the custodian, provides a very strong separation of duties reducing the risk around investment income • revenue contributions are made by direct salary deductions and direct bank transfers from admitted/scheduled bodies, are supported by separately sent schedules and are directly attributable to gross pay, making any improper recognition unlikely • transfers into the scheme are all supported by an independent actuarial valuation of the amount which should be transferred and which is subject to agreement between the transferring and receiving funds. <p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	Management override of controls Under ISA 240 there is a presumed risk of management over-ride of controls	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investments	Investments not valid Investments activity not valid Fair value measurement not correct	<p>We reviewed the reconciliation between information provided by the fund managers, the custodian and the Fund's own records, seeking explanations for any variances.</p> <p>We selected a sample of the individual investments held by the fund at the year end and tested the valuation of the sample by agreeing prices to third party sources (quoted investments) or by review of the valuation methodology used to ensure it represents fair value</p> <p>The existence of investments was confirmed directly to relevant documentation.</p> <p>We tested a sample of purchases and sales during the year back to information provided by the fund managers and/or custodians.</p>	<p>Our work is substantially complete.</p> <p>We identified non trivial error where Fund Manager Schroder's investment sales and purchases were overstated by an equal value within unrealised gains.</p> <p>You have agreed to amend disclosure Note 9 Investments.</p>
Benefit Payments	Benefits improperly calculated/claims liability understated	<p>We confirmed the existence of controls operated by the Fund to ensure that all benefits are correctly calculated and that the appropriate payments are generated and recorded. With a view to reducing the level of substantive testing required, we also tested key controls identified in these areas.</p> <p>We selected a sample of individual transfers, pensions in payment (new and existing), lump sum benefits and refunds and tested them by reference to member files.</p> <p>We reviewed pensions paid with reference to changes in pensioner numbers and increases applied in the year. We also compared pensions paid on a monthly basis to ensure that any unusual trends were satisfactorily explained.</p>	<p>Our work is complete, there are no significant issues to bring to your attention.</p> <p>We note within benefit payments the following:</p> <ul style="list-style-type: none"> • accrued in 2012/13 of £433k had not been reversed out in 2013/14, and • payments of £206k received in 2014/15 relating to 2013/14 which should have been accrued. <p>The value of accruals individually or in aggregate was not material. We have made a recommendation to strengthen your controls around your accruals.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Contributions	Recorded contributions not correct	<p>We confirmed the existence of controls operated by the Pension Fund to ensure that it identifies and receives all expected contributions from admitted and scheduled bodies. We also substantively tested a sample of contributions from admitted and scheduled bodies.</p> <p>We substantively tested contributions from the Administering Authority. We also reviewed contributions received with reference to changes in member body payrolls and numbers of contributing members to ensure that any unexpected trends were satisfactorily explained.</p>	<p>Our work is substantially complete.</p> <p>Pension strain difference of £136k included within Contribution Receivable could not be reconciled to supporting evidence from pension admin.</p>
Membership Data	Member data not correct	<p>We confirmed the existence of controls and reconciliations covering the determination of member eligibility, the input of evidence onto the Pensions Administration System and the maintenance of member records. With a view to reducing the level of substantive testing, we also tested the key controls identified in these areas.</p>	<p>Our work is substantially complete.</p> <p>We are awaiting your reconciliation of membership data as at 31 March 2014.</p>




Other issues

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.



Transaction cycle	Description	Work completed	Assurance gained & issues arising
Pension fund administration	During the financial year, Capita was awarded the contract to manage the administration of pension fund. Some former LB Barnet pension fund staff transferred to Capita whilst others took redundancy.	<ul style="list-style-type: none"> We have held planning meetings with Capita team responsible for managing the pension fund closedown. 	<ul style="list-style-type: none"> We held meetings with Capita and provided them with our working paper requirements for the audit of the financial statements.
Member data transfer from Axis to Hartlink	The Borough used its existing pension fund member database Axis for the first 10 months of the year. The data was then transferred to a Capita owned system called Hartlink for the last 2 months of the year. The database is managed off site. Member data contributes to the information within the pension fund year end statements.	<ul style="list-style-type: none"> The testing of the completeness of pension fund data migration to the new systems as part of our IT review was undertaken in April 2014. 	<ul style="list-style-type: none"> Our specialist IT team undertook a review of the Member data transferred from Axis to Hartlink. There are no issues arising. We also tested individual pension contributions to member data as part of the financial statements testing.
Pension Fund Annual Report	Review of the Annual Report to confirm that it is consistent with the financial statements.	<ul style="list-style-type: none"> We confirmed that pension fund annual report has no apparent factual inaccuracies, misstatements or items inconsistent with the financial statements. 	<ul style="list-style-type: none"> There are no significant issues to bring to your attention. We made some good practice recommendations to enhance the reporting of Fund performance. Your Pension Fund Annual Report has been amended in line with our recommendations. We expect to issue a statement confirming the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts.

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> The Council's policy for major sources of revenues (contribution income and Investment income) are set out in detail within Note 2 Accounting Policies 	Your revenue recognition policy is consistent with our audit of the pension fund financial statements.	 Green
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements disclosed in the notes to the accounts [Notes 2 and 20] include: <ul style="list-style-type: none"> - pension fund valuations and settlements - investment valuation. 	We reviewed key estimates and judgements made by management within the notes to the accounts. For the disclosures listed, we concluded they were consistent with guidance set out in the Code of Practice of Local Authority Accounting.	 Green
Other accounting policies	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. 	Our review of accounting policies has not highlighted any issues. We note that your cash balance within Note 12 Current Assets are material. We recommend you include a policy on Cash and Cash equivalents in your accounting policy note (Note 2). Additional disclosure has been made to the revised statements.	 Amber

Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient

-  Accounting policy appropriate but scope for improved disclosure

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	n/a	Note 9 Investments	Investment sales and purchases were overstated by an equal value within unrealised gains. Note 9 has been amended.
2 Disclosure	n/a	Note 15 Related parties	The disclosure requirements of key management personnel under IAS 24 are satisfied by the disclosure requirements for officer remuneration and members' allowances in the main statements. The additional disclosure has been made to the revised statements.
3 Disclosure	n/a	Note 2 Accounting Policies	We note that your cash balance within Note 12 Current Assets are material. We recommend you include a policy on Cash and Cash equivalents in your accounting policy note. The additional disclosure has been made to the revised statements.
4 Disclosure	n/a	Annual Report 3.1 Fund Performance	We made some good practice recommendations to enhance the reporting of Fund performance. Your Pension Fund Annual Report has been amended accordingly.

Unadjusted misstatements


The table below provides details of adjustments identified which we request be processed but which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Pension Fund Account £'000	Net Assets £'000	Reason for not adjusting
1 Pension Fund Account Pension strain balance included within Contribution Receivable does not reconcile to supporting evidence from pension admin	(136)	n/a	The Council has reconciled the Pension strain balance on SAP to pension administration and payroll data included in the Pension Fund Account. There is a non trivial residual balance which management are continuing to review.
2 Net assets statement (current liabilities) Benefit payment accruals from 2012/13 not reversed out in 2013/14 Benefit payment received in 2014/15 relating to 2013/14 which should have been accrued.	n/a	433 (206)	This a trivial balance which will be reversed in 2014/15
Overall impact	(136)	227	



Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendation
1.  Amber	IT controls As part of our review of general IT controls, we identified a number of minor points in relation to the SAP system. As part of our 2014/15 audit work we will be monitoring and reviewing implementation of the new Integra system, which will include consideration of the minor points identified.	The agreed recommendation with managements comment is set out in full within the financial statements Audit Findings Report.

Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A standard letter of representation for the Council and its pension fund audit will be requested from the Fund at the conclusion of our audit.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed.
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.

Section 3: Fees, non audit services and independence

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Fees, non audit services and independence

We confirm below our final fees charged for the audit and there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Fund audit	21,000	*25,500
Total audit fees	21,000	25,500

The Audit Commission defines the scale audit fee as "the fee required by the auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate statements with supporting working papers within agreed timeframes."

* Some of these assumptions underpinning the scale fee were not met in respect of the Fund account audit. We will discuss the impact of this on the fee with the Deputy Chief Operating Officer. We estimate that additional fees will be approximately £4k to £5k.

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

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Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

Significant deficiency – risk of significant misstatement

Deficiency - risk of inconsequential misstatement

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Pension strain Ensure pension strain Integra balances are reconciled to member data on Hartlink monthly. Differences should be investigated and cleared.	High	Agreed. Processes for accounting for pension strain/ added years on Integra to be reviewed to ensure employer invoices supporting documentation reconciles to member data on Hartlink.	30th September 2014 Head of Treasury Capita CSG Service Delivery Manager Capita Employee Benefits
2	Membership of the Pension Fund Retain a screen print from the Hartlink system as at 31 March 2015 as evidence supporting your disclosure of a) number of employees contributing to the fund; b) number of pensioners; and c) number of deferred pensioners. We made a similar recommendation in our Findings report last year.	Medium	Agreed. Head of Treasury, CSG and Service Delivery Manager, CEB to agree year-end reporting requirements and delivery timetable for 2014-15 accounts and annual report, to include fund membership and supporting documentation as at 31 March 2015.	30th September 2014 Head of Treasury Capita CSG Service Delivery Manager Capita Employee Benefits
3	Benefit payments accruals Ensure accruals are appropriately reversed in the next accounting period. Reverse prior years benefit payments accruals are reversed in the current financial year.	Medium	Agreed. Year-end accruals were reversed in the first accounting period of 13-14 with the exception of the prior year benefit payment accruals. This will be adjusted on Integra in 14-15.	30 th July 2014 Head of Treasury Capita CSG

Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

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

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of London Borough of Barnet for the year ended 31 March 2014 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. 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 2013/14.

This report is made solely to the members of London Borough of Barnet in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Operating Officer and auditor

As explained more fully in the Statement of the Chief Operating Officer Responsibilities, 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, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Operating Officer; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the introduction to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the introduction for the financial year for which the financial statements are prepared is consistent with the financial statements.

Susan M Exton

Director

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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