Report to the Pension Fund Committee

LONDON BOROUGH OF BARNET PENSION FUND

Audit Completion Report: Year ended 31 March 2019

IDEAS | PEOPLE | TRUST

CONTENTS

WELCOME
Introduction

Contents

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

It summarises the results of completing the planned audit approach for the year ended 31 March 2019, specific audit findings and areas requiring further discussion and/or the attention of the Pension Fund Committee. At the completion stage of the audit it is essential that we engage with the Pension Fund Committee on the results of our audit of the financial statements comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We will issue a final Audit Completion Report once any outstanding work has been completed. We look forward to discussing these matters with you at the Pension Fund 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.

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

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

Leigh Lloyd-Thomas

26 July 2019

Leigh Lloyd-Thomas
Engagement lead

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

Michael Asare Bediako
Audit Manager

t: 020 7893 3643
e: michael.asarebediako@bdo.co.uk

OVERVIEW
Executive summary

Contents

This summary provides an overview of the audit matters that we believe are important to the Pension Fund Committee in reviewing the results of the audit of the financial statements of the Pension Fund for the year ended 31 March 2019.

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

Overview

Our audit work is substantially complete and subject to the successful resolution of outstanding matters, we anticipate issuing our opinion on the financial statements for the year ended 31 March 2019 in line with the agreed timetable.

Outstanding matters are listed in the appendices.

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

No restrictions were placed on our work.

Audit report

We anticipate issuing an unmodified audit opinion on the financial statements.

THE NUMBERS
Executive summary

Contents

Final materiality

Final financial statements materiality was determined based on 1% of the value of investments in the Net Assets Statement (£1.142 billion).

Specific materiality on the fund account was based on 5% of contributions (£58.7 million).

We have increased our materiality from the planning materiality of £10.9 million to £11.4 million as a result of increase in valuation of investment asset at year end.

There were no changes to final specific materiality for the fund account.

Corrected misstatements

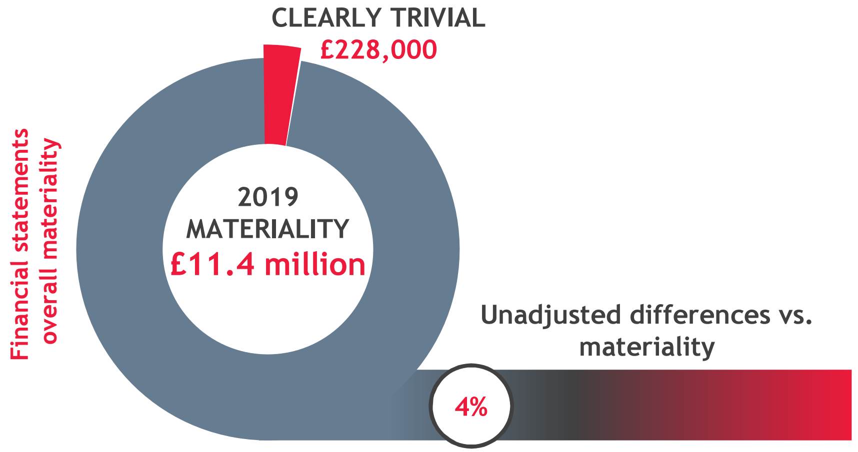
We found that £793,000 of deficit contributions due from Middlesex University had not been billed or paid over by the employer. This has since been billed and corrected in the financial statements.

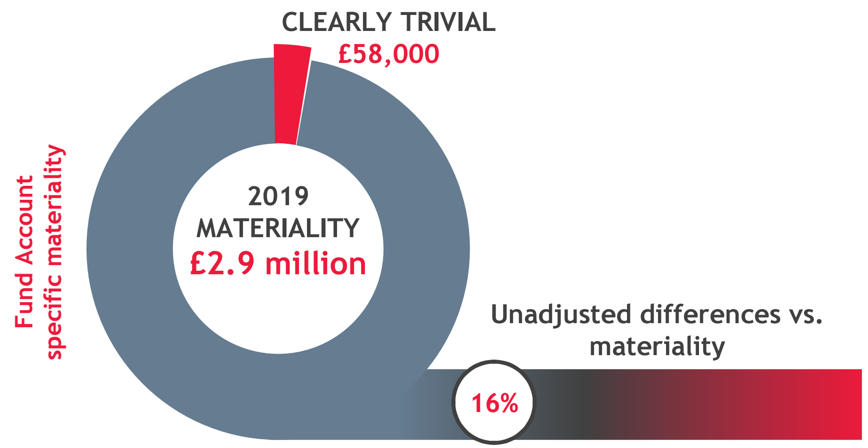
Unadjusted audit differences

We identified four other audit differences that have not been corrected by management.

If corrected, these would increase the net assets by £459,000 in the Net Assets Statement. The Fund Account (excluding market value changes on investments) would report an increase in net income of £229,000 and a total increase of £459,000.

We also identified additional pension liabilities in respect of the McCloud age discrimination and GMP gender discrimination legal judgements that would increase the fund liability to pay future pensions by £9.6 million. While the pension liability is not reported in the Net Asset Statement, it is a material disclosure that highlights the solvency of the fund under the financial reporting standards. This disclosure is not prepared on the same basis as the actuarial triennial valuation of the fund when determining the employer contributions every three years.





Contents

Financial reporting

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

Other matters that require discussion or confirmation

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

Independence

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

AUDIT RISKS OVERVIEW

As identified in our Audit Plan dated 11 February 2019 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant Management Estimates or Judgement	Use of Experts Required	Error Identified	Significant Control Findings	Discussion points / Letter of Representation
Management override of controls	Significant	No	No	No	No	No
Pension liability valuation	Significant	Yes	Yes	Yes, unadjusted	No	Impact of McCloud and GMP liability on actuarial value of future promised benefits
Membership disclosure	Normal	No	No	Yes, unadjusted	Yes	Errors found in membership data
Valuation of investment assets	Normal	No	No	Yes, unadjusted	No	Late valuation report received not adjusted
Benefits payable	Normal	No	No	Yes, unadjusted	No	Cut off issues
Classification of financial instruments	Normal	No	No	No	No	No
Contributions receivable	Normal	No	No	Yes, adjusted / unadjusted	Yes	Unbilled deficit contributions Unbilled pension strain costs Weaknesses in monitoring contributions due
Funding of Barnet and Southgate deficit	Normal	No	No	No	No	No

Areas requiring your attention

Contents

MANAGEMENT OVERRIDE OF CONTROLS

ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud.

Significant risk	■
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.

Under auditing standards there is a presumed significant risk of management override of the system of internal controls that could conceal fraudulent transactions or result in material misstatement in the financial statements.

Work performed

We carried out the following planned audit procedures:

- Reviewed and verified large and unusual journal entries made in the year and agreeing the journals to supporting documentation; and
- Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias.

Results

Our audit work on journals did not identify any issues or indication of management override of controls that impact on the financial statements.

We have not found any indication of management bias in accounting estimates. Our views on significant management estimates are set out in this report.

PENSION LIABILITY VALUATION

Contents

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

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	■
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

The fund's actuarial value of future promised retirement benefits is calculated by an independent firm of actuaries. The estimate is based on the roll forward of membership data from the 2016 triennial valuation exercise, updated at 31 March 2019 for factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability. There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.

Work performed

We carried out the following planned audit procedures:

- Agreed the disclosures to the information provided by the pension fund actuary;
- Reviewed the controls for providing accurate membership data to the actuary;
- Checked whether any significant changes in membership data have been communicated to the actuary; and
- Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.

Results

In previous years, we reported that the 2016 triennial valuation required significant data cleansing by the actuary and included a number of assumptions for members with incomplete data. We have previously reported some errors in these assumptions, mainly relating to assumed deferred members that were active, and the actuary has estimated that this could increase the pension liability by 0.2% (approximately £4.1 million). The actuary stated that this is well within his estimation range and that no adjustment was required to the liability calculation of the fund or employers. In an effort to address the existence, completeness and accuracy risk around membership data, the scheme is currently undertaking a Common Data cleanse with the actuary to prepare for the 2019 triennial valuation.

We agreed the cash flows provided to the actuary in February, based on 10 months of actual data and an estimate of the last two months, to the full year actuals at year end and concluded the estimates used by the actuary were reasonable.

We also noted in previous years instances where Council employees had transferred to other employers in the fund but no adjustments had been made to the employer pension liability or share of assets calculations. The actuary has taken into account the transfers in respect of academy schools this year relating to four schools members, including transfers in previous years. Management confirmed that there are no other significant changes in membership data that have not been communicated.

PENSION LIABILITY VALUATION 2

Significant estimate

Fund pension liabilities (£2.046 billion)

< lower valuation | > Higher valuation

The pension liability has increased from £1.864 billion to £2.046 billion. The increased liability includes £112 million arising from changes to financial assumptions including annual salaries increases above CPI at 2.8% (previously 2.7%), annual pension increases of 2.5% (previously 2.4%), and a change in the rate of discounting scheme liabilities to 2.5% (previously 2.6%).

We have compared the key financial and demographic assumptions used to an acceptable range provided by a consulting actuary commissioned for local public auditors by the NAO.

	Actual used	Acceptable range	Comments
Financials:			
- RPI increase	3.50%	3.40 - 3.50%	Reasonable
- CPI increase	2.50%	2.40 - 2.50%	Reasonable
- Salary increase	2.80%	1.0 - 3.50%	Reasonable - short term assumption of +1% and post 2020 CPI +0.3%
- Pension increase	2.50%	2.40 - 2.50%	Reasonable
- Discount rate	2.40%	2.40 - 2.50%	Reasonable
Commutation:	50%	50%	Reasonable
Mortality:			
- Male current	23.9 years	23.7 - 24.4	Reasonable
- Female current	26.5 years	26.2 - 26.6	Reasonable
- Male retired	21.9 years	21.5 - 22.8	Reasonable
- Female retired	24.3 years	24.1 - 25.1	Reasonable
Mortality gains	CMI 2013 (+1.25% improvement rate) with Club Vita local adjustments		Reasonable

We consider that the assumptions and methodology used by the Council's actuary are appropriate, and will result in an estimate of the net pension liability which falls within a reasonable range.

We note that the consulting actuary has stated that the assumptions used by Hymans Robertson do tend to produce slightly higher liabilities calculations than the other actuaries, and the relative liability compared to assumptions used by others could result in a liability being at 103.1% using an average of all the actuaries.

PENSION LIABILITY VALUATION 3

Significant estimate

Contents

McCloud age discrimination

Following the ruling on age discrimination in the McCloud case, where members approaching retirement age received protected benefits moving to the career average relevant earnings scheme from the final salary scheme but employees more than 10 years from retirement did not received this underpin of benefits, Government will have to remedy the discrimination in the LGPS.

The Government Actuary Department has undertaken an LGPS-wide impact assessment and a worse case scenario suggests that the liability could increase by up to 3.2% for active members where the remedy would be for all staff to receive the underpin, and using a model with an average member age of 46 and salaries increasing at +1.5% above CPI.

Management has obtained an updated valuation of the liability to take account of the impact of this ruling. This suggests that the pension liability for the fund could increase by £3,496 million (+0.2% of liabilities), with £1,771 million allocated to the Council. This is lower than forecast by GAD using a worse case scenario as the actuary has assumed a lower pay increase assumption that is in line with the main fund assumptions (CPI +0.3%), a greater number of withdrawals / leavers and a lower proportion of actives members in the fund than used by GAD. These assumptions are reasonable.

Management has not updated the pension liability disclosure to reflect this increase and we have reported this as an uncorrected disclosure misstatement.

GMP equalisation

Following a ruling on gender discrimination in the Lloyds Banking Group case, the courts found that UK defined benefit schemes must equalise Guaranteed Minimum Pensions (GMP). The Government's interim solution, originally in place from 2016 to 2018, has been extended to 2021 and it is not yet clear whether the LGPS (through employers) or Government will fund these additional costs after 2021.

An LGPS wide assessment of additional liabilities arising from GMP equalisation for the interim solution between 2016 to 2018, the extension from 2018 to 2021, and potential post 2021 costs falling on the LGPS could increase liabilities by +0.3%.

The actuary has confirmed that the calculation of pension liabilities has made no allowance for GMP equalisation costs. We have estimated that this could increase liabilities in the fund by £6.1 million, with £3.8 million allocated to the Council.

Management has not updated the pension liability disclosure to reflect this increase and we have reported this as an uncorrected disclosure misstatement.

MEMBERSHIP DISCLOSURE

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

Significant risk	
Normal risk	■
Significant management judgement	
Use of experts	
Unadjusted error	■
Adjusted error	
Additional disclosure required	
Significant Control Findings	■
Letter of Representation point	

Risk description

Membership information including the number of current contributors, deferred beneficiaries and pensioners by employer is required to be disclosed in the financial statements. We reported our concerns regarding significant control deficiencies over the completeness and accuracy of membership data in prior years.

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

Work performed

We carried out the following planned audit procedures:

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

Results

Our work identified three members who opted out of the pension scheme but were still classified as current active members in the database. One of these opted out in 2016. We also identified three members classified as current active contributors that were not on the Council's payroll. While the contributions income was deemed to be correct and that no amounts were due for these members, there is a risk that these individuals are accruing pension benefits that are not being funded if they continue to be recognised as active members in the database.

Significant control deficiencies

We acknowledge the effort by management and the Capita Darlington Pensions Team to address the accuracy of membership data to prepare for the 2019 triennial valuation.

However, there remain significant deficiencies in controls to ensure the ongoing accuracy of membership data. We recommend that management review the processes and controls for employers and employees to inform the Council (as administering authority) and the Capita scheme administrators of changes and for the Council to undertake quality assurance checks of the data.

VALUATION OF INVESTMENT ASSETS

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

Significant risk	
Normal risk	■
Significant management judgement	
Use of experts	
Unadjusted error	■
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

The fair value of funds (principally pooled investments) is provided by individual fund managers and reviewed by the Hymans Robertson Investment Advisory team. These valuation are reported on a quarterly basis although there may be amendments to the 'flash' valuations initially provided and subsequent final valuations that may be received after the draft accounts have been prepared.

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

Work performed

We carried out the following planned audit procedures:

- Obtained direct confirmation of investment valuations from the fund managers including any subsequent final valuations to 'flash' valuations in the draft accounts; and
- Obtained independent assurance reports over the controls operated by the fund managers for valuations and existence of underlying investments in the funds.

Results

We agreed all valuations to fund manager reports except for two funds that provided updated valuations to the December 2018 valuation reports included in the financial statements. These would increase the value of fund valuations for Alcentra Multi Credit Solution fund and European Direct Lending fund by £230,000

We also identified that a distribution of £1.3 million from Newton Fund that was reinvested was not included in the investment analysis notes. This grossing up presentation of purchases and sales does not impact on the fund account and the valuation at year end.

These misstatements have not been corrected by management.

BENEFITS PAYABLE

Contents

There is a risk that pension benefits payable may not be correct or paid to non-existent member.

Significant risk	
Normal risk	■
Significant management judgement	
Use of experts	
Unadjusted error	■
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

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

Work performed

We carried out the following planned audit procedures:

- For members leaving the scheme and deferring their pension and members becoming entitled to receive pension during the year, we checked a sample of calculations of pension entitlement;
- Checked the correct application of annual pension uplift for members in receipt of benefits;
- Tested 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;
- Tested a sample of deferred members who have reached pension age and enquired the reason why they were still recorded as deferred; and
- Agreed the amounts recorded in the ledger for benefits paid to the pensioner payroll report.

Results

We did not identify any issues regarding the accuracy and existence of pension benefits entitlement to new pensioners and deferred members. Annual pension uplifts have been correctly applied at 3% and we did not identify any issues regarding the existence of pensioners.

Our testing of retiring members identified three members who retired before year end, where the lump sum payment element of the pensionable benefits was paid after year end, but had not been accrued as liabilities at 31 March 2019. We extended our testing by checking all post year end lump sum payments and identified six additional payments relating to retirements before year end not accrued. The total of this under accrual of lump sums is £130,000. This has not been corrected by management.

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

BENEFITS PAYABLE 2

Contents

Continued

Results

We identified two individuals over seventy-five years of age where the pension was still held as a deferred benefit. We have seen evidence of management's attempt to contact these individuals.

We reconciled the benefits payroll to the ledger with no difference.

We also identified that a transfer payment of £227,000 for a member transferring to another pension scheme and paid after year end was accrued for as a liability at 31 March 2019. Transfer payments are normally accounted for on a cash basis in pension schemes since the existing pension scheme retains the liability and assets for that member up until the date that the cash payment is made. This misstatement has not been corrected by management.

CLASSIFICATION OF FINANCIAL INSTRUMENTS

Contents

There is a risk that financial instruments are not classified and measured in accordance with new financial reporting standard.

- Significant risk
- Normal risk
- Significant management judgement
- Use of experts
- Unadjusted error
- Adjusted error
- Additional disclosure required
- Significant Control Findings
- Letter of Representation point

Risk description

IFRS 9 financial instruments has been implemented for 2018/19 and requires all relevant financial instrument assets (principally investments and receivables) and liabilities (principally payables) to be categorised under new criteria based on their business model and contractual cash flows that will determine their classification and basis of valuation. The pension fund only has pooled investments that are designated as fair value through profit and loss and therefore this is likely to have limited impact on the pension fund for investment assets.

The pension fund also has short term receivables (contributions due from employers and employees) and will be required to calculate an expected credit loss on the receivables, rather than the previous model based on incurred losses. Government has stated that public sector bodies do not require any credit loss adjustments.

There is a risk that financial instruments are not classified and measured in accordance with IFRS9 and the new disclosures required by these new standards are omitted.

Work performed

We carried out the following planned audit procedures:

- Reviewed the work performed by the pension fund to assess the impact of IFRS 9 on the financial statements; and
- Reviewed the disclosures required relating to the adoption of the new accounting standard

Results

As expected, the classification of financial instruments did not change as result of IFRS 9.

However, we identified that the disclosure to report the analysis of financial assets had used incorrect previous terminology for receivables, by reporting this as loans and receivable rather than the new definition as held at amortised cost. Management has agreed to amend this disclosure.

CONTRIBUTIONS RECEIVABLE

Contents

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

Significant risk	
Normal risk	■
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	■
Letter of Representation point	

Risk description

Employers are required to deduct amounts from employee pensionable pay based on tiered pay rates and to make employer normal and deficit contributions in accordance with rates agreed with the actuary. In the previous year we noted that controls required improvements to confirm that (a) employers have paid the minimum required amounts where the deficit contribution amount was included in a higher employer payroll rate or (b) separate deficit amounts were paid over on a timely basis.

Additional contributions are also required against pension strain for unreduced pensions for early retirements and augmentation of pensions. In the previous year we found that the capital cost of pension strain due to early retirement was not always identified and charged to employers.

There is a risk that employers may not be calculating contributions correctly, paying over the full amount due to the pension fund or charging employers the capital cost of pension strain due to early retirement.

Work performed

We carried out the following planned audit procedures:

- Tested a sample of normal contributions due (and additional deficit contributions where included in an agreed higher employer rate) for active members including checking to employer payroll records;
- Reviewed contributions receivable and ensure that income is recognised in the correct accounting period where the employer is making payments in the following month;
- Performed tests over capital cost due from employers for pension strain due to early retirement;
- Agreed a sample of contributions payable by the employers to the amounts received in the pension fund; and
- Reviewed 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.

Results

Our sample testing of contributions due did not identify any errors in the amount due from employers and employees.

All amounts due were recorded in the correct year and March contributions due but not yet received were accrued.

CONTRIBUTIONS RECEIVABLE 2

Continued

Results

We reviewed the schedule of expected contributions due and found that £798,000 of deficit contribution due from Middlesex was not billed or accrued. We also found that £2.5 million of deficit contribution was incorrectly classified as normal contribution. Management has corrected for both of these errors.

We obtained a list of members that had retired before their normal retirement date and had not received a reduced pension to ensure that the employer had been charged for additional pension strain costs. Our sample testing identified that the pension fund did not bill employers for strain cost in respect of two members who retired early with unreduced benefits. The total unbilled capital cost of the strain amounted to £13,000. We have estimated that if this error was reflected across the list of all these early retirements that the potential unbilled strain cost could be up to is £132,000. We have reported this as a factual £13,000 error and a projected further £119,000 and we recommend that management undertake a detailed review of all these cases to confirm what the actual error could be.

We noted that management raised a general provision of £100,000 for the non-collection of strain costs billed to employers. While management could not provide evidence to support the calculation, the impairment allowance appears reasonable. We note that this is income that is due to the pension fund that may now need to be written off.

Significant control deficiencies (1)

We noted that Capita does not perform checks over the completeness and accuracy of contributions. Contributions returns received are captured onto contributions schedule without any checks to ensure the accuracy and completeness of contributions. Some returns received from employers do not come with corresponding payroll report confirming contributions due and some returns do not split out the employer and employees contributions figure.

A monthly reconciliation should be performed and detailed payroll reports obtained so that check that contributions are accurate and complete.

Significant control deficiencies (2)

Management implement improved arrangements to identify when early retirement pension strain costs should be charged to employers.

BARNET AND SOUTHGATE COLLEGE

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

Significant risk	
Normal risk	■
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	■
Significant Control Findings	
Letter of Representation point	

Risk description

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

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

Work performed

We carried out the following planned audit procedures:

- Reviewed advice provided by the actuary and any other legal advice sought by the pension fund to assess the potential liability for the LB Barnet pension fund.

Results

Management has sought advice from the actuary who stated that the original LB Enfield proposal to seek settlement of the liability on a cessation funding basis was not out of line with other similar cases. However, the pension fund may be able to mitigate some of the cost through agreeing a direction order for the transfer. This approach is also supported by the latest legal opinion obtained by the Council.

Negotiations are still on going with LB Enfield to agree a way forward which may result in the Barnet pension fund not having to make payments to LB Enfield by agreeing that LB Enfield's pensioners and deferred members being transferred into the LB Barnet fund, with LB Barnet receiving a share of LB Enfield's assets attributable to the Southgate liabilities.

The process is not concluded and at this stage the potential liability for LB Barnet pension fund remains uncertain.

Management has agreed to disclose this as a contingent liability.

OTHER MATTERS

Contents

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

Issue	Comment
Presentation and missing disclosures in the accounts	Our review of the draft accounts identified a number of presentational and other missing disclosures. Management has agreed to amend the financial statements.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

Contents

Fraud

Whilst the members and Director of Finance 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.

Management has brought to our attention a fraud relating to a number of lump sum payments charged against the scheme that has since been reimbursed and therefor has not impacted on the financial statements.

Our audit procedures did not identify any fraud.

We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Plan on 11 February 2019.

Laws and regulations

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

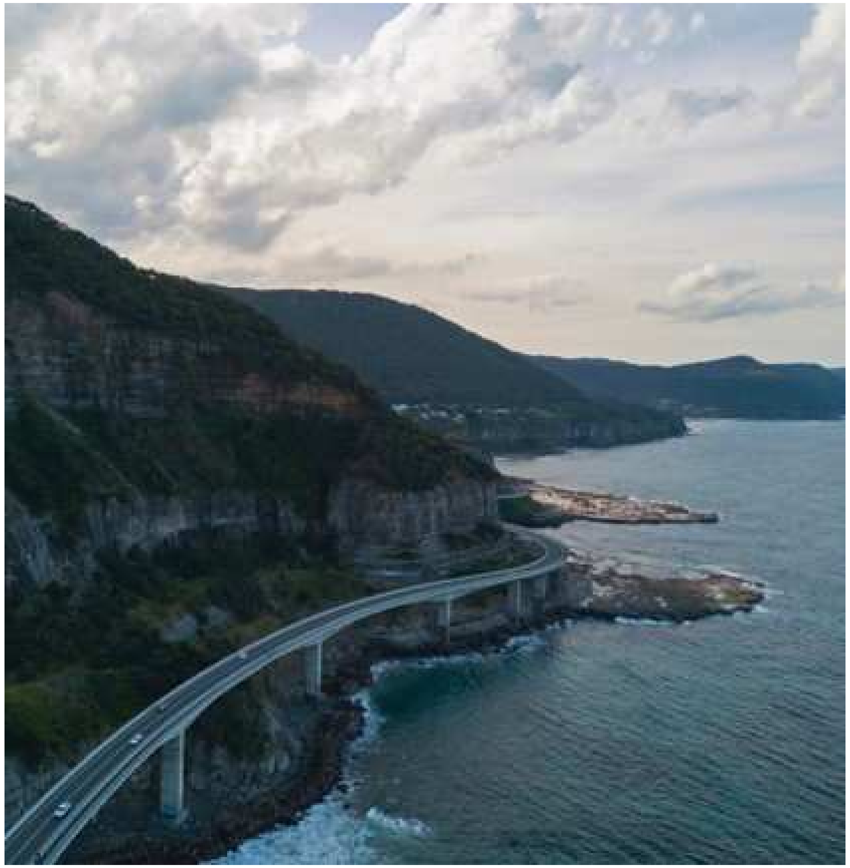
We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

Internal audit

We reviewed the audit work of the internal audit function to assist our risk scoping at the planning stage.

AUDIT DIFFERENCES: SUMMARY

Contents



We are required to bring to your attention audit differences and we request that you correct unadjusted differences

We found that £793,000 of deficit contributions due from Middlesex University had not been billed or paid over by the employer. This has since been billed and corrected in the financial statements.

Unadjusted audit differences

We identified four other audit differences that have not been corrected by management. These relate to lump sum payments paid after year end that were not accrued, a late valuation update provided by two fund managers, accrued costs for transfer payments and unbilled pension strain costs.

If corrected, these would increase the net assets by £459,000 in the Net Assets Statement. The Fund Account (excluding market value changes on investments) would report an increase in net income of £229,000 and a total increase of £459,000.

Unadjusted disclosures

We also identified additional pension liabilities in respect of the McCloud age discrimination and GMP gender discrimination legal judgements that would increase the fund liability to pay future pensions by £9.6 million. While the pension liability is not reported in the Net Asset Statement, it is a material disclosure that highlights the solvency of the fund under the financial reporting standards. This disclosure is not prepared on the same basis as the actuarial triennial valuation of the fund when determining the employer contributions every three years.

You consider these unadjusted differences and disclosures to be immaterial in the context of the financial statements as a whole.

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Fund Account			Net Asset Statement	
Unadjusted audit differences	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Net increase in assets / net assets	54,672			1,151,240	
1. Lump sum payments recorded in the incorrect period					
DR Benefits expense	(130)	130			
CR Lump sum benefit payable					130
2.Transfer payment recorded in the correct period					
DR Benefits payable				227	
CR Benefit expense	227		227		
3. Increase in investment valuation					
DR Investment asset				230	
CR Change in market value	230	230			
4. Unbilled pension strain income					
DR Receivables				132	
CR Contributions due (factual error)	13		13		
CR Contributions due (extrapolated error)	119		119		
Total unadjusted audit differences	459			459	
Net increase in assets / net assets	55,131			1,151,699	

Other reporting matters

REPORTING ON OTHER INFORMATION

Contents

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

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

SIGNIFICANT DEFICIENCIES

Contents

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

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

Area	Observation & implication	Recommendation	Management response
Membership data	We acknowledge the effort by management and the Capita Darlington Pensions Team to address the accuracy of membership data to prepare for the 2019 triennial valuation. However, there remain significant deficiencies in controls to ensure the ongoing accuracy of membership data.	We recommend that management review the processes and controls for employers and employees to inform the Council (as administering authority) and the Capita scheme administrators of changes and for the Council to undertake quality assurance checks of the data.	[xx]
Contributions	We noted that Capita does not perform checks over the completeness and accuracy of contributions. Contributions returns received are captured onto contributions schedule without any checks to ensure the accuracy and completeness of contributions. Some returns received from employers do not come with corresponding payroll report confirming contributions due. some returns do not split out the employer and employees contributions figure.	A monthly reconciliation should be performed and detailed payroll reports obtained so that check that contributions are accurate and complete	[xx]

SIGNIFICANT DEFICIENCIES 2

Contents

Area	Observation & implication	Recommendation	Management response
Contributions	We noted that some employers do not pay deficit contributions on time and could see limited evidence of chasing.	We recommend that management review the processes and controls for collection of contributions from scheduled and admitted bodies and ensure contributions including deficit contributions are received on time.	[xx]

OVERVIEW

Contents

Opinion on financial statements

We anticipate issuing an unmodified opinion on the financial statements.

There are no matters that we wish to draw attention to by way of ‘emphasis of matter’.

Conclusion relating to going concern

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

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

Other information

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

INDEPENDENCE

Contents

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

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

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2019.

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 relationships or threats that may reasonably be thought to bear on our objectivity and independence.

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

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

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

FEES

Contents

Fees summary	2018/19 Actual £	2018/19 Planned £	2017/18 Actual £
Audit fee			
PSAA scale fees	16,170	(1) 16,170	21,000
Proposed supplementary fee variation	TBC	(2) 5,000	22,810
Total fees	**TBC**	**21,170**	**43,810**

(1) PSAA has set the 2018/19 fee scale at £16,170 on the basis that individual fees for all opted-in bodies have been reduced by 23 per cent from the fees applicable scale fee for 2017/18 of £21,000. This gives opted-in bodies the benefit of the cost savings achieved in the recent audit procurement, and continues the practice of averaging firms' costs so that all bodies benefit from the same proportionate savings, irrespective of the firm appointed to a particular audited body. It also passes on the benefit of economies which PSAA is making in its own operating costs.

(2) Due to additional work planned in 2018/19 to address issues arising from 2017/18 and the request to undertake additional testing at Capita Employee Benefits at the Darlington site, we propose increasing the PSAA scale fee by £5,000 for 2018/19.

APPENDICES CONTENTS

RESPONSIBILITIES AND REPORTING

Responsibilities and reporting

Contents

Our responsibilities and reporting

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

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

What we don't report

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

ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

Contents

	Issue	Comments
1	Significant difficulties encountered during the audit.	We experienced significant delays in getting supporting documentations from Capita Darlington and in most cases supporting documentations provided did not agree to information in the accounts. It took several request to get specific information needed to perform the audit.
2	Written representations which we seek.	We enclose a copy of our draft representation letter.
3	Any fraud or suspected fraud issues.	No exceptions to note.
4	Any suspected non-compliance with laws or regulations.	No exceptions to note.
5	Significant matters in connection with related parties.	No exceptions to note.

COMMUNICATION AND REPORTS ISSUED

Contents

Those Charged with Governance (TCWG)

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

Communication, meetings and feedback

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

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

Communication	Date (to be) communicated	To whom
Audit Plan	11 February 2019	Pension Fund Committee
Initial Audit Completion Report	26 July 2019	Pension Fund Committee
Final Audit Completion Report	(31 July 2019)	Pension Fund Committee

OUTSTANDING MATTERS

Contents

We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2019.

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

1. Clearance of outstanding issues on the audit queries tracker currently with management. The key items on the tracker are:

- Remaining journals sample
- Strain cost testing

2. Manager, Partner and Quality Control review, and clearance of review points
3. Final review and approval by you of the financial statements
4. Technical clearance
5. Subsequent events review
6. Management letter of representation to be approved and signed

AUDIT REPORT

To follow

AUDIT QUALITY

Contents

BDO is totally committed to audit quality

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

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

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

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

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

Letter of representation

[Client name and Letter headed paper]

BDO LLP
55 Baker Street
London
WIU 7EU

Dear Sirs

Financial statements of London Borough of Barnet Pension Fund for the year ended 31 March 2019

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 2019 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

The Director of Finance has fulfilled her responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Pension Fund as of 31 March 2019 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

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

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

Going concern

We have made an assessment of the Pension Fund's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the Pension Fund is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis. Furthermore, we confirm that the disclosures included in note xx to the financial statements are sufficient.

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

Laws and regulations

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

We have not made any reports to The Pensions Regulator nor are we aware of any such reports having been made by any of our advisers. We confirm that we are not aware of any matters which have arisen that would require a report to The Pensions Regulator. There have been no communications with the Pensions Regulator or other regulatory bodies during the year or subsequently covering areas of non-compliance with any legal duty.

Post balance sheet events

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.

Contents

Fraud and error

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

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

We have drawn to your attention a fraud in relation to lump sum payments that have been reimbursed. To the best of our knowledge we are not aware of any other fraud or suspected fraud involving management or employees. Additionally, we are not aware of any other 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.

Misstatements

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

Related party transactions

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

There were no loans, transactions or arrangements between the Pension Fund and the members or their connected persons at any time in the year which were required to be disclosed.

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

Carrying value and classification of assets and liabilities

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

Accounting estimates

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

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

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

- Rate of inflation (CPI): 2.5%
- Rate of increase in salaries: 2.8%
- Rate of increase in pensions: 2.5%
- Rate of discounting scheme liabilities: 2.4%
- Commutation take up option: 50%

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

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

Litigation and claims

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

Contents

Confirmation

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

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

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

Yours faithfully

Anisa Darr

Director of Finance

[date]

Councillor Geoffrey Alderman

Pension Fund Committee Chair

Signed on behalf of the Pension Fund Committee

[Date]

FOR MORE INFORMATION:

Leigh Lloyd-Thomas

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

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

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

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

www.bdo.co.uk