



Report to the Audit and Standards Committee
**LONDON BOROUGH OF BARKING
AND DAGENHAM PENSION FUND**

Audit Completion Report: Year ended 31 March 2019

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WELCOME

Introduction

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

It summarises the results of completing the planned audit approach for the year ended 31 March 2019, specific audit findings and areas requiring further discussion and/or the attention of the Audit and Standards Committee. At the completion stage of the audit it is essential that we engage with the Audit and Standards Committee on the results of our audit of the financial statements comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit and Standards Committee meeting and to receiving your input.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

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



David Eagles, Partner
For and on behalf of BDO LLP
22 July 2019



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. This report has been prepared solely for the use of the Audit and Standards Committee and those charged with governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

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This summary provides an overview of the audit matters that we believe are important to the Audit and Standards Committee in reviewing the results of the audit of the financial statements of the Pension Fund for the year ended 31 March 2019.

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



Overview

Our audit work is substantially complete and subject to the successful resolution of outstanding matters, we anticipate issuing our opinion on the Pension Fund financial statements for the year ended 31 March 2019 in line with the revised timetable agreed for the audit of London Borough of Barking and Dagenham main council.

Outstanding matters are listed in the appendices.

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

No restrictions were placed on our work.

Audit report

Subject to the successful resolution of outstanding matters, we anticipate issuing an unmodified audit opinion on the financial statements.

THE NUMBERS

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Final materiality

Final materiality was determined based on 1% of net assets. Specific materiality (at a lower level) was set for the contributions and other fund account balances and these were based on 5% of total contributions receivable and 7.5% of total expenditure respectively.

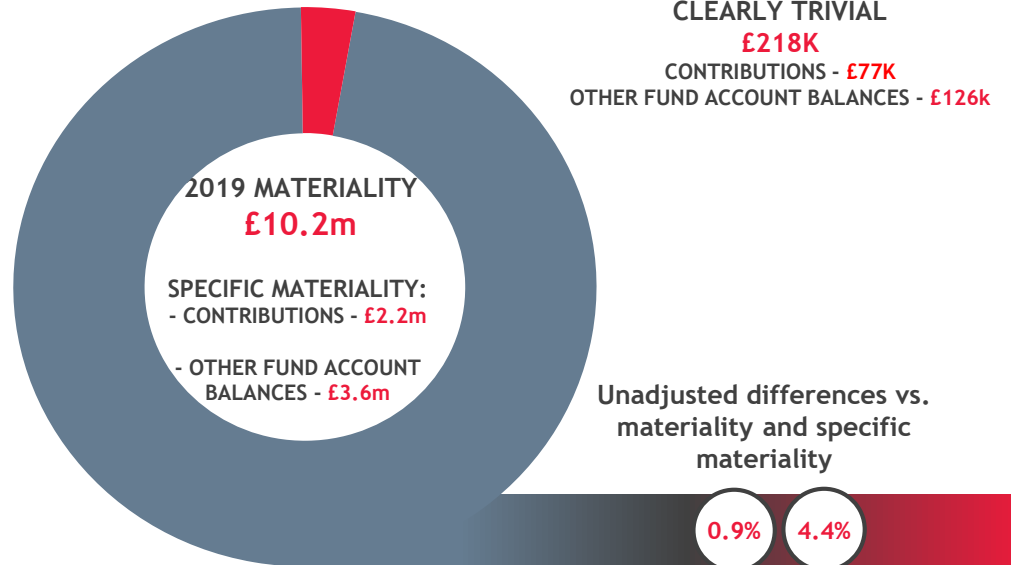
Following receipt of the draft financial statements for audit we updated the materiality figures. This increased the materiality from £9.6m to £10.2m. Specific materiality for contributions remained unchanged at £2.2m. Specific materiality for other fund account balances was increased from £3.5m to £3.6m.

Material misstatements

To date we have not identified any material misstatements. However, we are in discussions with management regarding an accounting treatment it has applied on a £20m prepaid contributions from London Borough of Barking and Dagenham. This has been accounted for as a liability in the pension fund financial statements. We are required to consider whether this constitutes a liability or income from the pension fund point of view. We expect further information from management to conclude on this.

Unadjusted audit differences

We identified two audit adjustments that, if posted, would increase the 'Net increase in the net assets available for benefits during the year' in the Fund Account and increase 'Net assets of the fund available to fund benefits' in the Net Asset Statement by £96k.



OTHER MATTERS

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Financial reporting

- We have not identified any non-compliance with accounting policies or the applicable accounting framework.
- No significant accounting policy changes have been identified impacting the current year.
- Going concern disclosures are deemed sufficient.
- We are yet to receive the pension fund annual report. Upon receipt of the annual report we will read this to ensure that the information included in the annual report is consistent with the financial statements and our knowledge acquired in the course of the audit.

Other matters that require discussion or confirmation

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

Independence

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



AUDIT RISKS OVERVIEW

As identified in our Audit Plan dated 31 December 2018, we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant Management Estimates or Judgement	Use of Experts Required	Error Identified	Significant Control Findings	Discussion points / Letter of Representation
Management override of controls	Significant	Yes	No	No	No	No
Fair value of investments (infrastructure and private equity)	Significant	Yes	No	No	No	No
Pension liability valuation	Significant	Yes	Yes	No	No	Yes - impact of GMP and McCloud on whole fund liability
Fair value of investments (pooled investments)	Normal	No	No	No	No	No
Consideration of related party transactions	Normal	No	No	No	No	No

■ Areas requiring your attention

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MANAGEMENT OVERRIDE OF CONTROLS

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ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud.
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Risk description

ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements requires us to presume that the risk of management override of controls is present and significant in all entities.

Work performed

We carried out the following planned audit procedures:

- Determined key risk characteristics to filter the population of journals, using our IT team to assist with the journal extraction.
- Using our data analytics software BDO Advantage, reviewed and verified large and unusual journal entries made in the year and agreed the journals to supporting documentation.
- Reviewed accounting estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias.
- Reviewed for any significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual to obtain an understanding of the business rationale of any such transactions.

Results and conclusions

Our audit work on journals and accounting estimates is still in progress. No issues have been found in the testing completed to date.

We will provide a verbal update to the Committee.

FAIR VALUE OF INVESTMENTS (INFRASTRUCTURE AND PRIVATE EQUITY)

There is a risk that infrastructure and private equity investments are not appropriately valued in the financial statements.

Risk description

The investment portfolio includes unquoted infrastructure and private equity holdings valued by the fund manager. The valuation of these assets may be subject to a significant level of assumption and estimation and valuations may not be based on observable market data.

In some cases, the valuations are provided at dates that are not coterminous with the pension fund's year end and need to be updated to reflect cash transactions (additional contributions or distributions received) since the latest available valuations.

As a result, we consider there to be a significant risk that investments are not appropriately valued in the financial statements.

Work performed

We carried out the following planned audit procedures:

- Obtained direct confirmation of investment valuations from the fund managers and requested copies of the audited financial statements (and member allocations) from the fund;
- Reviewed the valuation completed by the fund manager and any significant assumptions made in the valuation;
- Where the financial statement date supporting the valuation is not coterminous with the pension fund's year end, we confirmed that appropriate adjustments have been made to the valuations in respect of additional contributions and distributions with the funds; and
- Ensured investments have been correctly valued in accordance with the relevant accounting policies.

Results and conclusions

The direct confirmations obtained from fund managers confirmed that the valuation provided in the financial statements for infrastructure and private equity investments are agreed to the respective fund manager confirmations.

For investments in private equity and infrastructure we obtained audited financial statements of the underlying investee funds, and valuations were recalculated by adjusting the additional contributions and distributions where relevant. Our audit work on this area is currently on going and we will provide a verbal update to the Committee.

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PENSION LIABILITY VALUATION

There is a risk that the membership data and cash flows provided to the actuary in the roll-forward valuation may not be correct, or the valuation uses inappropriate assumptions to value the liability.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
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Risk description

An actuarial estimate of the pension fund liability to pay future pensions (referred to in the notes to the financial statements as the “actuarial present value of promised retirement benefits”) is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on a roll-forward of data from the 2016 triennial valuation, updated where necessary, and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.

Following a ruling on gender discrimination on a Lloyds case, the courts found that UK defined benefit schemes must equalise Guaranteed Minimum Pensions (GMP). Actuaries estimate that this could result in an increase in pension liabilities by up to 0.5% (not material) but are not expected to include this in the 31 March 2019 valuation as Government has extended the ‘interim solution’ from December 2018 through to April 2021 to potentially fund this through an alternative long-term methodology known as ‘conversion’.

Following the ruling on age discrimination on the McCloud case, where members approaching retirement age received protected benefits moving to the career average relevant earnings scheme from the final salary scheme, Government will have to remedy the discrimination in the LGPS.

There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.

Work performed

We carried out the following planned audit procedures:

- Agreed the disclosures to the information provided by the pension fund actuary;
- Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data;
- Reviewed the controls for providing accurate membership data to the actuary; and
- Checked whether any significant changes in membership data have been communicated to the actuary.
- Discussed with the actuary how the impact of the GMP gender discrimination and McCloud age discrimination judgements have been taken into account in the liability assumptions at 31 March 2019.

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PENSION LIABILITY VALUATION

Continued

(Continued)	<p>Results and conclusions</p> <p>We have agreed the disclosures in Note 20 to the pension Fund financial statements to the information provided by the actuary and have identified no issues.</p> <p>Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations is noted in the following page.</p> <p>Our review of the data provided to the actuary for the roll forward valuation at 31 March 2019 and the triennial valuation at 31 March 2016 is currently ongoing.</p> <p>In respect of the McCloud judgement, the Pension Fund has requested an updated valuation of the whole fund liability to take account of the impact of this ruling. An updated actuary report was now received by the Pension Fund which shows the estimated impact on total liabilities as at 31 March 2019 from McCloud judgement to be £5.038m. This represents 0.3% of the total liabilities as at 31 March 2019. The Government Actuary Department (GAD) has undertaken an LGPS-wide impact assessment and a worse case scenario suggests that the liability could increase by up to 3.2% for active members where the fund has an average age of 46 and salaries increase at +1.5% above CPI. Based on the GAD review, the estimate provided by the actuary Hymans Robertson LLP for the pension fund is considered to be relatively low. Our review of the assumptions used by the actuary in estimating the impact of McCloud judgement is currently ongoing.</p> <p>In respect of GMP gender equalisation, the Government's interim solution, originally in place from 2016 to 2018, has been extended to 2021 to find time to agree whether the LPGS or Government should fund these additional costs. Actuaries have not been treating these costs consistently on triennial and balance sheet valuations. As per the updated valuation report, the estimated impact on total liabilities as at 31 March 2019 from GPM adjustment to be £2.787m. This represents 0.17% of the total liabilities as at 31 March 2019. Our review of the assumptions used by the actuary in estimating the impact of GPM is currently on going.</p>
Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
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PENSION LIABILITY VALUATION

Continued

Significant accounting estimates/judgements: pension liability

Overview

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

Changes in 2018/19

The actuarial valuation of future benefits has increased from £1,487 million to £1,684 million.

Changes in assumptions that have increased the liability include an increase CPI and future pension increases (from 2.4% to 2.5%), increases in salaries (from 2.9% to 3.0%), and a reduction to the discount rate (from 2.7% to 2.4%). Mortality assumptions have not changed during the year.

Discussion

The pension liability to pay future pensions has increased by £197 million to £1,684 million at 31 March 2019.

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

	Actual	Expected / range	Comments
CPI increase	2.5%	2.4% - 2.5%	Reasonable
Salary increase	3.0%	--	Reasonable (derived from CPI assumptions)
Pension increase	2.5%	2.4% - 2.5%	Reasonable
Discount rate	2.4%	2.4% - 2.5%	Reasonable
Mortality - LGPS:			
- Male current	24.0 years	23.7 - 24.4	Reasonable
- Female current	26.4 years	26.2 - 26.9	Reasonable
- Male retired	22.0 years	21.5 - 22.8	Reasonable
- Female retired	24.7 years	24.1 - 25.1	Reasonable
Commutation:			
- Pre 2008	50%	25% - 75%	Reasonable
- Post 2008	75%	25% - 75%	Reasonable

All the above financial and mortality assumptions are within the expected range based on national data.

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

Impact

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VALUATION OF POOLED INVESTMENTS

There is a risk that pooled investments are not appropriately valued in the financial statements.

Risk description

The fair value of funds (principally pooled investments) is provided by individual fund managers and reviewed by the Custodian (State Street), and reported on a quarterly basis. These funds are quoted on active markets.

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

Work performed

We carried out the following planned audit procedures:

- Obtained direct confirmation of investment valuations from the fund managers including any subsequent final valuations to 'flash' valuations in the draft accounts;
- Ensured that investments have been correctly valued in accordance with the relevant accounting policies; and
- Obtained independent assurance reports over the controls operated by both the fund managers and custodian for valuations and existence of underlying investments in the funds.

Results and conclusions

The investment valuations included in the financial statements for pooled investments were agreed to the valuations provided by the fund managers with trivial variances.

We obtained independent assurance reports for each fund manager and the custodian and these did not reveal any issues with the effectiveness of controls operated by fund managers and custodian for valuations and existence of underlying investments in the funds. The assurance report for one of the fund managers had a qualification in respect of change management and logical access controls. Whilst we have not identified any control issues affecting the valuation and existence of investments managed by the fund manager in question, we agreed investment managed by the fund manager to independent market prices and confirmed that the valuations are accurate.

Where the assurance reports obtained are not coterminous with the pension fund's year end, we obtained bridging letters confirming the satisfactory operation of controls within the fund managers and the custodian.

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There is a risk that related party transactions may not be complete and adequate.

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Significant management judgement
Use of experts
Unadjusted error
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Risk description

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

We need to consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of the accounting standards.

Work performed

We carried out the following planned audit procedures:

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

Results and conclusions

We did not identify any notable matters in connection with related parties.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

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Fraud

Whilst the directors have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Plan on 16 January 2019.

Laws and regulations

We have made enquiries of management regarding compliance with laws and regulations and reviewed correspondence with the relevant authorities. We consider pension regulations to be the most relevant for your business.

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

Internal audit

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



UNADJUSTED AUDIT DIFFERENCES: SUMMARY

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

There are two unadjusted audit differences identified by our audit work which would increase the 'Net increase in the net assets available for benefits during the year' in the Fund Account and increase 'Net assets of the fund available to fund benefits' in the Net Asset Statement by £96k if adjusted.

You consider the differences to be immaterial in the context of the financial statements as a whole.

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Fund Account			Net Assets Statement	
	NET DR/(CR) £'000	DR £'000	CR £'000	DR £'000	CR £'000
Unadjusted audit differences					
Net increase in the net assets available for benefits during the year	(53,530)				
1: The difference in contribution received due to incorrect application of contributions rates (extrapolated difference)					
DR Contributions receivable				96	
CR Contributions income	(96)		96		
2: Short term loans set off against the deposit held with bank					
Cash and cash equivalents				562	
Short term loans					562
Total unadjusted audit differences	(96)		96	658	562
Net increase in the net assets available for benefits during the year if above issues adjusted	53,626				

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UNADJUSTED AUDIT DIFFERENCES: DETAIL (CONTINUED)

Details for the current year

Impact on the Net Assets of the scheme available to fund benefits	Net Assets £'000
Balance before unadjusted audit differences	1,021,902
Adjustments identified above	96
Balance after unadjusted audit differences	1,021,998

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

Matter	Comment
We are required to report on whether the financial and non-financial information in the Pension Fund Annual Report is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	We are yet to receive the pension fund Annual Report. Upon receipt of the Annual Report we will read this to ensure that the information included in the Annual Report is consistent with the financial statements and our knowledge acquired in the course of the audit.

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

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

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

We have not identified any significant deficiencies.

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Area	Observation & implication	Recommendation	Management response
Employee contribution rates	During our audit testing on contributions we identified that employee contributions had not been calculated correctly for 4 employees on our sample. This is due to the contributions paid over did not reflect the correct contribution band according to the pensionable pay. The application of incorrect tired employee contribution percentage by the participating employers could result in the correct amount of contributions may not received by the pension fund.	We recommend that appropriate controls are designed and implemented to identify any employee contributions which have not been calculated in accordance with pensionable salary of the employee.	[TO BE PROVIDED BY MANAGEMENT]

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Opinion on financial statements

Subject to the successful resolution of outstanding matters we anticipate issuing an unmodified opinion on the financial statements.

There are no matters that we wish to draw attention to by way of ‘emphasis of matter’.

Conclusion relating to going concern

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

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

Other information

We are yet to receive the pension fund annual report. Upon receipt of the annual report we will read this to ensure that the information included in the annual report is consistent with the financial statements and our knowledge acquired in the course of the audit.

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Under ISAs (UK) and the FRC’s Ethical Standard we are required, as auditors, to confirm our independence.

Under ISAs (UK) and the FRC’s Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2019.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Plan.

We have not identified any relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC’s Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Pension Fund.

We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit comply with relevant ethical requirements including the FRC’s Ethical Standard and are independent of the Pension Fund.

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

FEES

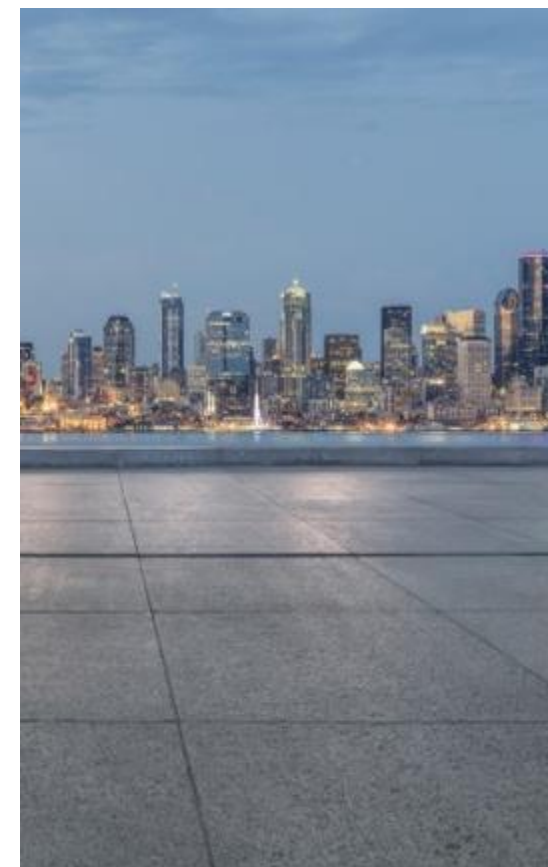
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Fees summary	2018/19 Final Proposed £	2018/19 Planned £	2017/18 Actual £
Audit fee			
Code audit fee: financial statements	(1) (2) 18,670	16,170	21,000
Other fees under PSAA arrangements			
Additional fee for IAS19 assurance request from London Borough of Barking and Dagenham	(3) 750	TBC	
Total fees	(2) 19,420	TBC	21,000

(1) We performed additional audit procedures to get assurance over the accuracy and completeness of data provided to the actuary in respect of the 2016 triennial valuation. This is because the pension liability valuation at 31 March 2019 was based on the roll forward data set from 2016 as such we were required to gain assurance that the starting point used for the roll forward data is accurate and complete. This assurance was not received by other means. We propose an additional fee of £2,500 for this work.

(2) The proposed fee above does not include fee in respect of the additional work we are required to perform in respect of the McCloud adjustment and GMP (see page 10-11) to assess the impact on the financial statements and to consider audit reporting requirements. We will quantify this once we have completed our work and will discuss the additional fees with you.

(3) We anticipate charging an additional fee of £750 in 2018/19 to take into account the additional work required to respond to IAS 19 assurance requests from London Borough of Barking and Dagenham (LBBD). The additional fee proposal does not include IAS 19 assurance requests from any other bodies including the trading subsidiaries of LBBD. To date we have not received any requests from other bodies. Should we receive any new requests we will discuss the additional fees with you.



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RESPONSIBILITIES AND REPORTING

Responsibilities and reporting

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Our responsibilities and reporting

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

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

What we don't report

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



ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

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

COMMUNICATION AND REPORTS ISSUED

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Those Charged with Governance (TCWG)

References in this report to those charged with governance are to the Council as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit and Standards Committee.

Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Communication	Date (to be) communicated	To whom
Audit Plan	16 January 2019	Audit and Standards Committee
Audit completion report	23 July 2019	Audit and Standards Committee

OUTSTANDING MATTERS

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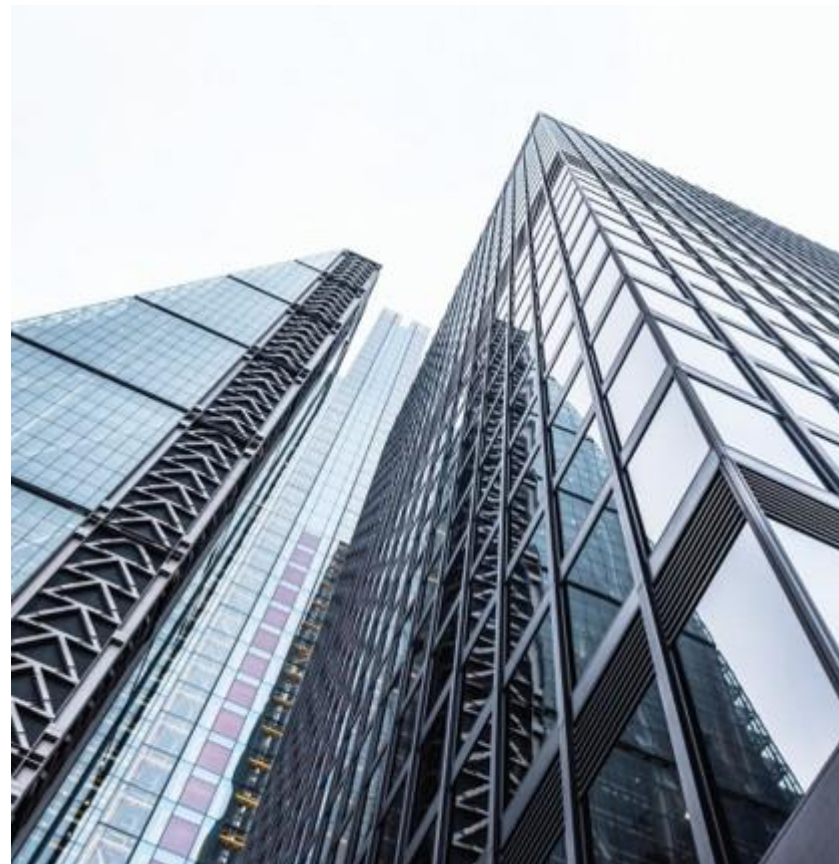
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We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2019.

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

- Completion of the audit testing in respect of the following audit areas:
 - Journal entries testing
 - Valuation of private equity and infrastructure investments. The testing is substantially complete and we are waiting to receive few audited accounts of the investees before we can conclude our testing.
 - Audit testing in respect of data provided to the actuary for 2016 triennial valuation and roll forward valuation at 31 March 2019.
- Review of the updated IAS 26 actuary report for McCloud and GMP adjustments
- Receipt of the pension fund annual report from management and our review thereon
- Completion of partner, manager and quality control review of the audit file and clearance of review points
- Technical clearance which includes resolution of the matter in respect of the accounting treatment for £20m prepaid contributions from London Borough of Barking and Dagenham. This has been accounted for as a liability in the pension fund financial statements. We are required to consider whether this constitutes a liability or income from the pension fund point of view. We expect further information from management to conclude on this.
- Subsequent events review
- Management letter of representation, as attached in Appendix D to be approved and signed
- Our contributions testing has been completed pending the assurance from main council audit team completing the audit testing on payroll expenses.



AUDIT QUALITY

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BDO is totally committed to audit quality

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

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

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

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

More details can be found in our Transparency Report at www.bdo.co.uk

Letter of representation

[Client name and Letter headed paper]

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
IP3 9SJ

Dear Sirs

Financial statements of London Borough of Barking and Dagenham Pension Fund for the year ended 31 March 2019

We confirm that the following representations given to you in connection with your audit of the Pension Fund’s financial statements for the year ended 31 March 2019 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Chief Operating Officer has fulfilled her responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2019 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

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

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

Going concern

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

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

Laws and regulations

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

We have not made any reports to The Pensions Regulator nor are we aware of any such reports having been made by any of our advisers. We confirm that we are not aware of any matters which have arisen that would require a report to The Pensions Regulator. There have been no communications with the Pensions Regulator or other regulatory bodies during the year or subsequently covering areas of non-compliance with any legal duty.

Post balance sheet events

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

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Fraud and error

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

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

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

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

Misstatements

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

Related party transactions

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

There were no loans, transactions or arrangements between the Pension Fund and Council members or their connected persons at any time in the year which were required to be disclosed.

Carrying value and classification of assets and liabilities

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the financial statements.

Accounting estimates

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

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

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

- CPI increase 2.5%
- Salary increase 3.0%
- Pension increase 2.5%
- Discount rate 2.4%
- Mortality: Current pensioners - male 22.0 years and female 24.7 years / future pensioners - male 24.0 years and female 26.4 years
- Commutation: pre-April 2008 - 50% / post-April 2008 - 75%

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

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Litigation and claims

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

Confirmation

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

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

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

Yours faithfully

Claire Symonds

Chief Operating Officer (Section 151 Officer), London Borough of Barking and Dagenham Pension Fund

Date:

Cllr Princess Bright

Chairman of the Audit and Standards Committee

Date:



FOR MORE INFORMATION:

David Eagles
Partner

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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