MEETING
PENSION FUND COMMITTEE
DATE AND TIME
WEDNESDAY 7TH OCTOBER, 2020
AT 6.00 PM
VENUE
VIRTUAL MEETING

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
9.	PENSION FUND ANNUAL REPORT AND ACCOUNTS AND EXTERNAL AUDITOR'S REPORT UNDER INTERNATIONAL STANDARD ON AUDITING (ISA) 260 FOR THE YEAR 2019/20 - Appendix B1 - External Auditor's ISA 260 report	3 - 46

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Report to the Pension Fund Committee

LONDON BOROUGH OF BARNET PENSION FUND

Audit Progress Report

Year ended 31 March 2020

IDEAS | PEOPLE | TRUST

BDO

AGENDA ITEM 9

CONTENTS

WELCOME

Introduction

Contents

We have pleasure in presenting our Audit Progress Report to the Pension Fund Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of the work to date for the year ended 31 March 2020, specific audit findings and areas requiring further discussion and/or the attention of the Pension Fund Committee. At the completion stage of the audit it is essential that we engage with the Pension Fund Committee on the results of our audit of the financial statements comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We will provide an update on outstanding work at the Pension Committee.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

This report contains matters which should properly be considered by the Council as a whole. We expect that the Pension Committee will refer such matters to the Council, together with any recommendations, as it considers appropriate.

We would also like to take this opportunity to thank the management and staff of the Pension Fund for the co-operation and assistance provided during the audit.

Leigh Lloyd-Thomas

5 October 2020

Leigh Lloyd-Thomas

Engagement Lead

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OVERVIEW

Executive summary

This summary provides an overview of the audit matters that we believe are important to the Pension Fund Committee in reviewing the results of the audit of the financial statements of the Pension Fund for the year ended 31 March 2020.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

Overview

Our audit work is on going and subject to the successful resolution of outstanding matters, we anticipate issuing our opinion on the financial statements for the year ended 31 March 2020 in line with the agreed timetable.

Outstanding matters are listed on page 36 in the appendices.

There were no significant changes to the planned audit approach and no additional significant audit risks have been identified.

No restrictions were placed on our work.

Audit report

Subject to the resolution of the outstanding matters we anticipate issuing an unmodified audit opinion on the financial statements.

THE NUMBERS

Executive summary

Final materiality

Final financial statements materiality was determined based on 1% of the value of investment assets.

Specific materiality on the fund account was based on 5% of contributions.

We decreased our materiality from the planning Materiality of £11.4 million to £10.7 million as a result of the decrease in the valuations of investment assets at year end.

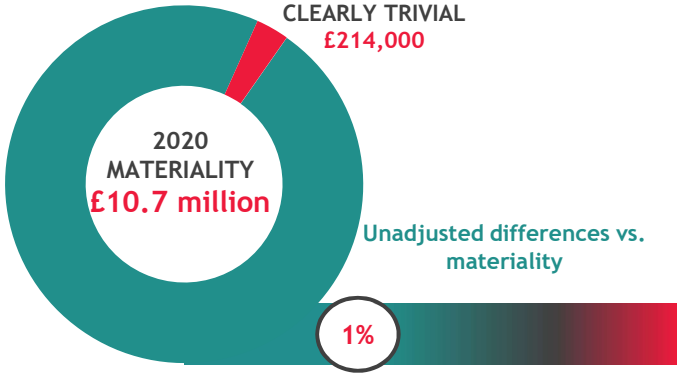
Audit differences

To date there are two audit differences that require correction that result in an overstatement of expenditure and understatement of net assets by £76,000.

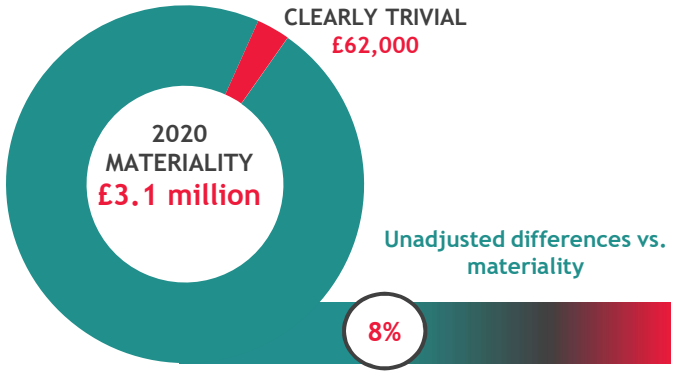
There are 5 audit differences from the prior year that have been corrected in 2019/20. The impact of the roll forward of prior year differences has resulted in net costs reported for 2019/20 being understated by £90,000 and return on assets for 2019/20 being overstated by £230,000.

The impact of the current year and prior year audit differences has resulted in the fund account understating net expenditure by £244,000.

Financial statements overall materiality



Fund account materiality



OTHER MATTERS
Executive summary

Financial reporting

- We have not identified any non-compliance with accounting policies or the applicable accounting framework.
- No significant accounting policy changes have been identified impacting the current year.
- Going concern disclosures are deemed sufficient.
- The Pension Fund Annual Report is consistent with the financial statements and our knowledge acquired in the course of the audit.

Other matters that require discussion or confirmation

- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation.

Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Pension Fund and Corporation in accordance with the Financial Reporting Council's (FRC's) Ethical Standard.

CORONAVIRUS IMPACT

The effects on year-end reporting and auditing

The emergence and spread of Coronavirus has had an effect on business and markets around the world. Guidance is now available to assist in identifying the potential corporate reporting and auditing issues and consequences of the virus, and there have been a number of local government specific issues, including relaxations to accounts preparation and audit timetables.

However, given the fast moving and ever changing nature of the situation, aspects of this guidance will change over time. The outbreak is an in-year event and will impact the valuations, estimations and disclosures reflected in the financial statements for periods ending on or after 31 March 2020.

Going concern

In respect of going concern, the Chief Finance Officer is required to consider events that have occurred both before and after the balance sheet date when determining whether there is a material uncertainty over the ability to continue as a going concern. Consequently, forecast financial information and sensitivity analysis (which may require additional and/or different potential variances to be included) will need to factor in the estimated effects of the Coronavirus pandemic.

A common approach that is developing, and which BDO is encouraging, in relation to each set of financial statements that is prepared for audit is:

- The assessment of going concern the Chief Finance Officer is required to undertake needs to explicitly consider the impact of Coronavirus to accommodate the uncertainty prevailing and must cover the period of at least 12 months from the date of signing the financial statements. The assessment may not be limited to this period if there are foreseen events or conditions beyond this period which may influence the economic decisions of users.
- The assessment needs to consider the entity's resilience through three lenses - operational capability (closed locations, reduced workforce through illness, breakdown in supply chain), demand for services (effect on income and expenditure) and structural finance (liquidity and access to committed facilities).
- If the Chief Finance Officer consider that there are material uncertainties, this will need to be referenced in the relevant disclosure and will result in a material uncertainty reference in the audit report (albeit the audit opinion is not qualified).
- The going concern disclosures in the basis of preparation note in the financial statements will also need to be enhanced.

Within local government, the Government's commitment to ensure that local authorities are adequately compensated for additional expenditure incurred or income lost directly as a result of the Coronavirus pandemic, removes some of the uncertainty faced by public sector entities. However, the assessment of going concern, and associated disclosures in the financial statements, are still expected to fully consider and record the impact of Coronavirus.

The auditor's review of Chief Finance Officer's assessments must be greater than normal, will require more evidence, and will continue to be performed through to the point of signing the audit report.

Valuations of financial and non-financial assets and liabilities

Data used in valuations of financial and non-financial assets and liabilities should be based on forecasts, projections and assumptions that were reasonable and supportable at the balance sheet date. For 31 March 2020 year ends, given that the significant development and spread of Coronavirus occurred within the financial year and that the World Health Organisation announced a global health emergency on 31 January 2020, the estimated impact of the Coronavirus pandemic will need to be factored into this data.

Pension Fund Annual Report

Pension Funds will need to monitor developments and ensure that they are providing up-to-date and meaningful disclosures when preparing their Annual Reports.

CORONAVIRUS IMPACT

The effects on year-end reporting and auditing

Other guidance

The National Audit Office (NAO) has published a Guide for audit committees on financial reporting and management during the Cornavirus pandemic. This guide aims to help Audit Committee members support and challenge the organisations they work with in the following areas: annual reports, financial reporting, control environment and regularity of expenditure.

The NAO has set out some questions to help audit committee members understand and challenge activities. Each section can be used on its own, although the NAO would recommend that audit committee members consider the whole guide, as the questions in other sections may be interrelated.

The guide may also be used as organisations and audit committees consider reporting in the 2020/21 period when more specific and detailed reporting on the outbreak will be required.

The guide is available through the following link:

https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/

Implications for auditors

As part of our on-going risk assessment procedures, we need to think about other specific areas and balances where Coronavirus might cause an issue and if this presents an additional risk:

- Valuation and disclosure of financial assets particularly those investments that are illiquid or not subject to Level 1 observable market prices
- Going concern and/or working capital assessment and disclosure
- Risk disclosures
- Subsequent event disclosures.

The impact of Coronavirus on going concern is a risk focus area for the audit, and in some cases may be a significant risk. As part of our on-going risk assessment procedures, we need to think about other specific areas and balances where Coronavirus might cause an issue and if this presents an additional risk. This includes the specific considerations in relation to the risks of having services in an affected area and supply chain issues in relation to items coming from these locations.

Personnel from audited entities may be unable to carry out their roles on site and/or be available to meet physically with our audit teams. Likewise, our people may be unable to work at audited entity sites or to travel to our offices, thereby potentially affecting the performance, review and supervision of the engagement team, including that of component or other auditors. We need to:

- Consider the impact on the audited entity
- Consider alternative ways of working including the use of our technology tools
- Consider implications for the quality of audit evidence and reporting.

AUDIT RISKS OVERVIEW

As identified in our Audit Planning Report dated 3 March 2020 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant management estimate or judgement	Use of experts required	Error Identified	Significant control findings	Discussion points / Letter of Representation
Management override of controls	Significant	No	No	-	-	Work is still in progress
Pension liability valuation	Significant	Yes	Yes	No	No	No
Valuation of investments (infrastructure & property)	Significant	Yes	No	No	No	No
Valuation of investments (other)	Normal risk	No	No	No	No	No
Pension contributions	Significant	No	No	Yes	Yes	Work is still in progress
Pension benefits payable	Normal risk	No	No	-	-	Work is still in progress
Membership disclosures	Normal risk	No	No	No	No	No
Funding of Barnet and Southgate College deficit	Normal risk	No	No	No	No	No

Areas requiring your attention

MANAGEMENT OVERRIDE OF CONTROLS

Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls.

Significant risk	■
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

The auditor's responsibilities relating to fraud in an audit of financial statements requires us to presume that the risk of management override of controls is present and significant in all entities.

Work performed

We carried out the following planned audit procedures:

- Reviewed and verified journal entries made in the year, agreeing the journals to supporting documentation. We determined key risk characteristics to filter the population of journals. We used our IT team to assist with the journal extraction;
- Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.

Results

Our review of management estimates has not identified the existence of any systemic bias.

To date we have not identified any audit differences.

Work outstanding

Our audit of journals is in progress. Work completed to date has not identified any issues.

Conclusion

Work outstanding to be completed before we are able to conclude on management override.

PENSION LIABILITY VALUATION

There is a risk the membership data and cash flows used by the actuary in the roll-forward valuation may not be correct, or the valuation uses inappropriate assumptions to value the liability.

Significant risk	■
Normal risk	
Significant management estimate or judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	■

Risk description

An actuarial estimate of the liability to pay future pensions is calculated by an independent firm of actuaries with specialist knowledge and experience. This year the membership data provided will be obtained in full as part of the 2019 triennial valuation. The estimate also considers all local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.

There is a risk the valuation is not based on appropriate membership data where there are significant changes since the 2019 triennial data extraction through to 31 March 2020, or uses inappropriate assumptions to value the liability.

Work performed

We carried out the following planned audit procedures:

- Reviewed the competence of the management expert (actuary);
- Reviewed the controls in place for providing accurate membership data to the actuary and testing the data provided at the triennial valuation;
- Checked that any significant changes in membership data since the triennial submission have been communicated to the actuary;
- Assessed how the actuary has addressed recent discrimination cases in the liability calculation; and
- Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.

Results

Our review of the competence of the actuary did not identify any issues.

The pension scheme undertook a Common Data cleanse with the actuary to ensure the existence, completeness and accuracy membership data prior to the 2019 triennial valuation. The final report from the actuary indicated that after the data validation stage, the membership data submitted by the Fund for the 2019 valuation was suitable for the purpose of a funding valuation. This membership data is rolled forward for use in the 31 March 2020 accounting valuation.

We have tested a sample of data provided to the actuary an used in the roll forward valuation at 31 March 2019 to ensue data provided is accurate and complete. There are 3 samples still to complete but we have not identified any issues to date.

Management confirmed there has been no significant changes in the membership of the fund in the year.

The following discrimination cases covering GMP gender equality, McCloud age discrimination and Goodwin spousal pensions are currently subject to remedy action that is likely to impact on liability to pay future pensions.

The actuary has applied full GMP indexation for members at state pension age this year. This is consistent with all other local government actuaries. We understand that in the previous year, indexation only for the 2016 to 2018 interim solution period was included in the liability and we previously reported an estimated audit difference of £6.1 million in 2018/19. We have sought confirmation from the actuary of the amount included in the liability for GMP indexation covering the 2016-2018, 2018-2021 and post 2021 periods.

PENSION LIABILITY VALUATION

There is a risk the membership data and cash flows used by the actuary in the roll-forward valuation may not be correct, or the valuation uses inappropriate assumptions to value the liability.

The actuary has calculated the impact of McCloud at £5.68 million. However, it is not clear from the actuary report what year a member needed to be a scheme member to benefit from the final salary underpin. Will have sought confirmation of the assumptions used by the actuary in calculating this additional liability. The Government has recently issued a consultation document that suggests that members in the scheme at 2012 will qualify for the scheme amendments. No liability was included in the previous year and we previously reported an audit difference of £3.5 million based on information provided by the actuary last year.

In July, HM Treasury announced that it would be amending the Teachers Pension scheme to remove the differential in survivor pensions for same sex marriage or civil partnerships following the Goodwin case, and that this will also apply to other public sector pension schemes. This is expected to result in lower survivor pensions although the actuary has not yet assessed the impact on the pension liability. Initial discussions with actuaries suggests that the impact will not be material.

The results of our review of the reasonableness of the assumptions used in the calculation against other local government actuaries and observable data is reported on the following page.

Work outstanding

There are 3 samples still to complete for the testing of data provided to the actuary for the 2019 triennial data.

Conclusion

The defined benefit obligation has been appropriately calculated and the assumptions used are reasonable.

PENSION LIABILITY VALUATION

Significant estimate – LGPS pension liabilities

Scheme pension liabilities £1,843 million

< lower **Impact of assumptions on the estimate** **higher >**

The pension liability has decreased by £203 million, from £2,046 million to £1,843 million. The reduction in liability includes £158 million for changes to financial assumptions such as reduced annual salary increases above CPI at 2.6% (previously 2.8%), reduced annual pension increases at 1.9% (previously 2.5%) offset by a fall in the rate of discounting scheme liabilities to 2.3% (previously 2.4%). It also include £51 million savings from demographic assumptions and reduced longevity of members.

We have compared the key financial and demographic assumptions used to an acceptable range provided by our a consulting actuary.

	Actual used	Acceptable range	Comments
Financials:			
- RPI increase	2.90%	2.7 - 2.90%	Reasonable
- CPI / pensions	1.90%	1.8 - 2.00%	Reasonable
- Salary increase	2.60%	1.8 – 2.90%	Reasonable - short term assumption of lower rate and increasing long term assumption
- Discount rate	2.30%	2.30%	Reasonable
Commutation:	50%	50%	Reasonable
Mortality:			
- Male current	22.9 years	21.6 - 23.3	Reasonable
- Female current	25.7 years	24.6 - 26.3	Reasonable
- Male retired	21.7 years	20.5 - 22.2	Reasonable
- Female retired	24.0 years	22.9 - 24.3	Reasonable
Mortality gains	CMI 2018 (+1.25% improvement rate) with Club Vita local adjustments		Reasonable

We consider that the assumptions and methodology used by the actuary are appropriate, and will result in an estimate of the pension liability which falls within a reasonable range. Our actuary has provided an estimate of the overall strength of assumptions and this indicates that the estimate has tended towards a slightly prudent (higher) liability mainly due to using the CMI 2018 mortality gains rather than the latest available CMI 2019 tables.

INFRASTRUCTURE AND PROPERTY FUNDS

There is a risk that infrastructure and property fund investment valuations may not take into account the impact of Covid-19 at 31 March 2020.

Significant risk	■
Normal risk	
Significant management estimate or judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	■
Significant control findings to be reported	
Letter of representation point	

Risk description

The investment portfolio includes infrastructure (£68 million) and property funds (£54 million) in pooled investments valued by the fund manager. The valuation of these funds and underlying assets may be subject to a significant level of assumptions or estimation and valuations may not be based on observable market data. The impact of Covid-19 may also impact on the valuation of the property held in the funds or the cash flows and discount rates applied to the valuation of the infrastructure projects.

As a result, we consider there to be a significant risk that investments may not appropriately valued in the financial statements.

Work performed

We carried out the following planned audit procedures:

- Obtained direct confirmation of investment valuations from the fund managers;
- Assessed whether the impact of Covid-19 had been taken into account by the fund managers at 31 March 2020 and if there is material uncertainty over the valuation of the underlying assets or infrastructure projects;
- Checked that investments have been correctly valued in accordance with the relevant accounting policies.

Results

The property funds are managed by CBRE (£25 million) and Aberdeen Standard Life (£29 million). The valuations were agree to the fund manager reports at 31 March 2020.

CBRE global fund invests in offices, retail, residential, industrial and other property types. We obtained the audited financial statements of the fund for December and performance report for Q1 2020. Net asset value per unit increased from $183.834 to $189.909 from December to March 2020. CBRE reported that residential, office, and industrial rent collection was close to normal levels but due to Covid-19 less than a third of retail rents were collected on the Quarter day. Retail space accounts for 14.1% of the funds portfolio. The fund manager confirmed that investors could continue redeem units at 31 March and there was no material uncertainty over the net asset value and pricing of the fund.

We reviewed published reports for Aberdeen Standard Life Long Lease Property fund and noted that Premier Inn (second largest tenant in the fund representing 5.9% of total income) took the decision to close the majority of its hotels in response to Covid-19. While Premier Inn paid the March rent in full, hotel occupancy rates dropped significantly in late March. We noted that one hotel tenant had asked for a rent deferment and others have asked for support in the form of monthly rent payments going forward. Following advice from the property valuer (based on RICS guidance) that there was material uncertainty over the valuation of UK property, the fund manager suspended redemptions on 18 March.

INFRASTRUCTURE AND PROPERTY FUNDS

There is a risk that infrastructure and property fund investment valuations may not take into account the impact of Covid-19 at 31 March 2020.

Results

This also results in the material uncertainty over the pricing of the units in the fund based on the underlying values of the net asset value.

We suggest that this uncertainty should be disclosed in the valuation disclosures in the financial statements.

However, we do not propose reporting an emphasis of matter in the audit report as we consider that the uncertainty on the £29 million share of the fund held by the pension fund does not present a material uncertainty to the overall fund asset values.

The IFM infrastructure fund (£68 million) reported a fall in value of 8.15% in USD term on a gross basis due to Covid-19. Independent valuers of the fund applied an increase to the asset specific risk premium component of asset discounts rates to account for reductions in revenue and continuing uncertainty on the likely impacts of the pandemic.

Conclusion

Property and infrastructure funds have taken into account the impact on Covid-19 on valuations.

OTHER INVESTMENT ASSETS

Pooled investment vehicles and other investments

There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements.

Significant risk	
Normal risk	■
Significant management estimate or judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

The fair value of other funds (principally unit trusts and pooled investments held through unitised insurance policies) is provided by individual fund managers. The investment consultant undertakes reviews of the performance of each fund manager and indirectly reviews valuations by investigating performance that is inconsistent with the benchmark.

There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements.

Work performed

We carried out the following planned audit procedures:

- Obtained direct confirmation of investment valuations from the fund managers;
- Checked that investments have been correctly valued in accordance with the relevant accounting policies; and
- Obtained independent assurance reports over the controls operated by both the fund managers and custodian for valuations and existence of underlying investments in the funds.

Results

We obtained and agreed valuations to direct confirmation of investment valuations from the fund managers.

We reviewed the independent assurance reports over controls at fund managers for valuations and no exceptions were noted.

Valuations of investments are based on generally accepted basis.

Conclusion

Our audit work on pooled investment vehicles and other investments did not identify any issues.

PENSION CONTRIBUTIONS

There is a risk that employers may not be calculating contributions correctly or the pension fund does correctly charge costs arising on pension strain for early retirements and augmented pensions.

Significant risk	■
Normal risk	
Significant management estimate or judgement	
Use of experts	
Unadjusted error	■
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	■
Letter of representation point	

Risk description

Employers are required to deduct amounts from pensionable pay based on tiered pay rates and to make normal and deficit contributions in accordance with rates agreed with the actuary. Additional contributions are required against pension strain for unreduced pensions for early retirements.

In previous years the pension fund has found it difficult to allocate contributions received between normal and deficit contributions, whether paid through an increase in the employer's contribution rate or through lump sum payments. We also reported concerns in previous years over completeness and timeliness of raising supplementary invoices to employers for pension strain costs.

Work performed

We carried out the following planned audit procedures:

- Tested a sample of normal contributions due, additional deficit contributions where included in a higher employer rate and employer deficit lump sum payments for active members including checking to employer payroll records;
- Reviewed contributions receivable and ensure that income is recognised in the correct accounting period;
- Performed tests over capital cost income for pension strain due to early retirement; and
- Carried out audit procedures to review contributions income in accordance with the Actuary's Rates and Adjustments Certificate, including specified increased rates to cover the minimum contributions to be paid.

Results

Our contribution testing is in progress due to delays in obtaining evidence to recalculate pension contributions.

We identified that the fund has not billed employers for the stain cost for nine members who retired before their pension age with unreduced benefits, resulting in an understatement of contributions due of £292,000.

Our review of contributions income, including specified increased rate to cover minimum contribution to be paid as set out in Certificate did not identify and issues.

We have agreed the total contributions payable by the Council and other scheduled bodies to the amounts received in the pension fund.

We also noted that the payroll system for 120 employees had deducted contributions for recruitment and retention supplement pay and this has been paid to the pension fund. However, no benefits have been accrued on these contributions as it is not clear whether this pay is pensionable. This suggests that either the contributions have been deducted inappropriately and need to be refunded, or the accrued benefits need to be include in the pension liability of the fund and the Council. Management is currently seeking a legal opinion on this issue. This may result in an audit difference in the financial statements.

We continue to note that the pension administrator does not always perform checks over the completeness and accuracy of contributions received. Contributions returns are captured onto a contributions schedule without any checks to ensure the accuracy and completeness of contributions. Some returns received from employers are not supported by a payroll report confirming contributions due and some returns do not separately allocate the employer and employees contributions.

PENSION CONTRIBUTIONS

There is a risk that employers may not be calculating contributions correctly or the pension fund does correctly charge costs arising on pension strain for early retirements and augmented pensions.

Significant risk	■
Normal risk	
Significant management estimate or judgement	
Use of experts	
Unadjusted error	■
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	■
Letter of representation point	

Work outstanding

Remaining samples for contributions due testing.

Legal opinion on whether recruitment and retention supplement pay is pensionable. The increase in pension liability if pensionable and if not pensionable the refund due to members is yet to be determined.

Conclusion

Sample testing to be completed before we are able to conclude on contribution income.

There remains a significant deficiency in control over identifying and charging employers for pension strain costs and also over checking accuracy and completeness of income.

BENEFITS PAYABLE

There is a risk that benefits payable may not be correct based on accrued benefits of members or may not be calculated in accordance with the scheme regulations.

Significant risk	
Normal risk	■
Significant management estimate or judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

Benefits payable may not be correct based on accrued benefits of members or may not be in calculated in accordance with the scheme regulations. Payment to wrong or non-existent members will result in loss of assets and risk of reputational damage.

Work performed

We carried out the following planned audit procedures:

- For members leaving the scheme and deferring their pension and members becoming entitled to receive pension during the year, we checked a sample of calculations of pension entitlement;
- Checked the correct application of annual pension uplift for members in receipt of benefits;
- Checked a sample of pensioners in receipt of pensions to underlying records to confirm the existence of the member and also review the results of the 'Tell Us Once' notification from HRMC to ensure future payments have been suspended for any bereavements identified;;
- Reviewed any life certification exercises undertaken for members that are excluded from the National Fraud Initiative; and.
- Agreed amounts recorded in the ledger for benefits paid to the pensioner payroll reports.

Results

Annual pension uplifts have been correctly applied at 3% and we did not identify any issues regarding the existence of pensioners.

We confirmed that the scheme subscribes to the HMRC notification of death which is matched to membership database and matched accounts are suspended. Our testing did not identify any payment to deceased member.

Work outstanding

Our work on the calculations of benefit entitlement is still ongoing due to issues accessing hard copy files as a result of Covid-19 and the move to remote working.

Conclusion

Work outstanding to be completed before we are able to conclude the benefits paid are correct.

MEMBERSHIP DISCLOSURE

There is a risk that the membership database may not be accurate and up to date to support the disclosure in the accounts.

Significant risk	
Normal risk	■
Significant management estimate or judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

Membership information including the number of current contributors, deferred beneficiaries and pensioners by employer is required to be disclosed in the financial statements.

We previously reported concerns regarding the accuracy of this disclosure. The 2019 triennial data cleansing should improve the accuracy of the data although delays in updating the membership data for change of status for members at year end may require manual amendments to the data.

Work performed

We carried out the following planned audit procedures:

- Obtained membership records and review the controls over the maintenance of these records; and
- Tested a sample of movements of members to transactions recorded in the fund account and other underlying supporting documentation.

Results

We have agreed membership numbers disclosure to the membership system.

However, we identified that two members on the pension system reported as active were not on the employer payroll records and therefore contributions were not being received to support benefits being accrued.

Management is investigating whether these members have left the scheme or if contributions are due. Our extended sample did not identify any additional errors.

The impact of unrecorded contributions due (if they are still active members) or overstated pension liability (if not active) is not material.

Last year we reported significant control deficiencies over the accuracy of membership data. Whilst improvements have been made to data accuracy as part of the 2019 triennial data cleanse, this suggests that there remains a deficiency in the controls over accuracy of membership data.

Conclusion

Our audit work on membership disclosures did not identify material differences.

BARNET AND SOUTHGATE COLLEGE

There is a risk that a potential liability may exist arising from the allocation of members in these merged colleges across the LB Enfield and LB Barnet pension fund.

Significant risk	
Normal risk	■
Significant management estimate or judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

Barnet College and Southgate College merged in 2011 and active employees of Southgate College transferred to the Barnet pension fund and deferred and pensioner members remained with the Enfield pension fund. The Barnet pension fund assumed responsibility for past service benefits and on-going benefits for transferred employees from the Enfield pension fund. The Enfield pension fund has requested a transfer value buy-out from the Barnet pension fund of £4.2 million to fund the liability shortfall for the deferred and pensioner members based on a cessation funding formula.

LB Barnet pension fund has made an offer to transfer deferred and pensioner members and all assets funding accrued benefits to LB Barnet pension fund. LB Barnet pension fund will then be responsible for any liability shortfall for the deferred and pension members.

There remains a risk that LB Enfield will not accept this proposal and that a potential liability may exist arising from the allocation of members in these merged colleges across the LB Enfield and LB Barnet pension fund.

Work performed

We carried out the following planned audit procedures:

- Continued to monitor the developments around the proposal made by LB Barnet pension fund;
- Reviewed any advice provided by the actuary and any other legal advice sought by the pension fund to assess the potential liability for the LB Barnet pension fund; and
- Checked that any potential liability has been correctly reflected in the accounts.

Results

Per discussion with management there has not been any progress on the issue. The verbal offer made by LB Barnet still stands but no response has been received from LB Enfield.

This has been appropriately disclosed as a contingent liability in the financial statements.

Conclusion

The potential transfer of assets to LB Enfield pension fund has been appropriately disclosed.

OTHER MATTERS

The following are additional significant and other matters arising during the audit which we want to bring to your attention.

Issue	Comment
Incorrect annual benefits statements	We also noted that management had to reissue 1,600 annual benefits statements as the annul earnings shown on the statements were for thirteen months instead of twelve months thereby overstating the earnings shown on the annual statements. Management has recalled these statements.
Bank reconciliation	We identified an unreconciled amount of £216,000 (prior year £139,000) in the bank balance at year end, where the cash at bank recorded in the ledger is more than the cash held in the bank account. This suggests that cash may be overstated by £216,000. Management believe that the majority of the difference resulted from the payment suspense account being incorrectly posted in the leger and that £187,000 should have been charged to expenditure. The remaining £29,000 has not yet been resolved. Providing a complete and accurate bank reconciliation is a key management control to identify any irregularities and to confirm that all income and expenditure has been properly accounted for. This remains a significant deficiency in control to be addressed.
Presentation and missing disclosures in the accounts	Our review of the draft accounts identified a number of presentational and other missing disclosures. Management has amended the financial statements for the issues identified.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

Fraud

Whilst the Chief Finance Officer and Members have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud

We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Planning Report.

Laws and regulations

We have made enquiries of management regarding compliance with laws and regulations and reviewed correspondence with the relevant authorities.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

AUDIT DIFFERENCES

To date there are two audit differences that require correction that result in an overstatement of expenditure and understatement of net assets by £76,000.

There are 5 audit differences from the prior year that have been corrected in 2019/20. The impact of the roll forward of prior year differences has resulted in net costs reported for 2019/20 being understated by £90,000 and return on assets for 2019/20 being overstated by £230,000. These are no longer audit differences at 31 March 2020 and we do not ask that you correct these as a prior period adjustment as the impact is not material. However, we report these to show the impact on the net returns in the fund account for 2019/20.

The impact of the current year and prior year audit differences has resulted in the fund account understating net expenditure by £244,000.

		Fund Account		Net Assets Statement	
Audit differences	**NET DR/(CR) £000s**	**DR £000s**	**(CR) £000s**	**DR £000s**	**(CR) £000s**
Decrease in net assets / net assets of the fund before adjustments	**72,703**			1,079,433	
Adjustment 1: Unbilled pension strain income					
Dr Debtors				292	
Cr Contributions	**(292)**		(292)		
Adjustment 2: Bank reconciliation adjustment					
Dr Expenditure	**216**	216			
Cr Bank					(216)
Total audit differences	**(76)**			76	
Decrease in net assets / net assets of the fund after adjustments	**72,627**			1,079,509	
Prior year audit differences					
Lump sum payments charged to 2019/20 that should be expenditure in 2018/19	**(130)**				
Transfer payments charged to 2018/19 that should be expenditure in 2019/20	**227**				
Pension strain income credited to 2019/20 that should be income in 2018/19	**132**				
Unreconciled bank balance debits cleared in 2019/20 that should be written off in 2018/19	**(139)**				
Investments valuation increase credited to 2019/20 that should be recognised in 2018/19	**230**				
Impact of prior year audit differences on fund account performance for 2019/20	**320**				

REPORTING ON OTHER INFORMATION

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

Matter	Comment
We are required to report on whether the financial and non-financial information in the Pension Fund Annual Report is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	We are satisfied that the other information in the Pension Fund Annual Report is consistent with the financial statements and our knowledge.

SIGNIFICANT DEFICIENCIES

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Pension Fund Committee.

As the purpose of the audit is for us to express an opinion on the financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

Area	Observation & implication	Recommendation	Management response
Contributions receivable	We noted that the pension administrator does not always perform checks over the completeness and accuracy of contributions. Contributions returns received are captured onto contributions schedule without any checks to ensure the accuracy and completeness of contributions. Some returns received from employers do not come with corresponding payroll report confirming contributions due and some returns do not split out the employer and employees contributions figure.	A monthly reconciliation should be performed and detailed payroll reports obtained so that check that contributions are accurate and complete.	[xx]
Bank reconciliations	Our audit work identified an unreconciled £216,000 difference between the ledger cash at bank amount and the bank statement amount of cash held. Management has not been able to provide evidence to support the claim that this was a misposting in the bank general ledger. A complete bank reconciliation is a key management control to identify any irregularities and to confirm that all income and expenditure has been properly accounted for.	Management should regularly reconcile bank leger amount to bank statement to be able to identify any incorrect posting in the bank leger and resolve reconciling differences on a timely basis.	[xx]

OTHER DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Termination of leavers access to IT systems- Integra	Nine staff members who had left the employment of the Council during the year but their access to the system was not terminated after the Council's 30 day access termination policy. There is a risk that a leaver's profile can be accessed by a different staff member after they have left which could result in gaps in the audit trail or accountability and potential breach of IT segregation of duties and other related access controls. We have reviewed login reports from the system and have confirmed that none of these staff members logged into the system post their leave date.	Management should review leavers report from Human Resources and check that access to all critical systems have been terminated on time.	[xx]
No regular user access right review of Integra and Logotech IT systems	There are no periodic or regular user access and access rights reviews for Integra and Logotech. There is a risk that user access rights may not be appropriate for their roles resulting in authorised access to data.	Management should conduct periodic access rights review to ensure that access rights are appropriate for users roles.	[xx]
Weak IT password policy for Logotech	The password control is of minimum strength that may result in exposure of unauthorised access to Logotech.	Improve mandatory password strength to the Logotech system such as new passwords every 30/60/90 days, the 6 previous passwords cannot be re-used, minimum 6 characters and at least 1 special character and at least 1 number.	[xx]

FOLLOW UP OF PRIOR YEAR DEFICIENCIES

Area	Issue and impact	Original recommendation	Progress	Management response
Membership data	We acknowledge the effort by management and the Capita Darlington Pensions Team to address the accuracy of membership data to prepare for the 2019 triennial valuation. However, there remain significant deficiencies in controls to ensure the ongoing accuracy of membership data.	We recommend that management review the processes and controls for employers and employees to inform the Council (as administering authority) and the Capita scheme administrators of changes and for the Council to undertake quality assurance checks of the data.	The actuary has acknowledged that data was deemed appropriate for the pension liability valuation. The number of issues identified over the accuracy membership data has decreased compared to previous years. However, we continue to identify members where listed as active in the membership system but no contributions are being received.	[xx]
Contributions	We noted that Capita does not perform checks over the completeness and accuracy of contributions. Contributions returns received are captured onto contributions schedule without any checks to ensure the accuracy and completeness of contributions. Some returns received from employers do not come with corresponding payroll report confirming contributions due. some returns do not split out the employer and employees contributions figure.	A monthly reconciliation should be performed and detailed payroll reports obtained to check that contributions are accurate and complete.	No progress and recommendation restated in current year.	See current year significant deficiencies response

FOLLOW UP OF PRIOR YEAR DEFICIENCIES

Area	Issue and impact	Original recommendation	Progress	Management response
Bank reconciliation	Our audit work identified unreconciled amount of £139,000 included in the bank balance at year end. Management could not confirm what the amount relates to.	Management should review processes for preparing cash and bank analyses and supporting bank reconciliations.	Unreconciled bank balance has increased to £216,000. No progress and recommendation restated in current year.	See current year significant deficiencies response

OVERVIEW

Opinion on financial statements

We anticipate issuing an unmodified opinion on the financial statements.

Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting or the Pension Fund's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

There are no material uncertainties in relation to going concern disclosed in the financial statements of which we are aware that we need to draw attention to in our report.

Other information

We have not identified any material misstatements that would need to be referred to in our report.

INDEPENDENCE

Under ISAs (UK) and the FRC's Ethical Standard we are required, as auditors, to confirm our independence.

Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2020.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Planning Report.

We have not identified any relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Council.

We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

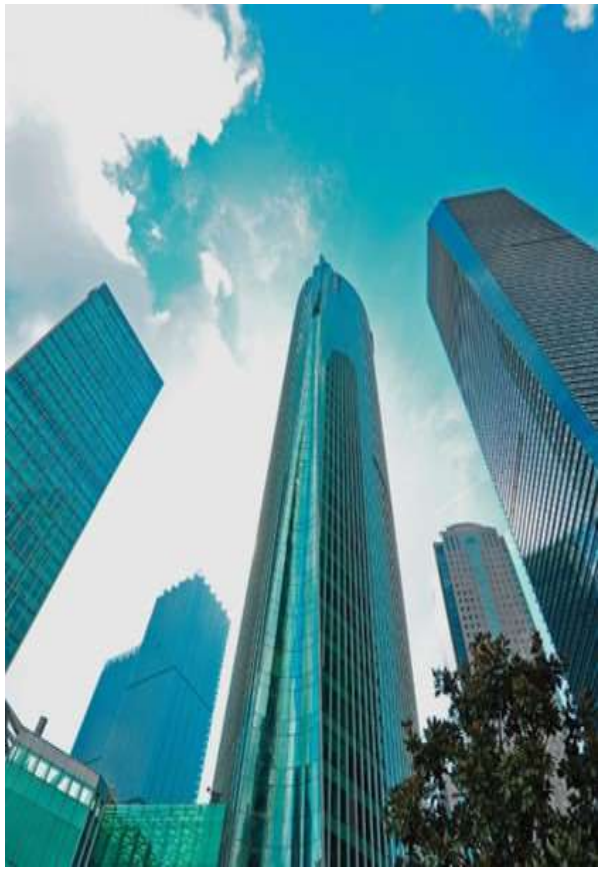
FEES

Fees summary	2019/20 Actual £	2019/20 Planned £	2018/19 Actual £
Audit fee			
Code audit fee	21,170	21,170	21,170
Supplementary fees	TBC	15,000	13,308
Proposed supplementary fee variation			
Total fees	**TBC**	**36,170**	**34,478**

In our audit plan we proposed supplementary fees of £10,000 in response to expectations of auditors to undertake additional work around management judgements and estimates, to obtain additional corroborating evidence for areas of risk, and to follow up issued arising from the previous audit.

We also proposed an additional fee of £5,000 in 2019/20 in respect of the additional work required to audit the data submitted in the 2019 triennial valuation and used in the 31 March 2020 accounting valuation (IAS 19 for employers and IAS 26 for the whole fund) and the following two years.

We will update our final costs upon completion of the audit.



APPENDICES CONTENTS

OUR RESPONSIBILITIES

Responsibilities and reporting

Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your financial statements. We report our opinion on the financial statements to members of the Council (as the Administering Authority).

We read and consider the 'other information' contained in the Pension Fund Annual report. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

What we don't report

Our audit is not designed to identify all matters that may be relevant to the Pension Fund Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

Issue	Comments
Significant difficulties encountered during the audit.	The audit has been very challenging as a result of the Covid-19 lockdown. This has meant that staff on both sides are working from home and therefore the face to face communication/ review of files has not been possible resulting in increased time being spent to both sides in relation to the audit.
Written representations which we seek.	We enclose a copy of our draft representation letter.
Any fraud or suspected fraud issues.	No exceptions to note.
Any suspected non-compliance with laws or regulations.	No exceptions to note.
Significant matters in connection with related parties.	No exceptions to note.

COMMUNICATION WITH YOU

Those Charged with Governance (TCWG)

References in this report to Those Charged With Governance are to the Corporation as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Pension Fund Committee.

Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

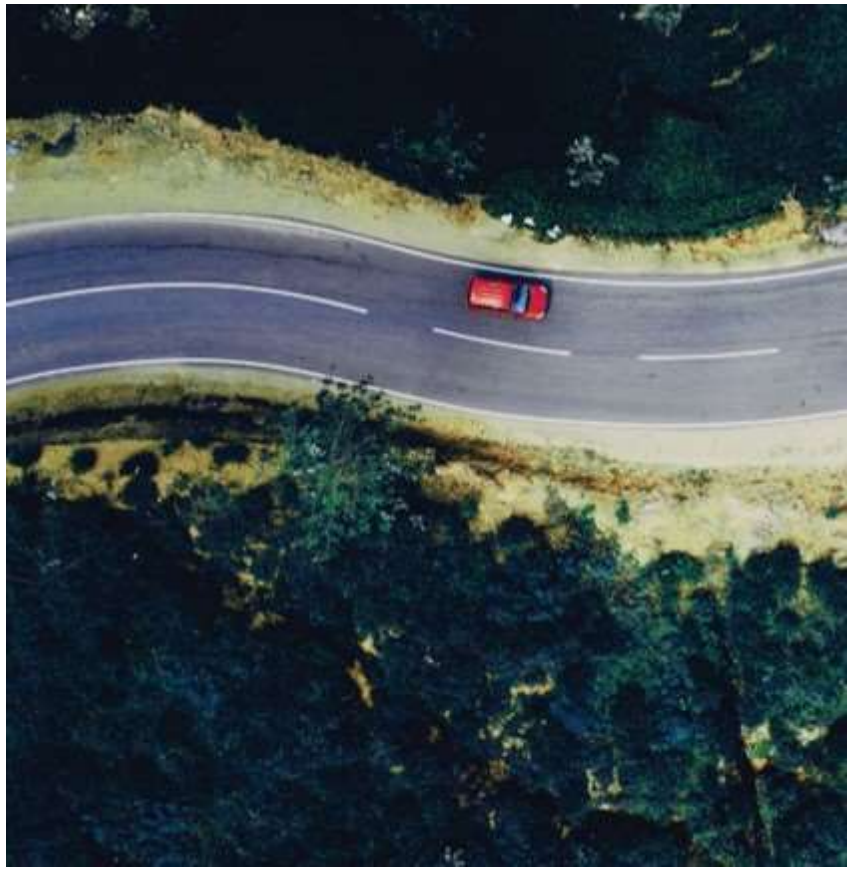
Communication	Date (to be) communicated	To whom
Audit Planning report	27 July 2020	Pension Fund Committee
Audit progress report (this report)	7 October 2020	Pension Fund Committee
Audit completion report	TBC	Pension Fund Committee

OUTSTANDING MATTERS

We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2020.

The following matters are outstanding at the date of this report and could impact our audit opinion. We will update you on their current status at the Pension Fund Committee meeting at which this report is considered:

- Remaining evidence to support journals testing
- 3 samples relating to triennial data submission
- Confirmation from actuary for assumptions applied in the calculation of the remedy McCloud and periods covered by the GMP liability
- Remaining samples for contributions due
- Remaining samples for pensions paid
- Completion of manager, partner and internal quality reviews.



AUDIT REPORT

To be drafted and agreed once outstanding testing has been completed.

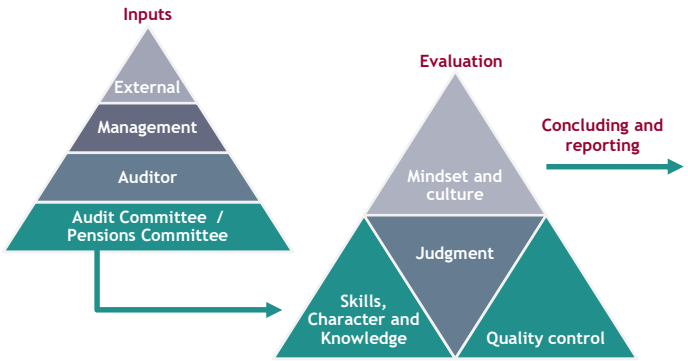
FRC PRACTICE AID FOR AUDIT COMMITTEES

The FRC issued an updated practice aid for audit committees in December 2019 and a full copy can be found on the **FRC website**. In their practice aid the FRC note: 'The directors of a company (the Board as a whole) are responsible for ensuring its financial statements are prepared in accordance with the applicable financial reporting framework and for overseeing the company's internal control framework. A high-quality audit provides investors and other stakeholders with a high level of assurance that the financial statements of an entity give a true and fair view and provide a reliable and worthy basis for taking decisions.'

The practice aid then discusses how the role of audit committee in serving the interests of investors and other stakeholders is through their independent oversight of the annual corporate reporting process including the audit. The FRC highlight that the responsibility for appointing the external auditor, approving their remuneration and any non audit services work, ensuring their independence and challenging them over the quality of their work falls to the audit committee and can play a key role in facilitating a high quality audit (see note below).

It gives guidance for audit committee in the following areas:

- Audit tenders and the tender process including audit fee negotiations and auditor independence
- A model for use by audit committees in making an overall assessment of an external auditor including inputs, evaluations and concluding:



- Transparency - reporting to the Board on how the audit committee has discharged these responsibilities
- Some guidance on key areas of audit judgement

The provision of high quality audits are a key focus of FRC and the new Executive Director of Supervision, David Rule, sent a letter to all audit firms in November 2019 explaining the factors he would expect to see in place in order to facilitate the delivery of high quality audits. A copy of the letter can be found on the **FRC website**.

LETTER OF REPRESENTATION

BDO LLP
55 Baker Street
London
WIU 7EU

[Client name and Letter headed paper]

Dear Sir / Madam

Financial statements of London Borough of Barnet Pension Fund for the year ended 31 March 2020

We confirm that the following representations given to you in connection with your audit of the Pension Fund's financial statements for the year ended 31 March 2020 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Chief Finance Officer has fulfilled her responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Pension Fund as of 31 March 2020 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code.

We have fulfilled our responsibilities on behalf of the Pension Fund, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Pension Fund's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records of the Pension Fund have been made available to you for the purpose of your audit and all the transactions undertaken by the Pension Fund have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of management and other meetings have been made available to you.

Going concern

We have made an assessment of the Pension Fund's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release.

As a result of our assessment we consider that the Pension Fund is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis. Furthermore, we confirm that the disclosures included in note 2 to the financial statements are sufficient.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the Pension Fund's ability to continue as a going concern.

Laws and regulations

In relation to those laws and regulations which provide the legal framework within which the Pension Fund's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

Post balance sheet events

Other than those disclosed in the financial statements, there have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

Fraud and error

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

LETTER OF REPRESENTATION

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

Misstatements

You have not advised us of any remaining unadjusted misstatements in the financial statements or other information in the Annual Report.

Related party transactions

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

Other than as disclosed in note 22 to the financial statements, there were no loans, transactions or arrangements between the Pension Fund and Corporation members or their connected persons at any time in the year which were required to be disclosed.

The disclosures in the financial statements concerning the Corporation as Administering Authority of the Pension Fund are accurate.

Carrying value and classification of assets and liabilities

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the financial statements.

Accounting estimates

The value at which investment assets are recorded in the net assets statement is the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuations, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the scheme. Any significant changes in those values since the year end date have been disclosed to you.

None of the assets of the scheme has been assigned, pledged or mortgaged.

The following key assumptions have been used to calculate the actuarial present value of future pension benefits disclosed in the financial statements:

- Rate of inflation (CPI and pensions): 1.9%
- Rate of increase in salaries: 2.6%
- Rate of discounting scheme liabilities: 2.3%
- LGPS commutation take up option: 50%

We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

We consider these assumptions to be appropriate for the purposes of estimating the pension liability in accordance with the Code and IAS 26.

Litigation and claims

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the requirements of accounting standards.

Confirmation

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each officer and member has taken all the steps that they ought to have taken as an officer or member of the Corporation in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Anisa Darr - Director of Finance

[date]

AUDIT QUALITY

BDO is totally committed to audit quality

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the FRC's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at www.bdo.co.uk

FOR MORE INFORMATION:

Leigh Lloyd-Thomas

t: 020 7893 2616
e: leigh.Lloyd-thomas@bdo.co.uk

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

BDO is an award winning UK member firm of BDO International, the world's fifth largest accountancy network, with more than 1,500 offices in over 160 countries.

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO Northern Ireland, a separate partnership, operates under a licence agreement. BDO LLP and BDO Northern Ireland are both separately authorised and regulated by the Financial Conduct Authority to conduct investment business.

www.bdo.co.uk

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