



Report to the Pension Fund Committee

LONDON BOROUGH OF BARNET PENSION FUND

Audit Progress Report: year ended 31 March 2021

IDEAS | PEOPLE | TRUST



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

It summarises the results of the work to date for the year ended 31 March 2021, specific audit findings and areas requiring further discussion and/or the attention of the Pension Fund Committee.

We will provide an update on outstanding work at the December Pension Fund Committee and anticipate reporting the final audit results to the February 2022 meeting, in our Audit Completion Report.

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

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

Lisa Blake

10 December 2021



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. This report has been prepared solely for the use of the Pension Fund 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.

OVERVIEW

Executive summary

This summary provides an overview of the audit matters identified from work completed to date that we believe are important to the Pension Fund Committee in considering the results of the audit of the financial statements of the Pension Fund for year ended 31 March 2021.

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



Overview

Our audit work is on going and subject to the successful resolution of outstanding matters (refer to page 30 detailed status update), we anticipate issuing our opinion on the financial statements for the year ended 31 March in February 2022.

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.

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THE NUMBERS

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Final materiality

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

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

We increased our materiality from the planning Materiality of £10.7 million to £13.9 million as a result of the increase in the valuations of investment assets at year end.

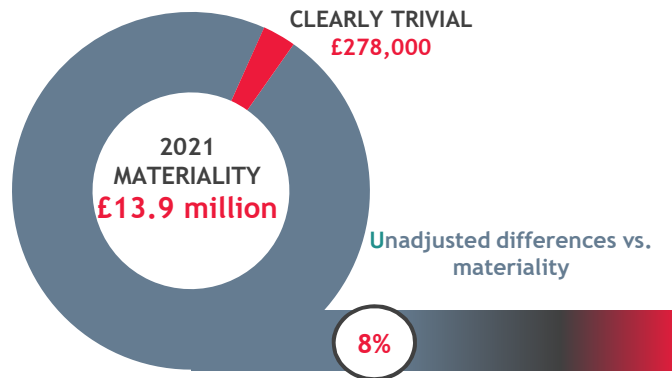
Audit differences

We identified 2 audit differences to date that require correction that result in an Overstatement of expenditure and understatement of net assets by £3.364 million

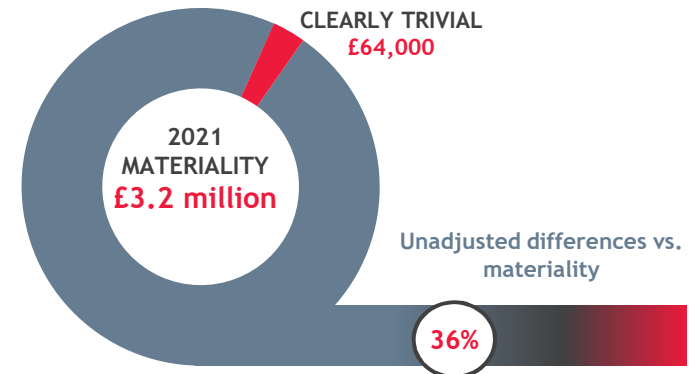
There are 6 audit differences from the prior year that have been corrected in 2020/21. The impact of the roll forward of prior year differences has resulted in return on assets for 2020/21 being overstated by £2.209 million. These are no longer audit differences at 31 March 2021 and we do not ask that you correct these as a prior period adjustment as the impact is not material. However, we report these to show the impact on the net returns in the fund account for 2020/21.

The impact of the current year and prior year audit differences has resulted in the fund account understating net expenditure by £1.155 million.

Financial statements overall materiality



Fund account materiality



OTHER MATTERS

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Financial reporting

From the work completed to date and subject to quality review:

- 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.

Independence

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



AUDIT RISKS OVERVIEW

As identified in our Audit Planning Report dated 22 April 2021 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the engagement team.

| Audit Risk | Risk Rating | Significant management estimate or judgement | Use of experts required | Error Identified | Significant control findings | Discussion points / Letter of Representation |
|---|-------------|--|-------------------------|------------------|------------------------------|---|
| Management override of controls | Significant | Yes | No | - | - | Work in progress |
| Inappropriate assumptions and estimates used in pension liabilities valuation | Significant | Yes | Yes | Yes | No | Yes. Representations on key actuarial assumptions |
| Incorrect valuation of investment assets (infrastructure and private equity) | Significant | Yes | No | Yes | No | Misstatement due to timing of valuation |
| Incorrect valuation of investment assets (other investments) | Normal risk | No | No | No | No | No |
| Incorrect benefits paid or benefits due incorrectly calculated | Significant | No | No | - | - | Work in progress |
| Incorrect and incomplete membership database transferred to the new pension administrator | Normal risk | No | No | - | - | Work in progress |
| Potential liability may exist arising from the allocation of members in the merged Barnet and Southgate college | Normal risk | No | No | No | - | No |

 Areas requiring your attention

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MANAGEMENT OVERRIDE OF CONTROLS

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Risk description

Management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.

Management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively. We are required to consider this as a significant risk of material misstatement due to fraud.

| | |
|--|---|
| Significant risk | ■ |
| Normal risk | |
| Significant management estimate or judgement | ■ |
| Use of experts | |
| Unadjusted error | |
| Adjusted error | |
| Additional disclosure required | |
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Work performed

We carried out the following planned audit procedures:

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

Results

Our review of management estimates has not identified the existence of any systemic bias.
 We did not identify any evidence to suggest unadjusted audit differences are indicative of bias or deliberate misstatement by management.

Work outstanding

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

Conclusion

Work outstanding needs to be completed before we are able to conclude on this risk.

PENSION LIABILITY VALUATION

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 2019 triennial valuation exercise, updated at 31 March 2021 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;
- Assessed the controls for providing accurate membership data to the actuary ;
- Checked whether any significant changes in membership data have been communicated to the actuary;
- Checked the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data; and

Results

We agreed the pension disclosures in the accounts to the IAS 26 disclosure report from the actuary with no issues.

The pension scheme undertook a Common Data cleanse with the actuary to ensure the existence, completeness and accuracy membership data prior to the 2019 triennial valuation. The final report from the actuary indicated that after the data validation stage, the membership data submitted by the Fund for the 2019 valuation was suitable for the purpose of a funding valuation. As no significant event has taken place since the last triennial valuation the membership data is rolled forward for use in the 31 March 2021 accounting valuation.

Enquiry made of management indicated that no significant event has taken place in the year other than bulk transfers of 33 members in the year which does not impact on the pension fund scheme however this has been taken into account at the employer level for IAS 19 accounting purposes.

The following discrimination cases covering GMP gender equality, McCloud age discrimination and Goodwin spousal pensions are likely to impact on liability to pay future pensions:

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.

Significant risk

Normal risk

Significant management estimate or judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Significant control findings to be reported

Letter of representation point

PENSION LIABILITY VALUATION

The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty.

Results (continued)

GMP Equalisation

On 20 November 2020, the High Court handed down a further judgment of the Lloyds GMP equalisation case, concluding that historical transfer values need to have their GMPs equalised from 1990 onwards. The actuary has not made any allowance, which is consistent with all other local government actuaries. Local government actuaries have cited that the announcement in February 2020 which extends to the November 2020 ruling, by the then Ministry of Housing, Communities and Local Government and HM Treasury that they are considering whether GMP equalisation in the context of the LGPS requires any further actions however neither party has yet issued any clear statements on this topic. In addition, the actuary for the pension scheme has indicated that any ruling is unlikely to have a significant impact on the pension obligations of a typical Employer. Furthermore, the historic individual member data needed to assess impact at Employer level is not readily available. PwC, as consulting actuary, has indicated that the approach taken by the actuaries is reasonable in the absence of clear statements or evidence to contradict the HM Treasury announcement.

GMP Indexation

In March 2021 the Government confirmed that public service pension schemes will be expected to pay full indexation for members who reach their State Pension Age after 5 April 2021. The actuary made allowance for full GMP indexation within the closing balance sheet position in the prior year therefore no further update was required for 2021.

McCloud

In the prior year the actuary made an allowance for the impact of McCloud judgement on pension liability at the balance sheet date. The actuary confirmed no additional adjustment to current service cost in the current year for extra year of service for those affected noting that they expect the impact of not allowing for the additional accrual to be less than 1% of payroll, or less than 0.1% of liabilities. We have estimated impact of McCloud on current service to be £2.405 million. Management has not corrected this in the accounts on the basis of materiality. (Unadjusted disclosure)

Goodwin case

The actuary did not make any adjustment for Goodwin judgement to adjust for the impact of differential in survivor pensions for same sex marriage or civil partnerships. The actuary estimated an additional liability of 0.1% on pension liability however did not make any adjustment as impact was deemed insignificant on the scheme. We have estimated this for the current year to be £2.405 million. Management has not corrected this in the accounts on the basis of materiality. (Unadjusted disclosure)

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PENSION LIABILITY VALUATION

The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty

O'Brien Judgement

The Courts found in favour of scheme members who argued that they had been treated unfairly in terms benefits due to them under their employment conditions. The courts have allowed for pension benefits to be backdated or claims to be made retrospectively. The actuary has not made any allowance for the impact of these ruling on pension liability as they estimate the impact to be 0.0% as both part-time and full workers received same access to pension under LGPS.

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

Representations required

We will sought specific representations at the end of the audit over material assumptions used in the valuation of the pension liability include the financial and mortality assumptions.

Conclusion

Our audit on this section is substantially completed subject to quality reviews. Work completed thus far indicate that the defined benefit obligation has been appropriately calculated and the assumptions used are reasonable.

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PENSION LIABILITY VALUATION

Significant estimate - LGPS pension liabilities

Council pension liabilities 2,405 million



The Council's pension liability has increased from £1,843 million to £2,405 million. The increase in liability includes £471 million for changes to financial assumptions such as increased annual salary increases above CPI at 2.8% (previously 2.6%), increased annual pension increases at 2.85% (previously 1.9%) offset by a fall in the rate of discounting scheme liabilities to 2% (previously 2.3%). It also include £26 million increase in liability from demographic and longevity assumptions'

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

| | Actual used | Acceptable range | Comments |
|---------------------|--|------------------|--|
| Financials: | | | |
| - RPI increase | 2.90% | 3.20 - 2.35% | Reasonable |
| - pensions increase | 2.85% | 2.8 - 2.85% | Reasonable |
| - Salary increase | 2.8% | 2.8 - 2.95% | Reasonable - short term assumption of lower rate and increasing long term assumption |
| - Discount rate | 2% | 1.95 - 2.05% | Reasonable |
| Commutation: | 50% | 50% | Reasonable |
| Mortality: | | | |
| - Male current | 23.3 years | 21.8 - 24.3 | Reasonable |
| - Female current | 26.6 years | 25.2 - 26.7 | Reasonable |
| - Male retired | 21.9 years | 20.4 - 22.7 | Reasonable |
| - Female retired | 24.4 years | 23.2 - 24.9 | Reasonable |
| Mortality gains | CMI 2018 (+1.25% improvement rate) with Club Vita local adjustments | | Reasonable |

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

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CONTRIBUTIONS RECEIVABLE

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

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.

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 estimate or judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Significant control findings to be reported

Letter of representation point

Work performed

We carried out the following planned audit procedures:

- Tested an increased sample of normal contributions due, additional deficit contributions where included in a higher employer rate and employer deficit lump sum payments for active members including checking to employer payroll records
- Reviewed contributions receivable and ensured 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
- Carried out audit procedures to review contributions income in accordance with the Actuary's Rates and Adjustments Certificate, including specified increased rates to cover the minimum contributions to be paid as set out in the Certificate.

Results

Our audit is still in progress. We experienced delays with provision of data and information from management especially those that relate to the period before the change in administrators. We are closely working with management and Capita to speed up the process to get all the information needed to complete this section.

Conclusion

Work outstanding needs to be completed before we are able to conclude on this risk.

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VALUATION OF INVESTMENT ASSETS(INFRASTRUCTURE E& PRIVATE EQUITY)

Risk description

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 2021.

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

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

Work performed

We carried out the following planned audit procedures:

- Obtained direct confirmation of investment valuations from the fund managers and copies of the audited financial statements (and member allocations) from the fund for infrastructure and private equity funds
- Confirmed that appropriate adjustments have been made to the valuations in respect of additional contributions and distributions with the funds where the financial statement date supporting the valuation is not coterminous with the Pension Fund’s year end
- Checked 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 2021 per market conditions and latest financial statements or partnership accounts and whether changes have been reflected in an updated valuation provided by the fund manager
- Ensured investments have been correctly valued in accordance with the relevant accounting policies
- Obtained independent assurance reports over the controls operated by both the fund managers and Custodian for valuations and existence of underlying investments in the funds.

Results

We obtained all confirmations from managers directly and, where applicable, copies of financial statements. No issues were identified.

All confirmations obtained from the managers were for valuations of investments at 31 March 2021.

We did not identify any issues with the valuation basis applied by the fund managers.

We obtained independent assurance reports over the controls operated by all the fund managers and did not identify any issues.

We identified that the pension fund used Q3 valuation in the accounts for investments with CBRE and Adam Street, which was different to the Q4 valuation obtained directly from the fund managers. Q4 valuation was not available at the time of preparing the accounts. This resulted in understatement of investment valuation and change in market value by £3.364 million at year end (Unadjusted Ref#1).

Conclusion

Our audit is substantially complete, subject to quality reviews. We have identified an understatement of £3.364 million in value of investment at year end. Management do not propose to correct this misstatement.

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VALUATION OF INVESTMENT ASSETS(OTHER)

Risk description

The fair value of other funds (principally unit trusts and pooled investments held through unitised insurance policies) is provided by individual fund managers 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.

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 and agreed valuations, where possible, to readily available observable data (such as Bloomberg)
- Ensured that investments have been correctly valued in accordance with the relevant accounting policies
- Obtained independent assurance reports over the controls operated by both the fund managers and Custodian for valuations and existence of underlying investments in the funds.

Results

We obtained all confirmations from managers directly and, where applicable, copies of financial statements. No issues were identified.

All confirmations obtained from the managers were for valuations of investments at 31 March 2021.

We did not identify any issues with the valuation basis applied by the fund managers.

We obtained independent assurance reports over the controls operated by all the fund managers and did not identify any issues.

Conclusion

Our audit work is substantially complete, subject to quality reviews. Work completed thus far indicates that investment assets have been appropriately valued and recorded in the financial statements.

Significant risk

Normal risk

Significant management estimate or judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Significant control findings to be reported

Letter of representation point

BENEFITS PAYABLE

Risk description

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.

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.

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 have substantively tested a sample of calculations of pension entitlement
- Checked the correct application of annual pension uplift for members in receipt of benefits
- Checked a sample of pensioners in receipt of pensions to underlying records to confirm the existence of the member and also reviewed the results of the 'Tell Us Once' notification from HRMC to ensure future payments have been suspended for any bereavements identified
- Reviewed 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
- Reviewed any life certification exercises undertaken for members that are excluded from the National Fraud Initiative
- Agreed amounts recorded in the ledger for benefits paid to the pensioner payroll reports.

Results

Our audit is still in progress. We experienced delays with provision of data and information from management especially those that relate to the period before the change in administrators. We are closely working with management and Capita to speed up the process to get all the information needed to complete this section.

Conclusion

Work outstanding needs to be completed before we are able to conclude on this risk.

Significant risk

Normal risk

Significant management estimate or judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Significant control findings to be reported

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CHANGE IN PENSION ADMINISTRATOR

Risk description

During the year the Pension Fund changed its pension fund administrator from Capita to West Yorkshire. There is a risk that the membership database transferred from Capita to West Yorkshire may be inaccurate or incomplete.

There is a risk that incorrect or incomplete membership database may be transferred to the new pension administrator.

Work performed

We carried out the following planned audit procedures:

- Reviewed the controls around the transfer of data to ensure appropriate controls were designed and implemented during the data transfer stage
- Checked management's reconciliation of membership data before and after the transfer to membership data and ensure discrepancies were followed up and resolved
- Agreed a sample of membership records to membership data transferred from the previous administrator.

Results

Our audit is still in progress. We experienced delays with provision of data and information from management especially those that relate to the period before the change in administrators. We are closely working with management and Capita to speed up the process to get all the information needed to complete this section.

Conclusion

Work outstanding needs to be completed before we are able to conclude on this risk.

| | |
|--|--|
| Significant risk | |
| Normal risk | |
| Significant management estimate or judgement | |
| Use of experts | |
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FUNDING BARNET AND SOUTHGATE COLLEGE DEFICIT

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 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 Fund 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 Pension Fund will not accept this proposal and a potential liability may exist and not be recorded arising from the allocation of members in these merged colleges across the LB Enfield and LB Barnet pension funds.

There is a risk that a potential liability may exist and not be recorded 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:

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

Results and conclusion

Per discussions with management the latest position is that the Barnet Southgate college is seeking a direction order that would result in all assets and member liabilities moving to Barnet. Barnet has agreed and Enfield are currently reviewing the draft order. The Actuary has calculated under a direction order that the assets to be received by Barnet Pension Fund would be £5 million greater than the value placed on the transferred liabilities, which compares to a Barnet and Southgate college liability of £4 million should Enfield value the liabilities on a cessation basis Conclusion.

We are in discussion with management to update the post balance sheet event disclosure to highlight this latest development in the accounts.

Significant risk

Normal risk

Significant management estimate or judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Significant control findings to be reported

Letter of representation point

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GOING CONCERN

We are required to highlight any judgements about events or conditions that may cast significant doubt over the entity's ability to continue as a going concern

Management's assessment of going concern

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. The Code indicates that the assumed going concern concept for the Local Authority also applies to Local Authority's pension fund statements.

An authority's financial statements have been prepared on a going concern basis; that is, the accounts have been prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern.

The Local Authority as the administering authority has prepared its financial statements under code as the code assumes the authority to be a going concern and that assumption applies to the LGPS in terms of the code.

The code further highlights that where an authority is facing financial difficulties such difficulties should be disclosed.

Discussion and conclusion

Our review of management's assessment is on going however, to date, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council and Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue which needs to be disclosed.

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OTHER MATTERS

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

| Issue | Comment |
|---|--|
| Understatement of Investment management expenses Our audit work identified that investment management expense of £1.389 million deducted at source by the fund manager was not disclosed as investment management fees in the fund account. | Management has not corrected this disclosure error on the basis of materiality and we have reported it as a disclosure misstatement. |
| Presentation and missing disclosures in the accounts Our review of the draft accounts identified a number of presentational and other missing disclosures. | Management has amended the financial statements for the issues identified. |

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MATTERS REQUIRING ADDITIONAL CONSIDERATION

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Fraud

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

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

Laws and regulations

The most significant considerations for your organisation are the:

- Public Service Pensions Act 2013
- Local Government Pension Scheme Regulations 2013 (as amended)
- Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

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

AUDIT DIFFERENCES

Current year

We identified 2 audit differences to date that require correction that result in an overstatement of expenditure and understatement of net assets by £3.364 million

There are 6 audit differences from the prior year that have been corrected in 2020/21. The impact of the roll forward of prior year differences has resulted in return on assets for 2020/20 being overstated by £2.209 million. These are no longer audit differences at 31 March 2021 and we do not ask that you correct these as a prior period adjustment as the impact is not material. However, we report these to show the impact on the net returns in the fund account for 2020/21.

The impact of the current year and prior year audit differences has resulted in the fund account understating net expenditure by £1.155 million.

| Audit differences | Fund Account | | | Net Assets Statement | |
|--|----------------------|-------------|---------------|----------------------|---------------|
| | NET DR/(CR) £000s | DR £000s | (CR) £000s | DR £000s | (CR) £000s |
| Decrease in net assets / net assets of the fund before adjustments | (315,167) | | | 1,394,600 | |
| Adjustment 1: Understatement of investment | | | | | |
| Dr Investment | | | | 3,364 | |
| Cr Change in Market value | (3,364) | | (3,364) | | |
| Adjustment 2: incorrect presentation of investment management fees | | | | | |
| Dr Investment management fees | 1,387 | 1,387 | | | |
| Cr Change in market value | 1,387 | (1,387) | | | |
| Total audit differences | (3,364) | | | 3,364 | |
| Decrease in net assets / net assets of the fund after adjustments | (318,531) | | | 1,397,964 | |

AUDIT DIFFERENCES.

Prior year

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| | Fund Account | Net Assets Statement |
|---|--------------|----------------------|
| Prior year audit differences | | |
| Unbilled strain charged | 292 | |
| Bank reconciliations adjustment | (216) | |
| Understatement of Investment | 951 | |
| Overstatement of investment | 400 | |
| Employee contributions adjustment | (155) | |
| Deficit funding adjustment | 937 | |
| Impact of prior year audit differences on fund account performance for 2019/20 | 2,209 | |

Uncorrected disclosures

The following amounts impact on the reported fund pension liability to pay future pensions and have not been corrected in the reported whole fund liability of £4.8 million:

- McCloud liability understated (£2.4million)
- Goodwin liability understated (£2.4 million)

OTHER DEFICIENCIES

We also bring to your attention other deficiencies noted during the audit.

| Area | Observation & implication | Recommendation | Management response |
|-------------------------------------|--|--|---|
| Logotech : Weak Password Parameters | <p>As password parameters were deemed insufficient and increases the risk of unauthorised access</p> <p>Risk that user passwords can be guessed or become known over time to other users. As a result, user accounts are at an increased risk of being used by persons other than the legitimate account owner.</p> <p>Crystallisation of this risk may have resulted in a material misstatement or fraud because user accounts may have been used to:</p> <ol style="list-style-type: none"> 1) process unauthorised, fraudulent or inaccurate transactions, and 2) bypass controls designed or required to segregate duties. | <p>Implement mandatory password strength to the systems such as new passwords every 30/60/90 days, the 6 previous passwords cannot be re-used, minimum 6 characters and at least 1 special character and at least 1 number</p> | <p>Management agrees with the recommendation and will investigate the changes required with the software providers.</p> |
| Logotech, Review on Audit Log | <p>We confirmed that audit logging is enabled on these applications however the logs were not regularly reviewed and confirmed for appropriateness for administrator accounts.</p> <p>Absence of a periodic process to monitor changes made to standing data and other super users' activities in the application. This raises a risk of fraud due to the misuse of admin accounts. The audit trail should be enabled and regularly reviewed by the management to mitigate the high level of risk associated with the data.</p> | <p>Restrict privileged access such as creating, modifying, and deleting user access and other permissions (change standing date and sensitive information, etc internal IT employees only.</p> <p>Review the audit log report on a period basis.</p> | <p>Management agrees with the recommendation and will investigate the changes required with the software providers.</p> |

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PRIOR YEAR DEFICIENCIES

We have followed up progress on addressing control deficiencies we have reported in the previous year

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

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

INDEPENDENCE

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

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

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2021.

Details of services, other than audit, provided by us to the Council during the period and up to the date of this report are set out on the following page and were provided in our Audit Planning Report. We understand that the provision of these services was approved by the Audit Committee in advance in accordance with the Council's policy on this matter.

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

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

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

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

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

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FEES

Fees summary

| | 2020/21 Proposed | 2019/20 Proposed |
|-------------------------|------------------------|------------------------|
| Code audit fee | £16,170 | £16,170 |
| Supplementary fee | - | ⁽¹⁾ £20,000 |
| Proposed fee variation | ⁽²⁾ £20,000 | |
| Total audit fees | £36,170 | £36,170 |

(1) Additional fees in 2019/20 in response to issues reported in our Audit Completion Report for the year ended 31 March 2019. This has been agreed with management and subject to PSAA approval.

(2) Proposed supplementary fees of £20,000 to:

- Reflect additional audit procedures that need to be undertaken to respond to the membership data completeness and accuracy risk arising from the change of pension administrator during the year
- Meet expectations of regulators for auditors to undertake additional work around management judgements and estimates, to obtain additional corroborating evidence for areas of risk
- Follow up issues arising from the previous audit



COMMUNICATION WITH YOU

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Those Charged with Governance (TCWG)

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

Communication, meetings and feedback

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

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

| Communication | Date (to be) communicated | To whom |
|--|---------------------------|------------------------|
| Audit Planning Report | 22 April 2021 | Pension Fund Committee |
| Report on significant weaknesses in controls / Audit progress report (this report) | 10 December 2021 | Pension Fund Committee |
| Audit Completion Report | February 2022 | Pension Fund Committee |

STATUS UPDATE ON KEY FINANCIAL STATEMENT AREAS

The table sets out the status of our work to date and summary of any issues identified to date.

| Financial statement area | Status | % Completion | Issues |
|---|--|--------------|--|
| Investment Asset | Complete subject to quality reviews | 95% | £3.364 million understatement of asset |
| Pension liability valuation | Substantially complete subject to quality reviews | 85% | McCloud and Goodwin impact. £4.8 million. Impact of O'Brien judgement on liability still being discussed |
| Journals | Substantially complete subject to quality reviews | 80% | A couple of queries outstanding |
| Cash balance | In progress. A couple of queries outstanding | 60% | Queries outstanding |
| Current Assets | Substantially. complete subject to quality reviews | 95% | Query outstanding |
| Membership Data (Change in administrator) | In progress. | | Some issues identified with data listing provided including 6 blank NiNo and 1 blank surname. Sample of 64 requested |
| Contributions Benefits Payable | In progress | 50% | Employer payroll data o/s for samples and further queries likely to be raised. Capita samples outstanding |
| • Benefits paid | In progress | 40% | Many queries outstanding |
| • Lump sum | In Progress | 70% | Queries outstanding |
| • Other test | In Progress | 50% | Queries Outstanding |
| Financial instruments | Substantially. complete subject to quality reviews | 95% | Presentational and disclosure errors. £3.364 million understatement of assets |
| Investment management expense | Substantially. complete subject to quality reviews | 90% | Understatement of management expense £1.387 million understatement of assets |
| Trasnfers in/out | In progress | 40% | Delays in getting transfers in/out pre change in administrator |
| Related parties | Substantially. complete subject to quality reviews | 95% | No issues noted |

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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 audited body and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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