



The Audit Findings Report for the London Borough of Southwark Pension Fund

Year ended 31 March 2020

20 October 2020



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

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of the London Borough of Southwark 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.

Covid-19	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Pension Fund. This has had an impact on both the front-line services operated by the Council, along with those people who work behind the scenes, who have had to get used to a new way of working as the pandemic has progressed.</p> <p>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>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 3 June 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>Restrictions for non-essential travel has meant both the Council's and audit staff have had to deliver the audit remotely, including accessing financial systems remotely, undertaking video calling to discuss queries and to obtain assurance over the completeness and accuracy of information produced by the entity. Despite these challenges the Council was able to provide the draft Accounts in line with the agreed timeframe, and has responded promptly throughout the audit to queries raised by the audit team.</p>
Financial Statements	<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"> • give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. 	<p>Our audit work was completed remotely during July to October. Our findings are summarised on pages 4 to 11. To date we have not identified any adjustments which impact on the Net Assets of the fund available to fund benefits reported in the draft Accounts. Some minor adjustments have been identified in respect of some of the disclosures in the Accounts, which are documented in Appendix B.</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 (attached at Appendix D) or material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none"> • completion of our outstanding testing (refer to Page 4 for more detail); • our final internal quality reviews; • receipt of management representation letter; and • review of the final set of financial statements. <p>Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting the material uncertainty disclosed in respect of the valuation of your investments in Direct Property. An Emphasis of Matter paragraph is not a qualification.</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.

2. 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.

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; and
- 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 3 June 2020, to reflect our response to the Covid-19 pandemic. This included the identification of a new Significant Risk relating to Covid-19, which has been detailed on page 6 of this Report.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Governance and Standards Committee meeting on 20 October 2020, as detailed in Appendix E. These outstanding items include:

- completion of our outstanding testing in the following areas: Investments – focusing on Direct Property and Fund Manager Control Reports Review, Benefits Payments and Leavers Testing,
- our final internal quality reviews;
- receipt of management representation letter; and
- review of the final set of financial statements.

2. Materiality

Our approach to materiality

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

Materiality levels remain the same as reported in our Audit Plan.

	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	16,000,000	Our Headline Materiality is based on the prior year Gross Revenue Expenditure included in the Accounts.
Performance materiality	12,000,000	Performance Materiality is based on a percentage of the overall materiality.
Trivial matters	800,000	Triviality is based on a percentage of the overall materiality.

2. 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 respect of this risk:

- Worked with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications on our audit approach.
- Liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose.
- Evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic, including management's assessment of the impact of Covid-19 on forecast cashflows.
- Evaluated whether sufficient audit evidence using alternative approaches could be obtained for the purposes of our audit whilst working remotely.
- Evaluated whether sufficient audit evidence could be obtained to corroborate management's fair value hierarchy disclosures.
- Evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as Level 3 asset valuations, including direct property.
- Discussed with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence.

From the work performed to date, we have identified that there is a material uncertainty attached to the valuation of the Council's Direct Property, due to the inherent uncertainty over the asset valuations at 31 March 2020. This has been reflected within the Accounts in Note 5, and will be reflected within our Audit Opinion as an Emphasis of Matter Paragraph, which is not a qualification.

Should any further issues be identified from our remaining testing, then we will provide an update to Management and Committee.

2. Significant audit risks

Risks identified in our Audit Plan

Improper revenue recognition

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

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

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:

- 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 Southwark Council, mean that all forms of fraud are seen as unacceptable

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

Auditor commentary

We have undertaken the following work in respect of this risk:

- reviewed and tested the Pension Fund's revenue recognition policies; and
- performed testing on material revenue streams

Our audit work has not identified any significant issues in relation to the risk identified.

Management override of controls

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

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

We have undertaken the following work in respect of this risk:

- evaluated the design effectiveness of management controls over journals.
- analysed the journals listing and determined the criteria for selecting high risk unusual journals.
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration.
- gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence.
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our audit work has not identified any significant issues in relation to the risk identified.

2. Significant audit risks

Risks identified in our Audit Plan

Valuation of Directly Held Property (Level 3)

The Fund revalues its directly held property on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements.

Management have engaged the services of a valuer to estimate the current value as at 31 March 2020.

We therefore identified valuation of directly held property, particularly revaluations and impairments, 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 respect of this risk:

- evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work
- independently request year-end confirmations from investment managers and custodian, and assess their responses as part of our work.
- evaluate the competence, capabilities and objectivity of the valuation expert
- write to the valuer to confirm the basis on which the valuations were carried out
- challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding. We will also engage our own Auditor's Expert to assess the instructions to the Fund's valuer, the Fund's valuer's report and the assumptions that underpin the valuation.
- test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Fund's asset register/financial records
- where available review investment manager service auditor report on design effectiveness of internal controls.

From the work performed to date, as mentioned earlier we have identified that there is a material uncertainty attached to the valuation of the Council's Direct Property Investments, due to the inherent uncertainty over the asset valuations at 31 March 2020. This has been reflected within the Accounts in Note 5, and will be reflected within our Audit Opinion as an Emphasis of Matter Paragraph, which is not a qualification.

Should any further issues be identified from our remaining testing, then we will provide an update to Management and Committee.

2. Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Level 3 investments (excluding Direct Property)	<p>The Pension Fund has investments in Infrastructure Funds that in total are valued on the Net Asset Statement as at 31 March 2020 at £32 million.</p> <p>These investments are not traded on an open exchange/market and the valuation of these investments is highly subjective due to a lack of observable inputs. In order to determine the values, management rely on the valuation provided by the Fund Manager, which are usually based on an audited value of the fund as at 31 December 2019, with the valuation then rolled forward to March 2020, considering any cash movements which have taken place in the intervening period. These are new investments for the Fund in 2019-20.</p>	<ul style="list-style-type: none"> Based on the work performed to date, we have been able to obtain sufficient assurance over the Level 3 valuations included within the Accounts. However, within this work we have identified that there is a material uncertainty attached to the valuation of the Council's Level 3 Investments, due to the inherent uncertainty over the asset valuations at 31 March 2020. This has been reflected within the Accounts in Note 5, and will be reflected within our Audit Opinion as an Emphasis of Matter Paragraph, which is not a qualification. We have, on a sample basis, reviewed the basis on which the valuation of the Funds/Investments has been prepared, and where appropriate, considered the Audited Accounts of the Funds/Investments as well. To date, no issues have been identified from the work performed in this area. 	 Green
Level 2 investments	<p>The Pension Fund have investments in Bonds and Pooled Investment Vehicles that in total are valued on the Net Asset Statement as at 31 March 2020 at £284 million.</p> <p>Whilst these investments themselves are not actively traded on an open market, the underlying investments are and the valuations of these investments will be based on the value of these underlying investments at 31 March 2020, or the closest trade date to year end.</p> <p>The valuation of these investments has decreased by £8.4 million from their value at 31 March 2019 (£292 million).</p>	<ul style="list-style-type: none"> Based on the work performed to date, we have been able to obtain sufficient assurance over the Level 2 valuations included within the Accounts. We have undertaken full triangulation of the closing valuations provided by the relevant Fund Managers to the values provided by the Fund's Custodian, and considered any significant variances identified from this work. No issues have been identified from the work performed in this area. 	 Green

Assessment

-  - **Red** - We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  - **Amber** - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  - **Yellow** - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  - **Green** - We consider management's process and key assumptions to be reasonable

2. Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Valuation of Direct Property – Level 3	<p>The Pension Fund has investments in Direct Property that in total are valued on the Net Asset Statement as at 31 March 2020 at £246 million.</p> <p>These properties are valued by a RICS Qualified Valuer as at 31 March 2020. The Valuer is employed by the Fund Manager on behalf of the Fund to provide valuations in line with the CIPFA Code of Practice guidance in this area.</p> <p>In line with RICS guidance, the Fund's Valuer disclosed a material uncertainty in the valuation of the Fund's Direct Property at 31 March 2020 as a result of Covid-19. The Fund has included disclosures on this issue in Note 5.</p>	<p>At the current date our work in this area is ongoing, which includes our Auditor's Expert reviewing the work of the Valuer to help provide us with assurance over the assumptions and judgements made in respect of these valuations as at 31 March 2020.</p> <p>As mentioned earlier in the Report, the Valuer has included a material uncertainty on the valuation certificate, which has been correctly reflected within the Accounts, within Note 5. We will reflect this matter as an Emphasis of Matter in our Audit Opinion, which again is not a qualification.</p>	TBC

Assessment

- - **Red** - We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- - **Amber** - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- - **Yellow** - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- - **Green** - We consider management's process and key assumptions to be reasonable

2. 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
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit, Governance and Standards Committee. 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.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	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.
Written representations	A letter of representation has been requested from the Pension Fund which is included in the Audit, Governance and Standards Committee papers.
Confirmation requests from third parties	<p>We requested from management permission to send confirmation requests to all of the Pension Fund's counter parties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.</p> <p>We requested management to send letters to those solicitors who worked with the Pension Fund during the year. All responses have been received and no issues have been identified.</p>
Disclosures	Our review identified a small number of disclosures which required amendment or expansion, and management agreed to amend all of the items identified. Further detail is provided within the Misclassifications and disclosure changes page, which is included later in the Report.
Audit evidence and explanations/significant difficulties	The Council produced a good set of Accounts and working papers in line with the agreed timeframes, and responded promptly to the queries raised during the course of the audit despite the challenges of remote working. The small number of amendments identified in this Report reflect the quality of the draft Accounts prepared by management.
Matters on which we report by exception	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 1 December 2020 and therefore this report has not yet been reviewed. 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.

3. Independence and ethics

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

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. No non-audit services were identified which were charged from the beginning of the financial year to 20 October 2020.

Follow up of prior year recommendations

We identified the following issue in the audit of the London Borough of Southwark Pension Fund's 2017/18 financial statements, which resulted in one recommendation being reported in our 2017/18 Audit Findings report. We have followed up on the implementation of our recommendations and note that this area has now been resolved.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
<p>In Progress</p>	<p>Issues in Member Data</p> <p>In 2016/17 we identified errors during our testing of the client's Member Data, which thus could have a potential impact on the accuracy of the data provided to the Actuary. This then could have a potential impact on the valuation provided by the Actuary to the Fund, although the risk of this is low.</p> <p>The Council has undertaken extensive data cleansing during 2017-18 and 2018-19 as part of the production of the annual benefit statements and also through the implementation of i-Connect software in all admitted bodies, scheduled bodies and schools which has significantly improved the quality of data held. The enhanced Member Self Service portal which facilitates member updates of data is now live and members will be made aware of this through newsletters. These will include activation keys which it is hoped will encourage them to log in.</p> <p>However we continued to find issues of this type in 2017-18 and 2018-19, hence why this area was carried forward to 2019-20.</p>	<p>Work to ensure membership data is accurate and complete has been ongoing since 2016/17.</p> <p>Following a recent restructure within Pension Services, there is now a dedicated Data & Systems Team managing all member data and system development. The data team are developing an active data management strategy to resolve any historical data gaps or issues, and to ensure that all new data is captured in a timely manner. All schools and external employers are fully on-boarded and using i-Connect. The data team now also manage i-Connect submissions from the fund's largest employer, Southwark Council, using data extracted from SAP. The data team monitor i-Connect to ensure all employers are regularly submitting pensions data, and contact employers who may fall behind to investigate any issues. In addition, historical data issues are being identified and escalated with schools to ensure member records are accurate and complete.</p> <p>The Pension Fund has just procured new pensions administration software to replace its current system. This is a phased project and as part of the implementation process a full data quality check will be undertaken. The new system provides for much improved Member and Employer Self-Service Portals, allowing members to log in securely and check/update basic member data. Employers will be able to submit monthly returns through the secure portal and see any outstanding tasks, such as outstanding leaver forms or requests for data. Forms will be able to be completed 'online' rather than paper-based which is hoped will further improve employer compliance via increased convenience.</p> <p>The fund is acutely aware of the increased scrutiny on LGPS data by The Pension Regulator and has taken measures to ensure member data is as accurate as it can be.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

Audit Adjustments

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

Impact of adjusted and unadjusted misstatements

No adjusted or unadjusted misstatements have been identified from the work performed during the course of the audit.

Misclassification 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

Disclosure omission	Value (£000)	Impact on the Accounts	Adjusted?
Note 15 – Fair Value Hierarchy	31,803	The initial disclosure of Level 3 Investments excluded the Fund's Investment in Infrastructure Funds, which were new in 2019-20. These investments have subsequently been included in the disclosures in the revised Accounts.	✓
Various Notes	Various	A number of minor presentational and disclosure amendments have been made to the Accounts to enhance the transparency of the disclosures within the Accounts.	✓

Fees

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

Audit fees	Proposed fee	Final fee
Pension Fund	28,170	TBC
Total audit fees (excluding VAT)	£28,170	TBC

The fees reconcile to the financial statements.

No 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 unqualified audit opinion with an Emphasis of Matter Paragraph

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

Opinion

We have audited the financial statements of the London Borough of Southwark Pension Fund (the 'pension fund') administered by the London Borough of Southwark (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 Strategic Director of Finance and Governance 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 Strategic Director of Finance and Governance's use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Strategic Director of Finance and Governance 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.

In our evaluation of the Strategic Director of Finance and Governance's 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 investments

We draw attention to Note 5 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's property investments as at 31 March 2020. As, disclosed in Note 5 to the financial statements, the ongoing impact of the COVID-19 pandemic has created an unprecedented set of circumstances on which to base

Audit Opinion

We anticipate we will provide the Pension Fund with an unqualified audit opinion with an Emphasis of Matter Paragraph

judgement. As such, the Pension Fund property and infrastructure allocations as at 31 March 2020 are difficult to value according to the preferred accounting policy. Valuations are therefore reported on the basis of 'material valuation uncertainty'. Consequently, less certainty and a higher degree of caution should be attached to the valuation than would normally be the case. Our opinion is not modified in respect of this matter.

Other information

The Strategic Director of Finance and Governance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report, the Annual Governance Statement and the Annual Report, other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority'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, the Annual Governance Statement and the Annual Report 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.

Responsibilities of the Authority, the Strategic Director of Finance and Governance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 11, 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 Strategic Director of Finance and Governance. The Strategic Director of Finance and Governance 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 Strategic Director of Finance and Governance 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 Strategic Director of Finance and Governance 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, Governance and Standards Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting

Audit Opinion

We anticipate we will provide the Pension Fund with an unqualified audit opinion with an Emphasis of Matter Paragraph

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. 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.

[Signature]

Ciaran McLaughlin, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

[Date]



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