



Report to the Pension Committee

LONDON BOROUGH OF BARNET PENSION FUND

Audit Planning Report: year ending 31 March 2020

IDEAS | PEOPLE | TRUST



CONTENTS

1	Introduction	3	Valuation of investment assets (other)	15
	Welcome	3	Benefits payable	16
2	Executive summary	4	Membership disclosure	17
	Scope and materiality	4	Funding Barnet and Southgate College deficit	18
	Audit strategy	5	Other matters requiring further discussion	19
	Audit risks overview	6	IT general controls	20
	Independence and fees	7	5 Independence	21
3	Audit scope and objectives	8	Independence	21
	Overview	8	6 Appendices contents	22
	BDO team	9		
4	Audit risks	10		
	Overview	10		
	Management override of controls	11		
	Pensions liability valuation	12		
	Contributions receivable	13		
	Fair value of investments (infrastructure & private equity)	14		

WELCOME

CONTENTS

Introduction

Welcome

Executive summary

Audit scope and objectives

Audit risks

Independence

Appendices contents

We have pleasure in presenting our Audit Planning Report to the Pensions Committee of London Borough of Barnet Council (the 'Council'). This report forms a key part of our communication strategy with you, a strategy which is designed to promote effective two way communication throughout the audit process with those charged with governance.

It summarises the planned audit strategy for the year ending 31 March 2020 in respect of our audit of the financial statements; comprising materiality, key audit risks and the planned approach to these, together the BDO team.

The planned audit strategy has been discussed with management to ensure that it incorporates developments in the scheme during the year under review, the results for the year to date and other required scope changes.

We look forward to discussing this plan with you at the Pensions Committee meeting on 20 May 2020 and to receiving your input on the scope and approach.

In the meantime if you would like to discuss any aspects in advance of the meeting please contact one of the team.

Leigh Lloyd-Thomas

3 March 2020



Leigh Lloyd-Thomas

t: 020 7893 2616

e: leigh.lloyd-thomas@bdo.co.uk



Michael Asare Bediako

t: 020 7893 3643

e: michael.asarebediako@bdo.co.uk

This report has been prepared solely for the use of the Pension Committee and Those Charged with Governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

SCOPE AND MATERIALITY

Executive summary

CONTENTS

Introduction

Executive summary

Scope and materiality

Audit strategy

Audit risks overview

Independence and fees

Audit scope and objectives

Audit risks

Independence

Appendices contents

This summary provides an overview of the key audit matters that we believe are important to the Pensions Committee in reviewing the planned audit strategy for the Pension Fund for the year ending 31 March 2020.

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

Audit scope

The scope of the audit is determined by the National Audit Office's Code of Audit Practice that sets out what local auditors are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. This includes auditing the financial statements and, where appropriate, exercising the auditor's wider reporting powers and duties.

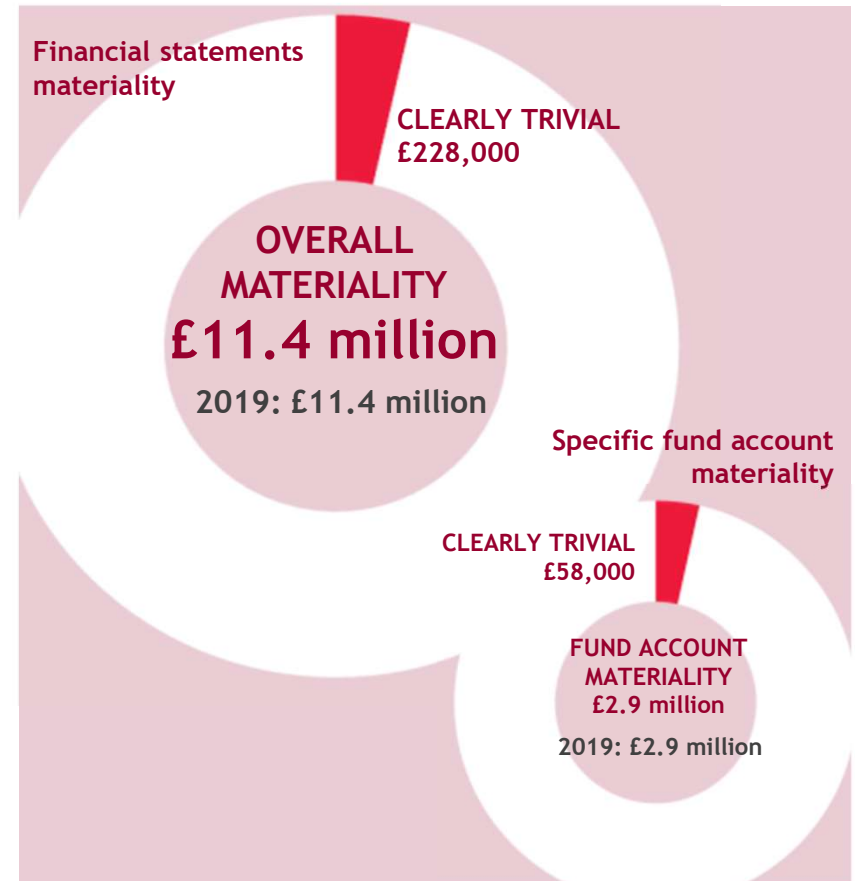
Our approach is designed to ensure we obtain the requisite level of assurance in accordance with applicable laws, appropriate standards and guidance issued by the National Audit Office.

Materiality

Planning materiality for the Pension Fund financial statements will be set at 1% of investment assets (prior year 1%). Specific materiality (at a lower level) may be considered appropriate for certain financial statement areas and we set materiality for the Fund Account at 5% of contributions receivable.

At this stage, these figures are based on the prior year net assets amounts and contributions receivable. This will be revisited when the draft financial statements are received for audit.

Although materiality is the judgement of the engagement lead, the Pension Fund Committee should consider whether the auditor's overall work plan, including planned levels of materiality and proposed resources to execute the audit plan, appears consistent with the scope of the audit engagement.



AUDIT STRATEGY

Executive summary

CONTENTS

Introduction

Executive summary

Scope and materiality

Audit strategy

Audit risks overview

Independence and fees

Audit scope and objectives

Audit risks

Independence

Appendices contents



Our audit strategy is predicated on a risk based approach, so that audit work is focused on the areas of the financial statements where the risk of material misstatement is assessed to be higher.

We have discussed the changes to the Pension Fund, systems and controls in the year with management and obtained their own view of potential audit risk in order to update our understanding of the Pension Fund's activities and to determine which risks impact on the numbers and disclosures in the financial statements.

We will continue to update this assessment throughout the audit.

The table on the next page summarises our planned approach to audit risks identified.

AUDIT RISKS OVERVIEW

Executive summary

CONTENTS

Introduction

Executive summary

Scope and materiality

Audit strategy

Audit risks overview

Independence and fees

Audit scope and objectives

Audit risks

Independence

Appendices contents

Risk identified	Risk rating	Fraud risk present	Testing approach	Impact of significant judgements and estimates
Management override of controls	Significant	Yes	Substantive	Medium
Pension liability valuation	Significant	No	Substantive	High
Contributions receivable	Significant	No	Substantive	Low
Fair value of investments (infrastructure & private equity)	Significant	No	Substantive	High
Valuation of investment assets (other)	Other risk	No	Substantive	Medium
Benefits payable	Other risk	No	Substantive	Low
Membership disclosure	Other risk	No	Substantive	Low
Funding of Barnet and Southgate College deficit	Other risk	No	Substantive	Medium

INDEPENDENCE AND FEES

Executive summary

CONTENTS

Introduction

Executive summary

Scope and materiality

Audit strategy

Audit risks overview

Independence and fees

Audit scope and objectives

Audit risks

Independence

Appendices contents



Independence

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

Fees

	2019/20 Proposed	2018/19 Actual
Code audit fee	(1) £21,170	(1) £21,170
Supplementary fee	-	(2) £14,808
Proposed supplementary fee variation	(3) (4) £15,000	
Total audit fees	£36,170	£35,978

- (1) The PSAA scale fee was increased from £16,170 to £21,170 as a result of the request to undertake additional Capita Employee Benefits testing at the Darlington site.
- (2) Additional fees in 2018/19 in response to issues reported in our Audit Completion Report for the year ended 31 March 2019.
- (3) Proposed supplementary fees of £10,000 in response to expectations of auditors to undertake additional work around management judgements and estimates, to obtain additional corroborating evidence for areas of risk, and to follow up issued arising from the previous audit.
- (4) The actuary has undertaken a full triennial valuation of the fund in 2019 and updated membership data will be used in the 31 March 2020 accounting valuation (IAS 19 for employers and IAS 26 for the whole fund) and the following two years. We are required to carry out extra testing each triennial valuation to ensure the membership data is accurate and the data extraction processes between the membership data system and the actuary is complete and accurate. We estimate this will result in additional costs of £5,000 this year.

OVERVIEW

Audit scope and objectives

CONTENTS

Introduction

Executive summary

Audit scope and objectives

Overview

BDO team

Audit risks

Independence

Appendices contents

Key components of our audit objectives and strategy for the Pension Fund are highlighted and explained on the following pages.

Audit planning is a collaborative and continuous process and our audit strategy, as reflected here, will be reviewed and updated as our audit progresses.

We will communicate any significant changes to our audit strategy, should the need for such change arise.

Reporting	Objectives
Auditing standards	We will perform our audit in accordance with International Standards on Auditing UK (ISAs (UK)) and relevant guidance published by the National Audit Office.
Financial statements	We will express an opinion on Pension Fund financial statements, prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting 2019/20 and other directions.
Statement of Accounts	In addition to our objectives regarding the financial statements, we will also read and consider the other information published together with the financial statements to 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.
Annual Report	We will review the Pension Fund Annual Report and report on the consistency of the Pension Fund financial statements within the Annual Report with the Pension Fund financial statements in the Statement of Accounts.
Report to the Pensions Committee	Prior to the approval of the financial statements, we will discuss our significant findings with the Pensions Committee. We will highlight key accounting and audit issues as well as internal control findings and any other significant matters arising from the audit.

BDO TEAM

Team responsibilities

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Overview
BDO team
Audit risks
Independence
Appendices contents



Leigh Lloyd-Thomas

Partner

t: 020 7893 2616

e: leigh.lloyd-thomas@bdo.co.uk

As audit engagement lead I have primary responsibility to ensure that the appropriate audit opinion is given.

In meeting this responsibility I ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that the financial statements are free from material misstatement, whether due to fraud or error, and to report on the financial statements and communicate as required by the ISAs (UK), in accordance with our findings.

I am responsible for the overall quality of the engagement and am supported by the rest of the team as set out here.



Michael Asare Bediako

Audit Manager

t: 020 7893 3643

e: michael.asarebediako@bdo.co.uk

I will lead on the audit of the Pension Fund financial statements. I work closely with Leigh to develop and execute the audit strategy.

I will be a key point of contact on a day to day basis and will ensure that timelines are carefully managed to ensure that deadlines are met and matters to be communicated to management and the Pensions Committee are highlighted on a timely basis.

OVERVIEW

Audit risks

We have assessed the following as audit risks. These are matters assessed as most likely to cause a material misstatement in the financial statements and include those that will have the greatest effect on audit strategy, the allocation of audit resources and the amount of audit focus by the engagement team.

Description of risk	Significant risk / Other risk	Overview of risk
Management override of controls		Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls.
Pension liability valuation		There is a risk that the membership data provided as part of the 2019 triennial valuation and cash flows for the year provided to the actuary may not be correct, or the valuation uses inappropriate assumptions to value the liability.
Contributions receivable		There is a risk that employers may not be calculating contributions correctly and paying over the full amount due (on normal and deficit rates) or that the pension fund does not correctly charge costs arising on pension strain for early retirements and augmented pensions.
Fair value of investments (infrastructure & private equity)		The valuation of infrastructure and private equity holdings is a significant risk as it involves a higher degree of estimation uncertainty.
Valuation of investment assets (other)		There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements.
Benefits payable		There is a risk that benefits payable may not be correct based on accrued benefits of members or may not be calculated in accordance with the scheme regulations.
Membership disclosure		There is a risk that the membership database may not be accurate to support the disclosure in the accounts.
Funding of Barnet and Southgate College deficit		There is a risk that a potential liability may exist arising from a proposed transfer of liabilities and assets for members in these merged colleges where all retired and deferred benefits are allocated to the LB Enfield pension fund and all current employees at the date of the merger are allocated to the LB Barnet pension fund.

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Pensions liability valuation
Contributions receivable
Fair value of investments (infrastructure & private equity)
Valuation of investment assets (other)
Benefits payable
Membership disclosure
Funding Barnet and Southgate College deficit
Other matters requiring further discussion
IT general controls
Independence
Appendices contents

MANAGEMENT OVERRIDE OF CONTROLS

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Pensions liability valuation
Contributions receivable
Fair value of investments (infrastructure & private equity)
Valuation of investment assets (other)
Benefits payable
Membership disclosure
Funding Barnet and Southgate College deficit
Other matters requiring further discussion
IT general controls
Independence
Appendices contents

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

Significant risk

Normal risk

Fraud risk

Assess design & implementation of controls to mitigate

Significant Management estimates & judgements

Controls testing approach

Substantive testing approach

Risk highlighted by management

Risk detail

ISA (UK) 240 - The auditor’s responsibilities relating to fraud in an audit of financial statements requires us to presume that the risk of management override of controls is present and significant in all entities.

Planned audit approach

Our audit procedures will include the following:

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

PENSIONS LIABILITY VALUATION

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Pensions liability valuation
Contributions receivable
Fair value of investments (infrastructure & private equity)
Valuation of investment assets (other)
Benefits payable
Membership disclosure
Funding Barnet and Southgate College deficit
Other matters requiring further discussion
IT general controls
Independence
Appendices contents

There is a risk that the membership data provided as part of the triennial valuation and cash flows for the year provided to the actuary may not be correct, or the valuation uses inappropriate assumptions to value the liability.

Significant risk	■
Normal risk	□
Fraud risk	■
Assess design & implementation of controls to mitigate	■
Significant Management estimates & judgements	■
Controls testing approach	■
Substantive testing approach	■
Risk highlighted by management	■

Risk detail

An actuarial estimate of the pension fund liability to pay future pensions is calculated by an independent firm of actuaries with specialist knowledge and experience.

This year the membership data provided will be obtained in full as part of the 2019 triennial valuation. The estimate also considers all local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability. The triennial valuation should enable the most up-to-date membership information to be included in the liability calculation.

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

Planned audit approach

Our audit procedures will include the following:

- Agree the disclosures to the information provided by the pension fund actuary;
- Review the controls for providing accurate membership data to the actuary for the triennial valuation;
- Check that material changes in membership since the triennial data extraction 1 April 2019 and 31 March 2020 has been communicated to the actuary;
- Review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data; and
- Discuss with the actuary how the impact of the GMP gender discrimination and McCloud age discrimination judgements and any other significant events have been taken into account in the liability assumptions at 31 March 2020.

CONTRIBUTIONS RECEIVABLE

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Pensions liability valuation
Contributions receivable
Fair value of investments (infrastructure & private equity)
Valuation of investment assets (other)
Benefits payable
Membership disclosure
Funding Barnet and Southgate College deficit
Other matters requiring further discussion
IT general controls
Independence
Appendices contents

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

Significant risk	■
Normal risk	—
Fraud risk	—
Assess design & implementation of controls to mitigate	■
Significant Management estimates & judgements	—
Controls testing approach	—
Substantive testing approach	■
Risk highlighted by management	—

Risk detail

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.

Additional contributions are also required against pension strain for unreduced pensions for early retirements and augmentation of pensions.

In previous years the pension fund has found it difficult to allocate contributions received between normal and deficit contributions from employers, whether paid through an increase in the employer’s contribution rate or through lump sum payments. and this increases the risk that not all contributions due are received.

We have also reported concerns in previous years over the completeness and timeliness of raising supplementary invoices to employers in respect of pension strain costs for unreduced pensions for early retirements.

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

Planned audit approach

Our audit procedures will include the following:

- Test a sample of normal contributions due, additional deficit contributions where included in a higher employer rate and employer deficit lump sum payments for active members including checking to employer payroll records;
- Review contributions receivable and ensure that income is recognised in the correct accounting period where the employer is making payments in the following month;
- Perform tests over capital cost due from employers for pension strain due to early retirement; and
- Carry 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.

FAIR VALUE OF INVESTMENTS (INFRASTRUCTURE & PRIVATE EQUITY)

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Pensions liability valuation
Contributions receivable
Fair value of investments (infrastructure & private equity)
Valuation of investment assets (other)
Benefits payable
Membership disclosure
Funding Barnet and Southgate College deficit
Other matters requiring further discussion
IT general controls
Independence
Appendices contents

The valuation of infrastructure and private equity holdings is a significant risk as it involves a higher degree of estimation uncertainty.

Significant risk	■
Normal risk	□
Fraud risk	■
Assess design & implementation of controls to mitigate	■
Significant Management estimates & judgements	■
Controls testing approach	■
Substantive testing approach	■
Risk highlighted by management	■

Risk detail

The investment portfolio includes illiquid and unquoted infrastructure and private equity holdings valued by the fund manager. The valuation of these funds and underlying assets may be subject to a significant level of assumption or estimation and valuations may not be based on observable market data.

In some cases, the valuations are provided at dates that are not coterminous with the Pension Fund’s year end and need to be updated to reflect cash transactions (additional contributions or distributions received) since the latest available valuations.

There may also be material changes to the underlying values of the assets within the fund between the valuation date of that entity and 31 March 2020.

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

Planned audit approach

Our audit procedures will include the following:

- Obtaining direct confirmation of investment valuations from the fund managers and copies of the audited financial statements (and member allocations) from the fund;
- Where the financial statement date supporting the valuation is not conterminous with the pension fund’s year end, confirming that appropriate adjustments have been made to the valuations in respect of additional contributions and distributions with the funds;
- Assessing whether there may have been material changes in the underlying value of the assets in the funds since the last valuation date and 31 March 2020 and whether this has been reflected in an updated valuation provided by the fund manager; and
- Ensuring investments have been correctly valued in accordance with the relevant accounting policies.

VALUATION OF INVESTMENT ASSETS (OTHER)

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Pensions liability valuation
Contributions receivable
Fair value of investments (infrastructure & private equity)
Valuation of investment assets (other)
Benefits payable
Membership disclosure
Funding Barnet and Southgate College deficit
Other matters requiring further discussion
IT general controls
Independence
Appendices contents

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

Significant risk
Normal risk
Fraud risk
Assess design & implementation of controls to mitigate
Significant Management estimates & judgements
Controls testing approach
Substantive testing approach
Risk highlighted by management

Risk detail

The fair value of other funds (principally unit trusts and pooled investments held through unitised insurance policies) is provided by individual fund managers and reviewed by the Custodian, and reported on a quarterly basis. These funds are quoted on active markets.

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

Planned audit approach

Our audit procedures will include the following:

- Obtain direct confirmation of investment valuations from the fund managers and agreed valuations, where available, to readily available observable data (such as Bloomberg);
- Ensure that investments have been correctly valued in accordance with the relevant accounting policies; and
- Obtain independent assurance reports over the controls operated by both the fund managers and custodian for valuations and existence of underlying investments in the funds.

BENEFITS PAYABLE

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Pensions liability valuation
Contributions receivable
Fair value of investments (infrastructure & private equity)
Valuation of investment assets (other)
Benefits payable
Membership disclosure
Funding Barnet and Southgate College deficit
Other matters requiring further discussion
IT general controls
Independence
Appendices contents

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

Significant risk
Normal risk
Fraud risk
Assess design & implementation of controls to mitigate
Significant Management estimates & judgements
Controls testing approach
Substantive testing approach
Risk highlighted by management

Risk detail

Benefits payable may not be correct based on accrued benefits of members or may not be 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.

Planned audit approach

Our audit procedures will include the following:

- For members leaving the scheme and deferring their pension and members becoming entitled to receive pension during the year, substantively test a sample of calculations of pension entitlement;
- Check the correct application of annual pension uplift for members in receipt of benefits;
- Check a sample of pensioners in receipt of pensions to underlying records to confirm the existence of the member and also review the results of the 'Tell Us Once' notification from HRMC to ensure future payments have been suspended for any bereavements identified;
- Review the results of the latest National Fraud Initiative (NFI) data matching exercise of members in receipt of benefits with the records of deceased persons and what actions have been taken to resolve potential matches;
- Review any life certification exercises undertaken for members that are excluded from the National Fraud Initiative; and
- Agree amounts recorded in the ledger for benefits paid to the pensioner payroll reports.

MEMBERSHIP DISCLOSURE

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Pensions liability valuation
Contributions receivable
Fair value of investments (infrastructure & private equity)
Valuation of investment assets (other)
Benefits payable
Membership disclosure
Funding Barnet and Southgate College deficit
Other matters requiring further discussion
IT general controls
Independence
Appendices contents

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
Fraud risk
Assess design & implementation of controls to mitigate
Significant Management estimates & judgements
Controls testing approach
Substantive testing approach
Risk highlighted by pension fund

Risk detail

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

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

Planned audit approach

Our audit procedures will include the following:

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

FUNDING BARNET AND SOUTHGATE COLLEGE DEFICIT

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Pensions liability valuation
Contributions receivable
Fair value of investments (infrastructure & private equity)
Valuation of investment assets (other)
Benefits payable
Membership disclosure
Funding Barnet and Southgate College deficit
Other matters requiring further discussion
IT general controls
Independence
Appendices contents

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	■
Fraud risk	
Assess design & implementation of controls to mitigate	
Significant Management estimates & judgements	
Controls testing approach	
Substantive testing approach	■
Risk highlighted by pension fund	■

Risk detail

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 and 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.

We are aware that LB Barnet pension fund has made a verbal offer to LB Enfield pension to transfer the deferred and pensioner members and all assets funding accrued benefits to LB Barnet pension fund. LB Barnet pension fund will then be responsible for any liability shortfall for the deferred and pension members.

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

Planned audit approach

Our audit procedures will include the following:

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

OTHER MATTERS REQUIRING FURTHER DISCUSSION

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Pensions liability valuation
Contributions receivable
Fair value of investments (infrastructure & private equity)
Valuation of investment assets (other)
Benefits payable
Membership disclosure
Funding Barnet and Southgate College deficit
Other matters requiring further discussion
IT general controls
Independence
Appendices contents

Fraud

Whilst the Members of the Council 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. Our audit approach includes the consideration of fraud throughout the audit and includes making enquiries of management and those charged with governance.

We have been made aware of a fraud resulting in payments made by a member of staff administering the scheme and this has been recovered from the service provider so that there has been no loss to the fund. We have not been made aware of any other actual, alleged or suspected incidences of fraud in year. We request confirmation from the Pensions Committee on fraud and a discussion on the controls and processes in place to ensure timely identification and action.

Management believe that there is low risk of material misstatement arising from fraud and that controls in operation would prevent or detect material fraud.

Significant accounting estimates and judgements

We will report to you on significant accounting estimates and judgements. We will seek to understand and perform audit testing procedures on accounting estimates and judgements including consideration of the outcome of historical judgements and estimates. We will report to you our consideration of whether management estimates and judgements are within an acceptable range.

Accounting policies

We will report to you on significant qualitative aspects of your chosen accounting policies. We will consider the consistency and application of the policies and we will report to you where accounting policies are inconsistent with the CIPFA Code of Practice on Local Authority Accounting 2019/20, applicable accounting standards.

Internal audit

We will ensure that we maximise the benefit of the overall audit effort carried out by internal audit and ourselves, whilst retaining the necessary independence of view.

We will review the reports issued by the Council's internal audit function, as relevant to the Pension Fund, although we do not plan place reliance on their work in respect of their assessment of control processes.

Laws and regulations

We will consider compliance with laws and regulations, including VAT legislation, Employment Taxes, Health and Safety and the Bribery Act 2010. We will make enquiries of management and review correspondence with the relevant authorities.

Financial statement disclosures

We will report to you on the sufficiency and content of your financial statement disclosures.

Any other matters

We will report to you on any other matters relevant to the overseeing of the financial reporting process. Where applicable this includes why we consider a significant accounting practice that is acceptable under the financial reporting framework not to be the most appropriate.

IT GENERAL CONTROLS

IT General Controls (ITGCs) are the policies and procedures that relate to many IT applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. They commonly include controls over data centre and network operations; system software acquisition, change and maintenance; access security; and application system acquisition, development, and maintenance.

ITGCs are an important component in systems of internal control, and sometimes have a direct impact on the reliability of other controls.

IT assurance is embedded in our audit strategy to ensure the IT systems provide a suitable platform for the control environment and is undertaken in conjunction with our IT Assurance team. Our testing strategy includes a tailored range of data analytics, system configuration and IT environment testing.

We will also obtain an understanding of the information system, including the related business processes relevant to financial reporting.



CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Pensions liability valuation
Contributions receivable
Fair value of investments (infrastructure & private equity)
Valuation of investment assets (other)
Benefits payable
Membership disclosure
Funding Barnet and Southgate College deficit
Other matters requiring further discussion
IT general controls
Independence
Appendices contents

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 auditing 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 ending 31 March 2020.

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.

We also confirm that we have obtained confirmation that 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.

Non-audit services

We do not carry out any non-audit services in respect of the Pension Fund.

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

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks
Independence
Independence
Appendices contents

APPENDICES CONTENTS

A	Responsibilities	23	D	Audit quality	29
	Management responsibilities	23		Audit quality	29
	Our responsibilities	24		AQR results 2018/19	30
	Communication with you	25			
B	Independence	26			
	Team member rotation	26			
C	Materiality	27			
	Materiality: Definition and application	27			

MANAGEMENT RESPONSIBILITIES

Management responsibilities and reporting

CONTENTS

Appendix contents

Responsibilities

Our responsibilities

Communication with you

Independence

Materiality

Materiality: Definition and application

Audit quality

AQR results 2018/19

Financial reporting

The Pension Fund is expected to have effective governance arrangements to deliver its objectives. To this end, the publication of the financial statements is an essential means by which the Pension Fund accounts for its stewardship and use of the public money at its disposal.

The form and content of the Pension Fund's financial statements should reflect the requirements of the relevant accounting and reporting framework in place and any applicable accounting standards or other direction under the circumstances.

The Section 151 Officer is responsible for preparing and publishing Pension Fund financial statements which show a true and fair view in accordance with CIPFA Code of Practice on Local Authority Accounting 2019/20, applicable accounting standards or other direction under the circumstances.

Our audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of materially accurate financial statements.



OUR RESPONSIBILITIES

Responsibilities and reporting

CONTENTS
Appendix contents
Responsibilities
Our responsibilities
Communication with you
Independence
Materiality
Materiality: Definition and application
Audit quality
AQR results 2018/19

Our responsibilities and reporting - financial 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 Council.

We read and consider the ‘other information’ contained in the Statement of Accounts such as the additional narrative reports. 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.

In addition, we review the Pension Fund Annual Report and report on the consistency of the Pension Fund financial statements within the Annual Report with the Pension Fund financial statements in the Statement of Accounts.

What we don't report

Our audit is not designed to identify all matters that may be relevant to the Pension Fund and 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.



COMMUNICATION WITH YOU

CONTENTS

Appendix contents

Responsibilities

Our responsibilities

Communication with you

Independence

Materiality

Materiality: Definition and application

Audit quality

AQR results 2018/19

Those charged with governance

References in this report to ‘those charged with governance’ are to the Pension Fund as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Pensions 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 will meet with management throughout the audit process. We will issue regular updates and drive the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Audit Planning Report

The Audit Planning Report sets out all planning matters which we want to draw to your attention including audit scope, our assessment of audit risks and materiality.

Internal Controls

We will consider internal controls relevant to the preparation of financial statements in order to design our audit procedures and complete our work. This is not for the purpose of expressing an opinion on the effectiveness of internal control.

Audit Completion Report

At the conclusion of the audit, we will issue an Audit Completion Report to communicate to you key audit findings before concluding our audit opinion. We will include any significant deficiencies in internal controls which we identify as a result of performing audit procedures. We will meet with you to discuss the findings and in particular to receive your input on areas of the financial statements involving significant estimates and judgements and critical accounting policies.

Once we have discussed the contents of the Audit Completion Report with you and having resolved all outstanding matters we will issue a final version of the report.

TEAM MEMBER ROTATION

CONTENTS

Appendix contents

Responsibilities

Our responsibilities

Communication with you

Independence

Materiality

Materiality: Definition and application

Audit quality

AQR results 2018/19

These tables indicate the latest rotation periods normally permitted under the independence rules of the FRC's Ethical Standard.

In order to safeguard audit quality we will employ a policy of gradual rotation covering the team members as well as other senior members of the engagement team to ensure a certain level of continuity from year to year.

Independence - engagement team rotation

Senior team members	Number of years involved	Rotation to take place after
Leigh Lloyd-Thomas Engagement lead	5	2020
Michael Asare Bediako Manager	2	2028

Independence - audit quality control

	Number of years involved	Rotation to take place after
Engagement quality control reviewer	1	2027

MATERIALITY: DEFINITION AND APPLICATION

CONTENTS

Appendix contents

Responsibilities

Our responsibilities

Communication with you

Independence

Materiality

Materiality: Definition and application

Audit quality

AQR results 2018/19

Concept and definition

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):

- Narrative disclosure e.g. accounting policies, going concern; and
- Instances when greater precision is required (e.g. Remuneration and Staff Report and related party transactions).

International Standards on Auditing (UK) also allow the auditor to set a lower level of materiality for particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Calculation and determination

We have determined materiality based on professional judgement in the context of our knowledge of the entity, including consideration of factors such as industry developments, financial stability and reporting requirements for the financial statements.

We determine materiality in order to:

- Assist in establishing the scope of our audit engagement and audit tests;
- Calculate sample sizes; and
- Assist in evaluating the effect of known and likely misstatements on the financial statements.

Reassessment of materiality

We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.

Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope.

MATERIALITY: DEFINITION AND APPLICATION

CONTENTS
Appendix contents
Responsibilities
Our responsibilities
Communication with you
Independence
Materiality
Materiality: Definition and application
Audit quality
AQR results 2018/19



If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.

You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

Unadjusted errors

We will communicate to you all uncorrected misstatements identified during our audit, other than those which we believe are ‘clearly trivial’.

Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.

We will obtain written representations from the Pensions Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.

We will request that you correct all uncorrected misstatements. In particular we would strongly recommend correction of errors whose correction would affect compliance with contractual obligations or governmental regulations. Where you choose not to correct all identified misstatements we will request a written representation from you setting out your reasons for not doing so and confirming that in your view the effects of any uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as whole.

AUDIT QUALITY

CONTENTS
Appendix contents
Responsibilities
Our responsibilities
Communication with you
Independence
Materiality
Materiality: Definition and application
Audit quality
AQR results 2018/19

Overview

The FRC released their Audit Quality Review (AQR) results for the 7 largest accountancy firms in July 2019 for the review period 2018/19. A copy of all of the reports can be found on the [FRC Website](#). We are very proud of our results in this review period where, for the second year running, 7 of the 8 files reviewed were assessed as either good or requiring only limited improvements.

Firm's results

The graphs demonstrates our performance in relation to the other 6 largest firms and our continuous improvements and maintenance of that improvement over the last 6 review periods.

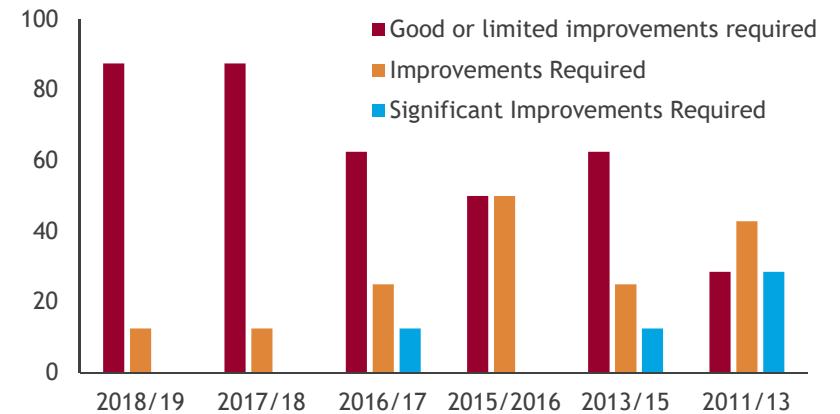
We include details of our model 'The Cycle of Continuous Improvement' on the following page. We acknowledge that the firm has performed well over the last few years however we are not complacent and need a strong process in place to maintain this high level of audit quality and deal rapidly and effectively with issues as they arise. This also highlights how our program of root cause analysis plays an important role in high audit quality.

We would encourage you to read our report which includes:

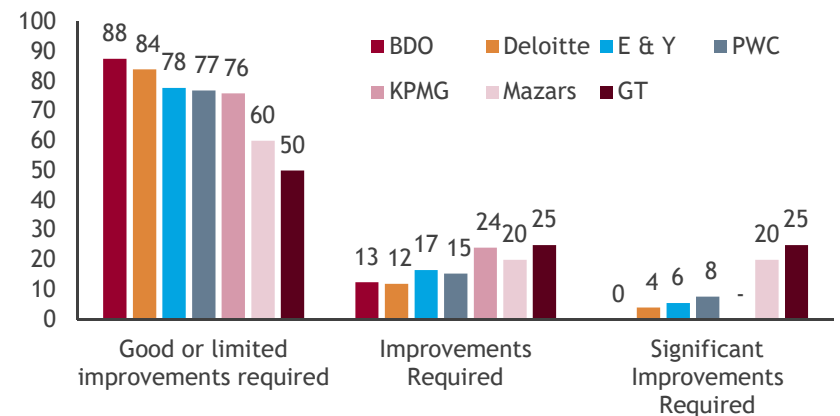
- Details of the root cause analysis we have been undertaking to address issues raised;
- The actions we have/are undertaking to address the issues raised by the AQR; and
- A number of areas of good practice the AQR review team identified whilst undertaking their review.

More details are included in our Transparency Report which is available on our website www.bdo.co.uk.

BDO AQR Results - year on year



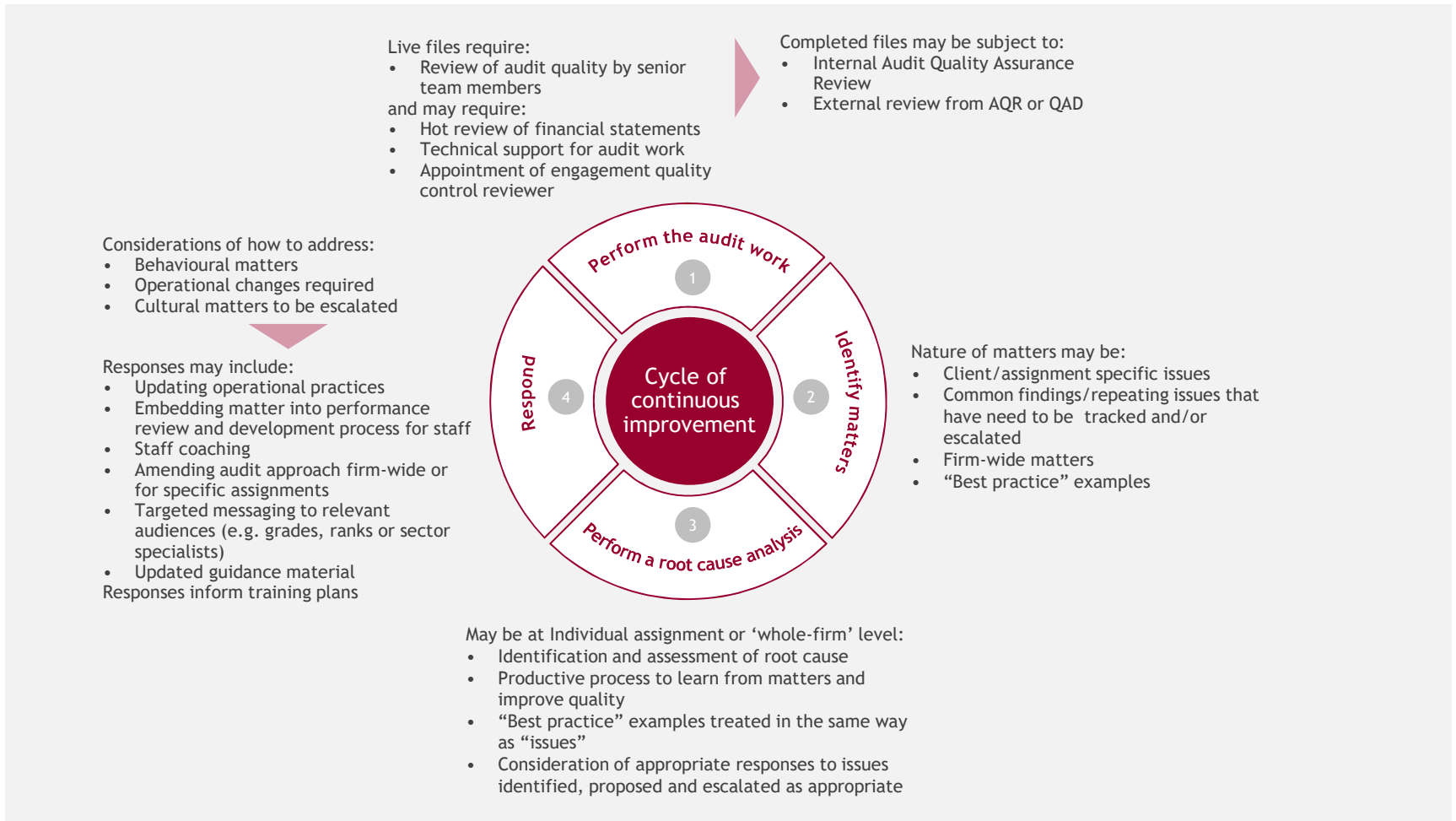
Big 7 Firms - Results 2019



AQR RESULTS 2018/19

BDO performance

CONTENTS
Appendix contents
Responsibilities
Our responsibilities
Communication with you
Independence
Materiality
Materiality: Definition and application
Audit quality
AQR results 2018/19



FOR MORE INFORMATION:

Leigh Lloyd-Thomas

t: 020 7983 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 company 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.

© 2020 BDO LLP. All rights reserved.

www.bdo.co.uk