

Report to the General Purposes Committee

# LONDON BOROUGH OF ENFIELD PENSION FUND

Audit Completion Report: year ended 31 March 2020

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

It summarises the results of completing the planned audit approach for the year ended 31 March 2020, specific audit findings and areas requiring further discussion and/or the attention of the Committee. At the completion stage of the audit it is essential that we engage with the Committee on the results of our audit of the financial statements comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Committee meeting and to receiving your input. In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

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

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

**David Eagles, Partner**  
For and on behalf of **BDO LLP**, Appointed Auditor  
6 October 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 [Audit Committee / Pensions Committee] and Those Charged with Governance and should not be shown to any other person without our express permission in writing. 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

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This summary provides an overview of the audit matters that we believe are important to the General Purposes Committee in reviewing the results of the audit of the financial statements of the Pension Fund for the year ended 31 March 2020.

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



### Overview

Our audit work is substantially complete and subject to the successful resolution of outstanding matters, we anticipate issuing our opinion on the financial statements for the year ended 31 March 2020 when the audit of the main Council’s accounts is complete.

Outstanding matters are listed on page 35 in the appendices.

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

No restrictions were placed on our work.

The entirety of the audit has been undertaken remotely due to the Covid-19 pandemic. The key impacts of the pandemic have been on uncertainties relating to some investment valuations as at 31 March 2020 (which was shortly after the start of the first UK lockdown) and on the additional time needed to undertake the audit when working remotely.

### Audit report

We anticipate being able to issue an unmodified audit opinion on the financial statements.

The financial statements include disclosures about a material valuation uncertainty in respect of directly held properties due to the impact of Coronavirus (Covid-19).

We anticipate including an Emphasis of Matter paragraph in our audit report, referring to this material valuation uncertainty. This does not represent a qualification of the opinion, but sign-posts the reader to certain disclosures in the financial statements that we consider are key to understanding the financial statements.

# THE NUMBERS

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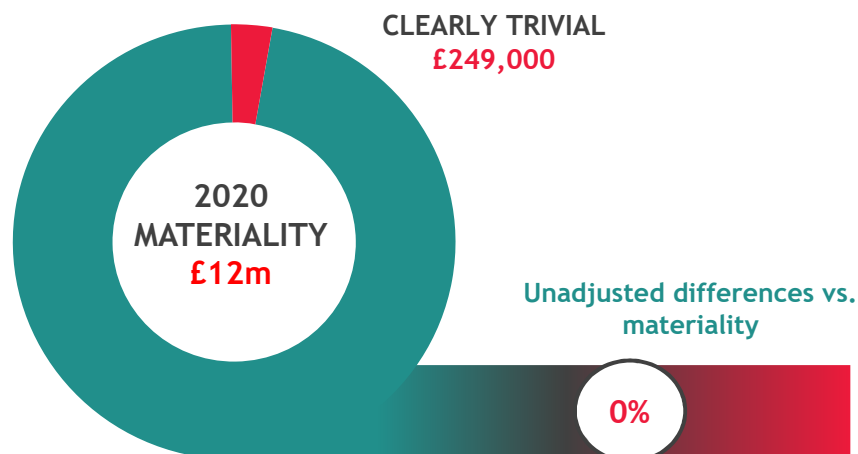
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### Final materiality

Final financial statements materiality was determined based on 1% of the value of investments in the net assets statement. Specific materiality on the fund account was based on 5% of contributions.

There were no changes to the final materiality and triviality levels from that reported in our Audit Planning Report.

### FINANCIAL STATEMENTS OVERALL MATERIALITY

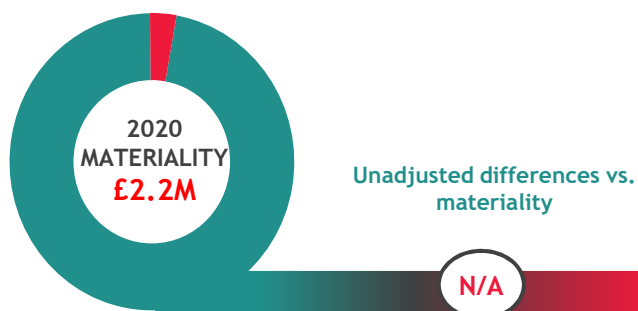


### Material misstatements

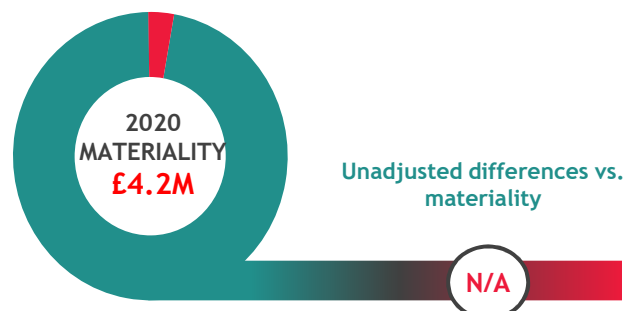
We have identified one material misstatement in relation to investments. The impact of the material error (£18.9m) and smaller errors resulted in a total downward change to the investment balance of £20.6m.

There was also a correction to the actuarial valuation of pension liabilities, reducing these by £305.9m, prompted by challenge of assumptions used in the initial valuation. This value is included within the notes to the main Council's accounts.

### FUND ACCOUNT CONTRIBUTIONS SPECIFIC MATERIALITY



### FUND ACCOUNT OTHER FUND ACCOUNT BALANCES MATERIALITY



### Unadjusted audit differences

We have no unadjusted audit differences to note.

# OTHER MATTERS

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### Financial reporting

- We have not identified any non-compliance with accounting policies or the applicable accounting framework.
- No significant accounting policy changes have been identified impacting the current year.
- Going concern disclosures are deemed sufficient.
- We are currently completing our review of the Pension Fund Annual Report and will report on the conclusion of this at the Audit and Risk Management Committee over its consistency with the financial statements and our knowledge acquired in the course of the audit.
- Our consistency opinion cannot be issued until our main “true and fair” opinion is issued on the Pension Fund financial statements which are included with the Council’s Statement of Accounts.

### Other matters that require discussion or confirmation

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

### Independence

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

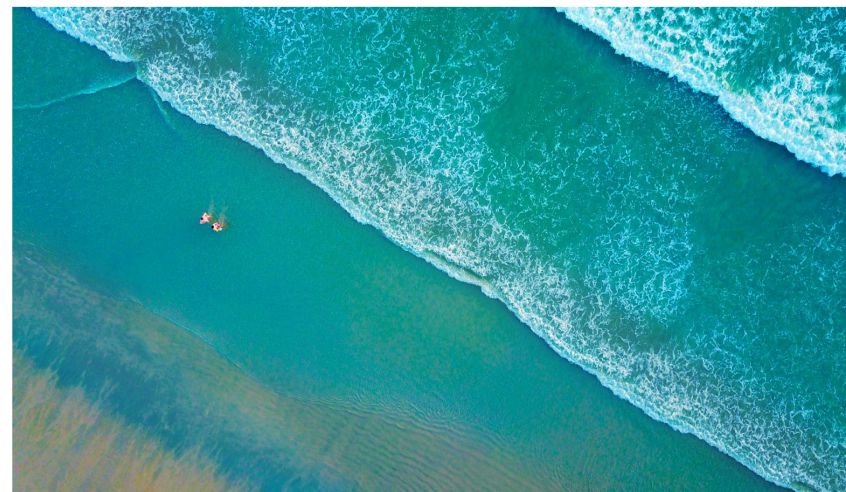


# OUR METHODOLOGY

## Summary

### We obtain our audit evidence through substantive testing

As part of our risk assessment procedures we documented the systems and controls in place insofar as they are relevant to the preparation of the financial statements. Given the control activities we identified and the nature of activities, we determined that substantive testing to directly verify items in the Fund Account and Net Assets Statement would be the most effective approach for our audit. This is consistent with the approach we took in the prior year.



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# AUDIT RISKS OVERVIEW

As identified in our Audit Planning Report dated 13 January 2020, 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 Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported	Discussion points / Letter of Representation
Management override of controls	Significant	Yes	No	No	No	Yes
Fair Value of investments (infrastructure & private equity)	Significant	Yes	Yes	Yes - adjusted	Yes	No
Pension liability assumption	Significant	Yes	Yes	Yes - adjusted	No	Yes
Valuation of investments (other)	Normal	No	Yes	No	No	No
Related party transactions disclosure	Normal	No	No	No	No	No
Membership disclosure	Normal	No	No	Yes - adjusted	No	No



# MANAGEMENT OVERRIDE OF CONTROLS

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

### Risk description

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.

### Work performed

We carried out the following planned audit procedures:

- Reviewed 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. We used our IT team to assist with the journal extraction and we tested a sample of these journals;
- Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.

### Results

We have not identified any indication of systematic bias or management override in the processing of journals entries and other adjustments from the work completed.

Our review of the material accounting estimates for the Pension Fund including valuation of investments and pension liability identified seven errors which have been corrected for and detailed in our adjustments table on pages 21-23.

The accounting estimates which were reviewed are set out in the next few pages.

We have not identified any management bias or deliberate misstatements by reviewing the unadjusted audit differences.

We have not identified any unusual transactions or transactions that are outside the normal course of business for the Pension Fund.

### Discussion and conclusion

Our audit work has identified one issue in relation to updating the assumptions for the pensions liability as described later in this report.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

# FAIR VALUE OF INVESTMENTS (INFRASTRUCTURE & PRIVATE EQUITY)

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

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

## Risk description

The investment portfolio includes unquoted infrastructure and private equity holdings valued by the fund manager. The valuation of private equity assets may be subject to a significant level of assumption and 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.

As a result, we consider there to be a significant risk that investments are not appropriately valued 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 requested copies of the audited financial statements (and member allocations) from the fund;
- Where the financial statement date supporting the valuation is not coterminous with the pension fund's year end, confirmed that appropriate adjustments have been made to the valuations in respect of additional contributions and distributions with the funds; and
- Ensured investments had been correctly valued in accordance with the relevant accounting policies.

## Results

The direct confirmations obtained from the fund managers identified an above trivial difference of £1.17m between the investment valuation per draft accounts and fund manager confirmations (CBRE) due to different bid prices used.

Northern Trust used a higher bid value than the fund manager (CBRE). The variance identified was included within the corrected misstatements schedule for the impact of the change in market value in the fund account and investment value in the Net Assets Statement.

We identified one classification error with £nil net effect on the Fund Account which management have adjusted. The misstatement relates to £2.03m of pooled investments income incorrectly disclosed as income from equities.

The valuation date is the same as the year end reporting date therefore no adjustment was required in respect of contributions and distributions with the funds.

The infrastructure and private equity investments have been reviewed by professional accountancy firms. We are satisfied with the skills and expertise of these firms and have placed reliance on their work.

## Discussion and conclusion

From the work completed we have not identified any other issues to note from those identified above.

# PENSION LIABILITY VALUATION

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

## Risk description

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. The estimate is based on the most up to date membership data held by the Pension Fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.

There is a risk the valuation uses inappropriate assumptions to value the liability.

## Work performed

We carried out the following planned audit procedures:

- Reviewed the controls in place to ensure that the data provided from the fund to the actuary is complete and accurate;
- Reviewed the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data; and
- Agreed the disclosure to the information provided by the actuary.
- Tested a sample of membership and cash flow data sent to the actuary for existence and accuracy, and reconciled the membership data sent to the actuary to the membership administration system for completeness

## Results

Our review of the established controls and procedures to ensure completeness and accuracy of membership data provided to the Actuary did not identified any issues.

We obtained the data return submitted to the actuary in respect of the triennial valuation and agreed the membership numbers back to the Altair system.

We reconciled the number of members by each category (active members, deferred members and pensioners) per the final data return to the membership data reported in the final triennial valuation report.

The total membership (23,082 members) per the data sent to the Actuary for the Triennial valuation as at 31 March 2019 agrees to the membership figure in the final triennial valuation report.

We selected a sample of 40 members across the whole pension fund, split into the active members, deferred members and pensioners (including dependent pensioners), and tested the key data points such as date of birth, gender, pensionable salary and qualifying service period to underlying supporting documents.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

# PENSION LIABILITY VALUATION 2

## continued

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

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

### Results

In respect of cash flow data provided to the actuary for the triennial valuation, we obtained the membership data schedules and the cash flow returns submitted to the actuary for the triennial valuation and agreed the returns back to the 31 March 2019 signed Pension fund accounts. We identified an aggregate £3.17m variance which management sufficiently demonstrated was in relation to timing differences.

The net pension liability valuation update carried out as at 31 March 2020 was based on the roll forward of 31 March 2019 data and various assumptions. We were made aware by management that Children First Academy Trust formed on 1 April 2019 and had 269 transferees and 14 new starters which may have a material impact on the roll forward data used in the 31 March 2020 valuation. We requested and obtained revised Actuary valuation report as at 31 March 2020 with adjusted pension liability balance to gain assurance over the respective figures. The liability reduced by £5,024k as a result.

The assumptions for the discount rate in relation to the pension increases were based on market conditions as at 29 February 2020. This resulted in a significant increase in gross liability for employers. Furthermore, the Actuary later revised the assumptions to be in line with those that obtained as at 31 March 2020 which resulted in a reduction in gross liability for the employers from the previously reported £789.8m to £483.9m.

Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations identified that the assumptions were considered on the higher ends of the expected ranges as detailed on the following page.

Management have revisited the assumptions, using updated information which when reviewed confirmed these were now considered to be reasonable and within the expected ranges.

### Discussion and conclusion

The estimated net pension liability has been adjusted from the previously reported £789.8m to £483.9m following revision of the Actuary's assumptions.

# PENSION LIABILITY VALUATION 3

## continued

### Significant accounting estimate: pension liability

#### Overview

The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows.

#### Changes as at 31 March 2020

The actuarial valuation was based on assumptions on market conditions as at 29 February 2020. These assumptions resulted in an unexpected increase in net pension liability from £583.3m last year to £789.8m as at 31 March 2020.

The major change in assumptions that increased the liability is the lower than expected discount rate of 1.70% (expected 2.30%). We considered this increase to be outside of the expected range and requested management to review the assumptions applied. The Actuary amended the pension liability valuation report as a result of audit and the results are considered on the next page.

#### Discussion

We compared the assumptions and estimates used by the actuary with the expected ranges provided by the independent consulting actuary PwC.

	Actual	Expected / range	Comments
CPI increase	2.10%	2.10% - 1.90%	Reasonable
Salary increase	3.60%	3.00% - 3.60%	Reasonable
Pension increase	2.10%	2.10% - 1.90%	Reasonable
Discount rate	1.70%	2.30%	Significantly lower than expected
Mortality - LGPS:			
- Male current	23 years	22.5 - 24.7 years	Reasonable
- Female current	25.2 years	25.0 - 27.2 years	Reasonable
- Male retired	22.4 years	20.8 - 23.0 years	Reasonable
- Female retired	24.3 years	23.5 - 25.5 years	Reasonable
Commutation:			
- Pre 2008	50%	50%	Reasonable
- Post 2008	50%	50%	Reasonable

All the financial assumptions excluding the discounts rate are on the higher end of the expected range. The discount rate used is below the expected range. This resulted in a significant increase in gross liability which was not expected when analysed against national data.

The net pension liability increased from £583.3m to £789.8m because market assumptions as at 29 February 2020 were applied instead of using market data as at 31 March 2020. We considered that this increase was outside the expected range as we expected a fall in gross pension liability due to actuarial gains in financial assumptions.

We therefore requested management to review the assumptions and an amended report was issued by the Actuary as a result of audit. The impact of the revision of the financial assumptions is documented on the next page.

# PENSION LIABILITY VALUATION 4

## continued

### Significant accounting estimate: pension liability

#### Overview

The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows.

#### Changes as at 31 March 2020

The net pension liability decreased by £305.9m from £789.8m in the first draft of the IAS 19 report as at 31 March to £483.9m as at 31 March 2020 in the revised report. The decrease was as a result of revision the discount rate from 1.70% to 2.3%, a decrease in CPI and future pension increases (from 2.10% to 2.00%) and decrease in salary increase (from 3.60% to 3.50%).

#### Changes in 2019/20

The net pension liability decreased by net £99.4million from £583.3million in 2018/19 to £483.9million in 2019/20.

Changes in assumptions that have decreased the liability include a decrease in CPI and future pension increases (from 2.20% to 2.00%) and decrease in salary increase (from 3.60% to 3.50%), reduction to the discount rate (from 2.40% to 2.30%). Mortality assumptions have also changed by an average 1.8 years for males and 2.3years for females.

#### Discussion

The net pension liability decreased from the previously reported £789.8m to £483.9m following revision of assumptions to align them with market data as at 31 March 2020.

We compared the revised assumptions and estimates used by the actuary with the expected ranges provided by the independent consulting actuary PwC.

	Actual	Expected / range	Comments
CPI increase	2.00%	2.10% - 1.90%	Reasonable
Salary increase	3.50%	3.00% - 3.60%	Reasonable
Pension increase	2.00%	2.10% - 1.90%	Reasonable
Discount rate	2.30%	2.30%	Reasonable
Mortality - LGPS:			
- Male current	23 years	22.5 - 24.7 years	Reasonable
- Female current	25.2 years	25.0 - 27.2 years	Reasonable
- Male retired	22.4 years	20.8 - 23.0 years	Reasonable
- Female retired	24.3 years	23.5 - 25.5 years	Reasonable
Commutation:			
- Pre 2008	50%	50%	Reasonable
- Post 2008	50%	50%	Reasonable

All the revised financial and mortality assumptions are within the expected range based on national data and therefore the assumptions are considered to be reasonable.

The revised net pension liability decreased from £583.3m in 2018/19 to £483.9m in 2019/20.

We are satisfied that the revised assumptions are not unreasonable or outside of the expected ranges. We will request management include specific representations that management confirm that the assumptions used reflect their understanding of the future expectations of the scheme.

# FAIR VALUE OF INVESTMENTS (OTHER)

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

## Significant risk

### Normal risk

### Significant management judgement

### Use of experts

### Unadjusted error

### Adjusted error

### Additional disclosure required

### Significant control findings to be reported

### Letter of representation point

## 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.

## Work performed

We carried out the following planned audit procedures:

- Obtained direct confirmation of investment valuations from the fund managers and agreed valuations, where available, to readily available observable data (such as Bloomberg);
- Ensured that investments have been correctly valued in accordance with the relevant accounting policies; and
- 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

The direct confirmations obtained from fund managers were agreed back to the valuations included in the draft financial statements and we noted the following issues:

- A material overstatement on investments was identified of £18,907k.
- The pension fund did not recognise a dividend declared in February 2020 in the draft Statement of Accounts. The assets value has been understated by £342k. Management have adjusted for this balance.
- Subsequent final valuation of Adam Street investments resulted in reduction of investment management fees of £170k. Management have adjusted for this balance.

We have confirmed that the investments have been correctly valued using the closing bid market price in line with the accounting policy.

We have obtained independent assurance reports and bridging letters for each fund manager and no issues were identified on the operating effectiveness of the controls around the valuation and existence of underlying investments in the funds. We are satisfied that there is independent reasonable assurance that the controls operated effectively throughout the reporting period under review.

## Discussion and conclusion

Apart from the issues noted above, no further errors have been identified as part of our work.

# RELATED PARTY TRANSACTIONS DISCLOSURE

**There is a risk that related party disclosures are not complete and accurate.**

## Risk description

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud. Our audit approach includes the consideration of related party transactions throughout the audit including making enquiries of management and the Audit and Risk Management Committee.

## Work performed

We carried out the following planned audit procedures:

- Reviewed management processes and controls to identify and disclose related party transactions;
- Reviewed relevant information concerning any such identified transactions;
- Discussed with management and reviewed members' and management declarations to ensure that there were no potential related party transactions which have not been disclosed; and
- Undertook a Companies House searches for potential undisclosed interests.

## Results

Our review confirmed there are established controls and procedures to identify and disclose related party transactions.

We did not identify issues in relation to transactions.

We obtained the declaration forms for the trustees identified and performed a Companies house search. No issues were noted from our review.

## Discussion and conclusion

Our audit work did not identify any issues.

Significant risk

Normal risk

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Significant control findings to be reported

Letter of representation point

# MEMBERSHIP DISCLOSURE

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

## Risk description

Membership information including the number of current contributors, deferred beneficiaries and pensioners by employer is required to be disclosed. There is a risk that the membership database may not be accurate and up to date to support this disclosure.

## Work performed

We carried out the following planned audit procedures:

- Obtained membership records and reviewed the controls over the maintenance of these records; and
- Undertook sample testing of movements of members to transactions recorded in the fund account.

## Results

Our review confirmed that the total membership data sent to the Actuary agreed to the membership figure in the triennial valuation report. However, membership data disclosed in the draft financial statements was understated by 738 members as at 31 March 2020. Management have corrected the misstatement.

We substantively tested a sample of transactions by agreeing to membership and payroll records and to the employer returns received. No issues were noted from our sample testing.

## Discussion and conclusion

The issue identified has been corrected by management.

Significant risk

Normal risk

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Significant control findings to be reported

Letter of representation point

# MATTERS REQUIRING ADDITIONAL CONSIDERATION

## Fraud

Whilst the 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 on 16 January 2020.

## Internal audit

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

## Laws and regulations

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

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

## Related parties

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud.

We did not identify and significant matters in connection with related parties.

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

There are no unadjusted audit differences identified from our audit work.

# ADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

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There were four audit differences identified from our audit work which were adjusted by management. This decreased net assets by £20,954k.

# ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Fund Account			Net Assets Statement	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
<b>Adjusted audit differences</b>					
Net decrease in net assets for the year before adjustments	16,737			1,168,763	
Adjustment 1: Difference between draft and final Northern Trust report					
DR Change in market value	18,908	18,908			
CR Investments					(£18,908)
Adjustment 2: Reclassifying pooled investments income incorrectly disclosed as income from equities					
DR Income from equities	£2,027	£2,027			
CR Pooled investments income	(£2,027)		(£2,027)		
Adjustment 3: Adjusting management fees and reversing unrealised gains arising from under estimation of management fees-error was identified by the pension fund					
DR Unrealised gains	£323	£323			
CR Investment Management expenses	(£323)		(£323)		
Adjustment 4: Adjusting income for the difference between draft accounts and final Northern Trust report					
DR Income from bonds, pooled investments and interest on cash	£170	£170			
CR Accrued income					(£170)

# ADJUSTED AUDIT DIFFERENCES: DETAIL

## Details for the current year

	Fund Account			Net Assets Statement	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
<b>Adjusted audit differences</b>					
Adjustment 5: Adjusting valuation for different bid prices between Custodian report and fund manager report for CBRE pooled equity investments					
DR Change in market value	£1,170	£1,170			
CR Investments					(£1,170)
Adjustment 6: Reclassifying pooled investments income incorrectly disclosed as income from equities					
DR Pooled Property Investments				£342	
CR Change in market value	(£342)		(£342)		
Adjustment 7: Adjusting CBRE Management expenses incorrectly recorded as a rebate					
DR Investment Management expenses	£932	£932			
CR Investment Management expenses	(£932)		(£932)		
Adjustment 8: Reclassifying Trilogy balance incorrectly recognised as Equities investments					
DR Cash and Investment accrued income				£881	
CR Investment in Equities-Trilogy					(£881)

# ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Fund Account			Net Assets Statement	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
<b>Adjusted audit differences</b>					
Adjustment 9: Derecognising sundry debtor balance which doesn't exist (presentation adjustment)					
DR Change in Market value	£460	£460			
CR Receivables					(£460)
Adjustment 10: Recognising Pension fund liabilities owing to the Council (presentation adjustment)					
DR Change in Market value	£468	£468			
CR Accounts payables					(£468)
Adjustment 11: Over valuation of Adam Street Partnership balance					
DR Change in Market value	120	120			
CR Investments					(120)
Total Adjusted audit differences	£20,954			£20,954	
Decrease in net assets for the year after adjustments	£37,691			£1,189,717	

# ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

## Disclosure omissions and improvements

**We are required to bring to your attention other financial reporting matters that the General Purposes Committee is required to consider.**

The following adjusted disclosure matters were noted:

- The Key Management Personnel disclosure note was not updated as the figures disclosed related to the prior year.
- There was a narrative error where the incorrect terminology was used i.e. financial assets at amortised cost were disclosed as loans and receivables instead.
- Within the financial instruments disclosure Note 17, the pooled investments disclosed figure of £776,130k did not agree to note 14b which was £776,549k.
- Pooled property funds were overstated by £23,212k while private equity was understated by the same amount in the financial instruments note.
- There were a small number of other minor disclosure corrections and enhancements identified that were adjusted for throughout the financial statements.
- Note 16 to the draft accounts referred to 2012 guidelines for valuing private equity investments instead of the most recent 2018 guidelines. Management have amended the private equity valuation disclosure.



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# REPORTING ON OTHER INFORMATION

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

Matter	Comment
We are required to report on whether the financial and non-financial information in the Pension Fund Annual Report is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	We are currently reviewing the Pension Fund Annual Report and will verbally update the General Purposes Committee on our findings.

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# SIGNIFICANT DEFICIENCIES

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

As the purpose of the audit is for us to express an opinion on the Pension Fund’s financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

We have not identified any significant deficiencies in internal controls.

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# OTHER DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Other deficiency	<p>Contributions reconciliations are not reviewed, which has resulted in more errors than expected.</p> <p>We noted that the Senior Finance Officer reconciled the contributions received back to the remittances from employers on a monthly basis, however there was no evidence that these reconciliations were reviewed by another relevant member of the team.</p>	Reconciliations should be reviewed to confirm the accuracy and evidence of the review retained.	We are maintaining the monthly records of the reconciliations and reviews of this task.
Other deficiency	<p>Custodian reconciliations not reviewed once they are prepared.</p> <p>There was no evidence to confirm that the custodians working papers which provide information about change in market value were reviewed by the Finance Manager.</p> <p>Although there was a process where the Senior Finance Officer reconciled the custodian figures to actual investment statements and sent these to the Finance Manager for reviewing. No review occurred before the information was posed onto the ledger.</p>	Reconciliations of custodian balances should be reviewed and evidence of the review retained.	Process have been amended to include review of reconciliations.

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# OVERVIEW

## Opinion on financial statements

We anticipate issuing an unmodified opinion on the financial statements.

The financial statements include disclosures about a material valuation uncertainty in respect of directly held properties due to the impact of Coronavirus (Covid-19). We anticipate including an Emphasis of Matter paragraph in our audit report, referring to this material valuation uncertainty. This does not represent a qualification of the opinion, but signposts the reader to certain disclosures in the financial statements that we consider are key to understanding the financial statements.

## Conclusion relating to going concern

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

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

## Other information

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

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# 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 2020.

Details of any 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 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.

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.

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

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Fees summary	2019/20	2019/20	2018/19
	Actual	Planned	Actual
	£	£	£
Audit fee			
Code audit fee	TBC	*25,737	18,857
Assurance work, including triennial review work		6,000	
<b>Total fees</b>	<b>TBC</b>	<b>31,737</b>	<b>18,857</b>

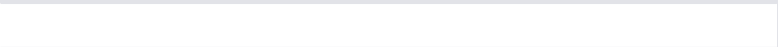
\* includes £6,880 estimated uplifted fee for increased levels of audit work to match audit quality, Standards and regulator expectations



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# OUR RESPONSIBILITIES

## Responsibilities and reporting

### Our responsibilities and reporting

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

We read and consider the ‘other information’ contained in the Pension Fund Annual report. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

### What we don’t report

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



## ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

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	Issue	Comments
1	Significant difficulties encountered during the audit.	No exceptions to note.
2	Written representations which we seek.	We enclose a copy of our draft representation letter.
3	Any fraud or suspected fraud issues.	No exceptions to note.
4	Any suspected non-compliance with laws or regulations.	No exceptions to note.
5	Significant matters in connection with related parties.	No exceptions to note.

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# COMMUNICATION WITH YOU

## Those Charged with Governance (TCWG)

References in this report to Those Charged With Governance are to the Council as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the General Purposes 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	16 January 2020	Audit and Risk Management Committee
Audit Completion Report (as at 23 February 2021)	4 March 2021	General Purposes Committee
Updated Audit Completion Report	14 October 2021	General Purposes Committee

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# OUTSTANDING MATTERS

We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2020.

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

- Completion of partner, manager and quality control review of the audit file and clearance of review points;
- Responding to technical review queries and clearance;
- Final subsequent events review;
- Signed receipt of the management letter of representation; and
- Review of the revised Annual Report after all adjustments have been agreed and the “true and fair” opinion has been issued.



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# LETTER OF REPRESENTATION

[Client name and Letter headed paper]

BDO LLP  
16 The Havens  
Ransomes Europark  
Ipswich  
Dear Sir / Madam

**Financial statements of London Borough of Enfield Pension Fund for the year ended 31 March 2020**

We confirm that the following representations given to you in connection with your audit of the Pension Fund’s financial statements for the year ended 31 March 2020 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Executive Director of Resources has fulfilled her responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Pension Fund as of 31 March 2020 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

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

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

**Going concern**

We have made an assessment of the Pension Fund’s ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the Pension Fund is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis. Furthermore, we confirm that the disclosures included in note 2 to the financial statements are sufficient.

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

**Laws and regulations**

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

**Post balance sheet events**

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

# LETTER OF REPRESENTATION 2

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## Fraud and error

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

We have considered the risk that the financial statements may be materially misstated due to fraud and have made the results available to you.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

## Misstatements

We attach a schedule showing uncorrected misstatements that you have identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

## Related party transactions

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

Other than as disclosed in note 25 to the financial statements, there were no loans, transactions or arrangements between the Pension Fund and Council members or their connected persons at any time in the year which were required to be disclosed

The disclosures in the financial statements concerning the controlling party of the Pension Fund are accurate.

## Carrying value and classification of assets and liabilities

We have no plans or intentions that may materially affect the carrying value

## Accounting estimates

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

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

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

- RPI increase 2.70%
- CPI increase 1.90%
- Salary increase 2.90%
- Pension increase 1.90%
- Discount rate 2.35%
- Mortality: Current pensioners - male 21.8 years and female 23.7 years / future pensioners - male 23.2 years and female 25.2 years
- Commutation: pre-April 2008 - 50% / post-April 2008 - 50%

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

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## Litigation and claims

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

## Confirmation

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

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

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

Yours faithfully

Fay Hammond  
Executive Director of Resources

Mahym Bedekova  
Chair of the Audit and Risk Committee

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**BDO is totally committed to audit quality**

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

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

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

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

More details can be found in our Transparency Report at [www.bdo.co.uk](http://www.bdo.co.uk)



FOR MORE INFORMATION:

**David Eagles, Partner**

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e: david.eagles@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.

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