

Audit Findings

Year ending 31 March 2018

London Borough of Lewisham Pension Fund



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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 for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

Introduction

This table summarises the key issues arising from the statutory audit of London Borough of Lewisham Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year, and have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

Our audit work was undertaken on site during June and July and concluded in early August. Our findings are summarised on pages 4 to 12. We have not identified any adjustments to the financial statements that have resulted in an adjustment to the Fund's reported financial position. Any audit adjustments will be detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion in mid August, as detailed in Appendix E.

We are still to complete the following closing procedures, which are concluded at the end of the audit:

- receipt of your management representation letter;
 - consideration of subsequent events; and
 - review of the final set of financial statements;
-

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will be discussed with management and the Audit Panel.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls;
- Controls testing of the benefits payable system; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We are anticipating giving you an unqualified audit opinion, subject to the completion of outstanding work set out on page 3.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remains the same as reported in our audit plan. We detail in the table below our assessment of materiality for London Borough of Lewisham Pension Fund.

	Amount (£)
Materiality for the financial statements	12,746,000
Performance materiality	9,559,000
Trivial matters	637,000

Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management's assessment process

Management have reviewed the Fund's funding position and cash flows.

Auditor commentary

- The Pension Fund has sufficient assets to meet its liabilities as they fall due over the next 12 months. Local Government Pension schemes are effectively underwritten by the tax payer with deficits financed by increased contributions agreed with the actuary that are financed through Council and Admitted and Scheduled bodies contributions.
- There is no plan by the Ministry of Housing, Communities and Local Government to wind up the London Borough of Lewisham Pension Scheme.
- The Pension Fund continues to operate as usual in 2018/19. Contributions and investment income continue to be received as expected.

Work performed

Detail audit work performed on management's assessment

Auditor commentary

- We have reviewed management's assessment that the financial statements are prepared on a going concern basis.
- We are satisfied that there are sufficient assets to meet liabilities as they fall due. The last triennial actuarial valuation as at 31 March 2016 also demonstrated an improvement in the funding level to 78%.
- The fund continues to operate as usual.

Concluding comments

Auditor commentary

- We are satisfied that the Pension Fund Financial Statements are prepared on a Going Concern basis.
-

Significant audit risks

Risks identified in our Audit Plan

Improper revenue recognition

Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.

We identified management override of controls as a risk requiring special audit consideration.

Commentary

Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- There is little incentive to manipulate revenue recognition.
- Opportunities to manipulate revenue recognition are very limited.
- The culture and ethical frameworks of local authorities, including the London Borough of Lewisham Pension Fund, mean that all forms of fraud are seen as unacceptable.

Therefore we do not consider this to be a significant risk for the London Borough of Lewisham Pension Fund.

Auditor commentary

We completed the following work in relation to this risk:

- Review of accounting estimates, judgements and decisions made by management.
- Testing of journal entries.
- Review of unusual significant transactions.
- Review of significant related party transactions outside the normal course of business.

Our audit work has not identified any significant issues in respect of management override of controls.

Significant audit risks

Risks identified in our Audit Plan

The valuation of Level 3 investments is incorrect

Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.

We identified the valuation of level 3 investments as a risk requiring special audit consideration.

Commentary

Auditor commentary

We are completed the following work in relation to this risk:

- Gained an understanding of the Fund's process for valuing level 3 investments and evaluate the design of the associated controls.
- Reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments.
- Considered the competence, expertise and objectivity of any management experts used.
- Reviewed the qualifications of the expert, Northern Trust, to value Level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached.
- For a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2018 with reference to known movements in the intervening period.

We have not identified any material issues that require reporting as a result of our work.

Reasonably possible audit risks

Risks identified in our Audit Plan

Contributions

Contributions from employers and employees' represents a significant percentage (83%) of the Fund's revenue. We therefore identified occurrence and accuracy of contributions as a risk requiring particular audit attention

Commentary

Auditor commentary

We have completed the following work in relation to this risk:

- Evaluated the Fund's accounting policy for recognition of contributions for appropriateness.
- Gained an understanding of the Fund's system for accounting for contribution income and evaluate the design of the associated controls.
- Tested a sample of contributions to source data to gain assurance over their accuracy and occurrence.
- Rationalised contributions received with reference to changes in member body payrolls and the number of contributing pensioners to ensure that any unusual trends are satisfactorily explained.

We have not identified any material issues that require reporting as a result of our work.

Pension Benefits Payable

Pension benefits payable represents a significant percentage (88%) of the Fund's expenditure.

We identified completeness of pension benefits payable as a risk requiring particular audit attention:

Auditor commentary

We have completed the following work in relation to this risk:

- Evaluated the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness.
- Gained an understanding of the Fund's system for accounting for pension benefits expenditure and evaluate the design of the associated controls.
- Tested the controls around the completeness, accuracy and occurrence of benefit payments.
- Tested a sample of individual pensions in payment by reference to member files.
- Rationalised pensions paid with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends are satisfactorily explained.

We have not identified any material issues that require reporting as a result of our work.

Reasonably possible audit risks

Risks identified in our Audit Plan

The valuation of Level 2 investments is incorrect

While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly.

We identified valuation of level 2 investments as a risk requiring particular audit attention.

Commentary




Auditor commentary

We have completed the following work in relation to this risk:




- Gained an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls.
- Evaluated the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments.
- Reviewed the reconciliation of information provided by the pension fund's individual fund manager's, custodian and the Pension Scheme's own records and sought explanations for variances.
- Considered the competence, expertise and objectivity of any management experts used.
- Evaluated the qualifications of the expert, Northern Trust, to value the level 2 investments at year end and gained an understanding of how the valuation of these investment has been reached.
- For a sample of investments, tested the valuation by obtaining independent information from custodian/manager on units and unit prices.

We have not identified any material issues that require reporting as a result of our work.

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Income - Dividend income earned from equity and bonds with BlackRock is reinvested and not repaid directly to the fund as cash, but from UBS is repaid to the Fund. Interest income is recognised in the Fund as it accrues. Any amount not received by the end of the accounting period will be disclosed in the note on Debtors and Creditors. 	The revenue recognition policy is consistent with the Code of Practice of Local Authority Accounting. Management have followed the policy in accounting for the funds revenue streams.	 (Green)
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include; <ul style="list-style-type: none"> Valuation of level 3 investments The assumptions within the IAS26 calculation of the present value of future retirement benefits The assumptions within the triennial valuation 	<p>The policies adopted for material accounting estimates appear to be appropriate under the Code of Practice of Local Authority Accounting.</p> <p>Our testing to date indicates that the material estimates included in the financial statements have been calculated based on reasonable judgements and assumptions from experts.</p>	 (Green)
Other critical policies		We have reviewed the Pension Fund's policies against the requirements of the CIPFA Code of Practice. The Pension Fund's accounting policies are appropriate and consistent with previous years.	 (Green)

Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
① Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Panel. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
② Matters in relation to related parties	<ul style="list-style-type: none"> Based on work completed, we are not aware of any related parties or related party transactions which have not been disclosed.
③ Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
④ Written representations	<ul style="list-style-type: none"> Based on work completed, a standard letter of representation has been requested from the management of the Pension Fund.
⑤ Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to investment and bank institutions. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
⑥ Disclosures	<ul style="list-style-type: none"> Based on work completed, our review found no material omissions in the financial statements.
⑦ Significant difficulties	<ul style="list-style-type: none"> We have not had any issues with accounts closedown, production of draft accounts or working papers.
⑧ Matters on which we report by exception	<ul style="list-style-type: none"> We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Under the statutory deadlines, the Pension Fund Annual Report is not required to be published until the 1st December 2018. Management has therefore not yet produced this report. We have accordingly not been able to give this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.

Independence and ethics

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. No non-audit services were identified.

Action plan

We have not identified any recommendations for the Pension Fund as a result of issues identified during the course of our 2017/18 audit. The recommendation below relates to the previous year. This is yet to be implemented and so we have re-raised it in 2017-18.

The matter reported here is limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1	●	<ul style="list-style-type: none"> In 2016/17 we identified instances where new joiners paid 2 months worth of contributions in their second month and this date was set as their start date for pensions purposes, rather than the date they started working for London Borough of Lewisham. 	<ul style="list-style-type: none"> As part of the contribution reconciliation, follow up cases where a new joiner has not contributed so that the correct start-date can then be followed through and updated accordingly in the pensions system Altair. <p data-bbox="1144 683 1422 710">Management response</p>

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of London Borough of Lewisham Pension Fund's 2016/17 financial statements, which resulted in 4 recommendations being reported in our 2016/17 Audit Findings report. We have followed up on the implementation of our recommendations and note 2 are still to be completed.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	<ul style="list-style-type: none"> Review the format of disclosures in the accounts for consistency with the Code and model accounts, particularly with respect to benefit payments. 	<ul style="list-style-type: none"> The disclosure note for benefits payable was changed last year to reflect the model accounts and remains so this year. All other disclosures are consistent with the Code and model accounts where applicable.
2	✓	<ul style="list-style-type: none"> Review working papers and ensure they can be clearly reconciled to the pension fund accounts. 	<ul style="list-style-type: none"> Working papers have been updated this year to ensure a clear and thorough link to the accounts
3	X	<ul style="list-style-type: none"> As part of the contribution reconciliation, follow up cases where a new joiner has not contributed so that the correct start-date can then be followed through and updated accordingly in the pensions system Altair. 	<ul style="list-style-type: none"> This is not currently part of the contribution reconciliation. It has been re-raised as a recommendation for 2017/18.
4	X	<ul style="list-style-type: none"> Review the ledger coding structure for pensions benefit payments so that the Council is able to extract the information required for benefits disclosures. 	<ul style="list-style-type: none"> This has not been implemented. The current manual process of running ResourceLink reports for each type of body and matching back to coded payments continues to be used which is sufficient. We are satisfied with the response so we have not re-raised the recommendation.

Assessment

- ✓ Action completed
- X Not yet addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

We have not identified any adjusting misstatements as part of our audit work.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit to date which management has agreed to make in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjustment agreed?
Actuarial present value	<ul style="list-style-type: none"> In accounting policy (q), the actuarial present value of future retirement benefits to be (on IAS 19 basis) was disclosed as £1,934m. This should have been £1,871m. 	<ul style="list-style-type: none"> Update the disclosure to agree with the actuary's report. 	✓
Member data	<ul style="list-style-type: none"> The disclosure of member data in Note 17 did not include movements from March 2018. 	<ul style="list-style-type: none"> Provide a revised note of member data. 	✓
Related Party Transactions	<ul style="list-style-type: none"> The Chair of the Pensions Investment Committee is a Director of Lewisham Homes (one of the Scheduled bodies that contribute to the fund). This should be disclosed within the related party transactions note. 	<ul style="list-style-type: none"> Update the related party transaction note. 	✓

Impact of unadjusted misstatements

We have not identified any unadjusted misstatements in relation to the 2017/18 Statement of Accounts.

Impact of prior year unadjusted misstatements

We have not identified any unadjusted misstatements in relation to the 2016/17 Statement of Accounts.

Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit or audit related services

Audit Fees

	Proposed fee (£)	Final fee (£)
Pension Fund Audit	21,000	21,000
Total audit fees (excluding VAT)	21,000	21,000

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Draft audit opinion

We anticipate we will provide the Pension Fund with an unmodified audit report

Independent auditor's report to the members of London Borough of Lewisham on the pension fund financial statements

Opinion

We have audited the pension fund financial statements of London Borough of Lewisham (the 'Authority') for the year ended 31 March 2018 set out on pages *** to ** which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

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

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

Other information

The Executive Director for Resource and Regeneration is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages [**xx to xx**], the Narrative Report and the Annual Governance Statement, other than the pension fund financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the pension fund financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund financial statements or our knowledge of the pension fund of the Authority obtained in the course of our work or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund financial statements the other information published together with the pension fund financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Executive Director for Resource and Regeneration and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities [set out on page(s) x to x], the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director for Resource and Regeneration. The Executive Director for Resource and Regeneration is responsible for the preparation of the Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Executive Director for Resource and Regeneration determines is necessary to enable the preparation of pension fund financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund financial statements, the Executive Director for Resource and Regeneration is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the pension fund lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the pension fund.

The Audit Panel is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

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

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

[Signature]

Paul Grady
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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[Date]



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