



# The Audit Findings for London Borough of Lewisham Council Pension Fund

---

Year ended 31 March 2020

October 2020



# Contents



## Your key Grant Thornton team members are:

Paul Grady

Key Audit Partner

T: 020 7728 2301

E: paul.d.grady@uk.gt.com

Paul Jacklin

Senior Manager

T: 020 7728 3263

E: paul.j.jacklin@uk.gt.com

Lakshmi Forster

Assistant Manager

T: 020 7728 3193

E: lakshmi.forster@uk.gt.com

## Section

	Page
1. Headlines	3
2. Financial statements	5
3. Independence and ethics	15

## Appendices

A. Action Plan	16
B. Audit adjustments	17
C. Fees	19
D. Audit Opinion	20

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.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

# Headlines

This table summarises the key findings and other matters 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 2020 for those charged with governance.

<p><b>Covid-19</b></p>	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Pension Fund including remote working and challenges with the valuation of year end investments. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.</p> <p>The Pension Fund were able to provide us with financial statements on the 29 June 2020 in advance of the deadline.</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 16 April 2020. In that addendum we reported an additional financial statement risk in respect of Covid-19. Further detail is set out on page 6.</p> <p>Throughout March and April 2020 we held regular meetings with your key finance staff to discuss the impact of Covid-19 on the Pension Fund. We also discussed the financial implications in terms of Investment valuations and going concern. This assisted you in complying with the required accounting standards and ensuring your disclosures complied with the Code of Practice on Local Authority Accounting 2019-20.</p> <p>The Pension Fund finance team were well set up for remote working and there were no changes in key financial processes that impacted on our approach to the audit. Restrictions for non-essential travel has meant both teams have had to be flexible in approaches to sharing information. We agreed to use video calling to watch the finance team run the required reports ensuing we got assurance over the completeness and accuracy of information produced by the Pension Fund. We made more use of conference calls and emails to resolve audit queries. Inevitably in these circumstances resolving audit queries takes a little longer than a face to face discussion. Both teams utilised a query log to track and resolve outstanding items. Regular meetings were held with senior finance staff to highlight key outstanding issues and findings to date ensuring that the audit process was as smooth as possible.</p>
------------------------	--	--

## Headlines

This table summarises the key findings and other matters 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 2020 for those charged with governance.

# Headlines

<b>Financial Statements</b>	<p>Under International Standards of Audit (UK) (ISAs) and 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:</p> <ul style="list-style-type: none"> <li>• give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and</li> <li>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li> </ul>	<p>Our audit work was completed remotely during July and August 2020. Our findings are summarised on pages 5 to 14. We have identified the following adjustment that impacts on the financial position of the pension fund.</p> <ul style="list-style-type: none"> <li>• Subsequent to receipt of the draft financial statements, the Fund Manager Harbourvest provided updated 31 March 2020 capital statements which take into consideration impact on Covid 19. The valuations of the Harbourvest investments had fallen by £2,059k from the balance disclosed in the draft financial statements. Management have agreed the to adjust the pension fund financial statements.</li> </ul> <p>Audit adjustments are detailed in Appendix B.</p> <p>Our audit identified that the current set up of the general ledger is not conducive for financial reporting. This results in management having to make several significant manual adjustments each year outside of the ledger to consolidate the pension fund financial statements. This makes the process more time consuming and increases the potential for errors/omissions to occur.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion Appendix D, subject to the following outstanding matters;</p> <ul style="list-style-type: none"> <li>• receipt of management representation letter;</li> <li>• updated cash flow forecast to November 2021;</li> <li>• review of the Pension Fund Annual Report;</li> <li>• review of the final set of financial statements; and</li> <li>• final manager and engagement lead review</li> </ul> <p>Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting the material uncertainties caused by Covid-19 in the valuation of Pension Fund Private Equity investments held by Harbourvest, Infrastructure investments held by JP Morgan Infrastructure and Property Investments held by Schrodgers. The Emphasis of Matter is not a modified or qualified opinion and will just point readers of the accounts to the Pension Fund Accounting policy Note W where the Pension Fund has disclosed more details on the uncertainty.</p>
-----------------------------	--	--

## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

# Audit approach

## 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 have been discussed with management and the Audit Panel.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have had to alter our audit plan, as communicated to you on 12 March 2020, to reflect our response to the Covid-19 pandemic. We were able to undertake our testing on the Pension Fund remotely as we had planned.

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved and the completion of outstanding points set out on page 4, we anticipate issuing an unqualified audit opinion following the Audit Panel meeting in November 2020, as detailed in Appendix D.

## 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.

	<b>Pension Fund (£)</b>
Materiality for the financial statements	13,000,000
Performance materiality	9,100,000
Trivial matters	650,000

# Significant audit risks

## Risks identified in our Audit Plan

### Covid-19

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;

- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation.
- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation, and the reliability of evidence we can obtain to corroborate management estimates.
- For instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification of the instruments if trading may have reduced to such an extent that quoted prices are not readily and regularly available and therefore do not represent actual and regularly occurring market transactions.
- Whilst the nature of the Fund and its funding position (i.e. not in a winding up position or no cessation event) means the going concern basis of preparation remains appropriate management may need to consider whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.

## Auditor commentary

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

- worked with management to understand the implications the response to the Covid-19 pandemic had on the pension fund's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. The draft financial statements were provided on 29 June 2020;
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as the investment valuations;
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and
- discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.

We were able to gain appropriate audit evidence through working remotely and the pensions team provided timely responses to audit queries. Our anticipated audit opinion will be unqualified including an Emphasis of Matter paragraph, highlighting the material uncertainties caused by Covid-19 disclosed by the Pension Fund Investment Managers in their valuation of Private Equity, Infrastructure and Property investments.

The material uncertainty impacts on Private Equity investments held by Harbourvest (£46.0m), Infrastructure investments held by JP Morgan Infrastructure (£77.7m), Private Debt held by Pemberton (£34.9m) and Property investments held by Schroders (£106.3m).

The Emphasis of Matter is not a modified or qualified opinion and will just point readers of the accounts to the Pension Fund Accounting policy Note W where the Pension Fund has disclosed more details on the uncertainty.

# Significant audit risks

## Risks identified in our Audit Plan

## Auditor commentary

### Fraudulent revenue and expenditure recognition

Having considered the risk factors set out in ISA240 and the nature of the revenue streams, 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 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 Fund.

In addition, in accordance with PN10, the audit team have considered the risk of fraudulent manipulation of expenditure. We do not consider that this is a significant risk for the Pension Fund, after consideration of the following:

- The staff preparing and approving the accounts are consistent with those in previous years.
- There have been no changes in accounting processes and controls in the year.
- There have been no significant unexplained movements in funding position.
- There have been no changes in the methodology for calculation of estimates.
- There have been no instances of adjustments being posted by a senior finance officer without independent authorisation.

### Management override of controls

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

- review of entity controls;
- review of accounting estimates, judgements and decisions made by management; and
- review of unusual significant transactions

Our audit work has not identified any material issues in respect of management override of controls, subject to the satisfactory completion of outstanding work set out on page 4.

# Significant audit risks

## Risks identified in our Audit Plan

### The valuation of Level 3 investments is incorrect

The Fund values its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.

By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£119 million) and the sensitivity of this estimate to changes in key assumptions

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.

Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2020.

## Auditor commentary

### Auditor commentary

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

- gained an understanding of the Fund's process for valuing level 3 investments and evaluated 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 investment;
- obtained audited financial statements for all the Harbourvest Private Equity Funds (December 2019) and JP Mogan Infrastructure Fund (December 2019) and compared the audited fund valuation with the Fund Manager capital statements at the same period. We checked any cash movements between December 2019 and March 2020;
- considered the competence, expertise and objectivity of any management experts used; and
- verified the investment balances to the fund manager and custodian reports.

Subsequent to receipt of the draft financial statements, the Fund Manager Harbourvest provided updated 31 March 2020 capital statements which take into consideration the impact of Covid 19 on the year end position. The valuation of the Harbourvest investments has fallen by £2,059k. The Fund has agreed to make the appropriate adjustment.

Our anticipated audit opinion will be unqualified including an Emphasis of Matter paragraph, highlighting the material uncertainties caused by Covid-19 disclosed by the Pension Fund Investment Managers in their valuation of Private Equity and Infrastructure investments.

The material uncertainty impacts on private equity investments held by Harbourvest £46.0m and Infrastructure assets of £77.7m held by JP Morgan Infrastructure.

The Emphasis of Matter is not a modified or qualified opinion and will just point readers of the accounts to the Pension Fund Accounting policy Note W where the Pension Fund has disclosed more details on the uncertainty.

Subject to the satisfactory completion of outstanding matters set out on page 4, we have not identified any other material issues we need to report to you.



# Other audit risks

## Risks identified in our Audit Plan

### Actuarial Present Value of Promised Retirement Benefits

The Fund discloses the Actuarial Present Value of Promised Retirement Benefits within its Notes to the Accounts. This represents a significant estimate in the financial statements.

The Actuarial Present Value of Promised Retirement Benefits is considered a significant estimate due to the size of the numbers involved (£2 billion) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Fund's Actuarial Present Value of Promised Retirement Benefits as a risk of material misstatement.

### Valuation of Level 2 Investments

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 therefore identified the valuation of the Fund's Level 2 investments as a risk of material misstatement.

## Auditor commentary

### Auditor commentary

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

- updated our understanding of the processes and controls put in place by management to ensure that the Fund's Actuarial Present Value of Promised Retirement Benefits is not materially misstated;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Fund's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Fund to the actuary to estimate the liability;
- tested the consistency of disclosures with the actuarial report from the actuary; and
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.

Subject to the satisfactory completion of outstanding matters set out on page 4, we have not identified any other material issues we need to report to you.

### Auditor commentary

We have undertaken 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;
- 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;
- reviewed the reconciliation of information provided by the individual fund manager's custodian and the Pension Scheme's own records and seek explanations for variances;
- independently obtained year-end confirmations from investment managers and custodian; and
- reviewed investment manager service auditor report on design effectiveness of internal controls.

Our anticipated audit opinion will be unqualified including an Emphasis of Matter paragraph, highlighting the material uncertainties caused by Covid-19 disclosed by the Pension Fund Investment Managers in their valuation of property and private debt investments.

Subject to the satisfactory completion of outstanding matters set out on page 4, we have not identified any other material issues we need to report to you.

# Significant findings – 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 more than 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, 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 Council Pension Scheme.
- The Pension Fund continues to operate as usual in 2020/21. 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 2019 also demonstrated an improvement in the funding level to 90%.
- The cash flow forecast demonstrates that the fund will be able to continue to pay pensions as and when they fall due.
- We note that the fund continues to operate as usual.

## Concluding comments

### Auditor commentary

- We have considered management's assessment and agree it is appropriate that the Pension Fund Financial Statements are prepared on a Going Concern basis.


# Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
<b>Level 3 investments</b>	<p>The Pension Fund contains Private Equity Investments</p> <p>Management have reviewed the year end valuations provided by the Fund Managers including the audited financial statements.</p> <p>These investments are traded on an open exchange/market, but the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management have reviewed the fund manager statements and year end audited financial accounts dated 31 December 2019.</p> <p>The value of the Private Equity investments held by Harbourvest Fund Managers is £46m.</p>	<p>Harbourvest– Private Equity Fund</p> <ul style="list-style-type: none"> <li>The Harbourvest Private Equity Funds are investments in limited partnerships or other pooled investment vehicles which, in turn, make private equity investments (“Partnership Investments”) and to invest directly in private equity investments (“Direct Investments”) primarily in venture capital, growth equity and other private equity transactions across the globe. Private equity investments are valued in accordance with United States generally accepted accounting principles, including FAS 157, which is consistent with the International Private Equity and Venture Capital Valuation Guidelines. These guidelines set out that all investments are carried at fair value and they recommend methodologies for measurement.</li> <li>All the Harbourvest audited accounts as at 31 December 2019 were reviewed and they were unqualified.</li> <li>We have compared the audited financial statements as at 31 December with the capital statement at the same date which identified only trivial differences. This gives us assurance that the estimation techniques are appropriate.</li> <li>We reviewed the Harbourvest capital statement as at 31 March 2020 and obtained explanation for the movement in valuations which is caused by combination of drawdowns plus the impact of Covid-19.</li> <li>We are satisfied that the estimate is fairly stated. The accounting policies are reasonable and the disclosures within the financial statements are appropriate.</li> <li>Subsequent to receipt of the draft financial statements. The Fund Manager Harbourvest provided updated 31 March 2020 capital statements which take into consideration the impact on Covid 19. The valuations of the Harbourvest investments has fallen by £2,059k. The Fund has agreed to make the appropriate adjustment.</li> </ul> <p>We are therefore satisfied that the estimate of the Harbourvest valuation is materially fairly stated.</p>	 <b>Green</b>

## Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious


# Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
<b>Level 3 investments</b>	<p>The Pension Fund contains investments in JP Morgan Infrastructure Fund £77.7m</p> <p>Management have reviewed the year end valuations provided by the Fund Managers including the audited financial statements dated 31 December 2019..</p> <p>These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management</p>	<p>JP Morgan Infrastructure Fund</p> <ul style="list-style-type: none"> <li>The purpose of the Fund is to invest in a broad range of infrastructure and infrastructure-related assets. These asset include toll roads, bridges, tunnels, oil and gas pipelines, electricity transmission and distribution facilities, contracted power generation assets, water distribution and wastewater collection and processing assets, railway lines and rapid transit links, seaports and airports. The investment in the Holding Companies consists of nonmarketable, limited partnership interests and is reported on the statements of assets and liabilities at estimated fair value. The cost basis increases and decreases through contributions and distributions, respectively, from the Holding Companies as well as through the Fund's share of undistributed earnings.</li> <li>JP Morgan appoint external valuers at least annually to determine the Fair Value of fund assets, whilst J.P. Morgan itself calculates the Net Asset Value (NAV) of each investment quarterly in accordance with their internal valuation policies which align with market best practice.</li> <li>The JP Morgan Infrastructure audited accounts as at 31 December 2019 were reviewed and they were unqualified.</li> <li>We have compared the audited financial statements as at 31 December with the capital statement at the same date which identified a trivial difference. This gives us assurance that the estimation techniques are appropriate.</li> <li>We reviewed the JP Morgan capital statement as at 31 March 2020 and noted that there had only been a trivial movement since December 2019.</li> <li>We have reviewed the accounting policies and valuation techniques stipulated within the financial statements and these are in line with expectations and other infrastructure funds.</li> </ul> <p>We are therefore satisfied that the estimate of the JP Morgan valuation is materially fairly stated.</p>	 <b>Green</b>

## Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
<b>Level 2 investment in pooled property</b>	<p>The Fund does not have any direct investments in property, but does use a property Fund of Funds manager, Schroders, to invest in pooled property/unit trust funds.</p> <p>The underlying investments are traded on an open exchange/market although the pooled valuation of the investment is subjective.</p> <p>The Fund obtains valuations from the fund manager and an independent confirmation from the custodian to ensure that valuations are materially fairly stated.</p>	<ul style="list-style-type: none"> <li>We have reviewed the estimation process for the Level 2 investments and are satisfied that these are in line with industry standards.</li> <li>We have compared the valuations provided by the fund managers with the custodian and are satisfied that there are no significant differences in the valuations.</li> <li>The Schroders funds are all currently valued at least quarterly. The majority of property assets to which the Fund has exposure are located in the UK. They are valued in accordance with the Royal Institute of Chartered Surveyors' (RICS) Valuation Standards at Fair Value based on their Open Market Value (OMV).</li> <li>We focussed our attention on the pooled property fund with Schroders. The external valuers have stated that "As at 31st March 2020, RICS (Royal Institute of Chartered Surveyors) have advised there is currently material valuation uncertainty of UK Real Estate Funds due to market conditions". The Fund has disclosed the material uncertainty caused by Covid-19 within the accounting policies (sources of estimation uncertainty section) pension fund financial statements. We have requested the Council to enhance the note in line with best practice we have identified. We have included an emphasis of matter in relation to the uncertainty in valuation of property investments resulting from Covid-19 within our audit opinion.</li> </ul> <p>We are satisfied that the estimate of Level 2 investments valuation is materially fairly stated.</p>	 Green

## Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

## Other matters for communication

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	Auditor commentary
<b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Audit Panel. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures
<b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed.
<b>Matters in relation to laws and regulations</b>	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.
<b>Written representations</b>	A letter of representation has been requested from the Pension Fund, which is included in the Audit Panel papers.
<b>Confirmation requests from third parties</b>	We requested from management permission to send confirmation requests to your custodian, fund managers and banks. This permission was granted and the requests were sent. We have received responses from all third parties.
<b>Disclosures</b>	Our review found no material omissions. We have requested the fund to strengthen the material uncertainty note in relation to the impact of Covid 19 on property, infrastructure, private equity and private debt investment valuations.
<b>Audit evidence and explanations/significant difficulties</b>	All information and explanations requested from management was provided.
<b>Matters on which we report by exception</b>	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. We are yet to receive the Pension Fund Annual Report.

# 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 Pension Fund'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 Pension Fund'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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.


## **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 Trust. No non-audit services were identified which were charged relating to the 2019-20 financial year

Details of fees charged are detailed in Appendix C

# Action plan

We have identified one recommendation for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are 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
 <b>Medium</b>	<p>The current set up of the general ledger is not conducive for financial reporting. This results in management having to make several significant adjustments each year outside of the ledger to consolidate the pension fund financial statements. This makes the process more time consuming and increases the potential for errors/omissions to occur.</p>	<p>Management should reconfigure the ledger so that it is in line with external reporting and minimizes (or eliminates) the need for manual adjustments.</p> <p><b>Management response</b></p>

## Controls

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



# 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

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020. All non trivial misstatements have been adjusted by management.

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000
Subsequent to receipt of the draft financial statements, the Fund Manager Harbourvest provided updated 31 March 2020 capital statements which take into consideration impact on Covid 19. The valuations of the Harbourvest investments had fallen by £2,059k from the balance disclosed in the draft financial statements. Management have agreed the adjust the financial statements.	Debit Change in market value of investments 2,059	Credit Other assets 2,059	Reduces the total net assets by 2,059
<b>Overall impact</b>	<b>£2,059</b>	<b>£2,059</b>	<b>£2,059</b>

## Misclassification and disclosure changes

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

Disclosure omission	Detail	Auditor recommendations	Adjustment agreed?
Estimation uncertainty note	The Fund needs to strengthen the material uncertainty resulting from Covid-19 on the private equity, infrastructure and property valuations.	Management has agreed to make the required adjustment.	✓
Note 1 Contributions received	The Fund had not separately disclosed the deficit funding contributions from normal employer contributions. The Fund has now separately disclosed the £701k deficit contributions.	Management has agreed to make the required adjustment.	✓
Note 2 Benefits paid	The Benefits paid split by Authority was not completed in the draft financial statements. The Fund has now updated the note.	Management has agreed to make the required adjustment.	✓
Note 17 Membership numbers	The Fund entered the incorrect parameters to run the 31 March 2020 Membership data. The correct report has since been run and the Membership numbers have been updated by the Fund	Management has agreed to make the required adjustment.	✓

# Audit adjustments

## Disclosure changes continued.

Disclosure omission	Detail	Auditor recommendations	Adjustment agreed?
External Audit Fee	The External audit fee needed to be updated to the fee of £25k	Management has agreed to make the required adjustment.	✓
Other presentational and disclosure issues	The Fund have also amended all other minor and presentational issues highlighted in the audit.	Management have agreed to make the required amendments	✓

## Appendix C

# Fees

We confirm below our final fees charged for the audit.

<b>Audit fees</b>	<b>Proposed fee</b>	<b>Final fee</b>
Pension Fund	25,000	TBC

The proposed fees reconcile to the financial statements. The final fee will be determined at the conclusion of the audit.

There are no fees for non-audit or audited related services have been undertaken for the Pension Fund.

# 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 of London Borough of Lewisham Pension Fund

### Opinion

We have audited the financial statements of London Borough of Lewisham Pension Fund (the 'pension fund') administered by the London Borough of Lewisham (the 'Authority') for the year ended 31 March 2020 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 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and of the amount and disposition at that date of the fund's assets and liabilities,
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; 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 Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's 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.

## The impact of macro-economic uncertainties on our audit

Our audit of the pension fund financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Acting Chief Finance Officer and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties. However, no audit should be expected to predict the unknowable factors or all possible future implications for a fund associated with these particular events.

## 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 Acting Chief Finance Officer use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Acting Chief Finance Officer has not disclosed in the pension fund's 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 the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

# Audit opinion

In our evaluation of the Acting Chief Finance Officer conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the pension fund financial statements shall be prepared on a going concern basis, we considered the risks associated with the fund's operating model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the fund's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the fund will continue in operation.

## Emphasis of Matter - effects of Covid-19 on the valuation of property and infrastructure investments

We draw attention to Note W of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's private equity, infrastructure and property investments as at 31 March 2020. As, disclosed in note W to the financial statements, the ongoing impact of the Covid-19 pandemic has created uncertainty surrounding illiquid asset values. As such, the Pension Fund private equity, property and infrastructure allocations as at 31 March 2020 are difficult to value according to preferred accounting policy. A material valuation uncertainty was therefore disclosed in the pension fund's property and infrastructure valuation reports. Our opinion is not modified in respect of this matter.

## Other information

The Acting Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement, other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's and group's financial statements. Our opinion on the pension fund's 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's 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's financial statements or our knowledge of the pension fund obtained in the audit 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's 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's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Statement of Accounts, [the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the pension fund's 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 issue a report 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 make 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 make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

# Audit opinion

## Responsibilities of the Authority, the Executive Director – Finance and Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, 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 Acting Chief Finance Officer. Acting Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the pension fund's 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 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Acting Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund's financial statements, the Executive Director – Finance and Resources 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 there is an intention by government that the services provided by the pension fund will no longer be provided.

The Audit Panel is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund's 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 financial statements.

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

## Use of our report

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.

Paul Grady Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

X November 2020



© 2020 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.