Public Document Pack

Pension Committee Agenda

To: Councillor Andrew Pelling (Chair)
Councillor Simon Hall (Vice-Chair)
Councillors Patricia Hay-Justice, Clive Fraser, Robert Canning, Luke Clancy, Simon Brew, Yvette Hopley, Gill Driver and Peter Howard

Reserve Members: Maddie Henson, Jamie Audsley, Sherwan Chowdhury, Steve Hollands, Rob Ward and Stuart Millson

A meeting of the **Pension Committee** which you are hereby summoned to attend, will be held on **Tuesday, 5 June 2018** at **10.00 am** in **Council Chamber - Town Hall**

JACQUELINE HARRIS-BAKER
Director of Law and Monitoring Officer
London Borough of Croydon
Bernard Weatherill House
8 Mint Walk, Croydon CR0 1EA

James Haywood
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www.croydon.gov.uk/meetings
Friday, 25 May 2018

Members of the public are welcome to attend this meeting.
If you require any assistance, please contact the person detailed above, on the righthand side.

N.B This meeting will be paperless. The agenda can be accessed online at www.croydon.gov.uk/meetings

AGENDA – PART A

1. **Apologies for Absence**

To receive any apologies for absence from any members of the Committee.

2. **Minutes of the Previous Meeting** (Pages 5 - 10)

To approve the minutes of the meetings held on 13 March 2018 and 23 May 2018 as an accurate record.

3. **Disclosure of Interests**

In accordance with the Council's Code of Conduct and the statutory provisions of the Localism Act, Members and co-opted Members of the Council are reminded that it is a requirement to register disclosable pecuniary interests (DPIs) and gifts and hospitality to the value of which exceeds £50 or multiple gifts and/or instances of hospitality with a cumulative value of £50 or more when received from a single donor within a rolling twelve month period. In addition, Members and co-opted Members are reminded that unless their disclosable pecuniary interest is registered on the register of interests or is the subject of a pending notification to the Monitoring Officer, they are required to disclose those disclosable pecuniary interests at the meeting. This should be done by completing the Disclosure of Interest form and handing it to the Democratic Services representative at the start of the meeting. The Chair will then invite Members to make their disclosure orally at the commencement of Agenda item 3. Completed disclosure forms will be provided to the Monitoring Officer for inclusion on the Register of Members' Interests.

4. **Urgent Business (if any)**

To receive notice of any business not on the agenda which in the opinion of the Chair, by reason of special circumstances, be considered as a matter of urgency.

5. **Investment Strategy Training** (Pages 11 - 26)

To receive a brief initial training session

6. **Grant Thornton Report - Croydon Pension Fund Audit Plan 2017/18** (Pages 27 - 42)

To receive the Croydon Pension Fund Audit Plan report for 2017/2018.

This item is for information only following its presentation at the 15 March 2018 meeting of the General Purpose Audit Committee.

7. **Progress Report Q1**

To Follow

8. **Options for Asset Transfer**

To Follow

9. **London Collective Investment Vehicle Update**

To receive an oral update and Q&A

10. **Governance Review**

To Follow

11. **Risk Register Review**

To Follow

12. **Forward Plan**

To Follow

13. **Investment Advisor Appointment**

To Follow

14. **Exclusion of the Press and Public**

The following motion is to be moved and seconded where it is proposed to exclude the press and public from the remainder of a meeting:

"That, under Section 100A(4) of the Local Government Act, 1972, the press and public be excluded from the meeting for the following items of business on the grounds that it involves the likely disclosure of exempt information falling within those paragraphs indicated in Part 1 of Schedule 12A of the Local Government Act 1972, as amended."

PART B

15. **Minutes of the Previous Meeting** (Pages 43 - 44)

16. **Progress Report B**

To Follow

Pension Committee

Meeting of held on Tuesday, 13 March 2018 at 10.00 am in Council Chamber - Town Hall

MINUTES

Present: Councillor Patricia Hay-Justice (Vice-Chair),

Councillors Simon Brew, Robert Canning, Simon Hall, Maddie Henson, Yvette Hopley and Dudley Mead

Apologies: Councillor Wayne Trakas-Lawlor

PART A

17/18 **Minutes of the Previous Meeting**

The minutes of the meeting held on 5 December 2017 were approved as an accurate record subject to the attendance information being amended to include Councillor Clancy (as substitute), Gill Driver and Peter Howard as present and Councillor Brew as sending apologies.

The minutes of the meeting held on 29 January 2018 were approved as an accurate record subject to the attendance information being amended to include Councillor Henson as sending apologies and Councillor Chowdhury in attendance as substitute.

18/18 **Disclosure of Interests**

Councillor Henson declared that she had worked for Willis Towers Watson, discussed at agenda item 7 on the London CIV consultation.

19/18 **Urgent Business (if any)**

There were no items of urgent business.

20/18 **Local Pension Board**

The Chair of the Croydon Pension Board provided the Committee with a verbal update on the work of the Pension Board. The membership and terms of reference of the Board were explained and Members were informed that the two key areas of the Board's work were reviewing the governance and the administration of the fund. The Board would be reviewing its membership and terms of reference at its July 2018 meeting, marking three years since its inception.

Discussion took place around the implementation of recommendations arising from the Board's commissioned governance review. It was noted that almost all the recommendations had been actioned with one outstanding that had was being worked on by officers. There was also clarification made what were recommendations and what was commentary within the governance review.

The Chair of the Committee thanked the Chair of the Pension Board for the presentation and the work being undertaken by the Board.

21/18 **Key Performance Indicators**

The Head of Pensions and Treasury introduced the report and drew the Committee's attention to the tables on pages 12 and 13 of the agenda. Information was provided to Members on the work being undertaken to deal with the administrative backlog since the work had been brought back in-house.

The Committee discussed the challenges of the roll-out of the Iconnect software to employers in the scheme and officers were commended on the work done to deplete the backlog.

The Committee NOTED the contents of the report.

22/18 **London CIV Consultation**

Councillor Hall, who was a member of the London CIV sectoral committee, provided the Committee with an update on the governance work being undertaken by the London CIV. The feedback on the fundamentals of the proposals had generally been supported by the boroughs who had responded. The key was to ensure the governance models provided for the bespoke needs of individual authorities within the CIV.

Through the discussion it was requested that a further report be brought to the Committee in June to update Members on what sub-funds were being developed by the CIV and the timelines for implementation.

Some concern was raised at the lack of monitoring of new products by the Committee, which would be undertaken by the CIV. It was noted that pooling funds was a requirement by central government and thus the resulting loss of direct monitoring of fund managers by the Committee was inevitable, however the Committee would still hold the power to determine the investment strategy of the Croydon fund.

The Committee NOTED the contents of the report.

23/18 **Progress Report for Quarter Ended 31 December 2017**

The Head of Pensions and Treasury introduced the report and drew the Committee's attention to the ongoing asset allocation away from equities and into alternative investments in order to meet the designated balance in the strategy. It was reported that the Chair and Vice-Chair of the Committee, along with officers, had met with representatives of Janus Henderson to consider their offer on emerging markets through the London CIV.

Representatives from Aon Hewitt provided the Committee with an analysis of the recent trends in equity markets, particularly noting that since the end of the 2017 calendar year there had been a levelling out of the market, which had been anticipated.

The Committee discussed the Janus Henderson offer in detail and were informed of the due diligence undertaken by both officers and Aon Hewitt. The proposed portfolio would be comparatively risk-averse within the sector and it was noted that only a small proportion of the fund's investments were proposed to be allocated for the sub-fund. It was stated that the product could not be formally launched until a minimum number of authorities had committed to investing in it. In response to Member concerns about the effect of potential trade wars to emerging markets, officers were confident that the Janus Henderson products were conservatively constructed to be risk-averse and to avoid long-term negative effects in such situations.

At 11.05am Councillor Henson left the meeting.

The representatives from Aon Hewitt delivered a presentation on private debt investment. The context of private debt was described to the Committee, and it was stated that this sector provided a good opportunity to help balance the fund away from its overweight equity position. The nature of private debt was explained in detail and the Committee asked questions on the subject.

At 11.29am Councillor Mead left the meeting.

Questions were asked regarding the nature of the fund managers involved in private debt and the fee structures offered.
Officers clarified that the Committee were not being asked to make an investment decision at this meeting but that officers would look at potential options and bring a recommendation to a future Committee meeting.

The Committee NOTED the report and the decision to invest 5% of the value of the Fund in an actively managed Emerging Market equity fund (paragraph 3.6.7. refers) by transitioning 5% of the value of the portfolio into the London CIV emerging markets sub-fund.

The Chair announced that Councillor Dudley Mead had served on the Committee for 38 years and that this meeting would be his last. Councillor

Mead was formally thanked by the Committee for his considerable service to the Council.

It was also announced that Isa Makumbi would be retiring from the Council and stepping down from the Committee as a result. The Chair thanked Isa for his work on the Committee over a number of years.

24/18 **Exclusion of the Press and Public**

The following motion was moved by Councillor Hopley and seconded by Councillor Dudley Mead to exclude the press and public:

“That, under Section 100A(4) of the Local Government Act, 1972, the press and public be excluded from the meeting for the following items of business on the grounds that it involves the likely disclosure of exempt information falling within those paragraphs indicated in Part 1 of Schedule 12A of the Local Government Act 1972, as amended.”

The motion was put and it was agreed by the Committee to exclude the press and public for the remainder of the meeting.

25/18 **Minutes of the Previous Meeting**

The Part B minutes of the meeting held on 5 December 2017 were approved as a correct record subject to the attendance information being amended to include Councillor Clancy (as substitute), Gill Driver and Peter Howard as present and Councillor Brew as sending apologies.

26/18 **Progress Report for Quarter Ended 31 December 2017**

The Committee considered the Part B report

The meeting ended at 11.58 am

Signed: ....

Date: ....

Pension Committee

Meeting of held on Wednesday, 23 May 2018 at 7.39 pm in Council Chamber - Town Hall

MINUTES

Present: Councillors Clive Fraser, Simon Hall, Patricia Hay-Justice, Andrew Pelling, Simon Brew, Robert Canning, Luke Clancy and Yvette Hopley

Apologies: None

PART A

27/18 **Appointment of Chair and Vice-Chair**

Appointment of Chair and Vice-Chair
Following nominations, the Committee:

RESOLVED:
(i) That Councillor Andrew Pelling be elected Chair of the Committee for the 2018/19 Municipal Year; and
(ii) That Councillor Simon Hall be appointed Vice-Chair for the 2018/19 Municipal Year.

The meeting ended at 7.40 pm

Signed: ....

Date: ....

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Investment strategy training

London Borough of Croydon Pension Fund

Prepared by Daniel Carpenter & Darren Kidd
Aon Hewitt | Retirement & Investment

Presentation to London Borough of Croydon Pension Fund

QAS Institute and Faculty of Actuaries ® Quality Assurance Scheme

AON Empower Results®

Agenda

Introduction & objectives

Setting an investment strategy

An overview of the current strategy

Introduction & objectives

Objectives – the big picture

Time

Our focus

Current Assets + Contributions above accrual cost + Investment returns above liabilities = Assets required to be fully funded

Key objectives
- Ensure that benefits are paid to members.
- Ensure suitability of assets.
- Optimise the anticipated return consistent with a prudent level of risk.

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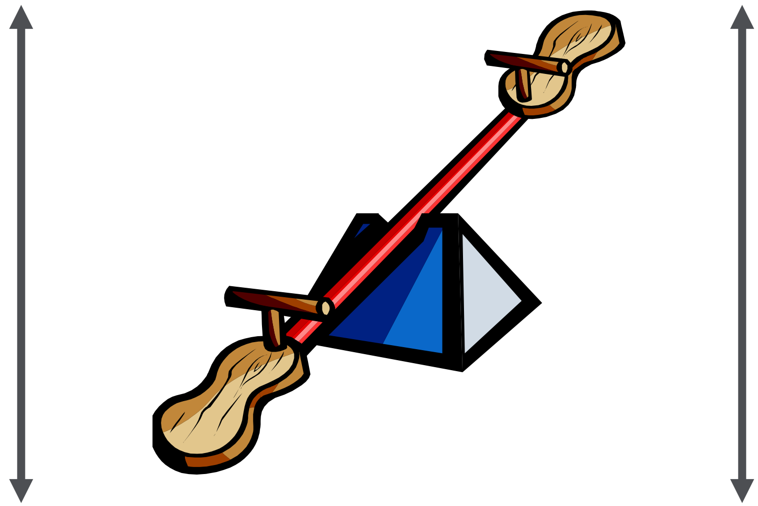
The relationship between investment strategy and contributions

Contributions

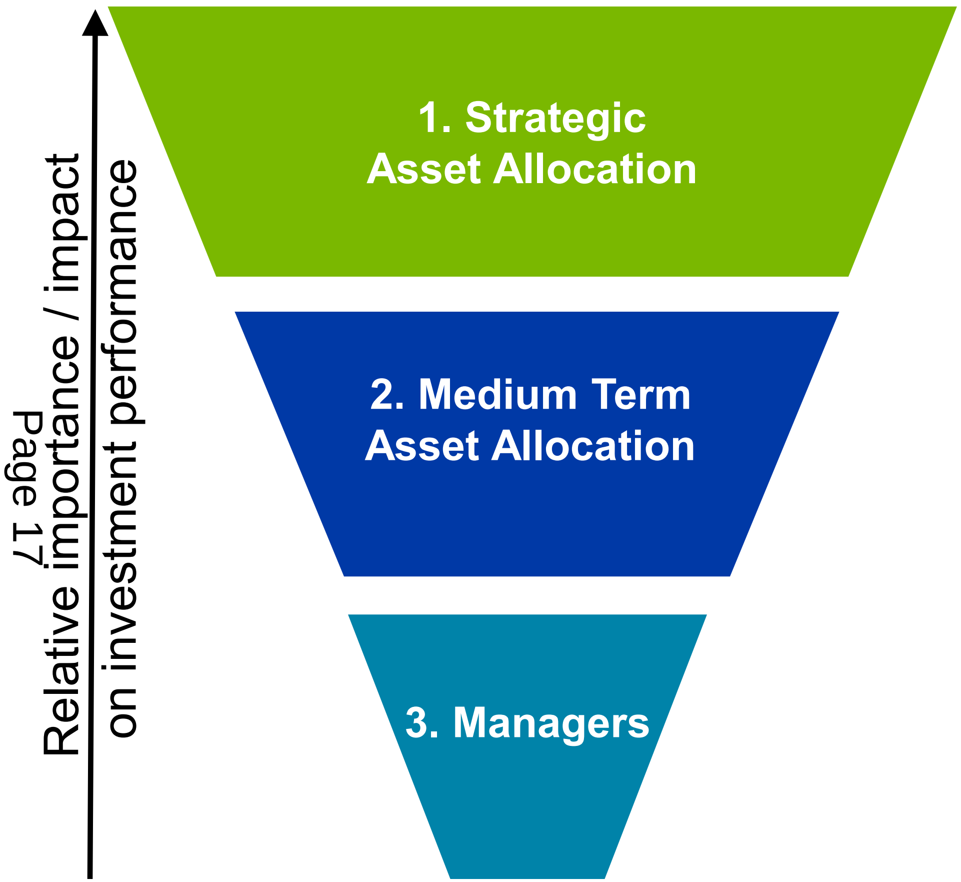


Investment Returns

- Aiming for **higher** investment returns enables you to set **lower** contribution rates **today**…
  - …but it also means a **higher** risk of **NOT** achieving the desired returns in future…
  - …in which case you will need to set **higher** contribution rates to close the funding gap.

Setting an investment strategy

What drives success?



1 **Strategic Asset Allocation**
Setting a long term framework.
Split between return seeking and matching.

2 **Medium Term Asset Allocation**
Exploiting market pricing inefficiencies.

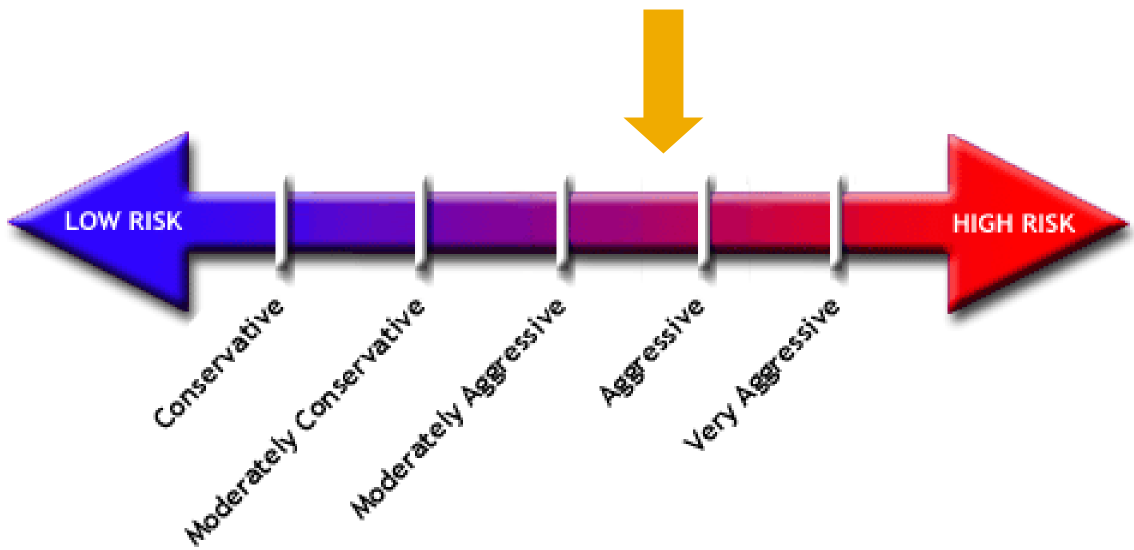
3 **Managers**
Finding best in breed managers and negotiating fees and terms.

Balancing risk and return

- In order to set investment strategy we need to understand:
  - Required level of **return:**
    - We need to achieve a return linked to the liabilities (e.g. gilts +2.2%pa).
  - **Risk** tolerance:
    - We need to understand the level of risk we are able to take.

Gilts + 2.2%pa

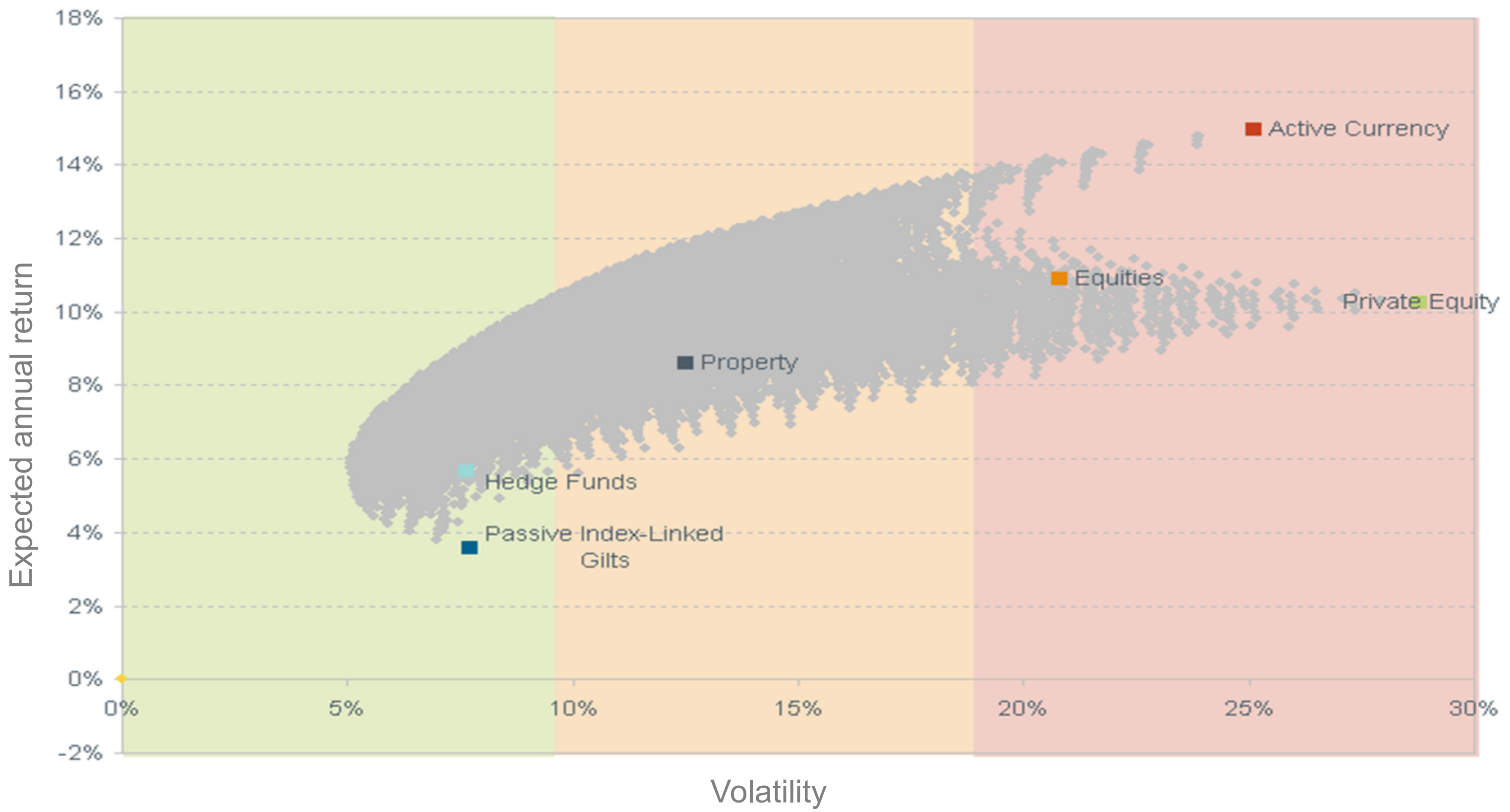
Gilts + 1.0%pa



Gilts + 3.0%pa

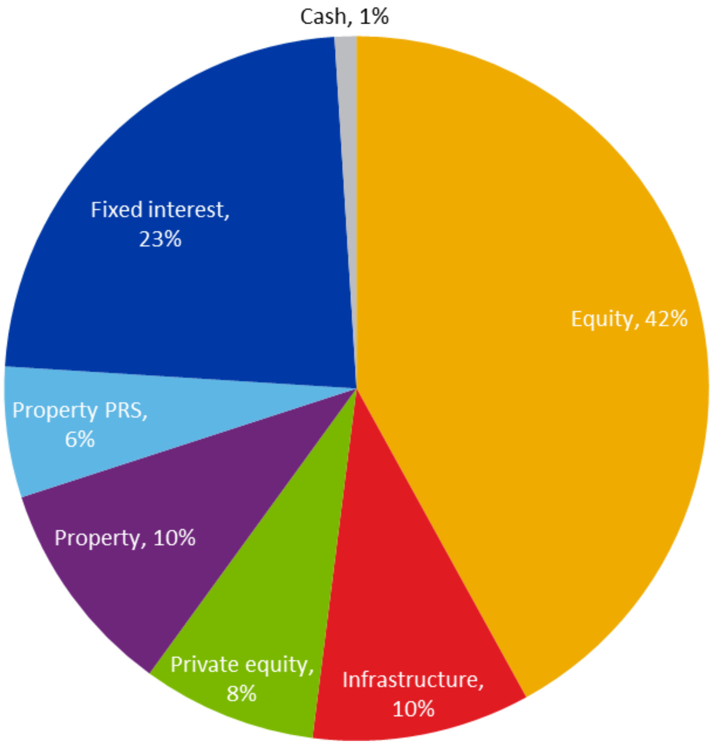
What can we do to improve the strategy?

- Introducing assets that are not perfectly correlated will reduce overall portfolio risk.
- **Diversification is key!**



The current investment strategy

Current funding and investment strategy



- The Objective of the Fund is to provide pension and lump sum benefits
  - in full
  - as and when they fall due

- The investment strategy is expected to:
  - achieve a rate of return in excess of the discount rate,
  - with a level of risk that the Committee consider to be appropriate.
- The discount rate, agreed at the latest actuarial valuation, is:
  - gilt yields plus 2.2% pa.
- The current investment strategy is made up of 76% growth assets and 24% matching assets.
- The Fund remains exposed to some key investment risks such as:
  - Equity risk,
  - Interest rate risk,
  - Inflation risk.

Strategic benchmark asset allocation

18% Alternatives

- **Infrastructure**
  Access
  Temporis
  Equitix
  Green investment bank
- **Private equity**
  Knightsbridge
  Pantheon
  Access
  North Sea
  Markham Rae

42% Equities

- **LGIM**
  FTSE World (Ex Tobacco)

23% Fixed income

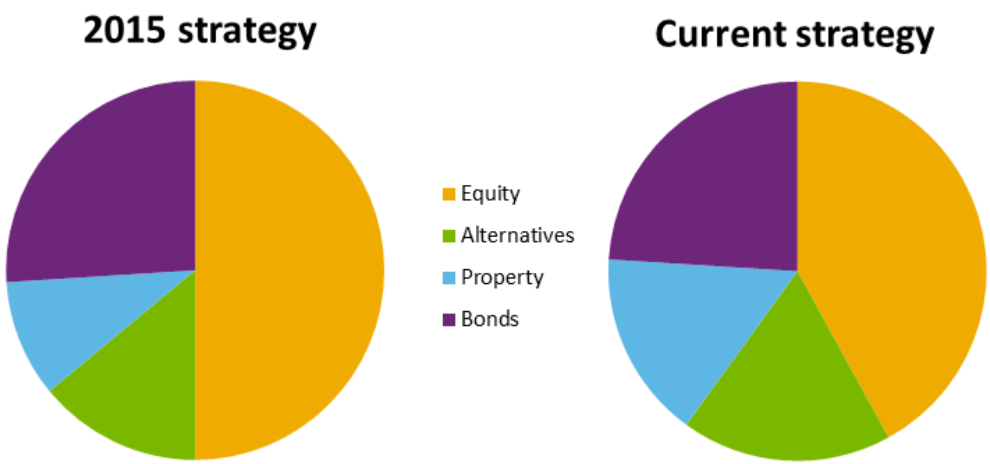
- **Aberdeen Standard Investments**
  UK investment grade and absolute return bonds
- **Wellington Management**
  UK investment grade

16% Property

- **Schroders**
  UK commercial property
- **M&G**
  Private rental sector

Recent activity

- Over the past few years the Committee has taken an active decision to reduce the equity allocation of the Fund.
- The proceeds of selling down equity have been used to invest in additional alternative and property investments, e.g. private rental sector.
- The Fund has also increased its allocation to infrastructure and private equity.
- The next stages of the development of the investment strategy is expected to include a review of the bond portfolio and consideration of private debt opportunities.



Potential future considerations

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External Audit Plan

Year ending 31 March 2018

Croydon Pension Fund

15 March 2018

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Fund or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Croydon Pension Fund ('the Fund') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Croydon Pension Fund. We draw your attention to both of these documents on the PSAA website.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance (the General Purposes & Audit Committee).

The audit of the financial statements does not relieve management or the General Purposes & Audit Committee of your responsibilities.

Our audit approach is based on a thorough understanding of the Fund's business and is risk based.

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Significant risks	Those risks requiring specific audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • Management over-ride of controls • The valuation of Level 3 investments is incorrect • Change in accounting system We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	We have determined planning materiality to be £10.9 million (2016/17: £10.9 million), which equates to 1% of your net assets. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.5 million (2016/17: £0.4 million).
Audit logistics	Our interim visit will take place in February 2018 and our final visit will take place in June 2018. Our key deliverables are this Audit Plan and our Audit Findings Report. Our fee for the audit will be no less than £21,000 (PY: £21,000) for the Fund.
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements

Deep business understanding

Changes to service delivery

Pooling

Arrangements for the pooling of investments continue to develop. The DCLG has reported on the progress of pools and noted the pace of development, including the launching of procurements for pool operators, appointing senior officers and preparing applications for Financial Conduct Authority authorisation. This remains a challenging agenda, with arrangements required to be in place from 1 April 2018. These arrangements will have a significant impact on how investments are managed and monitored, with much of the operational responsibility moving to the pool operator. It remains key that administering authorities (through Pension Committees and Pension Boards) continue to operate strong governance arrangements, particularly during the transition phase where funds are likely to have a mix of investment management arrangements.

Markets in Financial Instrument Directive (MiFID II)

January 2018 see the implementation of MiFID II. The impact for Fund is that to be able to continue to access the same investments as previously, they need to apply to 'opt up' and gain election to professional status. Without this change in status some financial institutions could terminate their relationship with the fund, which may have an adverse impact on the achievement of the investment strategy

On-going Matters

- Indexation and equalisation of GMP in public service pensions schemes
- Reforms to public sector exit packages and the application, or not, of the 2013 Fair Deal changes to the LGPS
- SAB work on options for academies within the LGPS and review of Tier 3 employer risks

Changes to financial reporting requirements

Accounts and Audit Regulations 2015 (the Regulations)

The Department of Communities and Local Government (DCLG) is currently undertaking a review of the Regulations, which may be subject to change. The date for any proposed changes has yet to be confirmed, so it is not yet clear or whether they will apply to the 2017/18 financial statements.

Under the 2015 Regulations local authorities are required to publish their accounts along with the auditors opinion by 31 July 2018.

Changes to the CIPFA 2017/18 Accounting Code

CIPFA have introduced minor changes to the 2017/18 Code, these include a new disclosure of investment manager transaction costs and clarification on the approach to investment concentration disclosure.

Key challenges

General Data Protection Regulations (GDPR)

GDPR comes into effect in May 2018 and replaces the Data Protection Act 1998. It introduces new obligations on data controllers. The Fund is both a data controller and a data processor and needs to ensure that it has appropriate processes in place to comply with the changes being introduced.

tPR 2016 Governance and Administration Survey

Published in May 2017 whilst showing improvements in governance tPR noted that its focus for 2017-18 would be scheme governance, record keeping, internal controls and member communication and that tolerance for scheme shortcomings in these areas was reducing and that they were more likely to use their enforcement powers where scheme managers have not taken sufficient action to address issues or meet their duties.

Our response

- We will consider whether your financial position leads to uncertainty about the going concern assumption and will review any related disclosures in the financial statements.
- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2017/18 CIPFA Code.
- Where any actions have been agreed in respect of matters identified through previous audit work, on the financial statements the planning report should include reference to consideration of progress against previously agreed recommendations.

Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including the London Borough of Croydon as the Administering Authority of Croydon Pension Fund, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Croydon Pension Fund.
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. Management over-ride of controls is a risk requiring special audit consideration.	We will: • gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness; • obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness; and • evaluate the rationale for any changes in accounting policies or significant unusual transactions.
Change in accounting system	During the year there has been a change in the accounting system used for the pension fund. There is therefore a risk that data may not have been transferred over correctly from the old system.	We will: • document the controls in place to manage the transfer of data to the new system; and • test the completeness of the transfer of data to the new system.

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Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The valuation of Level 3 investments is incorrect	Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	We will: • gain an understanding of the Fund's process for valuing level 3 investments and evaluate the design of the associated controls; • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; and • for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2017 with reference to known movements in the intervening period.

Reasonably possible risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Contributions	Contributions from employers and employees' represents a significant percentage of the Fund's revenue.	We will: • evaluate the Fund's accounting policy for recognition of contributions for appropriateness; • gain an understanding of the Fund's system for accounting for contribution income and evaluate the design of the associated controls; • test a sample of contributions to source data to gain assurance over their accuracy and occurrence; and • rationalise contributions received with reference to changes in member body payrolls and the number of contributing pensioners to ensure that any unusual trends are satisfactorily explained.
Pension Benefits Payable	Pension benefits payable represents a significant percentage of the Fund's expenditure.	We will: • evaluate the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness; • gain an understanding of the Fund's system for accounting for pension benefits expenditure and evaluate the design of the associated controls; • test a sample of individual pensions in payment by reference to member files; and • rationalise pensions paid with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends are satisfactorily explained.

Reasonably possible risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The valuation of Level 2 investments is incorrect	While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly.	We will: • gain an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls; • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; and • for a sample of investments, test the valuation by obtaining independent information from custodian/manager on units and unit prices.

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Other matters

Other work

The Fund is administered by the London Borough of Croydon (the 'Council'), and the Fund's accounts form part of the Council's financial statements. Therefore as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Fund, such as:

- We consider our other duties under the Act and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 financial statements;
  - issue of a report in the public interest; and
  - making a written recommendation to the Council, copied to the Secretary of State.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We propose to calculate financial statement materiality based on a proportion of the net assets of the Fund for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £10.9m (2016/17: £10.9m), which equates to 1% of your net assets for the prior year. We design our procedures to detect errors in specific accounts at a lower level of precision.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality

Separate materiality

Auditors are required to setting separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified the following items where separate materiality levels are appropriate:

- Disclosures of senior manager salaries - £10,000
- Related party transactions - £0.4 million

Materiality for planning purposes

We propose to calculate financial statement materiality based on a proportion of the net assets of the Fund for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £10.9m (2016/17: £10.9m), which equates to 1% of your net assets for the prior year. We design our procedures to detect errors in specific accounts at a lower level of precision

Matters we will report to the General Purposes & Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the General Purposes & Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.5m (2016/17: £0.4m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the General Purposes & Audit Committee to assist it in fulfilling its governance responsibilities.

Audit logistics & audit fees

Audit fees

The planned audit fees for Croydon Pension Fund are no less than £21,000 (2016/17: £21,000) for the financial statements audit.

In setting your fee, we have assumed that the scope of the audit, and the Fund and its activities, do not significantly change.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section ‘Early Close’. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Early close

Meeting the early close timeframe

Bringing forward the statutory date for publication of audited accounts to 31 July this year, is a significant challenge for audited bodies and auditors alike. For audited bodies, the time available to prepare the accounts and secure an audit opinion is curtailed.

Successful delivery of early close depends on:

- bringing forward as much work as possible to interim audits;
- starting work on final accounts audits as early as possible; and
- working with you to agree detailed plans, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

The achievement of an early close to the audit is a shared goal that requires joined up and collaborative working between our auditors and your finance team.

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We held a de-brief meeting with the Director of Finance and Head of Accountancy in December 2017 to identify potential barriers to a successful early close and agreed on actions to ensure the resolution of these issues for the 2017/18 audit process. We also delivered a presentation to the wider finance team in February 2018 to highlight best practice in supporting an audit to a successful early close and highlighting our expectations as auditors.

We are satisfied that, if all these plans are implemented, we will be able to complete your audits in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time. We will therefore conduct audits in line with the timetable set out in the audit plan (as detailed on page 12). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we may not be able to maintain a team on site. Similarly, where additional audit time is needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after, the statutory deadline. In addition, it is likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- are able to respond promptly to the interim audit and facilitate the provision of all evidence and supporting information to enable early testing to be completed during the interim audit
- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative reports and the Annual Governance Statements
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and regular meetings during the interim and final accounts audits
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Fund.

Non-audit services

No non-audit services were identified.

Appendices

A. Revised ISAs

Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

Section of the auditor's report	Description of the requirements
Conclusions relating to going concern	We will be required to conclude and report whether: • The directors use of the going concern basis of accounting is appropriate • The directors have disclosed identified material uncertainties that may cast significant doubt about the Fund's ability to continue as a going concern.
Material uncertainty related to going concern	We will need to include a brief description of the events or conditions identified that may cast significant doubt on the Fund's ability to continue as a going concern when a material uncertainty has been identified and adequately disclosed in the financial statements. Going concern material uncertainties are no longer reported in an Emphasis of Matter section in our audit report.
Other information	We will be required to include a section on other information which includes: • Responsibilities of management and auditors regarding other information • A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation • Reporting inconsistencies or misstatements where identified
Additional responsibilities for directors and the auditor	We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern.
Format of the report	The opinion section appears first followed by the basis of opinion section.

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