MEETING
PENSION FUND COMMITTEE
DATE AND TIME
THURSDAY 11 JULY, 2013
AT 6.00 PM
VENUE
HENDON TOWN HALL, THE BURROUGHS, NW4 4BG

Dear Councillors,

Please find enclosed additional papers relating to the following items for the above mentioned meeting which were not available at the time of collation of the agenda.

Item No	Title of Report	Pages
7.	External Auditor's Report under International Standard on Auditing (ISA) 260 for the year 2012/13	1 - 76

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BARNET
LONDON BOROUGH

AGENDA ITEM 7

Meeting	Pension Fund Committee
Date	11 July 2013
Subject	**External Auditor's Report under International Standard on Auditing (ISA) 260 for the year 2012/13**
Report of	Chief Operating Officer
Summary	This report considers the detailed report from the external auditors on matters arising from the audit of the 2012/13 pension fund accounts.

Officer Contributors	John Hooton, Deputy Chief Operating Officer Iain Millar, Head of Treasury
Status (public or exempt)	Public
Wards Affected	Not applicable
Key Decision	Not applicable
Reason for urgency / exemption from call-in	Not applicable
Function of	Council
Enclosures	Appendix A – ISA260 report Appendix B – Pension Fund Annual Report 2012/13 (including pension Fund Accounts)
Contact for Further Information:	Iain Millar, Head of Treasury Services 0208 359 7126

1. RECOMMENDATIONS

1.1 **That the Committee approve the audited Pension Fund Accounts and Annual Report 2012/13 and they be signed by the Chairman as having been approved.**

1.2 That the matters raised by the external auditor relating to detailed aspects of the 2012/13 accounts audit, including the pension fund accounts and officers responses to matters raised be noted.

1.3 That the Committee consider whether there are any areas on which they require additional information or action.

2. RELEVANT PREVIOUS DECISIONS

2.1 Pension Fund Committee approved the audit strategy on 6th June 2013

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

3.1 Effective monitoring of the Pension Fund will provide support towards the Council's corporate priorities

4. RISK MANAGEMENT ISSUES

4.1 A positive external audit opinion on the Pension Fund's Annual Report plays an essential and key role in providing assurance that Barnet's financial risks are managed in an environment of sound stewardship and control.

5. EQUALITIES AND DIVERSITY ISSUES

5.1 Accurate financial reporting is important to ensure the management of resources to enable the equitable delivery of services to all members of the community and to reduce the differential impact of the services received by all of Barnet's diverse communities

6. USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance & Value for Money, Staffing, IT, Property, Sustainability)

6.1 This report sets out the framework for the assessment of the Pension Fund's financial reporting and management as well as value for money.

6.2 The revised external audit fees for 2012-13 are £29,776 and were £35,000 in 2011-12.

7. LEGAL ISSUES

7.1 None other than contained in the body of the report and appendix.

8. CONSTITUTIONAL POWERS (Relevant section from the Constitution, Key/Non-Key Decision)

8.1 Council's Constitution –Responsibility for Functions – Section 2 – Responsibility for Council Functions delegated to the Pension Fund Committee through the Pension Fund Governance Compliance Statement.

9. BACKGROUND INFORMATION

9.1 In accordance with International Standard on Auditing (ISA) 260, the External Auditor is required to issue detailed reports on matters arising from the audit of the Council accounts and pension fund accounts.

9.2 The ISA 260 report has to be considered by "those charged with governance" before the External Auditor can sign the accounts, which legally has to be done by 30 September 2013.

9.3 The External Auditor, Grant Thornton (GT) was presented with the draft financial statements in June 2013. GT identified a number of adjustments which are set out in their report.

9.4 It is an anticipated that there will be an unmodified opinion on the accounts.

9.5 The audit identified the need for improvement in the preparation of pension fund accounts as errors and delays in providing working papers resulted in delay to completing the audit and increased the cost of auditing the Fund statements.

10. LIST OF BACKGROUND PAPERS

10.1 None

Cleared by Finance (Officer's initials)	**MT**
Cleared by Legal (Officer's initials)	

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Grant Thornton

The Audit Findings for London Borough of Barnet Pension fund

Year ended 31 March 2013

11 July 2013

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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.

Contents

Section 1: Executive summary

Executive summary

Purpose of this report

This report highlights the key issues arising from the audit of the London Borough of Barnet Pension Fund's ('the Fund') financial statements for the year ended 31 March 2013. 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 (UK & Ireland) 260.

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, the financial transactions of the fund during the year and that they have been properly prepared in accordance with the Code of Practice on Local Authority Accounting.

Introduction and background

In the conduct of our audit we have not had to alter or change our Audit Plan, which we communicated to you in our Audit Plan dated 6 June 2013. The Council asked us to bring audit work forward for 2012/13, including that of the Pension Fund to support completion of audit and sign off on accounts by the end of July 2013. We planned our review on the assumption that there were no significant audit risks and you have in place a sound control environment to support the production of complete and materially accurate financial statements. We shared working papers requirements with you in March 2013 and asked for these to be provided by the start of the audit on 10 June 2013.

The quality of the accounts presented for audit was poor as evidenced by the changes required to the key sections of the draft accounts following submission to audit, as a result of audit adjustments and other amendments made by officers to as set out in the following sections. Our audit identified the need for improvement in the Pension Fund accounts preparation. Working papers supporting the accounts were provided later than planned and, on production, often identified further issues requiring follow up. We identified errors and gaps in working papers which has resulted in significant delays to the audit and increased the cost of auditing the Fund statements.

Key audit and financial reporting issues

Financial statements opinion

Our audit is substantially complete although there are two areas we were unable to audit as the supporting evidence and documents within working papers were not available. Officers have in the past few days provided the supporting working papers. Our audit is substantially complete other than two areas which are still in progress:

- Pension strain (early retirees contributions) included in Note 3
- Pension Fund Annual Report.

Our review to date identified two errors within the draft pension fund statements which management agreed to amend. They are:

- early retirement payments of £3.9 million was misclassified as contributions
- member contributions of £3.3 million were incorrectly recorded as cash, employer contribution debtor and an accrued liability.

We raised with management one uncertainty in the Pension Fund Account of £473k within change in market value of investments due to historical differences and incorrect ledger postings.

The Council could not initially reconcile the Pension strain balance on its main accounting system to pension administration and payroll data included in the Pension Fund Account in entirety. Our testing identified a non-trivial residual difference of £513k which management has investigated and now resolved. Officers have now provided additional working papers to us which should allow us to complete our Pension strain testing.

We identified a number of disclosure and trivial classification errors within the notes to the Fund Accounts which officers have agreed to amend. Officers also advised us of three additional amendments which you propose making to the statements which are set out in Section 2 of this report.

Executive summary

The audit errors identified and your proposed amendments have resulted in amendments to the draft Fund accounts and related notes. We are currently reviewing all of the proposed changes to supporting evidence and completing the outstanding tests. These changes impact on the Pension Fund Account, Net Assets and notes to the pension fund accounts. Further details are set out in Section 2 of this report.

We will perform the following closing procedures once the above work is completed:

- review of the final version of the financial statements
- review the final version of the Pension Fund Annual Report
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion

The draft financial statements recorded net assets carried forward of £799,078k. The post audit position stands at £798,352k. This does not include the impact of any potential adjustments that may arise from the conclusion of our work in respect of Contributions and Benefits and Return on Investments. Should the resolution of the outstanding matters result in a further change to net assets carried forward, we will report this to the Audit Committee before we issue our opinion

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 2013.

We recognise that officers within the Treasury team have needed to invest considerable time in dealing with other priorities which has impacted on officers time available to prepare working papers and quality check the Pension Fund accounts.

We recognise this was largely unavoidable but it has impacted on the quality assurance process and working papers officers would normally expect to have in place. As a result of work to date you have agreed to correct a number of misstatements, classification and narrative disclosure errors in your accounts. Details of the changes are set out in Section 2 of this report. We also made a number of recommendations to management to improve the quality of the accounts. We have agreed an increase to the Pension Fund audit fee of £9,500 with management for the additional audit testing required to complete the audit.

We will update this report on conclusion of our work. The updated report will be presented to the Audit Committee on 24 July 2013 showing the outcome of remaining testing before the accounts are approved.

Acknowledgement
Whilst recognising this year's audit has not been straightforward, we would like to take this opportunity to record our appreciation for the support we received from the Treasury team in helping to resolve audit queries.

Grant Thornton UK LLP
July 2013

Section 2: Audit findings

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 Pension Committee on 11 July 2013. We also set out the adjustments to the financial statements 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 6 June 2013.

Audit opinion

Subject to the satisfactory conclusion of our work, we anticipate that we will provide the Fund with an unmodified opinion. At this stage the wording of the opinion for all local government pension schemes remains subject to agreement with the Audit Commission. We will update Appendix B to this report to include the opinion once this is agreed.

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	• review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions	We rebutted this presumption and therefore do not consider this to be a significant risk for London Borough of Barnet Pension Fund since: • 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, its 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 and 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 bodies Our audit work has not identified any issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls	• review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions	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. We set out later in this section of the report our work and findings on key accounting estimates and judgments.

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
Pension Fund Account			
Contributions	Recorded contributions not correct	• Review and testing of pension contributions (received and receivable) • Review and testing of payroll records of pensionable salary to schedule of contributions and scheme rules	Our audit work completed to date has identified the following issues: • early retirement payments of £3.9m were incorrectly netted off against Contributions Receivable rather than disclosed gross in Contributions Receivable and Benefits Payable. Officers have agreed to make the adjustments • we were unable to agree £513k Pension strain balance included within Contribution Receivable to supporting evidence from the payroll and pension administration team. The Pension strain balance within Contributions Receivable is £513k higher than your supporting evidence. Officers are currently reviewing this difference. We are currently reviewing your Contributions Receivable amendments and completing our testing of the Pension strain balance.
Benefit Payments	Benefits improperly computed / claims liability understated	• Review and testing of pension benefit payments, lump sums, deferments, retirements and other material transfers	Our audit work completed to date has identified the following issue: • early retirement payments of £3.9m were incorrectly netted off against Contributions Receivable (details set out in Contributions above) You also advised us of material amendments to Commutations and lump sum payments and Lump sum death benefits within the Benefit Payable Account. They are: • increasing the value of Benefit payment by £433k which officers had incorrectly treated as a 2013/14 payment • write off of debtor balances of £294k which was recommended in the 2011/12 ISA260 report Our audit of your Benefit Payable Account amendments is in progress.

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
Pension Fund Account			
Investments	Investments activity not valid / Investments not valid Fair value measurement not correct	• Review and testing of change in market value of investments • Review and testing of significant sales and purchases of investments	Our audit work completed to date has identified the following issue: • we were unable to agree £2m within Change in market value of investments to supporting records. Officers are currently reviewing their supporting records and believe the majority of the difference is due to mis-postings of investment trades by Fund managers and consequently in the SAP ledger. There is a residual balance of £473k which cannot be agreed to evidence. Officers are of the view that this balance represents an unrealised gain on disposal of investments. We are currently treating this balance of £473k as an uncertainty. The above mis-postings has resulted in material amendments to the value of purchases and sales. The changes you are proposing are: • reductions of £401k in both purchases and sales of investments (Note 9) as a result of the mis-postings • amending the analysis of the investment portfolio to be consistent with Investment Managers' reports.

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
Net assets			
Investments	Investments not valid Fair value measurement not correct	• Review and testing of change in market value of investments • Review and testing of significant sales and purchases of investments	Our testing identified material amendments to the value of purchases and sales of pooled investments. Our audit of these amendments remains in progress. Further details are set out in the Investments table on page 11.
Scheme Contributions, investments and cash	Contributions debtors overstated	• contributions outstanding at the year-end are appropriately analysed • Review and testing of reconciliations of bank balances	Our audit work completed to date has identified the following issue: • Current assets employer contributions was overstated by £3.3m (details are set out in Benefits Payments Investments table on page 13). Officers have agreed to make this adjustment. You also advised us of the following amendments within the current assets balances which are summarised below: • a further reduction of £518k in your employer contributions due • reclassification of £225k employer contributions as member contributions due • write off of debtor balances of £294k.

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
Net assets			
Benefit payments, investments	Benefit creditors understated or not recorded in the correct period	• Review and testing of benefit payment creditors are not understated or not recorded in the correct period	Our audit work completed to date has identified the following issue: • Accrued expenses balance incorrectly included an accrual of £3.3m being the cessation payment from an admitted body. The accrual was not a liability at year end as it had been received (included in cash balance) in the accounting period. Officers have agreed to make this adjustment. You also advised us of trivial classification errors within your current liabilities disclosure which are summarised below: • an increase in unpaid benefits of £114k • an increase in accrued expenses of £319k .

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 Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• 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. Refer to earlier comments on revenue recognition on page 9.	● (green)
Judgements and estimates	• Key estimates and judgements disclosed in the notes to the accounts [Notes 2 and 9] include: – pension fund valuations and settlements – investment valuation	• We reviewed your 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. • However, we note that the policies do not include a disclosure of your major sources of estimation uncertainty at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. We recommend you include this disclosure as good practice.	● (amber)
Other accounting policies	• The Fund's accounting policies are in accordance with the requirements of the Code of Practice on Local Authority Accounting	• We have reviewed the Fund's policies against the requirements of the Code of Practice on Local Authority Accounting. The Fund's policies are consistent with the Code of Practice.	● (green)

Assessment
● Marginal accounting policy which could potentially attract attention from regulators
● Accounting policy appropriate but scope for improved disclosure
● Accounting policy appropriate and disclosures sufficient

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the financial statements.

	Detail	Pension Fund Revenue account £'000	Net asset statement £'000	Impact on net assets carried forward £000
1	**Note 3 Contributions receivable** LB Barnet early retirement payments misclassified as contributions	3,863 (3,863)	n/a	n/a
2	**Note 9 Investments** Mis-postings of sales and purchases of investments	n/a	401 (401)	n/a
3	**Note 13 Current Liabilities** Member contribution was incorrectly included as cash, employer contributions receivable and as an accrued liability	n/a	3,300 (3,300)	n/a
4	**Benefit Payable Account** Late posting of Benefit payment incorrectly treated as a 2013/14 payment	(433)	433	433
5	**Account Expenses** Write off of debtor balances	(294)	294	294
	Overall impact	**(727)**	**727**	**727**

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	Disclosure	n/a	Introduction Note 1	The disclosure of a) number of employees contributing to the fund; b) number of pensioners; and c) number of deferred pensioners could not be supported with evidence from the pensions administration system. Officers confirmed that the data is a live system and a screen print of the movements as 31/03/13 had not been retained. Officers have agreed to update the disclosure using data from June 2013.
2	Disclosure	n/a	AVC Investments Note 10	You advised us at the start of the audit that the Additional Voluntary Contributions disclosure note was incomplete. Officers have agreed to update the disclosure note. Our review of the revised disclosure note did not identified any further issues.
3	Misclassification	4,939	Current Assets Note 12	You advised us of other trivial classification errors between employer and member contributions. Other issues arising from our testing are documented on page 12.
4	Misclassification	680	Current Liabilities Note 13	You advised us of other trivial classification errors. Management propose to amend the note. Other issues arising from our testing are documented on page 13.
5	Disclosure	n/a	Membership of the Pension Fund Note 19	Additional disclosure made on Membership of the Pension Fund.
6	Disclosure	n/a	Assumptions made about the future and other major sources of estimation and uncertainty Note 20	Additional disclosure made on judgements and estimates. Refer page 14.

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
7	Disclosure	n/a	Pension Fund	In line with IAS26 the Authority has in previous years utilised Option C which requires you to attached the actuary report as an appendix to the accounts. The Authority will adopt a similar approach for the current year's accounts and will attach the actuarial liabilities using net present values as an appendix to the Pension Fund statements
8	Disclosure	n/a	Annual Report	The statements within the Pension Fund Annual Report should be updated on conclusion of the audit. Our review of the Annual Report is in progress.

Unadjusted misstatements, uncertainties or disclosures

The table below provides details of adjustments identified during the audit 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 asset statement £'000	Reason for not adjusting
1	**Note 3 Contributions Receivable** Pension strain balance included within Contribution Receivable does not reconcile to supporting evidence from payroll and pension admin.	513	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	**Note 5 Benefits Payable disclosure** The benefits payable should be split between the administering authority; Scheduled bodies, and Admitted bodies	n/a	n/a	The Authority's system cannot readily provide data that would disaggregate the balance
3	**Note 9 Investments** We were unable to agree this change in market value of investments to supporting evidence. We have an uncertainty over this value.	473	n/a	The Authority is of the view that this balance represents an unrealised gain on disposal of investments.
	Overall impact	**986**	**Nil**	

Other communication requirements

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

	Issue	Commentary
1.	**Matters in relation to fraud**	• 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**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A standard letter of representation will be requested from the Fund at the conclusion of our audit
4.	**Disclosures**	• Our review found no material omissions in the financial statements
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed
6.	**Going concern**	• 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

Fees, non audit services and independence

We confirm below our final fees charged for the audit.

Fees

	Per Audit plan £	Actual fees £
Fund audit	20,226	29,726
Total audit fees	**20,226**	**29,726**

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 financial statements with supporting working papers within agreed timeframes." the scale fee or the Barnet Pension Fund audit for 2012/13 is £20,226, the planned fee reported to you in our Audit Plan.

As detailed in this report, the supporting working papers were not available at the start of the audit and the quality of the draft accounts was poor. Most were provided during the audit, however some were recently provided and we are currently reviewing these. We have agreed an increase in the audit fee of £9,500 for additional audit testing required with officers, making the total actual fee £29,726 for 2012/13.

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

Communication of audit matters to those charged with governance

International Standards 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 Fund'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 Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the Fund 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 Fund 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 unmodified 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
High - Significant effect on control system
Medium - Effect on control system
Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	**Pension strain** Investigate and clear pension strain reconciling difference between SAP, AXIS and payroll systems	High	Agreed Pension strain processing to be reviewed to ensure supporting documentation sufficient to support monthly and year end reconciliation of differences between financial systems.	30 September 2013 Head of Pensions and Head of Treasury
2	**Judgements and estimates** Disclosure in your accounting policy, major sources of estimation uncertainty which could impact at the end of the reporting period. The uncertainty gives rise to a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.	Medium	Agreed. Additional disclosure made in Note 20.	Actioned. Head of Treasury
3	**Membership of the Pension Fund** Retain a screen print from the AXIS system as at 31 March 2014 as evidence supporting your disclosure of a) number of employees contributing to the fund; b) number of pensioners; and c) number of deferred pensioners	Medium	Agreed. Screen-print will be retained as at 31 March 2014. To be included as task on 14-15 closedown timetable.	31 March 2014 Head of Pensions and Head of Treasury
4	**Benefits Payable disclosure** Disclose benefits payable between the administering authority; Scheduled bodies, and Admitted bodies	Medium	Agreed. Cost centre coding to be refined to ensure date entry enables identification of employer to enable benefits disclosure by scheduled and admitted body at summary level.	September 2013 Head of Pensions and Head of Treasury

Appendix A: Action plan

Priority
High - Significant effect on control system
Medium - Effect on control system
Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
5	**Reconciliations** Perform regular reconciliations of purchases and sales of pooled investments between summary transaction listings, Fund Manager reports and SAP system	High	Actioned .Monthly reconciliation is already undertaken between fund manager reports and SAP.	Actioned Senior Management Accountant
6	**Adjusted misstatements** Process journals for the agreed misstatements (page 15) to ensure SAP ledger balance is consistent with audited Fund statements	Medium	Misclassification adjusted for, remaining journals to be processed in period 13 adjustments once all adjustments are finalised.	11 July 2013 Head of Treasury
7	**Accounts preparation** Implement a rigorous quality assurance programme to improve the quality of the Fund statements	High	Lessons learned review of Closedown scheduled for 11 July. Workplan will be implemented to ensure quality of financial statements is improved.	30 September 2013 Head of Treasury

Appendix B: Audit opinion

We anticipate that we will provide the Fund with an unmodified audit report

TO BE ADDED

Subject to the satisfactory conclusion of our work, we anticipate that we will provide the Fund with an unmodified opinion. At this stage the wording of the opinion for all local government pension schemes remains subject to agreement with the Audit Commission. We will update this Appendix to include the opinion once this is agreed.

Grant Thornton

The London Borough of Barnet Pension Fund

Annual Report

For the year ended 31 March 2013

Contents

1. Trustee's Report

1.1 History of the Local Government Pension Scheme

In the public sector, the individual legal provisions covering many pension schemes were brought together under one Act of Parliament (The Superannuation Act 1972). This Act provides the framework that covers the Local Superannuation Act (1972). The regulations appoint major authorities, such as the London Borough of Barnet, to the role of "administering authorities" to manage the Scheme at a local level.

A major re-drafting exercise took place in 1997, which effectively produced two separate sets of regulations, one dealing with the administration aspects and the other with the investment issues covering pension funds. The regulations that govern how the scheme is now run are covered by The Local Government Pension Scheme Regulations 1997.

The regulations governing the Fund are The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998.

The Local Government Pension Scheme (LGPS) is a statutory pension scheme. As such, it is secure because its benefits are set by law and paid out of a fund which is managed professionally. Under the LGPS we have to run a pension fund for employees of the local authority and other eligible organisations. However, as the benefits are guaranteed by law, and the employees' contribution is fixed, the employers' contribution rate is determined by the funding level of the pension fund. If the fund has a deficit then the employer is required to make larger contributions and this can have adverse effects on the overall Council budget.

Employees and employers pay into the Fund to meet the cost of paying pensions at a later date. The Fund builds up assets at the same time as paying out pensions. Based on the assumptions of the actuary, there should be enough assets in the Fund to pay, on the day the employee retires, all potential future costs.

Since the LGPS was introduced in 1972, pensions have changed considerably. People now live longer, and this has put increasing strain on pension funds for the future. Public-Sector pension funds face similar demands to the private sector. To respond to these changes, the Government introduced a new look LGPS that took effect from 1st April 2008.

In 2010, the Government commissioned a Public Sector Pensions Review chaired by Lord Hutton of Furness who was asked to produce an interim report by October 2010 on how to make short-term savings to public sector pension schemes and a final report before the March 2011 budget. The Government accepted Lord Hutton's interim report recommendations to increase employee contributions and proposed saving £2.8 billion per year by 2014-15 by increasing employee contributions across the major public sector pension schemes with an undertaking to afford some protection to the low paid. Lord Hutton's final report was published in March 2011.

The Government accepted the long term recommendations; to move from a final salary scheme to a career average pension scheme for future service, protecting accrued rights on the final salary scheme and ensuring normal retirement age is in line with the state pension age. Individual consultations have taken place on the design of each public sector scheme. The changes to the scheme will tale effect from April 2014

To help people save more for their retirement, the Government requires employers to enrol their workers into a workplace pension scheme

This legislation is separate from the Local Government Pension Scheme (LGPS) Regulations and applies to those employees that are not members of the Local Government Pension Scheme, including those who have previously opted out.

We have, as allowed by law, postponed the automatic enrolment of our workers into the LGPS until 1 June 2013.

1.2 Administration of the London Borough of Barnet Pension Fund

The Council is the administering authority for the pension fund. The Pension Fund Committee is responsible for discharging the Council's leadership and strategic management responsibilities regarding the Pension Fund. The Pension Fund Committee is responsible for:

- Setting the investment policy for the fund
- Appointing Investment Managers, advisors and custodians
- Reviewing the performance of the Investment Managers and the Investments held in the fund, and
- Approving the statement of investment principles, funding strategy statement, governance compliance statement, communication policy statement and the pension administration statement. These documents are reviewed at least triennially or more frequently if required.

1.3 Management Structure

Administrating Authority

London Borough of Barnet

Pension Fund Committee Members

Chairman:	Mark Shooter
Vice-Chairman	John Marshall
Members:	Andreas Ioannidis
	Geoffrey Johnson
	Susette Palmer MA
	Daniel Seal
	Rowan Quigley Turner
Substitutes:	Geoff Cooke
	Monroe Palmer OBE, BA, FCA
	Jim Tierney

Officers

Andrew Travers, Interim Chief Executive
Chris Naylor, Chief Operating Officer
John Hooton, Deputy Chief Operating Officer
Iain Millar, Head of Treasury

Observers

John Burgess, Unison
David Woodcock, Middlesex University

Actuary

Barnett Waddingham

Investment Advisors

JLT Benefit Solutions (formally HSBC Actuaries and Consultants)

Auditor

Grant Thornton UK LLP

Performance Monitoring

JLT Benefit Solutions (formally HSBC Actuaries and Consultants)
WM Company

Custodians

JP Morgan
The Bank of New York

Pensions Administration Manager

Hansha Patel

1. Investment Policy

The Council, through the Pension Fund Committee, is responsible for the investment of the fund's assets and agreeing the investment policy within the regulations covering local authority pension schemes. The responsibility for the day to day management of the fund's assets is delegated to investment managers who are regulated by the Financial Services Authority.

The investment managers manage the assets of the fund by buying and selling investments in order to achieve their specific objectives agreed with the Pension Fund Committee. In choosing investments, the investment managers must have regard to the overall suitability of investments to the fund according to principles laid out in the terms and conditions of their contract. This section provides a summary of the current arrangements for investment of Barnet's pension fund.

The Fund

On 4 February 2010, the Pension Fund Committee agreed a new investment strategy of 70% diversified growth portfolio and 30% bonds using the two incumbent managers Schroders Investment Management and Newton Investment Management. The strategy aims to reduce the level of risk whilst maintaining the same level of return. The new strategy was fully implemented in December 2010.

Benchmark

The prime performance objective of the Fund is to achieve the return required to fund the Scheme's liabilities over the medium to long term, as assumed in the ongoing actuarial valuation. The performance targets for each investment manager are detailed below. Overall, the returns achieved by the assets are expected to exceed the return required to fund the Fund's liabilities over the medium to long term, as assumed in the ongoing actuarial valuation.
Performance against this benchmark is measured, from an investment perspective, on a quarterly basis by the Investment Adviser to the Fund.

Manager	Fund	Monitoring Benchmark	Target
Newton Investment Management Limited (Newton)	Real Return	1 month LIBOR plus 4% p.a.	To achieve significant real rate of return in sterling terms predominantly from a portfolio of UK and international securities and to outperform the benchmark over rolling 5 years
Newton	Corporate Bond	Merrill Lynch Non Gilt Over 10 years Investment Grade Index	To outperform the benchmark by 1% p.a. over rolling 5 years
Schroder Investment Management Limited (Schroder)	Diversified Growth	Retail Price Index plus 5% p.a.	To outperform the benchmark over a market cycle (typically 5 years)
Schroder	All Maturities Corporate Bond	Merrill Lynch Sterling Non-gilts All Stocks Index	To outperform the benchmark by 0.75% p.a. (gross of fees) over rolling 3 years
Legal and General Investment Management (L&G)	World (ex UK) Equity Index Fund	FTSE AW World (ex UK) Index	Track within +/- 0.5% p.a. the index for 2 years in every 3
Legal and General	Active Corporate Bond – All Stocks	iBoxx Sterling Non-Gilts All Stocks Index	Outperform by 0.75% p.a. (before fees) over rolling 3 years

Investment Ranges

There are statutory restrictions and parameters for investments as per the Local Government Pensions (Management and Investment of Funds) 1998 and subsequent amendments. The restrictions are detailed in part 11 (Schedule 1) of the LGPS (Management and Investment of Funds) Regulations 2009. Regulation 14(2) imposes limits on the proportion of fund money which may be invested in a particular type of investment. Regulation 14(3) states that limits may be increased, to the up to the

percentages specified in Column 2 of the table in Schedule 1 provided the requirements under regulation 15 have been satisfied.
The Authority, having satisfied the requirement of regulation 15, has increased the limits to the maximum allowed under Regulations 14(3) for investments listed at 9, 10, 11, and 12. The investment limits adopted by the London Borough of Barnet Pension Fund are detailed below.

Investment	Limits Adopted
2. Any single sub-underwriting contract	1%
3. All contributions to any single partnership	2%
4. All contributions to partnerships	5%
5. The sum of all loans and any deposits with – • Any local authority, or • Any body with power to issue a precept or requisition to a local authority can be required to contribute, or to the expenses of which a local authority can be required to contribute, which is an exempt person (within the meaning of the 2000 Act) in respect of accepting deposits as a result of an order made under section 38(1) of that Act	10%
6. All investments in unlisted securities of companies	10%
7. Any single holding (but not if the investment is made by an investment manager, or the single holding is in unit or other shares of the investments subject to the trusts of any one unit trust scheme)	10%
8. All deposits with any single bank, institution or person (other than the National Savings Bank)	10%
9. All sub-underwriting contracts	15%
10. All investments in units or shares of the investments subject to the trusts of unit trust scheme managed by any one body (but see paragraph 3 below)	35%
11. 10. All investment in open-ended investment companies where the collective investment schemes constituted by the companies are managed by one body.	35%
12. All investments in unit or other shares of investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes constituted by those companies are managed by any one body (but see paragraph 3 below)	35%
13. Any single insurance contract	35%
14. All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements.	25%

Independent Advisor

The Chief Operating Officer and Council Officers received investment advice from the independent advisor to the fund. The role of the advisor is to attend the quarterly and annual meetings of the Committee and to provide advice on the following:

1. Investment Strategy
2. Strategic asset allocation
3. Development of investment policy and practices
4. The property unit trust portfolio
5. Corporate governance issues, including socially responsible investment and the Council's statement of investment principals
6. Pension fund related legislation
7. Investment management performance monitoring
8. Assistance in the selection of Investment Managers, custodians and actuaries
9. Review and advise on alternative benchmarks and setting of performance targets
10. Other ad-hoc advice.

Actuary

The actuary to the fund is Barnett Waddingham; the actuary's role is to place a value on the fund's accumulated pension promises. A formal valuation of the fund is required legally every three years; the last valuation of the fund took place as at the 31st of March 2010. The next valuation based on the value of the Fund as at 31 March 2013 will be published by the end of March 2014.

Custodian

Custodians are usually banks or other regulated institutions who offer not only custody of documents (safeguarding and administering of investments) but also a range of services such as income collection, tax recovery, cash management, securities settlement, foreign exchange and stock lending. JP Morgan acts as the custodian for the assets managed by Schroders Investment Managers and the Bank of New York act as an internal custodian for assets managed by Newton Investment Managers.

Voting

The fund managers are instructed to proxy vote on behalf of the fund in accordance with the fund's corporate governance and proxy voting policy. Details of this policy can be found by using the link below.
http://www.barnet.gov.uk/downloads/download/144/statement_of_investment_principles_oct_2010

3 Management and Financial Performance of the fund for the Year 2012-2013

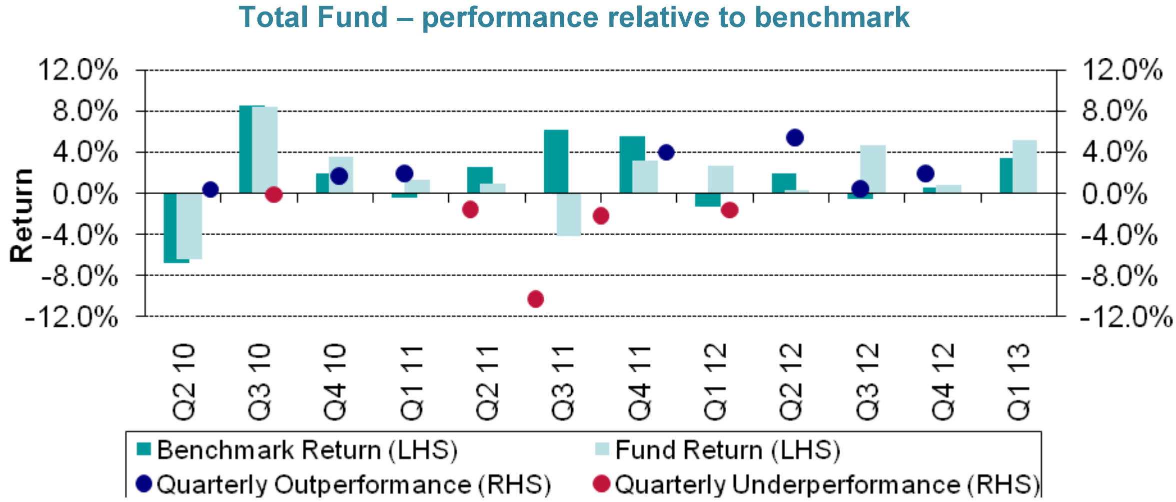
3.1 Fund Performance

Until December 2010, the fund subscribed to an independent investment performance measurement service in order to assess the rate of return achieved by the fund managers and their relative performance against other Local Authority Pension Funds which operate under the same regulations. This service is provided by WM Company Limited.

Following implementation of the new investment strategy in December 2010, the total scheme return is measured against the liability benchmark return, and includes the internal property fund. The Growth portfolio return is the combined Newton and Schroder Diversified Growth Fund (DGF) portfolios and is measured against a notional

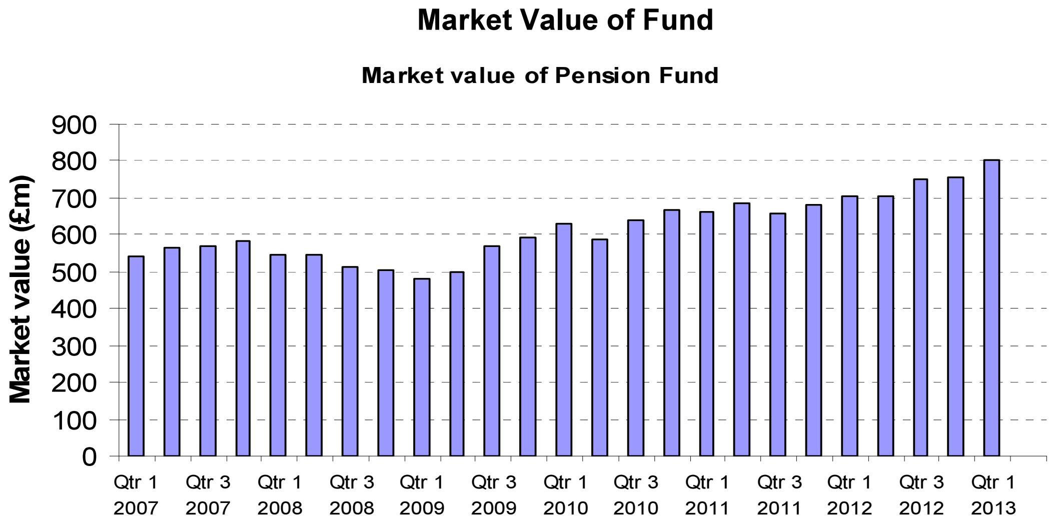
60/40 global equity benchmark and the underlying benchmarks of each for comparison purposes. The bond portfolio is the combined Newton and Schroder corporate bond portfolios and is benchmarked against the Over 15 Year Gilts Index and Index Linked (Over 5 years) Index.

The chart below shows the fund's historical returns against the WM Universe and the new portfolio against the liability benchmark effective from 1 January 2011.



3.2 Market Value of the Fund

The following chart shows the movement in the market value of the fund from 1 January 2007 to 31 March 2013.



3.3 Investment Report

With regard to investment performance, the Pension Fund Committee recognises that a superior and stable investment return adds towards keeping the contribution rate as low as possible.

The Council seeks to achieve its investment objectives through investing in a suitable mix of real (e.g. equities) and fixed interest assets (e.g. bonds and cash). The returns from growth assets are likely to be volatile; however, over the long term, this volatility is compensated by higher returns than those available from fixed interest assets. The profile of the Pension Fund allows the Council to take a long-term approach with respect to its investments.

The Council believes that its recently revised investment strategy will provide the most efficient diversification of assets with no loss in expected return. The Fund's revised investment strategy utilises 'diversified growth' investments that aim to provide equity-like return with reduced volatility. These growth investments are complemented by an allocation to corporate bonds, in order to provide interest rate sensitivity between the Fund's assets and liabilities. This allocation will protect the Fund from sharp movements in its liabilities due to interest rate changes.

The revised asset allocation was the result of the ongoing consultation the Fund has with its investment advisors. After a review of the available diversified growth market the Fund has retained the services of its two investment managers, Schroder Investment Management and Newton Investment Management, for the efficient implementation of the revised asset allocation. It has also retained pooled funds with Legal and General.

Over the 12 months to 31 March 2013, the total Scheme return (ex property) was 11.3% versus the liability benchmark return of 6.4%.

3.4 Scheme Administration

The administration of the Pension Scheme is provided by the Pensions Office. The performance table below shows the range of work undertaken.

Performance Indicator *(from point at which all required information has been received)*	**Local Government Pension Committee Target**	**Authority Target**	**Achieved (%)**
Letter detailing transfer ***in*** quote	10 days	10	82.0%
Letter detailing transfer ***out*** quote	10 days	10	92.0%
Process and pay refund	5 days	5	100.0%
Letter notifying estimate of retirement benefits	10 days	10	98.0%
Letter notifying actual retirement benefits	5 days	5	94.0%
Process and pay lump sum retirement grant	5 days	5	95.0%
Initial letter acknowledging death of active/deferred/pensioner member	5 days	5	93.0%
Letter notifying amount of dependant's benefits	5 days	5	92.0%
Calculate and notify deferred benefits	10 days	10	90.0%

Barnet Pension Fund Membership Movement Analysis 2012-13

		2012/13
Employees		
Number of Employees at start of year		6,790
Employees joining during the year		933
		7,723
Members leaving during the year:		
Normal retirements	171	
Ill-health retirements	7	
Deaths in service	9	
Refunds of Contributions	16	
Deferred pensions	752	955
Number of Employees at end of year		**6,768**
Pensioners		
Number of Pensioners at start of year		6,585
New pensioners during the year:		
Normal retirements	107	
Ill-health retirements	7	
Dependants' pensions	56	
Deferred pensions becoming payable	112	282
		6,867
Deaths/dependants ceasing to be eligible		158
Number of Pensioners at end of year		**6,709**
Deferred Pensioners		
Number of Deferred Pensioners at start of year		7,346
New deferred pensioners during the year:		753
		8,099
Deferred Pensioners leaving the fund during the year		
Normal retirements	78	
Ill-health retirements	4	
Transferred	63	
Back to active status	2	
Deaths	-	147
Number of Deferred Pensioners at end of year		**7,952**
Total Membership at 31 March 2013		**21,429**

4. Governance Compliance Statement

The Governance compliance statement for the Barnet Pension Fund can be found on the Barnet website at:

http://www.barnet.gov.uk/info/940323/pension_fund_governace/871/pension_fund_governance

5. Funding Strategy Statement

The funding strategy statement for the Barnet fund can be found on the Barnet website at
http://www.barnet.gov.uk/downloads/file/147/funding_strategy_statement

6. Statement of Investment Principles

The authority is required by law to prepare and publish a Statement of Investment Principles (SIP). This Statement, updated in June 2011, sets out the Fund's policy on a range of matters relating to the investment and management of the Pension Fund. The Statement is published on the Borough's website at http://www.barnet.gov.uk/downloads/download/144/statement_of_investment_principles_oct_2010

7. Communication Policy Statement

An effective communications strategy is vital for the Pensions Office in its aims to provide a high quality and consistent service to its customers.

This document sets out a policy framework within which the Pensions Office will communicate with:-

- Fund members and their representatives
- Prospective Fund members and their representatives
- Fund employers

Set out in this statement are the mechanisms which are used to meet those communication needs.

It identified the format, frequency and method of distributing of distributing information and publicity.

The Pensions Office aims to use the most appropriate communication medium for the audiences receiving the information. This may involve using more than one method of communication.

- **Pensions Office:** for day-to-day contact and visits between the hours of 9am and 5pm. The Pension Office operates an open door policy for visitors such that pre-booked appointments are not required.

- **Correspondence:** the Fund utilises both surface mail and e-mail to receive and send correspondence.

- **Telephone:** The Pensions Office operates a telephone help line for Scheme members and is widely published in Scheme literature.

- **Website:** The Pensions Office has established an extensive website www.barnet.gov.uk/pensions containing Scheme details, Scheme literature etc. There are also links to other organisations relevant to Scheme members, e.g. employers, AVC providers, employers' organisations etc.

- **Member Self-Service:** the Pensions Office's website also allows Scheme members to log onto their own pensions record and automatically inform the Pensions Office electronically of any changes.

- **Annual Benefits:** An Annual Benefits Statement is sent direct to the home addresses of deferred members where a current address is known and is available online for active members.

- **Pensions Roadshows:** The Pensions Office also stages ad hoc Roadshows for Fund members particularly where there are changes to the Fund organisational changes which have pension implications.

- **Existence Validation – Pensioners Living Abroad:** The Pensions Office undertakes an annual exercise conducted through correspondence in order to establish the continued existence of pensioners living abroad.

- **All Employer Meetings:** Periodical meetings are arranged for employers. Specifically this has been used as a mechanism for communicating major strategic issues, significant legislation and triennial valuation matters.

Comments

We welcome and value your comments on the standards of service we provide. If you have any comments please contact us.

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London
N11 1NP

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Fax: **0870 889 6817**

Email: **pensions@barnet.gov.uk**

Website: **www.barnet.gov.uk/pensions**

On behalf of the Pension Fund Committee

Councillor Mark Shooter
Chairman of the Pension Fund Committee
London Borough of Barnet Pension Fund

Actuary's Statement as at 31 March 2013

Barnett Waddingham
Public Sector Consulting

Introduction

The last full triennial valuation of the London Borough of Barnet Pension Fund was carried out as at 31 March 2010 and the results were published in our report dated March 2010.

2010 Valuation

The results of the valuation were as follows

- The London Borough of Barnet Pension Fund had a funding level of 76%, i.e. the assets amounted to 76% of the liability promises made as at that valuation date. This corresponded to a deficit of £189.6m at that time.
- The overall contribution rate was set at 23.5% of payroll assuming the funding level was to be restored over a 15 year period.
- The common contribution rate was set at 14.2% of payroll and individual employers paid additional contributions reflecting their own experience or recovery period within the fund.
- The funding level of the fund has improved since the position at the 2007 triennial valuation which resulted in a funding level of 71%.

Valuation method

The contribution rates were calculated using the Projected Unit Method or the Attained Age Method. Employers remaining open to new entrants were valued on the Projected Unit Method, whereas the employers who did not allow new entrants to join were valued using the Attained Age method.

Contribution rates

The contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet

- The additional annual accrual of benefits allowing for future pay increases and increases to pension in payment when these fall due; plus
- An amount to reflect each participating employer's notional share of value of the Fund's assets compared with 100% of their liabilities in the Fund in respect of service to the valuation date.

Key Financial Assumptions

The liabilities were valued allowing for expected future investment returns and increases to benefits as determined by market levels at the valuation date as follows;

Rate of return on investments	6.7% per annum
Rate of increases in pay	5.0% per annum
Rate of Increases to pensions in payment	3.0% per annum

Asset valuation

To be consistent with the assumptions used to value the liabilities the assets were valued at their smoothed market value spanning at the date of valuation.

Post Valuation Events – Changes in market conditions

Since March 2010, investment returns have been close to the assumptions made at the 2010 valuation. Liabilities will have increased slightly due to a slight decrease in the real discount rate underlying the valuation funding model.

It is likely that a greater allowance for future mortality improvements will be made at the 2013 valuation which will lower the funding level compared to adopting the mortality assumptions adopted in 2010.However we expect this may be offset by other changes such as allowing for changes made to the inflation indices by the Office for National Statistics.

There may also be other changes to the assumptions and methodology reflecting more recent experience and data that has become available.

The contribution rates resulting from the 2013 valuation will take effect from 1 April 2014 and will allow for any changes to the benefits in the LGPS from that date.

Alison Hamilton FFA

Partner

11 July 2013

Anna Short FFA

Associate

Independent Auditor's Report to the Members of

The London Borough of Barnet Pension Fund

Pension Fund Account

	Note		2011/12		2012/13
		£000's	£000's	**£000's**	**£000's**
Contributions and Benefits					
Contributions Receivable	3	50,064		**53,999**	
Transfers in	4	5,294		**2,670**	
Other income		2			
		55,360	55,360	**56,669**	**56,669**
Benefits Payable Account	5	(38,584)		**43,648**	
Payments to and on behalf of Leavers	6	(4,810)		**2,636**	
Administrative Expenses	7	(1,106)		**1,023**	
		(44,500)	(44,500)	**47,307**	**47,307**
Net additions from dealings with members			10,860		**9,362**
Return on investments					
Investment income	8	1,273		**68**	
Change in market value of investments	9	17,079		**78,273**	
Investment management expenses	11	(1,920)		**(1,851)**	
Net returns on investments		16,432	16,432	**76,490**	**76,490**
Net increase in the fund during the year			27,292		**85,852**

Net Assets of the Scheme

	2011/12 £000's	**2012/13 £000's**
At 1 April	685,193	712,485
At 31 March	712,485	**798,337**

Net Assets Statement

	Note	2011/12 £000's	**2012/13 £000's**
Investment assets	9	703,630	**791,598**
Current assets	12	11,204	**13,788**
Current liabilities	13	(2,349)	**(7,049)**
		712,485	**798,337**

Notes to the Pension Fund Accounts for the year ended 31 March 2013

1. Introduction

The London Borough of Barnet Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS). The Fund is administered by the London Borough of Barnet (LBB) and the Council is the reporting entity for the Fund.

The day to day administration of the fund and the operation of the management arrangements and investment portfolio are delegated to the Chief Operating Office and Director of Finance of the Council.

Further details of the management, operation and investment objectives of the fund are provided in the Fund's Annual Report for 2012/13, the Actuary's report (contained in Appendix 2 to these accounts), the Superannuation Act 1972 and the LGPS regulations which provide the underlying statutory powers underpinning the scheme.

General

The Fund is operated as a funded, defined benefit occupational pension scheme which provides for the payment of benefits to former employees of LBB and those bodies admitted to the Fund referred to as "members". The benefits include not only retirement pensions, but also widows pensions an, death grants and lump sum payments.

The Fund is financed by contributions form members, employees and the interest and dividends from the Fund's investments. The funding policy aims to ensure that the assets held by the scheme in the future are adequate to meet accrued liabilities allowing for future increases in pay and pensions.

The Funds accounts provide information on the financial position, investment performance and risk showing the results of the Council's stewardship in managing the resources entrusted to it. The fund is overseen by the Pension Fund Committee which is specifically set up as a committee of the London Borough of Barnet Council.

Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements (except teachers, who have a separate scheme). Organisations participating in the Fund are set out below and are classed as admitted and scheduled bodies:

Admitted Bodies – organisations that participate in the Fund under an admission agreement between the Fund and the organisation; these include organisations undertaking a local authority function following the outsourcing of that service:

(employers with active members)

Fremantle Trust	London Care
Greenwich Leisure	Personnel Care Bank
Birkins	Blue 9 Security Ltd
Servite/Viridian	Birkin and St James Catholic
Go Plant Ltd	Housing 21 (2)
Mears Group	The Music Service (BEAT)
NSL Ltd	

(employers with deferred members and pensioners but no active members)

Barnet Voluntary Service Council	Barnet MENCAP
Enterprise Cleaning	KGB

Scheduled Bodies –local authorities and similar bodies whose staff are automatically entitled to be members of the Fund:

Ashmole Academy
LB Barnet
Your Choice Barnet
Barnet Homes
Barnet & Southgate College
Bishop Douglass School
Christ's College (Academy)
Compton Academy
Copthall School (Academy)
Deansbrook Junior School (Academy)
Dollis G.M.Junior School
East Barnet Academy
ETZ Chaim Jewish Primary
Finchley Catholic G.M High School
Grasvenor Avenue School (Academy)
Hasmonean High School (Academy)
Hendon School (Academy)
Henrietta Barnet School (Academy)
Independent Jewish Day School (Academy)
London Academy
Menorah Foundation G.M.School
Middlesex University
Mill Hill GM High School(Academy)
Osidge G.M Primary School
Queen Elizabeth Boys (Academy)
Queen Elizabeth Girls (Academy
Rimon Jewish Priimary
St James High School
St Mary's CE High School
St Michael's Grammar School
The Totteridge Academy
Whitefield Trust School (Academy)
Woodhouse College
Wren Academy

Connaught Partnership, previously an Admitted Body, went into administration with effect from 31/08/2010. A pension fund deficit of £1.492 million has been calculated by the fund actuaries. The Council's legal team are currently liaising with Connaught's Administrators (KPMG) for the recovery of these monies. KPMG have confirmed the pension deficit is classed as unsecured, non-preferential debt. The Actuary is including the impact of the Connaught Pension deficit on the employer contribution rate in the actuarial valuation of the fund as at 31 March 2013.

Contributions made by employees are tiered, related to salary and they range from 5.5% to 7.5%. These rates are applicable to all employees including manual workers.

The number of employees contributing to the fund decreased during the year from 6,790 to 6,768 at 31 March 2013*. During the same period the number of pensioners decreased from 6,585 to 6,709 and the number of deferred pensioners increased from 7,346 to 7,952.

*The numbers of members have been extracted from the underlying membership records in the live system as at 11 May 2013; including the comparative figures A detailed analysis of membership movement in the year is provided in note 19 of these accounts.

A government scheme supplies teachers' pensions and as such they are not provided for under these arrangements.

2. Accounting Policies

Accounting Standards

The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and follow the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes supported by International Financial Reporting Standards (IFRS).

Basis of Preparation

The financial statements are prepared on an accruals basis except in the case of transfer values, which are debited or credited in the year of payment or receipt in accordance with recommended practice. Investment income is taken into account where dividends are declared but not paid at the financial year end.

The financial statements summarise the transactions of the scheme and the net assets of the fund. The financial statements do not take account of liabilities to pay pension and other benefits after the financial year end. The actuarial position of the scheme, which does take account of such obligations, is dealt with in note 15 and these financial statements should be read in conjunction with them.

Investments

Investments are shown in the Net Asset Statement at Fair Value. Fair Value has been determined as:

a) Listed securities and securities on the Unlisted Securities Market (USM) are determined by Stock Exchange current bid prices at 31 March 2013.
b) Unit trust investments are stated at the latest prices quoted by their respective managers as at 31 March 2013.
c) Transactions in foreign currencies are taken into account at the ruling rate of exchange at the time of the transaction and in the financial statements at the rates prevailing on 31 March 2013.
d) Withholding tax reclaims received for accumulation funds and all changes in value, including reinvested income and growth in the value of the underlying securities are aggregated and shown as changes in market value of the investments in the Fund Account.

Sale and Purchase of Investments

The purchase and sale of investments is delegated to the fund managers and all settlements are accrued on the day of trading (the costs of acquiring investments are included in the value of the assets). The main fund managers are: Schroder Investment Management, Newton with the remaining funds (5%) held with Legal and General.

Investment Management are required to produce a return on investment within benchmarks set by the Authority. These restrictions and the fund managers analysis of the assets and issuing bodies, dictates the timing of sales and purchases of investments.

Administration Expenses

Administration expenses are calculated as a percentage of the London Borough of Barnet's expenses plus the direct costs of the Pensions section within the Human Resources Department.

Benefits Payable

Benefits are provided in accordance with the provisions of the Local Government Pension Scheme. Benefits are accounted for in the period in which they fall due. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities. Full details of all benefits payable are available on the Borough's internet at www.barnet.gov.uk/pensions

Contribution Income

Normal contributions both from the members and from the employer are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in the year but unpaid will be classified as a current financial asset.

Investment Income

i. Interest Income: Interest income is recognised in the fund as it accrues, using the effective interest rate of the financial instrument as at the date of the financial instrument and its amount as at the date of acquisition or origination. Income includes the amount of any amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis
ii. Dividend Income: Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.
iii. Distribution from pooled funds: Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.
iv. Movement in the net market value of investments: Changes in the net market value of investments are recognised as income and comprise all realised profits/losses during the year.

Taxation

The Fund is an exempt approved fund and therefore not liable for UK income tax or capital gains tax. As the London Borough of Barnet is the administrating authority of the fund, VAT input tax is recoverable on all fund activities.

Taxation agreements exist between Britain and a number of countries whereby all or a proportion of the tax deducted locally from investment income may be reclaimed. The proportion reclaimable varies from country to country. Non-recoverable deductions are classified as withholding tax.

Investment Management Expenses

All investment management expenses are accounted for on an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments .Broadly, these are based on the market value of the investments under their management and therefore increase or decrease as the value of these investments change. The cost of obtaining investment advice from external consultants is included in investment management expenses.

3. Contributions Receivable

	2011/12	**2012/13**
Employers	£000's	**£000's**
Council	24,353	**22,654**
Scheduled bodies	14,426	**16,968**
Admitted bodies	1,329	**4,729**
	40,108	**44,351**
Members		
Council	6,326	**5,581**
Scheduled bodies	3,348	**3,713**
Admitted bodies	282	**354**
	9,956	**9,648**
Total Contributions	50,064	**53,999**

4. Transfers In

	2011/12 £000's	2012/13 £000's
Individual transfers in from other schemes	5,294	**2,670**

5. Benefits Payable

	2011/12 £000's	2012/13 £000's
Pensions	30,245	**36,364**
Commutations and lump sum payments	7,116	**6,361**
Lump sum death benefits	1,223	**923**
	38,584	**43,648**

6. Payments to and on Account of Leavers

	2011/12 £000's	2012/13 £000's
Refunds to members leaving service	6	**13**
Group transfers to other schemes	1	**-**
Individual transfers to other schemes	4,803	**2,623**
	4,810	**2,636**

7. Administrative Expenses

	2011/12 £000's	2012/13 £000's
Administration and processing	960	**927**
Actuarial fees	110	**66**
Audit fees	36	**30**
	1,106	**1,023**

All other costs of administration are borne by the London Borough of Barnet.

8. Investment Income

	2011/12 £000's	2012/13 £000's
Income from property unit trusts	788	**-**
Interest on cash deposits	86	**26**
Other income	399	**42**
	1,273	**68**
Irrecoverable withholding tax	-	**-**
Total investment income	1,273	**68**

9. Investments

2012/13	Value at 1/4/2012 £000's	Purchases at Cost £000's	Sales Proceeds £000's	Unrecog-nised Losses £000's	Change in Market Value £000's	Value at 31/3/2013 £000's
Pooled investment vehicles	**702,409**	**23,033**	**(13,136)**	**(473)**	**78,273**	**790,106**
	702,409	**23,033**	**(13,136)**	**(473)**	**78,273**	**790,106**
Cash Deposits	**1,221**					**1,492**
	703,630					**791,598**

2011/12	Value at 1 April 2011 £000's	Purchases at Cost £000's	Sales Proceeds £000's	Unrecog-nised Losses £000's	Change in Market Value £000's	Value at 31 March 2012 £000's
Pooled investment vehicles	638,391	57,101	(9,350)	-	16,267	702,409
Properties	23,160	-	(23,972)	-	812	-
	661,551	57,101	(33,322)	-	17,079	702,409
Cash Deposits	727					1,221
	662,278					703,630

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year. The unrecognised losses relate to unrealised losses generated in previous periods and were not required to be disclosed in earlier Statement of Reporting Practice. Any income attributed to the unitised funds are reinvested and accounted for as a change in market value as opposed to income. As a result of these changes the investment income for 2012/13 reduced to £0.068 million; 2011/12 £1.273 million.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. There are also transaction costs incurred on behalf of the unitised funds, but these are reflected in the unit cost. In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

All the financial instruments of the fund are classified as level 1, where their fair values are derived from unadjusted quoted prices for identical assets or liabilities. The carrying value of investments is not materially different to their fair value. The carrying amount of investments held under management by the Fund's investment managers at year end including cash deposits totalled £791.598 million. This was split as follows:

Investment Portfolio	2012/13 £000's	%
Schroder Investment Management	**358,204**	**45.25**
Newton Investment Management	**376,022**	**47.50**
Legal & General	**57,372**	**7.25**
	791,598	**100.00**

Major Investments

The fund investments are all held in pooled funds. The following investments represent more than 5% of the net assets of the scheme:

Value 2011/12 £000's	as % of investment assets		Value 2012/13 £000's	as % of investment assets
226,349	32.17%	Newton Real Return Fund	**252,864**	**31.94**
105,552	15.00%	Newton Long Corporate Bond Fund	**118,908**	**15.02**
220,342	31.32%	Schroder Life Diversified Growth Fund	**243,716**	**30.79**
100,767	14.32%	Schroder All Maturities Corporate Bond Fund	**113,904**	**14.39**
34,053	4.84%	Legal and General Index Linked Tracker Fund	**40,214**	**5.08**
687,063			**769,606**	

	2011/12	2012/13
Pooled investment Vehicles	£000's	**£000's**
UK Managed funds	653,010	**732,734**
UK Unit Trusts	49,399	**57,372**
	702,409	**790,106**
Cash Deposits		
Sterling	1,221	**1,492**
	703,630	**791,598**

Pooled Investment Vehicles

Both Schroders and Newton run their portfolios on a unitised or pooled basis, the underlying economic exposure to asset classes for each manager are detailed below:

Newton's Portfolio	Long Corporate Bonds	Global High Yield Bonds	Long Gilt	Newton's Real Return
Equities (%)				
UK	-	-	-	13.05
North America	-	0.14	-	11.41
Europe Ex UK	-	-	-	18.82
Japan	-	-	-	2.89
Pacific Ex Japan	-	-	-	2.44
Other	-	-	-	2.54
		0.14		**51.15**
Fixed Interest (%)	**Long Corporate Bonds**	**Global High Yield Bonds**	**Long Gilt**	**Newton's Real Return**
UK Gilts	-	-	93.02	9.51
UK Index Linked Gilts	-	-	1.68	-
UK Corporate Bonds	97.18	18.44	5.14	2.40
Overseas Government Bonds	-	1.06	-	13.16
Overseas Corporate Bonds	-	71.76	-	8.61
Overseas Index Linked Corporate Bonds	-	-	-	2.37
	97.18	**91.26**	**99.84**	**36.05**

Other Assets				
Commodities	-	-	-	3.93
Derivatives	-	-	-	(0.34)
Cash	2.82	8.60	0.16	9.21
	2.82	**8.60**	**0.16**	**12.80**
Total %	**100.00**	**100.00**	**100.00**	**100.00**

	Diversified Growth Fund	Schroder All Maturities Corporate Bond
Equities		
Schroder QEP Global Dynamic Blend Portfolio	17.00	-
Schroder UK Alpha Plus Fund	5.00	-
Schroder European Alpha Plus Fund	3.00	-
Schroder ISF Asian Equity Yield	3.00	-
Schroder ISF US Small & Mid Cap	2.00	-
Schroder US Mid Cap Fund	2.00	-
Schroder Income Fund	1.00	-
Schroder Global Emerging Markets Fund	1.00	-
Passive Equities	10.00	-
	44.00	
Commodities		
UBS Bloomberg CMCI Composite	7.00	-
UBS Bloomberg CMCI Energy	4.00	-
ETF Gold	3.00	-
Schroder ISF Global Energy	3.00	-
	17.00	-
High Yield Debt		-
Schroder ISF Global High Yield	6.00	-
Neuberger Berman High Yield Bond Fund	6.00	-
T Rowe Price Global High Yield Bond Fund	3.00	-
	15.00	
Emerging Market Bonds		
Schroder ISF Emerging Market Debt Absolute Return	5.00	-
Mellon Emerging Market Debt Local Currency Fund	3.00	-
PIMCO Emerging Local Bond Fund	1.00	-
	9.00	
Property		
Passive Property	2.00	-
Schroder ISF Asia Pacific Property Securities	1.00	-
	3.00	
Absolute Return		
JPMorgan Highbridge Statistical Market Neutral Fund	1.00	-
Opus Multi-Strategy Fund Note	1.00	-

Opus Macro Fund Note	1.00	-
	3.00	
Infrastructure		
International Public Partnerships Limited	1.00	-
HSBC Infrastructure Company Limited	1.00	
John Laing Infrastructure Limited	1.00	-
	3.00	
Other Assets		
Private Equity	1.00	-
Asset Backed Securities Portfolio	2.00	-
Cash	3.00	-
	6.00	
Corporate Bonds		
Sovereign	-	6.20
Securitised	-	11.50
Government Related	-	79.30
Corporate	-	3.00
		100.00
Total	**100.00**	**100.00**

10. AVC Investments

The Authority holds assets invested separately from the main fund in the form of individual insurance policies securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions (AVC).

Members participating in this arrangement each receive an annual statement confirming the amounts held to their account and the movements in the year.

2012/13 AVC Investments	2011/12 £000's	Contributions £000's	Income £000's	Expenditure £000's	2012/13 £000's
Aviva /NorwichUnion	648	**20**	**13**	**-**	**680**
Prudential					
With Profits	507	**84**	**26**	**(85)**	**532**
Deposit	289	**63**	**2**	**(29)**	**325**
Unit Linked	448	**99**	**131**	**(13)**	**665**
Total Prudential AVCs	1,244	**246**	**159**	**(127)**	**1,522**
Total AVC's	1,892	**266**	**172**	**(127)**	**2,202**

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2011/12 AVC Investments	2010/11 £000's	Contributions £000's	Income £000's	Expenditure £000's	2011/12 £000's
Aviva /NorwichUnion	779	35	7	(173)	648
Prudential					
With Profits	444	76	47	(60)	507
Deposit	359	93	2	(165)	289
Unit Linked	319	105	51	(27)	448
Total Prudential AVCs	1,122	274	100	(252)	1,244
Total AVC's	1,901	309	107	(425)	1,892

The fund does not participate in stock lending arrangements.

11. Investment Management Expenses

	2011/12 £000's	**2012/13 £000's**
Administration, management and custody	1,835	**1,796**
Performance Measurement Services	7	**11**
Other advisory fees	78	**44**
	1,920	**1,851**

12. Current Assets

	2011/12 £000's	**2012/13 £000's**
Contributions due from employers in respect of		
Employer contributions	4,081	**1,120**
Member contributions	260	**225**
Sundry Debtors	434	**2,348**
Cash Balances	6,429	**10,095**
	11,204	**13,788**

13. Current Liabilities

	2011/12 £000's	**2012/13 £000's**
Unpaid Benefits	1,547	**795**
Unsettled Purchases	32	**40**
Accrued Expenses	770	**6,214**
	2,349	**7,049**

14. Statement of Investment Principles

The Authority is required by law to prepare and publish a Statement of Investment Principles (SIP). This Statement, approved in May 2000 and reviewed at least annually, sets out the Fund's policy on a range of matters relating to the investment and management of the Pension Fund. The Statement is published on the Borough's website at www.barnetpensions.org.

15. Related Party Transactions

Fund administration expenses payable to the administrating authority, the London Borough of Barnet are outlined below

	2011/12 £000's	**2012/13 £000's**
Human Resources	417	**451**
Accountancy Administration	455	**401**
	872	**852**

The costs of payroll support are included in the Human Resources Recharge.

16. Actuarial Valuation

Barnett Waddingham LLP undertook a formal actuarial valuation of the fund as at 31 March 2010, in accordance with The Local Government Superannuation Regulations 1986. The actuarial valuation calculates the contribution rate payable by Authority, as an employer, to meet the Administering Authority's funding objectives. The actuarial method used by the Actuary is known as the "projected unit credit method".

The key feature of this method is that in assessing the future service cost, the Actuary calculates the contribution rate, which meets the cost of benefits accruing in the year after the valuation date. This is the same method adopted at the previous valuation and is an appropriate method for a fund, which is open to new members.

Assumption	Rate
Future pension increases	3.0%
Future pay increases	5.0%
Price inflation	3.5%
Equities/absolute refund funds	7.4%
Gilts	4.5%
Bonds & Property	5.6%
Risk adjusted discount rate	6.7%

The 2010 valuation actuarially assessed the value of the Fund's assets as £609.68 million, being sufficient to meet 76% of the Fund's liabilities. The latest valuation as at 31st March 2013 as per the requirements of IAS26 is attached. The figures below relate to the FRS17 valuation as at 31st March 2010, and are given for comparison;

Assumption	Rate
Assumed retail price inflation (RPI)	3.9%
Assumed customer price inflation (CPI)	n/a
Salary increases	5.4%
Pension increases	3.9%
Discount rate	5.5%

The triennial valuation was reported to the London Borough of Barnet Pension Fund Committee on 21 December 2010 and is available to view at www.barnet.gov.uk/pensions.

17. Classification of Financial Assets

The following table analyses the carrying amounts of financial assets and liabilities, (excluding cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period.

31 March 2013	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
	£'000	£'000	£'000
Financial Assets			
Pooled Investments	790,106	-	-
Pooled Property		-	-
Cash Deposits	-	11,589	-
Investment income due	-	-	-
Debtors	-	2,348	-
Financial Liabilities			
Creditors	-	-	(7.049)
	790,106	**13,937**	**(7,049)**

31 March 2012	£'000	£'000	£'000
Financial Assets			
Pooled Investments	638,391	-	-
Pooled Property	23,160	-	-
Cash Deposits	-	26,012	-
Investment income due	-	-	-
Debtors	-	2,682	-
Financial Liabilities			
Creditors	-	-	(2,349)
	661,551	28,694	(2,349)

18. Nature and Extent of Risks Arising from Financial Instruments

The Pension Fund maintains positions in a variety of financial instruments including bank deposits, equity instruments and fixed interest securities. This exposes it to a variety of financial risks including credit and counterparty risk, liquidity risk, market risk and exchange rate risk.

Overall procedures for managing risk

The principal powers to invest are contained in the Local Government Pension scheme (Management and Investment of Funds) regulations 2009 and require an Administering Authority to invest any pension fund money that is not needed immediately to make payments from the Pension Fund. These regulations require the Pension Fund to formulate a policy for the investment of its fund money.

The Administering Authority's overall risk management procedures focus on the unpredictability of the financial markets and implementing restrictions to minimise these risks.

The Pension Funds has prepared a Statement of Investment Principles which sets out the Pension Fund's policy on matters such as the type of investments to be held, balance between types of investments, investment restrictions and the way risk is managed. Investment performance by external Investment Managers is reported to the Pensions Committee quarterly. Performance of Pension Fund investments managed by external Investment Managers is compared to benchmark returns.

Credit and counterparty risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Pension Fund. The Pension Fund reviews its exposure to credit and counterparty risk through its external Investment Managers by review of the Managers annual internal control reports to ensure that Managers exercise reasonable care and due diligence in its activities for the Pension Fund.

The Pension Fund investment assets are held in pooled funds by Custodians who have acceptable credit ratings determined by three Credit rating agencies. As at 31 March 2013 working capital was held in the Pension Fund Bank account with the Co-operative Bank in a call account with the Bank of Scotland and in accordance with the Council's Treasury management strategy credit rating criteria.

	Long Term Credit Rating	Source	Holding 31/3/2012 £'000	**Holding 31/3/2013 £'000**
Schroder Group	AA3	Moodys		
JP Morgan (Schroder Custodian)	AA-	Standard and Poors	321,516	**358,204**
Newton –Bank of New York Mellon (Parent)	A+	Standard and Poors	332,715	**376,022**
Bank of Scotland	A1	Moodys	2,272	**-**
Co-operative Bank	BBB+	Fitch	4,085	**10,097**

Liquidity Risk

Liquidity risk is the risk that the Pension Fund will not be able to meets its financial obligations when they fall due.

The main risk for the Pension Fund is not having the funds available to meet its commitments to make pension payments to its members. To manage this, the Pension fund has a comprehensive cash flow management system that seeks to ensure that the cash is available when needed. The Pension Fund also manages its liquidity risk by having access to money market funds and call accounts where funds are repayable without penalty and on notice of not more than 24 hours.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument can fluctuate because of changes in market prices.

The Pension fund is exposed to the risk of financial loss from a change in the value of its investments and the risk that the Pension Fund's assets fail to deliver returns in line with the anticipated returns underpinning the valuation of its liabilities over the long term. In order to manage the market value risk, the Pension Fund has set restrictions on the type of investments it can hold, subject to investment limits, in accordance with local Government Pension Scheme (Management and Investment of Funds) regulations 2009.

Details of these can be found in the Pension fund's Statement of Investment Principles.

As the Pension Fund's Multi Asset Strategy does not provide a breakdown by asset class, following analysis of historical data and in consultation with the fund adviser, sensitivity analysis is based on an assumed a 10% volatility for pooled assets and 1% for cash.

2012/13

Asset Type	**Market Value 31.3.2013**	**Percentage Change**	**Value on Increase**	**Value on Decrease**
	£'000	**%**	**£'000**	**£'000**
Pooled Investments	**791,598**	**10.0**	**870,758**	**712,438**
Cash Deposits	**10,095**	**1.0**	**10,196**	**9,994**

2011/12

Asset Type	Market Value 31.3.2012	Percentage Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Pooled Investments	702,409	10.0	772,650	632,168
Cash Deposits	7,650	1.0	7,727	7,574

Exchange rate risk

The Pension Fund holds a number of financial assets and liabilities in overseas financial markets and therefore could be exposed to the risk of loss from exchange rate movements of foreign currencies. This risk is managed by holding the fund assets in Sterling.

Refinancing risk

The key risk is that the Pension Fund will be required to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Pension Fund does not have any financial instruments that carry a refinancing risk.

Membership of the Pension Fund

		2012/13
Employees		
Number of Employees at start of year		6,790
Employees joining during the year		933
		7,723
Members leaving during the year:		
Normal retirements	171	
Ill-health retirements	7	
Deaths in service	9	
Refunds of Contributions	16	
Deferred pensions	752	955
Number of Employees at end of year		**6,768**
Pensioners		
Number of Pensioners at start of year		6,585
New pensioners during the year:		
Normal retirements	107	
Ill-health retirements	7	
Dependants' pensions	56	
Deferred pensions becoming payable	112	282
		6,867
Deaths/dependants ceasing to be eligible		158
Number of Pensioners at end of year		**6,709**
Deferred Pensioners		
Number of Deferred Pensioners at start of year		7,346
New deferred pensioners during the year:		753
		8,099
Deferred Pensioners leaving the fund during the year		
Normal retirements	78	
Ill-health retirements	4	
Transferred	63	
Back to active status	2	
Deaths	-	147
Number of Deferred Pensioners at end of year		**7,952**
Total Membership at 31 March 2013		**21,429**

19. Assumptions made about the future and other major sources of estimation and uncertainty

The statement of accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However because balances cannot be determined with certainty, actual results could be materially different in the forthcoming year as follows:

Actuarial present value of promised retirement benefits

Estimation of the net liability to pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates, and expected returns on fund assets. The actuary makes prudent assumptions, to manage the potential impact of downside risk.

20. Events after the Balance Sheet date

Since the Balance Sheet date of 31 March 2013, there have been no post balance sheet events to report. The only non-adjusting event that is reported is the latest value of the total investments of the Fund which increased slightly from £801.692m to £808.438m, (as valued at 31 May 2013) .This represents a change of £6.745m.

London Borough of Barnet Pension Fund

IAS26 Disclosures as at 31 March 2013

Barnett Waddingham
Public Sector Consulting

1. Introduction

We have been instructed by the London Borough of Barnet, the Administering Authority to the London Borough of Barnet Pension Fund ("the Fund"), to provide pension disclosures in respect of pension benefits provided by the Local Government Pension Scheme ("the LGPS") to members of London Borough of Barnet Pension Fund ("the Fund") as at 31 March 2013.

This report is addressed to the Administering Authority and its advisers; in particular, this report is likely to be of relevance to the Fund's auditor.

These figures have been prepared in accordance with IAS26. In calculating the disclosed numbers we have adopted methods and assumptions that are consistent with IAS19.

This advice complies with all Generic Technical Actuarial Standards (TASs) and the Pensions TAS.

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations, as amended. It is contracted out of the State Second Pension.

2. Valuation Data

Data Sources

In completing our calculations for IAS26 purposes we have used the following items of data, which we received from London Borough of Barnet:

- The results of the Triennial Actuarial Valuation as at 31 March 2010 which was carried out for funding purposes;
- Estimated whole fund income and expenditure items for the period to 31 March 2013;
- Estimated whole fund returns for the period to 31 March 2013 based on assets used for the purpose of the IAS26 valuation as at 31 March 2012 and the whole fund asset value as at 31 March 2013;
- Details of any new early retirements for the period to 31 March 2013that have been paid out on an unreduced basis, which are not anticipated in the normal service cost.

Although some of these data items have been estimated, we do not believe that they are likely to have a material effect on the results of this report, especially in the context of the roll-forward approach we have taken (as described in the next section). Further, we are not aware of any material changes or events since we received the data.

Fund Membership Statistics

The table below summarises the membership data as at31 March 2010.

Member Data Summary	Number	Salaries/Pensions £000's	Average Age
Actives	7,048	153,939	46
Deferred Pensioners	7,371	10,045	45
Pensioners	6,261	28,171	70

Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2013 is estimated to be 11%. This is based on the estimated Fund value used at the previous accounting date and the estimated Fund value used at this accounting date. The actual return on Fund assets over the year may be different.

The estimated asset allocation for London Borough of Barnet Pension Fund as at 31 March 2013 is as follows:

Employer Asset Share - Bid Value	31 March 2013		31 March 2012	
	£000's	%	£000's	%
Equities	545,151	68%	372,337	52%
Gilts	-	-	71,603	10%
Other Bonds	248,525	31%	236,291	33%
Cash	8,017	1%	28,641	4%
Alternative Assets	-	-	7,160	1%
Total	**801,693**	**100%**	**716,032**	**100%**

The final asset allocation of the Fund assets as at 31 March 2013 is likely to be different from that shown due to estimation techniques.

Unfunded Benefits

We have excluded any unfunded benefits as these are liabilities of employers rather than the Pension Fund.

3. Actuarial Methods and Assumptions

Roll-Forward Approach

To assess the value of the Fund's liabilities as at31 March 2013, we have rolled forward the value of the Fund's liabilities calculated for the Triennial valuation as 31 March 2010allowing for the different financial assumptions required under IAS19.

The full actuarial valuation involved projecting future cashflows to be paid from the Fund and placing a value on them. These cashflows include pensions currently being paid to members of the Scheme as well as pensions (and lump sums) that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2013 without completing a full valuation. However we are satisfied that the approach of rolling forward the previous valuation results to 31 March 2013 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears no evidence that this approach is inappropriate.

Demographic/Statistical Assumptions

We have adopted a set of demographic assumptions that are consistent with those used for the formal funding valuation as at31 March 2010.The post retirement mortality tables adopted were the S1PA Heavy tables allowing for medium cohort projection, with a minimum 1% improvement and a 90% scaling factor.

The assumed life expectations from age 65 are:

Life Expectancy from age 65 (years)		31 March 2013	31 March 2012
Retiring today			
	Males	20.1	20.0
	Females	24.1	24.0
Retiring in 20 years			
	Males	22.1	22.0
	Females	26.0	25.9

We have also made the following assumptions:

- Members will exchange half of their commutable pension for cash at retirement
- Active members will retire one year later than they are first able to do so without reduction

Financial Assumptions

The financial assumptions used for the purposes of the calculations are as follows.

Assumptions as at	31 March 2013		31 March 2012		31 March 2011	
	% p.a.	Real	% p.a.	Real	% p.a.	Real
RPI Increases	3.4%	-	3.3%	-	3.5%	-
CPI increases	2.6%	-0.8%	2.5%	-0.8%	2.7%	-0.8%
Salary Increases	4.8%	1.4%	4.7%	1.4%	5.0%	1.5%
Pension Increases	2.6%	-0.8%	2.5%	-0.8%	2.7%	-0.8%
Discount Rate	4.6%	1.2%	4.6%	1.3%	5.5%	1.9%

These assumptions are set with reference to market conditions at 31 March 2013.

Our estimate of the duration of the Fund's liabilities is 23 years.

The discount rate is the annualised yield at the 23 year point on the Merill Lynch AA rated corporate bond curve which has been chosen to meet the requirements of IAS19 and with consideration of the duration of the Fund's liabilities. This approach has been updated from previous disclosures when the yield on the iBoxx AA rated over 15 year corporate bond index was used as a standard assumption for the Fund.

The RPI increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England, specifically the 23 year point on the BoE spot inflation curve. Previously, the 20 year point was used and so this has been updated to reflect the duration of the Fund's liabilities.

This measure has historically overestimated future increases in the RPI and so we have made a deduction of 0.25% to get the RPI assumption of 3.4%. As future pension increases are expected to be based on CPI rather than RPI, we have made a further assumption about CPI which is that it will be 0.8% below RPI i.e. 2.6%. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods.

Salary increases are then assumed to be 1.4%above RPI in addition to a promotional scale.

Expected Return on Assets

For accounting years beginning on or after 1 January 2013, the expected return and the interest cost will be replaced with a single net interest cost, which will effectively set the expected return equal to the IAS19 discount rate.

Therefore we are not required to disclose an expected return assumption for the year to 31 March 2014.

4. Results and Disclosures

The results of our calculations for the year ended 31 March 2013 are set out in Appendix 1. We estimate that the net liabilityas at 31 March 2013 is a liability of £503,757,000.

In addition, Appendix 2 details a reconciliation of assets and liabilities during the year.

The figures in this report are presented only for the purposes of IAS 19. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

We would be pleased to answer any questions arising from this report.

Anna Short FFA
Associate

Appendix 1. Balance Sheet Disclosure as at 31 March 2013

Net Pension Asset as at	31 Mar 2013 £000's	31 Mar 2012 £000's	31 Mar 2011 £000's
Present Value of Funded Obligation	1,305,450	1,212,469	989,896
Fair Value of Scheme Assets (bid value)	801,693	716,032	671,505
Net Liability	**503,757**	**496,437**	**318,391**

*Present Value of Funded Obligation consists of £1,066,310,000 in respect of Vested Obligation and £239,140,000in respect of Non-Vested Obligation.

Appendix 2. Asset and Benefit Obligation Reconciliation for the Year to 31 March 2013

Reconciliation of opening & closing balances of the present value of the defined benefit obligation	Year to 31 March 2013 £000's	Year to 31 March 2012 £000's
Opening Defined Benefit Obligation	**1,212,469**	**989,896**
Service cost	37,366	35,286
Interest cost	55,136	54,528
Actuarial losses (gains)	28,011	163,238
Losses (gains) on curtailments	1,565	1,730
Liabilities extinguished on settlements	-	-
Liabilities assumed in a business combination	-	-
Estimated benefits paid net of transfers in	(38,759)	(44,242)
Past service cost	-	-
Contributions by Scheme participants	9,662	12,033
Unfunded pension payments	-	-
Closing Defined Benefit Obligation	**1,305,450**	**1,212,469**

Reconciliation of opening & closing balances of the fair value of Scheme assets	Year to 31 March 2013 £000's	Year to 31 March 2012 £000's
Opening fair value of Scheme assets	**716,032**	**671,505**
Expected return on Scheme assets	38,566	43,845
Actuarial gains (losses)	40,020	(12,064)
Contributions by employer including unfunded	36,172	44,955
Contributions by Scheme participants	9,662	12,033
Assets acquired in a business combination	-	-
Estimated benefits paid net of transfers in and including unfunded	(38,759)	(44,242)
Receipt / (Payment) of bulk transfer value	-	-
Fair value of Scheme assets at end of period	**801,693**	**716,032**

Reconciliation of opening & closing surplus	Year to 31 March 2013 £000's	Year to 31 March 2012 £000's
Surplus (Deficit) at beginning of the year	**(496,437)**	**(318,391)**
Current Service Cost	(37,366)	(35,286)
Employer Contributions	36,172	44,955
Unfunded pension payments	-	-
Past Service Costs	-	-
Other Finance Income	(16,570)	(10,683)
Settlements and Curtailments	(1,565)	(1,730)
Actuarial gains (losses)	12,009	(175,302)
Surplus (Deficit) at end of the year	**(503,757)**	**(496,437)**

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