



The Audit Findings for the London Borough of Southwark Pension Fund

Year ended 31 March 2017

13 September 2017

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13 September 2017

Dear Members of the Audit Committee

Audit Findings for London Borough of Southwark Pension Fund for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of London Borough of Southwark Pension Fund, the Audit, Governance and Standards Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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.

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. 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 any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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

Yours sincerely

Elizabeth Jackson
Engagement Lead

Chartered Accountants

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Section 1: Executive summary

01. Executive summary

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Purpose of this report

This report highlights the key issues affecting the results of the London Borough of Southwark Pension Fund ('the Fund') and the preparation of the fund's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Fund's financial statements give a true and fair view of the financial position of the Fund.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 27 February 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the level 3 investments and change in category from the prior year
- review the report from the Actuary about the work undertaken in the member data system and the levels of assurance obtained by the Council for this
- closing queries arising from final quality review of the file
- review of the final version of the financial statements and Pension Fund Annual Report
- obtaining and reviewing the management letter of representation, and
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable. At the conclusion of our audit we will meet with management to discuss how further improvements and efficiencies could be made to next year's process.

Key audit and financial reporting issues

Financial statements opinion

We have not identified any adjustments affecting the Fund's reported financial position. The draft and final version of the financial statements for the year ended 31 March 2017 recorded net assets of £1,494,992k.

The key messages arising from our audit of the Fund's financial statements are:

- membership data for Scheduled and Admitted bodies needs to be updated and maintained to ensure the actuaries are able to provide accurate valuation reports
- the quality of the working papers and documents supporting the balances within the financial statements were of a reasonable standard
- we received a good level of co-operation and support during the course of our audit
- we have recommended a small number of minor adjustments to improve the presentation of the financial statements that the Council has corrected in the revised set of financial statements.

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Controls

Roles and responsibilities

The Fund's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 any control weaknesses, we report these to the Fund.

Findings

We draw your attention in particular to a control issue identified in relation to:

- testing identified some late contribution returns from a number of scheduled and admitted bodies.

In addition, our testing identified that two issues identified in the previous year still remain in 2016/17:

- foreign domiciled pensioners not being circularised to confirm that they are entitled to their pensions
- testing has identified a small number of errors in the information within the membership active status which although are unlikely to lead to a material misstatement in the accounts highlights data quality issues.

Further details are provided within section two of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

The way forward

Matters arising from the financial statements audit have been discussed with the finance team.

We have made recommendations, which are set out in the action plan at Appendix A. The recommendations have been discussed and agreed with the finance team.

Acknowledgement

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.

Grant Thornton UK LLP
September 2017

Section 2: Audit findings

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Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £12,564k (being 1% of net assets). We have considered whether this level remained appropriate during the course of the audit and as a result of increase in net assets at year end, this led us to revise our overall materiality to £14,950k (being 1% of net assets).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £747k..

At the time of issuing in our audit plan, we had not identified any items where we decided that separate materiality levels were appropriate. However, on receipt of the draft financial statements we determined that a separate materiality level was required for management expenses as this is a sensitive item. We have set the following materiality level:

Balance/transaction/disclosure	Explanation	Materiality level
Management expenses	Due to public interest in these disclosures	£747k

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including this Council as the administering authority, mean that all forms of fraud are seen as unacceptable. 	<p>Although we have rebutted this risk, our audit work in relation to material revenue streams has not identified any material issues in respect of revenue recognition.</p>
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • review of entity controls • testing of journal entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks (continued)

We have also identified the following significant risk of material misstatement upon receipt of the draft financial statements. We set out below the work we have completed to address this risk.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p>NEW RISK IDENTIFIED DURING THE AUDIT:</p> <p>Investments portfolio</p> <p><i>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters.</i></p> <p>Level 3 indirect property investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none">• walkthrough tests of controls on investments• for Brockton and Frogmore indirect properties, we have tested valuations by obtaining and reviewing audited accounts at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31st March with reference to known movements in the intervening period.	<p>Our audit work to date has not identified any significant issues in relation to the risks identified.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investment Income	Investment activity not valid. Investment income not accurate. (Accuracy)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances, • Completed a predictive analytical review for different types of investments 	Our audit work has not identified any significant issues in relation to the risk identified.
Investment purchases and sales	Investment activity not valid. Investment valuation not correct.	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances, 	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investment values – Level 2 and 3 investments	Valuation is incorrect. (Valuation net)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. . • Tested a sample of level 3 investments to independent information from custodian/manager on units and on unit prices • We have reviewed the latest AAF 01/06 or ISAE 3402 audited reports on internal controls, published by the respective investment managers and Custodian. • Received direct confirmation from the custodian including obtaining a copy of their reconciliation to the respective segregated investment manager at the year end date. • Received direct confirmation from all non-segregated investment managers and reviewed the reconciliation of the units of unitised pooled investment vehicles. 	Our audit work has not identified any significant issues in relation to the risk identified.
Contributions	Recorded contributions not correct (Occurrence)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • 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 numbers of contributing pensioners and ensured that any unexpected trends were satisfactorily explained. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>However, testing identified that some contributions from scheduled and admitted bodies were received by the Fund after the deadline of 19 days after month end in March 2017. The delays are due in part to the contributions still being paid in to the Council's bank account and then transferred to the Fund's bank account. This method is not in line with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 and remains an area of non compliance.</p>

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • Controls testing over, 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 the year and ensured that any unusual trends were satisfactorily explained. 	<p>Our audit work has not identified any significant issues in relation to the risk identified. However, our testing identified one case where documents were not retained from employee confirming their election rights of pension to be paid. Documents need to be available for review in case of any queries from pensioner at a later date.</p> <p>In addition, the fund has not circulated pensioners domiciled abroad to confirm that they are still eligible. This was a recommendation in the prior year and action has not been taken this year.</p>
Member Data	Member data not correct. (Rights and Obligations)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • Controls testing over annual/monthly reconciliations and verifications with individual members. • Sample tested changes to member data made during the year to source documentation. 	<p>Our audit work has identified a number of issues in the member data testing in 2016/17:</p> <ul style="list-style-type: none"> • 1 case was identified where the admitted bodies had not provided starter information and the pensions team had to estimate the start date from the schedule of contributions. Also there was also no evidence to show if statutory notification was sent to these individuals; • 3 cases were identified where the leavers date was not provided. <p>We have obtained assurance that the financial statements are materially fairly stated. However, we made a recommendation to management that membership data needed to be reviewed before the next triennial valuation is due to ensure the information provided to the actuary is complete and accurate. The Council engaged the actuary to carry out a review of information. We are currently awaiting this report to reach a conclusion for our audit and make a recommendation for this audit report.</p>

Audit findings against other risks (continued)

Going concern

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&I) 570).

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that there are no issues arising for the Fund in 2016/17.

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	The Council's policy for Contribution and Investment income is set out in Note 3 a-c Fund Account – Revenue Recognition.	The revenue recognition policy appears to be consistent with the Code of Practice of Local Authority Accounting and the findings from our audit of the financial statements.	● Green
Judgements and estimates	Key estimates and judgements disclosed in the notes to the accounts include: <ul style="list-style-type: none"> - pension fund liability - level 3 investments 	<p>We reviewed the key estimates and judgements made by management within the material notes to the accounts. For the disclosures listed, we concluded they appear to be consistent in all material aspects with the guidance set out in the Code of Practice of Local Authority Accounting.</p> <p>We have requested that management amend the disclosure in note 4 to include the critical judgment made by management in changing the fair value investment categories to levels 2 and 3 in 2016/17.</p>	● Green
Going concern	Officers have a reasonable expectation that the services provided by the Fund will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed officer's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	● Green
Other accounting policies	We have reviewed the Fund's policies against the requirements of the CIPFA Code and accounting standards.	The Fund's accounting policies are appropriate and consistent with previous years.	● Green

Assessment

● **Red** Marginal accounting policy which could potentially attract attention from regulators
policy appropriate and disclosures sufficient

● **Amber** Accounting policy appropriate but scope for improved disclosure

● **Green** Accounting

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 Committee. We have not been made aware of any material incidents in the period and no other issues have been identified during the course of our audit.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any 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"> A standard letter of representation has been requested for the Fund.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to fund managers, custodian and the bank. This permission was granted and the requests were sent and were returned with positive confirmation.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
7.	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. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until the 1st December 2017 and therefore this report has not yet been produced. We have therefore not given 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.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Investment Income, Contributions, Benefits Payable, and Member Data as set out on pages 11-13 above.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1	<div><div></div><div>Amber</div></div>	<ul style="list-style-type: none">Our contributions testing identified some late contribution returns from a number of scheduled and admitted bodies. These were received in the Pension Fund bank account after the statutory deadline of 19 days after month end.The delay is partially due to the contributions being paid in to the Council bank account instead of directly to the Pension Fund bank account.	<ul style="list-style-type: none">Continue to explore opportunities to address the issue regarding contribution payments being made directly into the Council's bank account, then subsequently transferred to the Pension Fund's bank account. The need of using holding account code and additional reconciliation s for transfer will not then be required and will therefore be a more efficient process.

- Assessment**
- Significant deficiency – risk of significant misstatement
 - Deficiency – risk of inconsequential misstatement

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.

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	X	<ul style="list-style-type: none"> Pensioners domiciled abroad have not been circularized for over two years to confirm that they are still eligible for their pensions. 	<ul style="list-style-type: none"> The Council has not yet implemented this recommendation.
2.	X	<ul style="list-style-type: none"> Errors identified in our testing of membership data presents the risk that data used in Actuary's valuation report is not accurate or complete. 	<ul style="list-style-type: none"> Management engaged Aon Hewitt, the Actuary, to undertake a data cleansing exercise to improve the quality of existing member data and to assist with the implementation of new system processes to support more accurate ongoing recording of membership data. However, our testing of member data identified four errors in the sample population of 50 members. In addition, the 2016 valuation reported that the Actuary has had to use an estimated calculation for 350 records.

Assessment

✓ Action completed

X Not yet addressed

Adjusted misstatements

There are no adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Unadjusted misstatements

There are no adjustments identified during the audit which we request be processed, but which have not been made within the final set of financial statements.

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type		Value £'000	Account balance	Impact on the financial statements
1	Disclosure	1,143	Investment assets (note 12)	Officers reviewed the accounting disclosure of the Accrued Dividend Entitlement in the 2016/17 and determined that the Code allows for this to be shown as either Current Asset or Investment Asset. The accounts now disclose this amount as an Investment Asset. The 2015/16 accounting treatment has been restated on that basis for the accrued dividend of £1,143k. We requested that management include a narrative explanation of the change in treatment in the final version of the accounts.
2	Disclosure	21	Management expenses (note 10)	There is a new requirement to disclose the Pension Fund audit fee of £21k within the accounts. This has been included as a narrative disclosure in the management expenses note.
3	Disclosure	211,139	Fair value hierarchy (note 15)	The transfers between level 2 and 3 of the fair value measurements were disclosed in the draft accounts as the 'opening balance' whereas this should have been included in the 'transfers into Level 3' column. No impact on the closing balance.
4	Presentation and disclosure	N/A	N/A	We have made a small number of suggested presentational and disclosure changes to aid users' understanding of the financial statements.

Section 3: Fees, non-audit services and independence

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

Fees

	Proposed fee £	Actual fee * £
Pension Fee	21,000	22,714

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

* An additional fee of £1,714 has been proposed for the 2016/17 audit due to the additional work required for the quality of the working paper audit trails and on the EFA note. This fee is subject to approval by the PSAA and cannot be agreed as final until confirmed with them.

Fees for other services

Service	Fees £
Audit related services	Nil
Non-audit services	Nil

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 Auditing Practices Board's Ethical Standards and therefore we confirm that we 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 Auditing Practices Board's Ethical Standards.

Section 4: Communication of audit matters

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Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	All pensioners should be regularly circularized to confirm that they are still eligible for their pensions.	Low	As noted last year, there is a contract with Faraday Tracing Bureau who provide a monthly report of recent deaths within our pensioner data set. This is a much more efficient system than an annual life-certificate sent out to over 7,000 pensioners that would need to be manually checked. We have recently contacted all overseas pensioners (not covered by Faraday) as part of a piece of work to review pension payments to them but still need to send life-certificates.	31 December 2017; P Hughes, Acting Pensions Manager
2	Continue to explore opportunities to address the issue regarding contribution payments being made directly into the Council's bank account, then subsequently transferred to the Pension Fund's bank account. The need of using holding account code and additional reconciliation s for transfer will not then be required and will therefore be a more efficient process.	Medium	The council has already agreed a project plan and timetable to ensure that all contributions and other associated transactions due to the Pension Fund are received directly into the Pension Fund bank account and that systems and processes are in place to ensure effective monitoring and reporting of contributions. To ensure a smooth process and that also takes into account employer circumstances, the council has agreed a staggered transition for employers and other bodies over the remainder of the calendar year.	31 December 2017; Alex Moylan, Senior Finance Manager
3	Continue to data cleanse the information for the	Medium	By its nature, work to ensure that membership data is complete and accurate has to be ongoing. As this audit report notes, the actuary had to use an estimated calculation for only 350 records (out of c. 22,000) in their 2016 valuation report. Many of the issues with data have arisen from incomplete or inaccurate data from employers and a key area of focus has therefore been to take preventive action to improve the quality of data. This action includes a clarification of responsibilities in the administration strategy (issued on 1 December 2016) and providing training to schools. In addition, further work has been carried out by Aon Hewitt which has included additional significant cleansing of data. Work is also underway to improve the members' self service portal to make it easier for individuals to keep their information up-to-date.	Ongoing; P Hughes, Acting Pensions Manager

Appendix B: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTHWARK COUNCIL

We have audited the pension fund financial statements of Southwark Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. 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 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act 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 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.

Respective responsibilities of the Strategic Director of Finance and Governance and auditor

As explained more fully in the Statement of Responsibilities, the Strategic Director of Finance and Governance is responsible for the preparation of the Authority's 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 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from

material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Strategic Director of Finance and Governance; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our opinion:

- the pension fund financial statements present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2017 and of the amount and disposition at that date of the fund's assets and liabilities; and
- the pension fund financial statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the audited pension fund financial statements.

[Signature]

Elizabeth Jackson
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP
30 Finsbury Square
London
EC2P 2YU

[Date]



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