



## Appendix 3

# The Audit Findings Report for the London Borough of Croydon Pension Fund

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Year ended 31 March 2020

**30 November 2023**



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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 Croydon 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.

<b>Covid-19</b>	<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 presented our Audit Plan to the General Purposes and Audit Committee on 9 March 2020. We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 24 November 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 finance team and our audit team have had to adapt to remote working arrangements. Your finance team was well set up for remote working and there were no changes in key financial processes that impacted on our approach to your audit. Both teams have had to be flexible in approaches to sharing information. We agreed to use video calling to watch your finance team run the required reports to gain assurance over completeness and accuracy of information produced by you. We have made more use of conference calls and emails to resolve audit queries. Inevitably in these circumstances resolving audit queries has taken a little longer than face to face discussion. Regular meetings were held with the finance teams to highlight key outstanding issues and findings to date. We have used a query log to track and resolve outstanding items; ensuring that the process was as smooth as possible.</p>
<b>Financial Statements</b>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements:</p> <ul style="list-style-type: none"> <li>• give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and</li> <li>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li> </ul>	<p>Our audit work was completed remotely between October 2020 and July 2021. 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"> <li>• completion of our outstanding testing (refer to Page 4 for more detail);</li> <li>• our final internal quality reviews;</li> <li>• receipt of management representation letter; and</li> <li>• review of the final set of financial statements.</li> </ul> <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 24 November 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 General Purposes and Audit Committee meeting on 24 August 2021, 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 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 have been updated from those reported in our Audit Plan to reflect the 2019-20 Draft Accounts, and the updated values are shown below.

	Pension Fund Amount (£) – Planning	Pension Fund Amount (£) – Final Accounts	Qualitative factors considered
<b>Materiality for the financial statements</b>	12,582,000	12,568,000	Our Headline Materiality is based on the prior year Gross Revenue Expenditure included in the Accounts.
<b>Performance materiality</b>	9,436,000	9,426,000	Performance Materiality is based on a percentage of the overall materiality.
<b>Trivial matters</b>	629,000	628,000	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 Illiquid Assets, 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 the London Borough of Croydon, 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 Croydon 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 Level 3 Investments

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

By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£438 million) and the sensitivity of this estimate to changes in key assumptions

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

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

We therefore identified valuation of Level 3 investments 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:

- evaluated management's processes for valuing Level 3 investments
- reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met
- independently requested year-end confirmations from investment managers and/or custodian(s)
- for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2020 with reference to known movements in the intervening period and
- in the absence of available audited accounts, we have evaluated the competence, capabilities and objectivity of the valuation expert
- where available, we have reviewed the 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 Fund's Illiquid Assets, 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.



#### Transfer of Properties from the Council to the Pension Fund

During the course of the year, the Council will have transferred senior head leases for 346 houses into the Pension Fund. These lease arrangements are in effect directing rental streams for a further 40-year period into the Council's Pension Fund, with the leases expiring between 2057 and 2059. As a result of this arrangement, the Council is seeking a reduced contribution rate which would be set by the Council's Actuary, Hymans Robertson LLP.





During the course of our work in this area, we identified that this transaction had not taken place during the course of the 2019/20 or the 2020/21 financial year. On the 25<sup>th</sup> May 2021 the proposed approach was formally withdrawn by the Pensions Committee and therefore there is no impact on the 2019/20 Statement of Accounts.



## 2. Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
<b>Level 3 investments</b>	<p>The Pension Fund has investments in Pooled Property Investments, Private Equity and Infrastructure Funds that in total are valued on the Net Asset Statement as at 31 March 2020 at <b>£459 million</b>.</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"> <li>Based on the work performed to date, we have been able to obtain sufficient assurance over the Level 3 valuations included within the Accounts.</li> <li>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.</li> <li>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.</li> </ul>	 <b>Green</b>
<b>Level 2 investments</b>	<p>The Pension Fund have investments in Fixed Interest Funds and Pooled Global Equities Funds that in total are valued on the Net Asset Statement as at 31 March 2020 at <b>£715 million</b>.</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 <b>£83 million</b> from their value at 31 March 2019 (<b>£798 million</b>), which is largely down to a change in the Fund's investment focus in this period during the course of the year.</p>	<ul style="list-style-type: none"> <li>Based on the work performed to date, we have been able to obtain sufficient assurance over the Level 2 valuations included within the Accounts.</li> <li>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.</li> </ul>	 <b>Green</b>

### 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
<b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the General Purposes and Audit 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.
<b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed.
<b>Matters in relation to laws and regulations</b>	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
<b>Written representations</b>	A letter of representation has been requested from the Pension Fund which is included in the General Purposes and Audit Committee papers.
<b>Confirmation requests from third parties</b>	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. 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.
<b>Disclosures</b>	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.
<b>Audit evidence and explanations/significant difficulties</b>	The Pension Fund 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.
<b>Matters on which we report by exception</b>	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to the delays in the completion of our work on the Accounts we have not yet completed our work on the Annual Report. 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 C.

#### **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 24 August 2021.

# Follow up of prior year recommendation

We identified the following issue in the audit of the London Borough of Croydon Pension Fund's 2017/18 financial statements, which resulted in one recommendation being reported in our 2017/18 Audit Findings Report, which we considered further in 2018/19 and noted that the issue had not yet been resolved. We have since followed up further on the implementation of our recommendation and note that this area has now been resolved.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p><b>Statutory Notifications for New Members</b></p> <p>In the previous year we identified from our controls testing that the statutory notifications of joining the scheme had been sent to two new starters who joined the scheme in April and September 2017 respectively.</p> <p>The reason that the notifications were not sent were because the individuals in question were employed via external payrolls and the payroll providers in question had not notified the Council that they had joined the scheme.</p>	<p>From the Member Data Testing performed in 2018/19, we identified another two starters for whom we were able to confirm that they were valid starters but had not had the appropriate notification sent out to them upon joining the Scheme. Thus, this recommendation was rolled forward to the 2019/20 Accounts Audit.</p> <p>From the testing performed in 2019/20 we tested a sample of starters of new members and agreed back to supporting evidence to confirm that the individual subject to testing had joined the pension scheme in the financial year. We have not identified any instances of statutory notifications not being sent to the individual joining the scheme from testing performed and are therefore satisfied the control weaknesses previously identified has been resolved within the 2019/20 financial year.</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?
<b>Note 15 – Fair Value Hierarchy</b>	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.	✓
<b>Various Notes</b>	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.

<b>Audit fees</b>	<b>Proposed fee</b>	<b>Final fee</b>
Pension Fund	25,000	TBC
<b>Total audit fees (excluding VAT)</b>	<b>£25,000</b>	<b>TBC</b>

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 Croydon on the pension fund financial statements of the London Borough of Croydon Pension Fund

### Opinion

We have audited the financial statements of the London Borough of Croydon Pension Fund (the 'pension fund') administered by the London Borough of Croydon (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 Interim Director of Finance, Investment and Risk 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 Interim Director of Finance, Investment and Risk's use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Interim Director of Finance, Investment and Risk 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 Interim Director of Finance, Investment and Risk'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 even greater uncertainty in establishing the asset values

# Audit Opinion

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

of illiquid assets. It should be noted that at the reporting date 36.5% of the Fund's assets are illiquid. Our opinion is not modified in respect of this matter.

## Other information

The Interim Director of Finance, Investment and Risk 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 Interim Director of Finance, Investment and Risk 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 Interim Director of Finance, Investment and Risk. The Interim Director of Finance, Investment and Risk 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 Interim Director of Finance, Investment and Risk 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 Interim Director of Finance, Investment and Risk 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 General Purposes and Audit 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## **Use of our report**

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

[Signature]

Sarah Ironmonger, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor  
London  
[Date]



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