



**LONDON BOROUGH OF BARNET
PENSION FUND**

AUDIT COMPLETION REPORT

Audit for the year ended 31 March 2018

16 August 2018

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WELCOME

We have pleasure in presenting our Audit Completion Report to the Pensions 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 completing the planned audit approach for the year ended 31 March 2018, specific audit findings and areas requiring further discussion and/or the attention of the Pensions Committee. At the completion stage of the audit it is essential that we engage with the Pensions Committee on the results of 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 look forward to discussing these matters with you at the next Pensions Committee meeting, and to receiving your input.

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

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

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.

OVERVIEW

This summary provides an overview of the audit matters that we believe are important to the Pensions Committee in reviewing the results of the audit of the financial statements and use of resources of the pension fund for the year ended 31 March 2018.

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.

AUDIT SCOPE AND OBJECTIVES

Audit status	We have substantially completed our audit procedures in accordance with the planned scope and our objectives have been achieved, subject to resolution of matters set out in the outstanding matters section below.
Audit risks update	No additional significant audit risks were identified during the course of our audit procedures subsequent to our Audit Plan dated 30 May 2018.
Materiality	Our final materiality is £10.9 million for the net asset statement and £2.95 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	Our audit identified no material misstatements.
Unadjusted audit differences	There are five unadjusted audit differences identified by our audit work which if corrected, would increase the net assets of the Fund by £0.443 million to £1,097.011million. These are detailed at Appendix I.
Control environment	Our audit identified one significant deficiency in internal controls.

OVERVIEW

AUDIT OPINION	
Financial statements	We propose issuing an unmodified opinion on the financial statements for the year ended 31 March 2018.
Pension fund annual report	We confirmed that the financial statements in the pension fund annual report are consistent with the Statement of Accounts.
OTHER MATTERS FOR THE ATTENTION OF THE PENSIONS COMMITTEE	
Audit independence	Our observations on our audit independence and objectivity and related matters are set out in Appendix IV.
Management letter of representation	The draft management letter of representation, to be approved and signed, is set out in Appendix VI.

OUTSTANDING MATTERS

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:

- 1 Final clearance of a small number of items with management:
 - Management response for unexplained differences on contributions received £1.078 million and pension payments made £0.255 million.

- 2 Final review and approval by you of the pension fund financial statements

- 3 Subsequent events review to the date of the opinion

- 4 Management letter of representation, as attached in Appendix VI to be approved and signed

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT RISKS

We have assessed the following as audit risks from our audit planning. We set out how these risks have been addressed and the outcomes of our work.

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>Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.</p> <p>By its nature, there are no controls in place to mitigate the risk of management override.</p>	<p>We have:</p> <ul style="list-style-type: none"> Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. Reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. 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>Our testing of a sample of journal entries identified no evidence of fraud due to management override of controls. We have highlighted one deficiency in controls in respect of the processing of journals and included a recommendation within Appendix II of this report.</p> <p>We have not identified bias in accounting estimates. 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>

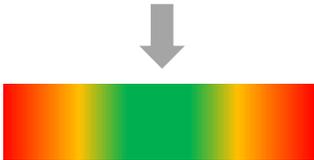
KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
<p>2</p> <p>Membership data</p>	<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, following a cleansing of the data by management we identified significant issues within the membership data. This was raised as a significant control deficiency.</p> <p>We have 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 have:</p> <ul style="list-style-type: none"> • Obtained membership records and review the controls over the maintenance of these records. • Tested a sample of movements of members to transactions recorded in the fund account, and other underlying supporting documentation. 	<p>We have seen evidence that a significant data cleansing exercise has taken place which resulted in a large number of outdated records being updated.</p> <p>Our testing in this area identified one error as set out below, which indicates that there is still further cleansing work to be done.</p> <p>Our substantive testing of a sample of active members from membership records found 1 individual (out of 30 tested) who was recorded active and accruing benefits and still employed but had ceased paying pension contributions as they had left the scheme.</p> <p>Our testing also included a comparison of the membership data to the first draft accounts and identified variances. From discussion with management the variances is owing to late notifications of change of membership status. The membership data we used to compare to the draft accounts included changes that were only processed in 2018/19 but actually relate to the 2017/18 year. Management has since revised the draft accounts.</p>

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
3	Cash and bank	<p>During last year's audit, we noted 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. We also noted three 'off-ledger' bank accounts with nil balances. We have therefore recognised a significant risk over the existence, completeness and accuracy of cash at bank.</p>	<p>We have:</p> <ul style="list-style-type: none"> Updated our understanding of the controls during our audit visit. Obtained year-end bank reconciliations and agree these to the general ledger and external bank confirmations of amounts held at year-end. Substantively tested a sample of reconciling items to supporting underlying documentation. 	<p>We have reviewed the bank reconciliations with no issues noted and the bank accounts held 'off-ledger' with nil balances have been closed.</p>
4	Pension liability assumptions	<p>An estimate of the pension fund liability to pay future pensions is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the 2016 triennial membership data, rolled forward, and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation at 31 March 2018 when calculating the liability. There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p>	<p>We have:</p> <ul style="list-style-type: none"> Reviewed the controls in place to ensure that the data provided from the fund to the actuary is complete and accurate. 	<p>Our review of the controls to ensure data provided to the actuary for the 2016 triennial valuation is complete and accurate highlighted a number of deficiencies including the draft data specification from the actuary was used rather than the final and the dataset did not meet the actuary's requirements. There was no evidence that where changes. We have detailed recommendations in the action plan in Appendix II.</p>

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ESTIMATE				IMPACT	
<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 liability to pay future pensions has increased by £35 million to £1,864 million at 31 March 2018. This is principally due to an increase in the current service cost on the prior year due to an increase in the RPI offset by an increase in the discount rate used to value future liabilities (from 2.5% to 2.6%).</p>			 <p data-bbox="1794 639 2063 663">< lower higher ></p>	
	<p>We compared the assumptions and estimates used by the actuary with the expected ranges provided by the independent consulting actuary.</p>				
		Actual	Acceptable		Comments
	RPI increase	3.4%	3.4%		Reasonable
	CPI increase	2.4%	2.4%		Reasonable
	Salary increase	2.7%	--		Reasonable (derived from RPI above)
	Pension increase	2.4%	2.4%		Reasonable
	Discount rate	2.6%	2.6-2.7%		Reasonable (tending to bottom of expected range)
	Mortality - LGPS:				
	- Male future	23.9 years	23.7-24.4		Reasonable
	- Female future	26.5 years	26.2-26.9		Reasonable
	- Male current	21.9 years	21.5-22.8		Reasonable
	- Female current	24.3 years	24.1-25.1		Reasonable
	Commutation:				
- Pre 2008	50%	25% - 75%	Reasonable		
- Post 2008	50%	25% - 75%	Reasonable		
<p>We are satisfied that the assumptions used are reasonable.</p>					

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
5	Fair value of investments	<p>The fair value of funds (principally pooled investments) is provided by individual fund managers and reviewed by Hyman's Investment Advisory team, and reported on a quarterly basis.</p> <p>There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements.</p>	<p>We have:</p> <ul style="list-style-type: none"> • Obtained direct confirmation of all investment valuations from the fund managers. • 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. 	<p>All required fund manager valuation reports have been received and, other than below, were agreed to the financial statements.</p> <p>We obtained independent assurance reports for all ten 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

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
<p>6 Contributions receivable (normal and augmented)</p>	<p>Employers are required to deducted amounts from employee pay based on tiered pay rates and to make employer contributions in accordance with rates agreed with the actuary. Additional contributions are also required against pension strain for early retirements and augmentation of pensions.</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>We have:</p> <ul style="list-style-type: none"> Performed an examination of a sample of active members to evidence relevant to the amounts of normal / deficit contributions receivable to the fund including checking to employer payroll records, where relevant. 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>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>Testing confirmed that contributions have been correctly calculated and recorded in respect of individuals tested.</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. We noted an unexplained difference between contributions received from Barnet Schools and the Schools payroll data. The projected error across sampled population is £1,078k.</p> <p>[Please enter management response]</p>

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
		<ul style="list-style-type: none"> Tested a sample of augmented contributions due from employers. 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 as set out in the Certificate. 	<p>We identified that £1.5 million augmentation contributions due from Middlesex University had been recovered from HEFCE. Management has written off augmentation contributions receivable and current assets by £1.5 million in the financial statements</p> <p>Our testing of contributions also identified errors in the split between normal, deficit and augmentation employer contributions:</p> <ul style="list-style-type: none"> -£1.744million HFCE contribution was initially recorded as a normal contribution. Management reclassified to augmentation contribution. -£312 deficit accrual was re-allocated to normal contributions. <p>We noted errors in the contribution rates applied resulting in a projected misstatement of £62,000. This is a projected misstatement.</p>

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
7	Investment management expenses	<p>Fund managers do not ordinarily provide information on other fees included in investing contributions. These fees are deducted when the investment is made by the fund manager and hence is included in the change in market value of investments.</p> <p>This disclosure is a mandatory requirement for the 2017/18 financial statements.</p> <p>We consider 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 have:</p> <ul style="list-style-type: none"> 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. For a sample of investment management expense we agreed amount to year end confirmations received from the fund managers by the pension fund. 	<p>Fund managers have provided additional information on fees this year. Investment management fees have been agreed to fund manager invoices.</p> <p>We agreed investment management expenses to fund manager invoices and did not identify any issues.</p>

KEY AUDIT AND ACCOUNTING MATTERS

8	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
8	Consideration of related party transactions	We 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.	We have discussed with management and reviewed members' and Senior Management declarations to ensure that there are no potential related party transactions which have not been disclosed.	We did not identify any issues with the completeness and accuracy of related party transactions.
9	Benefits payable	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.	We have: <ul style="list-style-type: none"> For members leaving the scheme and deferring their pension and members becoming entitled to receive pension during the year, 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 checks undertaken by ATMOS on the existence of pensioners. 	No issues were found in our testing of a sample of employees leaving the scheme including the calculation of the deferred pensions or lump sum and pension benefit for retiring members. The correct 1% uplift was applied to pensioner benefits. A breakdown of the pension payments for the year was obtained and reconciled to the draft account with a variance of £225,000. There may be a potential overstatement of benefits paid, however management cannot substantiate what this difference relates to. [Please enter management response]

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
10	Financial statements disclosures	<p>We have suggested a number of changes to the financial statements, in respect of formatting, ensuring consistency between disclosures and arithmetic accuracy.</p> <p>Management have included additional disclosure around the equities and bonds held within pooled funds between the UK and overseas. however comparative information was not available for this note.</p>
11	Other disclosure issues	<p>We identified a number of other disclosure issues within the first draft accounts:</p> <ul style="list-style-type: none"> • The Benefits Payable by Authority did not disclose analysis of benefits between employers. • The analysis of strain costs by employer type had not been confirmed, all costs were allocated to the Council. • The investment note was misstated by £105,000 owing to the Clearant Europe Direct Lending fund manager statements received after preparation of the first draft of accounts. There was also an overstatement of £86,000 between the investment note and the M&G Investments fund manager statement. • The current 2017/18 audit fee included additional fees for the year 2016/17 financial year. • Inconsistency in the classification of Cash and Cash Equivalents across the Classification of Financial Instruments and Fair Value Hierarchy Note. • Within the financial instruments notes, the interest rate risk disclosure did not include details on effects of a change interest rate on the valuation of pooled investment vehicle assets. Management had not included a quantitative disclosure in the draft accounts for currency risk arising from pooled investment vehicles containing foreign currency investments. • We noted some casting errors on the face of the fund accounts and some of the supporting notes. • The comparative figures within the Key Management Personnel note did not agree to the prior year audited, signed accounts. • The Additional Voluntary Contributions note did not disclose the amount paid to Aviva. • Total number of active members, pensioners and deferred pensioners in the draft accounts did not agree to the membership data set. <p>These have been corrected by management</p>

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	AUDIT FINDINGS
12	Analysis of operational expenses	During the audit, we queried the analysis of administration and governance and oversight expenditure. Governance tends to include expenditure required to support the 'Board' (Pension Fund Committee) in its oversight role and legal reporting requirements. Administration costs include all other costs that are mainly anything to do with running the pension scheme. Governance costs appear high against administration expenses. Management will review the allocation of costs in the coming year.
13	Aged debts	Augmentation contributions of £1.507 million due from Middlesex University was written off as these had been recovered via HEFCE claim. We note that some of these debtors had been outstanding since 2015. We have raised a recommendation in relation to the review of the aged debtor analysis and the requirement for appropriate credit control and the chasing of debts.
14	Fraud	Whilst the Director of Finance 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 those charged with governance on whether you are aware of any known, suspected or alleged frauds for the pension fund.

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	Pension fund annual report	We confirmed that the financial statements in the pension fund annual report are consistent with the Statement of Accounts.

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 the Pensions Committee.

As the purpose of the audit is for us to express an opinion on the pension 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.

Significant deficiencies

Our audit has identified one significant deficiency in relation to controls over membership data which would 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 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 Pensions 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.

UNADJUSTED AUDIT DIFFERENCES

There are five unadjusted audit differences identified by our audit work which, if corrected, would increase the net assets of the Fund by £0.443 million to £1,097.011million. The fund performance for the year was an increase in net assets of £44.411 million.

You consider these 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 even though not material.

	£'000	FUND ACCOUNT		NET ASSETS	
		DR	CR	DR	CR
		£'000	£'000	£'000	£'000
Net Assets before adjustments	1,096,568				
DR Management expenses		67			
CR Current liabilities					(67)
(1) Projected misstatement of £67k for post year-end invoice not accrued (actual error £8k).	(67)				

APPENDIX I: AUDIT DIFFERENCES

	FUND ACCOUNT			NET ASSETS	
	£'000	DR £'000	CR £'000	DR £'000	CR £'000
DR Management expenses		225			
CR Current liabilities					(225)
(2) Unexplained difference between payroll report and financial statements	(225)				
DR Bad debtor provision		405			
CR Current assets - debtors					(405)
(3) Provision for unrecovered debt more than two years old	(405)				
DR Current assets				1,078	
CR Management expenses			(1,078)		
(4) Unexplained difference between contributions received from Barnet Schools and school payroll data. Projected misstatement.	1,078				
DR Current assets - contributions due				62	
CR Contributions receivable			(62)		
(5) Projected error in contribution rates applied (actual error £25)	62				
TOTAL UNADJUSTED AUDIT DIFFERENCES	443	697	(1,140)	1,140	697
Net assets if adjustments accounted for	1,097,011				

APPENDIX I: AUDIT DIFFERENCES

IMPACT ON CURRENT YEAR FUND ACCOUNT OF PREVIOUS YEAR ERRORS	£'000	FUND ACCOUNT		NET ASSETS	
		DR £'000	CR £'000	DR £'000	CR £'000
DR Net assets brought forward				627	
CR Changes in market value			(262)		
CR Payments to and on behalf of leavers			(365)		
(6) Impact of brought forward adjusted misstatements	627				
TOTAL UNADJUSTED AUDIT DIFFERENCES	627		(627)	627	

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

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

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
Membership data	<p>Over the last year two years 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 further improvements have been made. However, our testing of a sample of membership records and individual contributions has highlighted that errors remain 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>	XXX	XXX	XXX

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
Ownership of the accounts preparation function	<p>We noted significant improvement in the quality of the accounts prepared this year compared to the prior year, however, greater ownership of the accounts production process is required in relation to the financials which are generated outside of the core finance team and the following up of audit queries.</p> <p>A lack of ownership can lead to delays in completion of the audit and increased the risk of material misstatement through error.</p>	We recommend that a clear work flow is set up with the non-centralised team so that high quality financials are provided on a timely basis and that delivery of this can be monitored so as not to impact of audit delivery.	XXX	XXX	XXX
Journals in Integra	<p>The Integra system allows journals to be prepared and approved by the same user. We identified a number of journals processed where the preparer and approver in the Integra system were the same person and where there was no approver. No evidence of independent review was provided.</p> <p>The lack of segregation of duties in journals posting may result in an increased risk of fraud and/or error.</p>	Remind the user concerned of the requirement to obtain independent approval in Integra of all journals they prepare.	XXX	XXX	XXX
Review of debtor recoverability	<p>We noted invoices where payment had not been received dating back to the 2014-15 financial year. There were debtors totalling £2.6 million that were more than 1 year old. Management could not provide a recoverability assessment as a review of the aged debtor report had not been performed.</p> <p>This increases the risk of non-recoverability of debtors and overstatement of the debtors in the statement of accounts.</p>	We recommend that management performs a timely review of debtors to identify any that are long outstanding, perform an assessment for non-recovery of debtors and provide for these debtors where appropriate.	XXX	XXX	XXX

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
Employers leaving the pool	<p>We identified that 4 employers had left the pool, but not removed from the pool on the basis of immateriality to the net pension fund liability, subject to consultation with the scheme actuary. We agreed with this assessment, however, we noted that there was not a process in place to monitor leavers from the Barnet pool and the cumulative effect on the net liability in the intervening years between valuations.</p> <p>If unmonitored leavers from the Barnet Pool, cumulatively, could result in a material overstatement of the Barnet Pool Net Liability within the IAS 19 report.</p>	<p>Management should monitor the employers leaving the pool and their allocation of assets and liabilities to ensure that the cumulative effect is not material to the Council Pool. The council should make this assessment based on information presented by the actuary, with consideration of the impact on the financial statements of the Council.</p>	XXX	XXX	XXX
Submission of cash flow data for IAS19 purposes	<p>We identified the following deficiencies in the submission process for contribution cash flows data to the actuary:</p> <p>Robust employer records were not in place or unavailable to complete the submission, resulting in 4 employers being incorrectly included within the Barnet Employer Pool</p> <p>The submission was not completed to the Hyman's specification we have seen elsewhere. The submission is made prior to the end of the year, resulting in some estimation being applied in the final months of the year, however in the case of the pension fund the estimation was not made on the submission, it showed incomplete months and unallocated suspense amounts. This should be estimated by the pension fund based on local knowledge.</p> <p>There was insufficient review of the submission by an officer with sufficient knowledge of the pension fund to identify incorrect bodies included in the pool and errors in the figures within the submission.</p> <p>Errors in the submission directly result in errors in the actuary's IAS 19 report in respect of contributions, as well as allocation of the pension fund's assets and liabilities.</p>	<p>We recommend that:</p> <p>Accurate employer records are maintained and consulted in the production of the cash flow submission</p> <p>The submission is fully completed with any estimation formulated by the pension fund based on local knowledge of the fund</p> <p>The draft cash flow data is subject to review and approval by the responsible officer at the employer and the head of pensions</p>	XXX	XXX	XXX

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
Preparing and Submitting Membership Data for the 2016 Triennial Valuation	<p>We identified the following deficiencies in the preparation of the membership data set for the triennial valuation:</p> <p>The draft actuary's data specification was used rather than the final version</p> <p>Changes to the data set were made manually on the data submission rather than through updating system records</p> <p>There was no version control maintained to monitor changes to the data set</p> <p>The data set did not meet the actuary's requirements in order to form a valuation, as result a number of assumptions has to be applied to the data in order to form a valuation. E.g. Active members with no salary information were assumed to have left their employer.</p> <p>There is no evidence that where changes or assumptions were made to the data that this was methodically reviewed and queried with employers to resolve the issues and update the membership system going forwards.</p> <p>The membership data submitted for the triennial valuation forms the building block for the subsequent two IAS 19 valuations, as such material issues in the data would affect the subsequent IAS 19 valuations until the next full valuation.</p>	<p>We recommend that:</p> <p>The Management stress the importance of accurate membership returns to the scheme employers ahead of the 2019 valuation</p> <p>Ensure that the final data specifications and actuary briefings are adhered to in full.</p> <p>Make provision to share data with employers where practicable and obtain positive confirmation that it is accurate</p> <p>Avoid making manual amendments to the extracted data set, instead processing genuine changes through the membership system.</p> <p>Where changes are made manually to the data submission this should be logged on a version control document.</p> <p>Following submission changes should be followed up with employers and specific data issues resolved on the system going forwards.</p> <p>Significant assumptions made on the membership dataset should be agreed with the respective employer prior to finalising the valuation</p>	XXX	XXX	XXX
Maintenance of Membership Data	<p>We identified that controls around the annual updating of membership records are weak, such that we could not rely on them for assurance over the membership data provided to the actuary. Employers are required to complete an annual return detailing their members within the scheme and their pertinent member details, however these returns are often received too late (5 not received in 2015/16) with errors that require manual correction by the</p>	<p>Management should consider reviewing the annual return format and process to improve the timeliness and quality of returns.</p> <p>Reviewing return formats and instructions</p> <p>Building in validation checks and requiring explanations and sign off from senior management of employers.</p>	XXX	XXX	XXX

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	PROGRESS
	failure to maintain adequate membership and employer data could result in an inaccurate valuation of the scheme liabilities, and consequently an incorrect employer contribution rate applied. This may limit the fund's ability to manage the level of funding in the short term.	<p>For example, FTE and salary combinations that results in less than minimum wage; missing critical fields</p> <p>Feeding back and resolving inconsistencies between returns and data currently held on the membership system.</p> <p>Scoring and feeding back on the quality of returns to the senior management of employers</p>			

APPENDIX III: MATERIALITY

MATERIALITY - FINAL AND PLANNING

	FINAL	PLANNING
Pension fund overall materiality	£10.9 million	£10.5 million
Fund account specific materiality	£2.95 million	£2.9 million
Clearly trivial threshold		
• Pension fund overall	£219,000	£210,000
• Fund account	£59,000	£58,000

Planning materiality for the pension fund financial statements was based on 1% of prior year net assets. Specific materiality was set of 5% of prior year contributions for the fund account. These were updated for actual amounts reported in the draft financial statements.

APPENDIX IV: 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 leads 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 2018.

We have not provided any non-audit services to the pension fund during the period and up to the date of this report.

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

We have not identified any other 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 and are independent of the pension fund.

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

APPENDIX V: FEES SCHEDULE

	2017/18 FINAL £	2017/18 PLANNED £	2016//17 FINAL £	EXPLANATION FOR VARIANCES
Code audit fee	21,000 ¹	21,000	36,249 ²	¹ The 2017/18 Code audit fee remains subject to amendment to reflect the additional resources required to complete the audit. ² The 2016/17 Code audit fee includes an additional £15,249 to reflect the additional resources required to resolve the issues identified during the audit.
TOTAL AUDIT	21,000	21,000	36,249	
Fees for other non-audit services	-	-	-	
TOTAL ASSURANCE SERVICES	21,000	21,000	36,249	

APPENDIX VI: DRAFT LETTER OF REPRESENTATION

TO BE TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP
55 Baker Street
London
W1U 7EU

[XX] August 2018

Dear Sirs

Financial statements of London Borough of Barnet Pension Fund for the year ended 31 March 2018

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 2018 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 Director of Finance has fulfilled his 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 Audited Bodies within Chapter 2 of the Code of Audit Practice published by the National Audit Office in April 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 2018 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 and approve the Annual Governance Statement, 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 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 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 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.

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.

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.

APPENDIX VI: DRAFT LETTER OF REPRESENTATION

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 impacting on the pension fund. 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 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.

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:

- RPI increase 3.4%
- CPI increase 2.4%
- Salary increase 2.7%
- Pension increase 2.4%
- Discount rate 2.6%
- Mortality: Current pensioners - male 21.9 years and female 24.3 years / future pensioners - male 23.9 years and female 26.5 years
- Commutation: pre-April 2008 - 50% / post-April 2008 - 50%

We consider these assumptions to be appropriate for the purposes of estimating the pension liability in accordance with the Code and IAS 19 and IAS 26.

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.

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 LETTER OF REPRESENTATION

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. The Director of Finance and each member has taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Kevin Bartle
Director of Finance
[Date]

Councillor Mark Shooter
Pensions Committee Chair
Signed on behalf of the Pensions Committee
[Date]

APPENDIX VII: DRAFT AUDIT REPORT

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

Opinion on pension fund financial statements

We have audited the pension fund financial statements of London borough of Barnet ("the pension fund") for the year ended 31 March 2018 which comprise the fund account, the net assets statement and related notes to the pension fund financial statements, including a summary of significant accounting policies. The framework that has been applied in the preparation of the pension fund financial statements is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and the amount and disposition of the fund's assets and liabilities as at 31 March 2018, other than the liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion on the financial statements

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), the Code of Audit Practice issued by the National Audit Office in April 2015 ("Code of Audit Practice") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the pension fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Director of Finance is responsible for the other information. The other information comprises the Narrative report together with all other information included in the Statement of Accounts, other than the pension fund financial statements and our auditor's report thereon. Our opinion on the pension fund financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

APPENDIX VII: DRAFT AUDIT REPORT

In connection with our audit of the pension fund financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Director of Finance and London Borough of Barnet (“the Council”) as administering authority of the pension fund

As explained more fully in the Statement of the Director of Finance’s Responsibilities, the Director of Finance is responsible for the preparation of the Statement of Accounts, which comprises the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that the financial statements give a true and fair view.

In preparing the pension fund financial statements, the Director of Finance is responsible for assessing the pension fund’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council intends to wind up the scheme or has no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements

In respect of our audit of the pension fund financial statements our objectives are to obtain reasonable assurance about whether the pension fund financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council’s website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor’s report.

APPENDIX VII: DRAFT AUDIT REPORT

Use of our report

This report is made solely to the members of London Borough of Barnet, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in the Responsibilities of the Audited Body and Responsibility of the Auditor within Chapter 2 of the Code of Audit Practice published by the National Audit Office in April 2015. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Leigh Lloyd-Thomas
For and on behalf of BDO LLP, Appointed Auditor
London, UK

XX August 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

APPENDIX VIII: 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 all 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 companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as a 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:

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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.

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