



**LONDON BOROUGH OF BARNET
PENSION FUND
AUDIT COMPLETION REPORT**

Audit for the year ended 31 March 2017

29 September 2017



CONTENTS

SUMMARY	2	APPENDIX I: AUDIT DIFFERENCES	26
INTRODUCTION	3	APPENDIX II: RECOMMENDATIONS AND ACTION PLAN.....	29
KEY AUDIT AND ACCOUNTING MATTERS	4	APPENDIX III: MATERIALITY	31
OTHER REPORTING MATTERS.....	23	APPENDIX IV: INDEPENDENCE	32
CONTROL ENVIRONMENT.....	24	APPENDIX V: FEES SCHEDULE.....	33
		APPENDIX VI: DRAFT REPRESENTATION LETTER	34

SUMMARY

AUDIT SCOPE AND OBJECTIVES	
Audit status	We have completed our audit procedures in accordance with the planned scope and our objectives have been achieved.
Audit risks	Since we issued our Audit Plan on 3 April 2017, we have amended the risk from normal risk to significant risk in respect pension liability assumptions.
Materiality	Our final materiality is £10.5 million, with a specific materiality of £2.9 million for the Fund Account. This has been updated from our Audit Plan to reflect final amounts in the financial statements.
Changes to audit approach	There were no significant changes to our planned audit approach nor were any restrictions placed on our audit.
KEY AUDIT AND ACCOUNTING MATTERS	
Material misstatements	<p>Our audit has not identified any material misstatements impacting on the Fund Account or Net Assets Statement.</p> <p>We note that the draft accounts did not include disclosure of key management personnel costs recharged to the Pension Fund by the Council. We also identified a number of other presentational and disclosure issues as set out at item 'Other disclosure issues' of this report, some of which were material. Management has agreed that the material items will be corrected.</p>
Unadjusted audit differences	<p>There are three unadjusted audit differences identified by our audit work which, if corrected, would increase the net assets of the Fund by £0.883 million to £1,053.040 million.</p> <p>The fund performance for the year was an increase in net assets of £135.824 million. However, there were a number of prior year misstatements cleared through the 2016/17 Fund Account that resulting in net additional costs of £0.550 million being charged to the current year. After correcting for unadjusted audit differences above and removing these prior year misstatements, the corrected underlying performance for the year would report an increase of £1.433 million in the Fund Account.</p>
Control environment	<p>Our audit has identified one significant deficiency in relation to controls over membership data. We also identified other deficiencies which we have discussed with management.</p> <p>Further details are included at Appendix II.</p>
AUDIT OPINION	
Financial statements	We proposed issuing an unmodified opinion on the financial statements for the year ended 31 March 2017.
Audit independence	Our observations on our audit independence and objectivity and related matters are set out in Appendix IV.

INTRODUCTION

PURPOSE AND USE OF THIS REPORT

We present our Audit Completion Report to the Pension Fund Committee, which details the key findings arising from the audit for the attention of those charged with governance. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two way communication throughout the audit process.

As auditors we are responsible for performing our audit in accordance with International Standards on Auditing (UK & Ireland) which provide us with a framework which enables us to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of the financial statements.

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 and use of resources. As the purpose of the audit is for us to express an opinion on the financial statements and use of resources, 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.

This report has been prepared solely for the use of the Pension Fund Committee. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person.

We would like to thank staff for their co-operation and assistance during the audit and throughout the period.

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 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 Financial Reporting Council'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 firms), the firm undertake 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 latest Transparency Report at www.bdo.co.uk.

We have completed our audit work for the year ended 31 March 2017.

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

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT RISKS

We assessed the following matters as audit risks. Since we issued our Audit Plan on 3 April 2017, we have amended the risk from normal risk to significant risk in respect pension liability assumptions. Further details are set out below.

Below we set out how these risks have been addressed and the outcomes of our procedures.

Key: ■ Significant risk ■ Normal risk

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
1 ■ Management override of controls	<p>Under auditing standards there is a presumed significant risk of management override of the system of internal controls in all entities.</p> <p>By its nature, there are no controls in place to mitigate the risk of management override.</p>	<p>We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</p> <p>We reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud.</p> <p>We obtained an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.</p>	<p>Our testing of a sample of journal entries identified no evidence of fraud due to management override of controls. However, we did note that the Pension Fund relies on a manual process for journal authorisation, and have recommended that management considers adopting a system enforced approach such as that in place in respect of the Council's accounts.</p> <p>We have not found any indication of management bias in accounting estimates.</p> <p>Our views on significant management estimates are set out within this report.</p> <p>No significant transactions were identified which were outside the normal course of business or that otherwise appeared to be unusual.</p>

KEY AUDIT AND ACCOUNTING MATTERS

2	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
	Membership disclosure	<p>Membership information including the number of current contributors, deferred beneficiaries and pensioners by employer is required to be disclosed in the financial statements.</p> <p>During last year's audit we identified significant issues within the draft membership disclosure, mainly as a result of the underlying data not being updated post year-end to reflect events which had occurred during the year but where processing was delayed. This was raised as a significant control deficiency.</p> <p>We therefore recognised a significant risk that the membership database may not be accurate and up to date to support this disclosure this year.</p>	<p>We updated our understanding of the control environment surrounding membership data in light of additional work carried out by management this year.</p> <p>We reviewed the analysis of movements in members for the year provided by management, and checked whether this reconciled to the draft accounts and other information provided to support our audit.</p> <p>We substantively tested a sample of movements of members in year to contribution records, and other underlying supporting documentation.</p>	<p>From our discussions with management, there have been no significant changes to the control environment around membership data this year. However, we have seen evidence that a significant data cleansing exercise has taken place which resulted in a large number of outdated records being updated. This exercise took place in conjunction with the Fund's new actuary to support their triennial valuation as at 31 March 2016.</p> <p>Our own testing in this area identified errors as set out below, which indicates that there is still further cleansing work to be done.</p> <p>The membership disclosures within the draft accounts were successfully reconciled to the detailed membership records provided to us. However, we have noted below errors found in the membership data but we do not consider this to be a material error in the reported membership numbers.</p> <p>Our substantive testing of a sample of active members from membership records found 6 individuals (out of 30 tested) who did not appear on the relevant employer payroll in March 2017, and 1 individual who was on the payroll but had ceased paying pension contributions. This indicates that they were not active members at the year-end.</p>

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
Membership disclosure (continued)			<p>In addition, our substantive testing of contributions from a sample of active members also identified issues within the membership data, as follows:</p> <ul style="list-style-type: none">• We identified 2 members who appear to be assigned to the incorrect employer within the membership database, and 1 member who is duplicated as a result of being included against 2 employers.• We identified 1 member who does not appear within the membership database despite making contributions.

KEY AUDIT AND ACCOUNTING MATTERS

3	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
	Cash at bank	<p>During last year's audit we encountered significant issues with the audit of cash at bank. This included delays in the receipt of bank reconciliations, and a number of errors when reconciliations were eventually received. As a result, we reported a significant control deficiency around the bank reconciliation process.</p> <p>We therefore recognised a significant risk over the existence, completeness and accuracy of cash at bank.</p>	<p>We updated our understanding of the control environment surrounding bank reconciliations in light of additional work carried out by management this year.</p> <p>We obtained year-end bank reconciliations and agreed these to the general ledger and external bank confirmations of amounts held at year-end.</p>	<p>There have been no significant changes to the control environment surrounding bank reconciliations in year. There remain three accounts held 'off-ledger' although review of the bank statements shows that the accounts had no balance at year-end. Management has proposed closing these accounts as they are no longer used.</p> <p>There was only one bank account with a non-trivial year-end cash balance this year. The amount has been agreed to the year-end bank statement with no reconciling items.</p> <p>We had not received direct confirmation from the bank at the time of drafting this report and have agreed this amount to records held by the pension fund team.</p>

KEY AUDIT AND ACCOUNTING MATTERS

4	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
	Pension liability assumptions	<p>An actuarial estimate of the Pension Fund's liability to pay future pensions is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the Pension Fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability. We note that the Pension Fund has changed actuaries to Hymans Robertson this year.</p> <p>There is a risk that the membership data and cash flows provided to the actuary as at 31 March may not be correct, or the valuation uses inappropriate assumptions to value the liability.</p> <p><i>(This has been increased from a normal risk to a significant risk due to a high level of inherent estimation uncertainty.)</i></p>	<p>We reviewed the controls in place to ensure that the data provided from the Fund to the actuary is complete and accurate.</p>	<p>As set out above, our testing of membership data has identified a number of issues which raise concerns about the accuracy of membership data held by the Fund, and therefore provided to the actuary.</p> <p>We have held discussions with the actuary to ascertain the extent to which these issues may impact upon the actuarial estimate of the Pension Fund's liability, particularly in the context of the change in actuary this year and the use of a new triennial valuation of the liability as at 31 March 2016.</p> <p>The actuary has confirmed that the valuations at 31 March 2017 use the 'roll forward' of membership data at 31 March 2016 used in the triennial valuations and therefore these membership data errors do not impact on the valuation of the liabilities provided at 31 March 2017.</p> <p>The roll forward calculation uses actual payroll contributions received in 2016/17 and therefore members that left and no longer have employer or employee contributions would be removed from the liability calculation even where still recorded as active in the membership data.</p> <p>The actuary commented that significant work was required to validate and cleanse the data used to prepare the triennial valuation and to build the dataset. He confirmed that he was satisfied that the adjusted membership data used in the triennial valuation was materially accurate.</p>

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
4	Pension liability assumptions	<p>We reviewed the reasonableness of the assumptions used in the calculation against other local government Pension Fund actuaries and other observable data. We used the PwC consulting actuary report provided to auditors for our review of the methodology of the actuary and reasonableness of the assumptions.</p> <p>We compared the disclosure in the financial statements to the information provided by the actuary.</p>	<p>It was noted that, in his experience, there was a wide range of cleansing required for LGPS schemes, from those that are up to date and undertake regular validations to some that requires significant work. In his view, Barnet's dataset tended towards some of the poorest of the LGPS funds that he has worked with.</p> <p>We recommend that the Council urgently undertake an exercise to cleanse and update the membership data.</p> <p>We consider that the assumptions and methodology used by the Council's actuary are appropriate, and will result in an estimate of the pension liability which falls within a reasonable range, subject to us gaining suitable assurance over the accuracy of the membership data used as described above. Further details are set out on the following page.</p> <p>We have agreed the disclosures in the financial statements to the actuary's report and no issues were identified.</p>

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES				
Pension liability assumptions				
ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT		AUDIT CONCLUSION	
<p>The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows</p>	<p>The gross pension liability of the Fund has increased by £257 million, from £1.572 billion to £1.829 billion. This is principally due to a reduction in the discount rate used to value future liabilities (from 3.5% to 2.5%) along with a slight increase to the pension increase rate (from 2.3% to 2.4%). Offsetting this is a reduction in mortality years applied to current and future pensioners and a lower increase rate for salaries (decreased from 4.1% to 2.7%).</p>			
		Actual used	Acceptable range (PwC)	Assessment of assumption against expectations
	RPI increase	3.4%	3.4%	Reasonable
	CPI increase	2.4%	2.4%	Reasonable
	Salary increase	2.7%	--	Employer specific - appears reasonable in context of CPI/RPI
	Pension increase	2.4%	2.4%	Reasonable
	Discount rate	2.5%	2.5-2.7%	Lower end of range (will increase liability)
	Mortality:			
	Retiring today			
	- Male	21.9 years	21.5-22.8	Reasonable
	- Female	24.3 years	24.1-25.1	Lower end of range (will decrease liability)
	Retiring in 20 years			
	- Male	23.9 years	23.7-24.4	Reasonable
	- Female	26.5 years	26.2-26.9	Lower end of range (will decrease liability)
	Commutation rate:			
Pre-April 2008	50%	25%-75%	Reasonable	
Post-April 2008	50%	25%-75%	Reasonable	
<p>All of the assumptions used fall within the reasonable range for the actuary as per the PwC report. We note that the use of a discount rate at the bottom of the expected range is likely to result in an estimate of net liability which is slightly on the prudent side, although combined with the mortality estimates which tend towards the lower end for life expectancy, we are satisfied that overall the estimate falls within a reasonable range.</p>				
			<p>PRUDENT AGGRESSIVE</p>	

KEY AUDIT AND ACCOUNTING MATTERS

5	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
	Contributions receivable (normal and augmented)	<p>Employers are required to deduct amounts from employee pay based on tiered pay rates and to make employer contributions in accordance with rates agreed with the actuary. Augmented contributions are also required against pension strain for early retirements.</p> <p>There is a risk that employers may not be calculating contributions correctly or paying over the full amount due to the Pension Fund.</p> <p>During last year's audit, we identified that contributions had historically been incorrectly accounted for on a cash basis, rather than accruals basis, and also encountered significant difficulties in obtaining a reconciliation of the receivables balance to the general ledger. These issues were resolved, but we will be alert to the possibility of similar errors in this year's financial statements.</p>	<p>We refreshed our understanding of the Pension Fund's internal control environment for receiving and recording contributions income in accordance with the schedule of contributions, including how this operates to prevent loss of income.</p> <p>We performed an examination, on a test basis, of evidence relevant to the amounts of normal contributions receivable to the Fund including checking to employer payroll records, where relevant.</p>	<p>There have been no significant changes to the control environment surrounding contributions receivable this year, and we identified no significant deficiencies in this area.</p> <p>The issues we identified in respect of membership data as described above have required us to increase our sample sizes for contributions receivable.</p> <p>This testing confirmed that contributions have been correctly calculated and recorded in respect of these individuals, with a small number of trivial variances found.</p> <p>We also sought to reconcile contributions received from a sample of employers per the Pension Fund's accounts to payroll records provided by individual employers. Some work is ongoing in this area, but from the work completed to date we noted one non-trivial variance in respect of Council controlled schools using the Council's outsourced payroll provider. For these schools, total contributions paid over to and recognised by the Pension Fund were lower than those recorded within the payroll system by £256,000.</p> <p>Management is still investigating this variance, but in the meantime we have included this within our schedule of unadjusted misstatements at Appendix I.</p>

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
<p>Contributions receivable (normal and augmented) (continued)</p>		<p>We reviewed contributions receivable to ensure that income is recognised in the correct accounting period where the employer is making payments in the following month.</p> <p>We performed tests over augmented contributions due from employers for pension strain costs.</p>	<p>We have reviewed the working papers supporting contribution income recognised during the year, and we are satisfied that the correct 12 months' worth of contributions have been recognised in respect of each employer. Furthermore, our testing of contributions relating to a sample of individuals as described above has identified no issues in respect of income being accounted for the correct period.</p> <p>We found that the testing of augmentation income had issues with 4 of the 7 invoiced amounts where management could not provide adequate supporting documentation to illustrate the calculation of the enhancement costs.</p> <p>However, the employers have since paid the amounts due and therefore we accept that amounts have been properly calculated.</p>

KEY AUDIT AND ACCOUNTING MATTERS

6	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
	Fair value of investments	<p>The fair value of funds (principally pooled investments) is provided by individual fund managers and reviewed by the custodians, and reported on a quarterly basis. These funds are quoted.</p> <p>There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements.</p>	<p>We have requested direct confirmation of investment valuations from the fund managers and independent valuations from the custodians.</p> <p>We will obtain independent assurance reports over the controls operated by both the fund managers and custodian for valuations and existence of underlying investments in the funds.</p>	<p>All required fund manager valuation reports have been received and, other than below, were agreed to the financial statements.</p> <p>The Alcentra fund manager provided an initial valuation of investments under management to the pension fund that was used to prepare the draft financial statements. We subsequently received a revised valuation report from the fund manager that had increased the valuation by £262,000. This has not been updated in the draft financial statements and has been included within our schedule of unadjusted misstatements at Appendix I.</p> <p>It is usual for administering authorities to commission independent valuations from the custodian over investment valuations provided by the fund managers. Auditors use this information to independently confirm that accuracy of the valuations provided by the fund manager.</p> <p>In discussion with Council staff, we were informed that the custodian reports were not commissioned to provide an independent valuation this year. The funds are all in pooled investments, there are no segregated investments, so there is little benefit as the custodian will only be able to confirm what the fund manager is reporting without being able to undertake any more detailed or independent valuation work. Management has therefore placed reliance on fund manager reports.</p> <p>We obtained independent assurance reports for all seven fund managers. Our review of these reports did not identify any audit findings to report on over the valuation and existence of underlying investments in the fund.</p>

KEY AUDIT AND ACCOUNTING MATTERS

7	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
	Investment management expenses	<p>LGPS Fund Accounts are required to disclose investment management expenses. Management expenses represent the fees for the service provided by, and any performance related fees in relation to, the fund managers. However, fund managers do not ordinarily provide information on any 'hidden' fees included in investing contributions. These fees are deducted when the investment is made by the fund manager and hence are included in the change in market value of investments.</p> <p>The Financial Conduct Authority criticised the investment management industry for not reporting charges to investors sufficiently clearly. In particular, it criticised the annual management charge as failing 'to provide investors with a clear, combined figure for charges'.</p> <p>CIPFA has issued guidance on obtaining and separately presenting these additional charges in the Fund accounts. While not mandatory to report these costs separately, there is a clear expectation that LGPS Fund accounts do observe this guidance. CIPFA intends to make this a mandatory disclosure requirement from 2017/18.</p> <p>We considered there to be a risk in the presentation of investment management expenses in the fund accounts where these 'hidden' fees are not identified and separately reported.</p>	<p>We reviewed the arrangements put in place by management to identify all relevant investment management fees, and responses provided by fund managers, to ensure that the true costs are disclosed appropriately in the fund accounts.</p>	<p>No additional steps have been taken by the Fund this year to identify and separately disclose 'hidden' investment management expenses.</p> <p>We have raised a recommendation that this is addressed going forwards, particularly in light of this becoming a mandatory Code requirement in 2017/18.</p>

KEY AUDIT AND ACCOUNTING MATTERS

8	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
	Fair value hierarchy disclosures	<p>The IFRS 13 scope exclusion for fair value investment disclosures for IAS 26: Accounting and reporting by retirement benefit plans has been removed and IFRS 13 fair value measurement disclosures apply in full for 2016/17.</p> <p>This requires enhanced disclosures around the fair value hierarchy of investments, and in particular any disclosed as 'level 3.' These types of valuations are subject to a significant level of assumption and estimation and valuations may not be based on observable market data. Information from the custodian, fund manager and other parties involved in valuing the investments will be required in order to disclose the information needed by IFRS 13.</p> <p>We recognised a risk that the Pension Fund may not be able to obtain the information needed in order to make the required IFRS 13 fair value investment disclosures in the financial statements.</p>	<p>We reviewed the fair value hierarchy disclosures and ensured that investment valuations had been correctly classified as a level 1, 2 or 3 in accordance with guidance issued by PRAG/Investment Association: Practical Guidance on Investment Disclosures 2016.</p> <p>Additional procedures were planned for investment valuations classified at level 3.</p>	<p>Errors were made within the fair value hierarchy in the first draft accounts. As a result, we were provided with an updated disclosure note for audit.</p> <p>The majority of the Fund's investment assets (98% by value) have been disclosed as valued at level 2. The remaining 2% are valued at level 1.</p> <p>The Fund does not hold any investments valued at level 3.</p>

KEY AUDIT AND ACCOUNTING MATTERS

9	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
	Remuneration of key management personnel disclosure	<p>The 2016/17 CIPFA Code requires that amounts incurred by the Pension Fund for the provision of key management personnel services that are provided by a separate management entity shall be disclosed.</p> <p>Key management personnel include officers employed by the Council therefore a percentage of their remuneration will be required to be disclosed to reflect the cost charged to the pension fund.</p> <p>We considered there to be a risk in the presentation of key management personnel services where these are provided by a separate management entity (the Council).</p>	<p>We have reviewed the arrangements in place between the Pension Fund and Council, and working papers to support the recharges made, to ensure that costs relating to the provision of key management personnel services are accurately disclosed.</p>	<p>We have identified that the Council has recharged amounts to the Pension Fund in respect of key management personnel services which had not been disclosed within the financial statements. This has since been added.</p>

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
10	<p>Benefits payable</p> <p>Benefits payable may not be correct based on accrued benefits of members or may not be calculated in accordance with the scheme regulations.</p> <p>Payment to wrong or non-existent members will result in loss of assets and risk of reputational damage.</p>	<p>We have tested a sample of benefits payable in year to underlying supporting documentation.</p> <p>We will review the results of the latest National Fraud Initiative data matching exercise of members in receipt of benefits with the records of deceased persons and what actions have been taken to resolve potential matches. We will also review any life certification exercises undertaken for members that are excluded from the National Fraud Initiative.</p>	<p>No issues were identified regarding testing of benefits paid to retired members.</p> <p>Counter fraud received NFI data matches in January 2017 and these have been passed to the Pension Service for review and action. It found instances where pensions were paid where the recipient was registered deceased.</p> <p>An internal audit review of a sample of cases found that there was limited progress to address these issues.</p> <p>Management stated that there is an arrangement in place for a monthly mortality screening of all member records, which identifies members who have died for whom they have not received notification.</p> <p>When bereavement is identified the system suspends future payments on the account to prevent overpayment. The HMRC 'Tell Us Once' service also sends out a notification to all relevant public agencies when bereavement is registered with them.</p> <p>The fact exceptions have been noted suggests that these controls are not operating effectively.</p>

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
11	<p>Other receivables and payables</p>	<p>During last year's audit we encountered significant difficulties in obtaining a reconciliation of amounts receivable and payable to the general ledger.</p> <p>We have therefore identified a risk over the completeness, existence and accuracy of receivables, and the completeness of payables, at year-end.</p> <p><i>(The audit assertions covered by this risk have been updated since the Audit Plan, as a result of movements in the debtor and creditor balances in year as presented in the draft accounts).</i></p>	<p>We updated our understanding of controls over payables and receivables.</p> <p>We obtained a breakdown of payables and receivables at year-end and a reconciliation of these to the ledger and draft financial statements.</p> <p>We carried our substantive testing on a sample of receivables.</p> <p>There have been no significant changes to the control environment surrounding receivables and payables this year, although we note that we did not encounter the same issues as the prior year.</p> <p>This year, we were provided with a complete breakdown of receivables and payables balances which was reconciled to the ledger. No issues were found.</p> <p>Our testing of receivables found the following two amounts still outstanding since 2015 that require management action:</p> <ul style="list-style-type: none"> Member where transfer of pension was made in error at £64,807 Middlesex University pension strain costs for July 2015 £60,915. <p>No provision for non-recovery has been made and we will seek a management representation that you consider that these amounts remain fully recoverable.</p>

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
12	<p>Consideration of related party transactions</p>	<p>We are required to consider if the disclosures in the financial statements concerning related party transactions are complete, accurate and in line with the requirements of the accounting standards.</p> <p>We have documented the related party transactions identification procedures in place and reviewed relevant information concerning any such identified transactions.</p> <p>We discussed with management and reviewed Member and Senior Management declarations to ensure there are no potential related party transactions which have not been disclosed. This is something we will require you to include in your management representation letter to us.</p> <p>We have carried out Companies House searches for undisclosed interests.</p>	<p>The Pension Fund relies upon the annual Member and senior officer declaration process administered by the Council in order to identify all potential related party transactions and relationships for disclosure within the accounts.</p> <p>During our audit of the Council's accounts, we identified delays in receiving annual related party declarations from a number of current Members of the Council, and we reported within our interim progress report to the Audit Committee on 25 July 2017 that 7 declarations remained outstanding at that time. Whilst all declarations have now been received, we raised a recommendation that the Council seeks to strengthen this process in the future. Since this will also impact upon the Pension Fund, we repeat the recommendation at Appendix II to this report.</p> <p>We identified no undisclosed related party transactions within the Pension Fund accounts, with the exception of key management personnel costs as already explained at item 9 above.</p> <p>No undisclosed related party transactions were found from this review.</p>

KEY AUDIT AND ACCOUNTING MATTERS

OTHER ISSUES

We comment below on other issues identified in the course of our audit, of which we believe you should be aware:

AUDIT AREA	AUDIT FINDINGS															
<p>13</p> <p>Late payments by employers</p>	<p>During our contributions testing, we identified instances of late contribution payments by employers, where contributions were received and banked between one and four months after the expected dates.</p> <p>These employers are:</p> <table border="0"> <tr> <td>Barnet Homes</td> <td>Barnet & Southgate College</td> <td>Your Choice Barnet</td> </tr> <tr> <td>Alma Primary School</td> <td>Menorah High School</td> <td>Hartwig</td> </tr> <tr> <td>Totteridge Academy</td> <td>Wren Academy</td> <td>Hestia</td> </tr> <tr> <td>Bishop Douglass School</td> <td>Compton Academy</td> <td>Servest</td> </tr> <tr> <td>ETZ Chaim Jewish Primary (Academy)</td> <td>Menorah Foundation School</td> <td>Greenwich Leisure.</td> </tr> </table>	Barnet Homes	Barnet & Southgate College	Your Choice Barnet	Alma Primary School	Menorah High School	Hartwig	Totteridge Academy	Wren Academy	Hestia	Bishop Douglass School	Compton Academy	Servest	ETZ Chaim Jewish Primary (Academy)	Menorah Foundation School	Greenwich Leisure.
Barnet Homes	Barnet & Southgate College	Your Choice Barnet														
Alma Primary School	Menorah High School	Hartwig														
Totteridge Academy	Wren Academy	Hestia														
Bishop Douglass School	Compton Academy	Servest														
ETZ Chaim Jewish Primary (Academy)	Menorah Foundation School	Greenwich Leisure.														
<p>14</p> <p>Transfers out payments</p>	<p>Pension funds account for transfers out for individuals on a cash basis where they leave their employer and request a transfer of accrued benefits to another fund with their new employer. The reason for this is that legal liability is discharged only at the point that the cash transfer value is made and not at the date that the leaver requests the transfer.</p> <p>Our testing of a sample of transfers out identified £365,000 of accruals included as a liability where the cash payment had not been made by year end.</p> <p>This has been included within our schedule of unadjusted misstatements at Appendix I.</p>															

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	AUDIT FINDINGS
15	<p data-bbox="203 427 436 507">Reconciliation of sales and purchases of investments</p> <p data-bbox="459 427 2094 515">We obtained investment transaction reports to reconcile opening valuations, purchases, sales, changes in values and closing values to the financial statements. This identified a potential discrepancy in the amounts recorded as purchases (£0.649 million higher) and change in market value (£0.649 million lower) although we were able to agree the closing values.</p> <p data-bbox="459 523 2094 603">Management was unable to explain the discrepancy and suggested that it could relate to the correction of prior year errors (see below) where £0.694 million has been written out as management expenses or be a misallocation of amounts included elsewhere in the fund account for investment income.</p> <p data-bbox="459 611 2094 675">We believe there is likely to be a presentational misstatement in investments movement disclosure and how this is reflected in the Fund Account, but require management to undertake additional review to identify the misstatement.</p> <p data-bbox="459 683 1288 715">This has been included as a potential disclosure misstatement at Appendix I.</p>
16	<p data-bbox="203 746 436 802">Correction of errors from previous years</p> <p data-bbox="459 746 2094 858">We reported in the previous year that we had found a significant number of errors in receivables and payables in the 2015/16 pension fund financial statements. Management reviewed all receivables and payables balances and prepared revised financial statements. Our testing last year concluded that the revised financial statements were materially correct but there remained a risk that there could be additional misstatements that may still require correcting.</p> <p data-bbox="459 866 2094 946">As part of this year's detailed review by management the following errors were identified that related to previous financial years. These transactions have been included in the 2016/17 fund account as additional income and expenditure amounts as the impact was not considered to be material by management.</p> <p data-bbox="459 962 689 994">These errors include:</p> <ul data-bbox="470 1002 2094 1225" style="list-style-type: none"> <li data-bbox="470 1002 2094 1058">• £2.779 million augmentation income due from the Council in respect of 2014/15 retirements was not invoiced and HEFCE debtor (£0.098) million accrual incorrectly reversed resulting in net additional contributions income of £2.681 million included in 2016/17 <li data-bbox="470 1066 2094 1121">• £2.0 million loan cash advance to the pension fund from the Council and £0.416 million payables balances inappropriately written back to 2015/16 resulting in additional benefits payable expenditure of £2.416 million included in 2016/17 <li data-bbox="470 1129 2094 1225">• £0.312million accrual reversal for 2013/14 early retirement cost, £0.694 investment movements charged to management expenses and £0.035 million debtor write off charged to management expenses offset by credits for (£0.127) million reversal and adjustments that relate to 2015/16 and (£0.099) million journal errors. The net impact is to increase management costs by £0.815 million in 2016/17. <p data-bbox="459 1233 2000 1265">The amount included in the 2016/17 fund account to correct errors in the prior year has been to charge additional net costs of £0.550 million.</p>

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	AUDIT FINDINGS
<p>17 Other disclosure issues</p>	<p>We identified a number of other disclosure issues within the first draft accounts:</p> <ul style="list-style-type: none"> • Within the contributions note, augmentation contributions were not separately disclosed despite being material. • The breakdown of benefits payable by authority note was blank in the first draft accounts. • The management expenses and investment income notes contained errors and the totals did not agree to the face of the Fund Account. • There was no disclosure of auditor's remuneration. • The investments note contained errors and did not cast correctly. In addition, money market fund investments totalling £23.900 million were not separately disclosed. • Various classification errors were made in the financial instruments note, and the credit risk table had not been completed for the current year. • Within the financial instruments notes, the sensitivity analysis for interest rate risks was been prepared on an incorrect basis, as it does not consider how the valuation of pooled investment vehicle assets may be affected by changes in interest rate, only the impact on cash flows from variable rate investments. • Within the financial instruments notes, there was no disclosure of currency risk arising from pooled investment vehicles containing foreign currency investments. • The actuarial valuation note included the actuarial assumptions used for the annual liability valuation at 31 March 2017, when in fact it should have included the assumptions used for the triennial funding valuation at 31 March 2016. In addition, there was no disclosure in respect of assumptions relating to commutation rates, take up of the 50:50 scheme, or expected returns on assets. • There were misclassifications of debtors within the current assets note, and the analysis of debtors and creditors by counter-party had not been completed. • The related party transaction note explained the existence of an administration recharge from the Council, but did not disclose its amount. • Additional disclosure to explain the change in classification of the £150,000 London CIV from investment assets to Long Term Investment. • Various other minor typographical, rounding, and prior year comparative errors. <p>These have been corrected by management.</p>

OTHER REPORTING MATTERS

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

MATTER	COMMENT
1	<p>The draft financial statements were prepared and provided to us for audit on 15 June 2017.</p> <p>As part of our planning for the audit, we prepared a detailed document request which outlined the information we would require to complete the audit.</p>
COMMENT	<p>The first draft financial statements contained a number of issues as set out elsewhere within this report. As such, we did not consider them suitable for audit, and we postponed our planned final audit visit.</p> <p>Updated financial statements were presented to the Pension Fund Committee on 18 July 2017, in which many of the more significant issues identified in the first draft had been addressed.</p> <p>We received supporting working papers during the week commencing 7 August 2017, although there was a slight delay in the receipt of some items requested. This has had an impact upon our audit timetable.</p>
2	<p>We are required to read all the financial and non-financial information in the Annual Report published with the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.</p>
COMMENT	<p>We found inconsistencies between the breakdown of investment allocations per the Investment Report section of the Annual Report, and the investments note within the financial statements. Management has agreed to correct this in the final report.</p> <p>We also suggest including additional information in the annual report regarding the £129.3 million transfer from Netwon Assets to the London CIV Real Return Fund during the year.</p> <p>There are no other matters to report.</p>

CONTROL ENVIRONMENT

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 you.

As the purpose of the audit is for us to express an opinion on the Fund's 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.

We note that the Council's internal audit function has issued a number of observations and recommendations on the Council's control environment during 2016/17, some of which may be relevant to the Pension Fund. We have not repeated these recommendations in this report unless we consider them to highlight significant deficiencies in control which we are required to report to you.

Significant deficiencies

Our audit has identified one significant deficiency in relation to controls over membership data. Further details are included within the action plan at Appendix II.

Other deficiencies

We have also identified other deficiencies in controls which have been discussed with management and included in the action plan at Appendix II.

APPENDICES

APPENDIX I: AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Pension Fund Committee is required to consider. This includes: audit differences that have been corrected by management; and those that remain uncorrected along with the effect that they have individually, and in aggregate, on the financial statements.

ADJUSTED AUDIT DIFFERENCES

Our audit has not identified any material misstatements impacting on the Fund Account or Net Assets Statement.

We note that the draft accounts did not include disclosure of key management personnel costs recharged to the Pension Fund by the Council. We also identified a number of other presentational and disclosure issues as set out at item 'Other disclosure issues' of this report, some of which were material. Management has agreed that the material items will be corrected.

UNADJUSTED AUDIT DIFFERENCES

There are three unadjusted audit differences identified by our audit work which, if corrected, would increase the net assets of the Fund by £0.883 million to £1,053.040 million.

The fund performance for the year was an increase in net assets of £135.824 million. However, there were a number of prior year misstatements cleared through the 2016/17 Fund Account that resulting in net additional costs of £0.550 million being charged to the current year. After correcting for unadjusted audit differences above and removing these prior year misstatements, the corrected underlying performance for the year would report an increase of £1.433 million in the Fund Account.

You consider these identified misstatements to be immaterial in the context of the financial statements taken as a whole. We concur with this judgement however we also request that you correct them where possible, even though not material.

APPENDIX I: AUDIT DIFFERENCES

	UNADJUSTED MISSTATEMENTS £'000	FUND ACCOUNT		NET ASSETS STATEMENT	
		DR £'000	CR £'000	DR £'000	CR £'000
Net assets before adjustments	1,052,157				
DR Current assets - contributions due				256	
CR Contributions receivable	256		(256)		
(1) Variance between contributions recognised from Council schools and amounts recorded per the payroll system (<i>factual misstatement</i>)					
DR Sundry creditors				365	
CR Payments to and on behalf of leavers	365		(365)		
(2) Incorrect recognition of transfers out not paid at year end on accrual basis (<i>factual misstatement</i>)					
DR Investment Assets				262	
CR Changes in market value	262		(262)		
(3) Understatement of Alcentra Clareant EDL II GP fund from late receipt of updated valuation (<i>factual misstatement</i>)					
TOTAL UNADJUSTED AUDIT DIFFERENCES	883	-	(883)	883	-
Increase in the net assets of the Fund during the year if adjustments accounted for	1,053,040				

APPENDIX I: AUDIT DIFFERENCES

UNADJUSTED DISCLOSURE MATTERS

The following unadjusted disclosure matters were noted:

- The Code recommends that all direct investment management expenses are separately identified and disclosed. The Fund has not taken any steps this year to identify and separately disclosed so-called 'hidden' investment management expenses such as transaction costs which are contained within the net gain or loss on disposal of investments.
- Additional disclosure to explain the change in classification of the £150,000 London CIV from investment assets to Long Term Investment.
- We obtained investment transaction reports to reconcile opening valuations, purchases, sales, changes in values and closing values to the financial statements. This identified a potential discrepancy in the amounts recorded as purchases (£0.649 million higher) and change in market value (£0.649 million lower) although we were able to agree the closing values.
- Management was unable to explain the £0.649 million discrepancy between the investments movement disclosure between purchases and changes in value and we believe there is likely to be a presentational misstatement in this disclosure and how this is reflected in the Fund Account.

IMPACT ON CURRENT YEAR FUND ACCOUNT OF PREVIOUS YEAR ERRORS	£'000	FUND ACCOUNT		NET ASSETS STATEMENT	
		DR £'000	CR £'000	DR £'000	CR £'000
DR Net assets brought forward					550
CR Benefits payable			2,416		
CR Management expenses			815		
CR Contributions receivable		(2,681)			
(1) Impact of various previous year errors identified by management during the preparation of the 2016/17 financial statements (<i>factual misstatements</i>)	550				
TOTAL IMPACT OF PREVIOUS YEAR ERRORS ON CURRENT YEAR	550	(2,681)	3,231		550

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

Key: ■ Significant deficiency in internal control ■ Other deficiency in internal control ■ Other observations

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
Membership data	<p>Last year we reported a significant deficiency in internal control in respect of delays in updating membership records. This year, we have seen evidence that a data cleansing exercise has taken place and some improvements have been made. However, our own testing of a sample of membership records and individual contributions has highlighted that a high level of error remains within the Fund's membership data. We therefore consider that there remains a significant deficiency in this area.</p> <p>If up to date membership data cannot be provided by the Fund, there is a risk this could impact materially upon triennial funding valuations, which increases the risk that the Fund may not be able to meet future liabilities.</p>	<p>We recommend that management completely review the internal controls in place around the maintenance and quality assurance of membership data, to ensure that this can be kept up to date and sufficiently accurate.</p> <p>Whilst periodic data cleansing may form one part of the control environment, we would expect stronger controls to be put into place to assure data quality and identify errors on an ongoing basis, for example the reconciliation of information provided by employers on contributions by individual each month to membership records, perhaps on a sample or rolling basis.</p> <p>Although it is recognised that the Pension Fund relies on individual employers to notify it of changes, it should be more proactive in identifying and following up apparent discrepancies when they arise.</p>	<p>Pensions administration is the subject of a detailed service improvement plan which specifically includes a section on pension fund data.</p>	<p>Head of Public Sector Pensions, Capita Employee Benefits</p>	<p>31/1/18</p>
Authorisation of journals	<p>We note that the Pension Fund relies on a manual system of authorisation of journal entries posted to its accounting system, Integra. The Council, by contrast, which also uses Integra, has implemented a system enforced control. The lack of system controls in this area increases the risk that erroneous or fraudulent journals may be posted.</p>	<p>We recommend that management consider whether the Pension Fund should move to a similar system enforced control environment to that in use at the Council. We understand that the Pension Fund is currently running an older version of Integra which may need to be upgraded, therefore we recognise that there are cost/benefit considerations to be made.</p>	<p>Agreed - journal authorisation will be implemented within the pension fund environment of Integra.</p>	<p>Assistant Director of Finance, CSG</p>	<p>30/11/17</p>

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
Investment expenses	The Code recommends that all direct investment management expenses are separately identified and disclosed. The Fund has not taken any steps this year to identify and separately disclosed so-called 'hidden' investment management expenses such as transaction costs which are contained within the net gain or loss on disposal of investments. This is a Code recommendation this year, but will become mandatory from 2017/18.	We recommend that management engage with fund managers early to ensure that the disclosure requirements can be met when they become mandatory in 2017/18.	Agreed - officers will engage with fund managers to obtain the necessary information to comply with this requirement.	Head of Treasury and Pensions, CSG	29/12/17

APPENDIX III: MATERIALITY

MATERIALITY - FINAL AND PLANNING		
	FINAL	PLANNING
Pension fund overall materiality	£10.5 million	£9.1 million
Fund account specific materiality	£2.9 million	£2.6 million
Clearly trivial threshold	£210,000	£180,000

Planning materiality was based on 1% of prior year net assets. Specific materiality was set of 5% of prior year contributions for the fund account. We revised our materiality upon receipt of the current year draft accounts to reflect current year net asset and contribution amounts.

APPENDIX IV: INDEPENDENCE

We confirm that the firm complies with the Financial Reporting Council's Ethical Standards for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement lead and audit staff is not impaired. These policies include engagement lead and manager rotation, for which rotation is required after 5 years and 10 years respectively.

INDEPENDENCE - ENGAGEMENT TEAM ROTATION	
Senior team members	Number of years involved
LEIGH LLOYD-THOMAS - Audit engagement lead	2
JODY ETHERINGTON - Audit manager	2

We are not aware of any financial, business, employment or personal relationships between the audit team, BDO and the Fund, and we have not identified any potential threats to our independence as auditors.

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

APPENDIX V: FEES SCHEDULE

	2016/17 FINAL PROPOSED £	2016/17 PLANNED £	2015/16 FINAL £	EXPLANATION FOR VARIANCES
Code audit fee	TBC	21,000	31,000	The fee for the 2016/17 is still to be agreed with management and PSAA, due to significant additional work which was required in response to issues arising during the audit
TOTAL AUDIT FEES	TBC	21,000	31,000	
NON-AUDIT ASSURANCE SERVICES	-	-	-	
TOTAL ASSURANCE SERVICES	TBC	21,000	31,000	

APPENDIX VI: DRAFT REPRESENTATION LETTER

TO BE TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP
55 Baker Street
London
W1U 7EU

[XX] September 2017

Dear Sirs

Financial statements of the London Borough of Barnet Pension Fund for the year ended 31 March 2017

We confirm that the following representations given to you in connection with your audit of the Fund's financial statements (the 'financial statements') for the year ended 31 March 2017 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Pension Fund Committee.

The Director of Resources has fulfilled her responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and Statement of responsibilities of auditors and of audited bodies: local government issued by Public Sector Audit Appointments (PSAA), and in particular that the financial statements give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2017 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2017, other than the liabilities to pay pensions and other benefits after the end of the scheme year, 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) and for making accurate representations to you.

We have fulfilled our responsibilities on behalf of the Fund, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the 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 Annual Report and 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 have been made available to you for the purpose of your audit and all the transactions undertaken by the Fund have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and other meetings have been made available to you.

In relation to those laws and regulations which provide the legal framework within which the 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.

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.

APPENDIX VI: DRAFT REPRESENTATION LETTER

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 the Code 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 Councillors, 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.

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 Councillors, employees, former employees, analysts, regulators or any other party.

We attach a schedule showing accounting adjustments that you have proposed, which we acknowledge that you request we correct, together with the reasons why we have not recorded these proposed adjustments in the financial statements. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements.

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.

We have no plans or intentions that may materially affect the carrying value and where relevant, the fair value measurement, or classification of assets or liabilities reflected in the financial statements.

We confirm the following significant assumptions made in relation to accounting estimates (including fair value measurements) used in the preparation of the financial statements:

Pension fund assumptions

We confirm that the actuarial assumptions underlying the valuation of the Fund's liabilities to pay pensions and other benefits, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

- Rate of inflation (CPI): 2.4%
- Rate of increase in salaries: 2.7%
- Rate of increase in pensions: 2.4%
- Rate of discounting scheme liabilities: 2.5%
- 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 that the Council 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.

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

APPENDIX VI: DRAFT REPRESENTATION LETTER

We confirm that the followed receivables remain recoverable and no provision for non-recovery is required for these older debts:

- Member where transfer of pension was made in error at £64,807
- Middlesex University pension strain costs for July 2015 £60,915.

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 director and member has taken all the steps that they ought to have taken as a director 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 Resources
xx September 2017

Cllr Mark Shooter
Chair
Signed on behalf of the Pension Fund Committee
xx September 2017



FOR MORE INFORMATION:

LEIGH LLOYD-THOMAS
Engagement lead

T: +44 (0)20 7893 2616
E: leigh.lloyd-thomas@bdo.co.uk

JODY ETHERINGTON
Manager

T: +44 (0)1473 320790
E: jody.etherington@bdo.co.uk

The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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.

Copyright ©2017 BDO LLP. All rights reserved.

www.bdo.co.uk

