



Audit Completion Report

London Borough of Lambeth Pension Fund
Year ending 31 March 2020

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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited.

Reports and letters prepared by appointed auditors and addressed to the Pension Fund are prepared for the sole use of the Pension Fund and we take no responsibility to any member or officer in their individual capacity or to any third party.

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London Borough of Lambeth Pension Fund
Corporate Committee
Lambeth Town Hall
1 Brixton Hill
London
SW2 1RD

12 November 2020

Dear Members

Audit Completion Report – Year ended 31 March 2020

We are pleased to present our Audit Completion Report for the year ended 31 March 2020. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 15 March 2020. Since then, the COVID-19 pandemic has had significant implications for the UK, including the Pension Fund sector. We have updated our planning work to understand the implications of COVID-19 on our audit and concluded that the original audit risks and other areas of management judgement in the Audit Strategy Memorandum remain appropriate.

In response to the COVID-19 pandemic, MHCLG issued a revised reporting timetable for the Pension Fund to prepare its financial statements for inclusion in the Administering Authority Statement of Accounts and for the audit to be completed. We understand the difficult circumstances that the Pension Fund is facing in order to respond to the pandemic and would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07387 242052.

Yours faithfully

Lucy Nutley
Mazars LLP

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VAT number: 839 8356 73

1. EXECUTIVE SUMMARY

Purpose of this report and principle conclusions

The Audit Completion Report sets out the findings from our audit of London Borough of Lambeth Pension Fund ('the Pension Fund') for the year ended 31 March 2020, and forms the basis for discussion at the Corporate Committee meeting on 12 November 2020.

The detailed scope of our work as your appointed auditor for 2019/20 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Section 2 of this report outlines the detailed findings from our work on the financial statements. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- management override of control; and
- valuation of level 3 unquoted investments for which a market price is not readily available.

Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements

We anticipate issuing an unqualified opinion on the financial statements. As outlined in more detail in section 2, we intend to include an Emphasis of Matter paragraph within our auditor's report with respect to the material valuation uncertainty of property investments that the Pension Fund intends to disclose in the financial statements.

Consistency report

We anticipate concluding that the Pension Fund financial statements within the Pension Fund's Annual Report are consistent with the Pension Fund financial statements within the Statement of Accounts of London Borough of Lambeth Pension Fund prior to the 30 November deadline. Our draft consistency report is provided in Appendix C

Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Pension Fund and to consider any objection made to the accounts. Further details on the exercise of our wider powers are provided in section 2.

1. EXECUTIVE SUMMARY

Status of our audit work

We have substantially completed our work on the financial statements for the year ended 31 March 2020. At the time of preparing this report the following matters remain outstanding:

Audit area	Status	Description of outstanding matters
Financial Assets		Agreement of the revision of the financial statements for changes in the recording of the property fund assets
Closure procedures and review		Our final reviews and completion work needs to be performed, including update on agreed accounts amendments and consideration of post balance sheet events until the date of sign-off.
Review of Annual Report		Our review of the content of the detailed Pension Annual report to confirm consistency with the financial statements has yet to be completed.

Status

-  Likely to result in material adjustment or significant change to disclosures within the financial statements
-  Potential to result in material adjustment or significant change to disclosures within the financial statements
-  Not considered likely to result in material adjustment or change to disclosures within the financial statements

We will provide the Corporate Committee with an update in relation to these outstanding matters in a follow-up letter, prior to signing the auditor's report.

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in March 2020. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

We set materiality at the planning stage of the audit at £21.6m using a benchmark of 1.5% of net assets available to pay benefits. We set a specific materiality for the fund account of £5.3m at the planning stage of the audit using a benchmark of 10% of benefits payable / contributions receivable.

Our final assessment of materiality, based on the final financial statements and qualitative factors is £21.4m, with the specific materiality for the fund account of £5.2m, both of which have been set using the same above benchmarks.

We set our trivial threshold (the level under which individual errors are not communicated to the Corporate Committee, at £0.642m based on 3% of overall materiality.

2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page X we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Pension Fund's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks.

Significant risk

Management override of controls

Description of the risk

In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

How we addressed this risk

We addressed this risk by performing audit work in the following areas:

- accounting estimates impacting on amounts included in the financial statements;
- consideration of identified significant transactions outside the normal course of business; and
- journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Audit conclusion

There were no significant findings arising from our review of areas of potential management override of controls

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Valuation of unquoted investments	As at 31 March 2019 the Pension Fund held investments which were not quoted on an active market with a fair value of £61.0m, accounting for 4.4% of the Fund's net investment assets (£67.5m at 31 March 2020, 4.8%). Inherently these assets are harder to value, as they do not have publicly available quoted prices from a traded market, and as such they require professional judgement or assumptions to be made when valuing them at year end.

As the pricing of these investment assets is subject to judgements, they may be susceptible to pricing variances due to the assumptions underlying the valuation. We therefore consider that there is an increased risk of material misstatement.

How we addressed this risk

We addressed this risk by completing the following additional procedures:

- agreeing holdings from fund manager reports to the global custodian's report;
- agreeing the valuation to supporting documentation including investment manager valuation statements and cashflows for any adjustments made to the investment manager valuation;
- agreeing the investment manager valuation to audited accounts or other independent supporting documentation, where available;
- where audited accounts are available, confirming that they are supported by a clear opinion; and
- Considering the appropriate analysis of the investment as Level 2 or 3, particularly in light of the impact on the pandemic on the valuation of certain assets.

Audit conclusion

At 31 March 2020 the Pension Fund held investments which were not quoted on an active market with a fair value of £67.5m, accounting for 4.8% of the Fund's net investment assets.

We also identified that the council holds £172.4m of investments in property funds at 31 March 2020. In view of the pandemic and the associated impact on the valuation of these assets, as well as the inclusion of material valuation uncertainty statements within the individual portfolio valuations for the holdings, we consider these assets should be disclosed as level 3 within the financial statements.

The Pension Fund will need to include a disclosure of material valuation uncertainty in note x to the financial statements with regard to property fund valuations which in light of the Covid-19 pandemic have had a 'material valuation uncertainty' attached to their 31 March 2020 valuation. In our view, this matter is fundamental to the users' understanding of the financial statements and as such we intend to include an 'Emphasis of Matter' paragraph in respect of this disclosure within our auditors report set out in Appendix B. Our opinion on the Pension Fund financial statements is not modified in respect of this matter.

There are no other significant findings arising from our review of the valuation of unquoted investments.

2. SIGNIFICANT FINDINGS (CONTINUED)

Qualitative aspects of the entity's accounting practices

We have reviewed the Pension Fund's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Pension Fund's circumstances.

Draft accounts were received from the Pension Fund on 9 June 2020 and were of a good quality. Supporting working papers were made available to us on the first day of the audit and were of a good quality.

Significant matters discussed with management

We discussed the following significant matters:

- The impact of COVID-19 on the Pension Fund, including potential impact on risks of material misstatement on the valuation of individual assets and the assessment of investments.
- Confirmation that investment valuations received were as at 31 March 2020, requesting additional information on individual valuations where this was not the case to confirm the valuations are appropriate.
- The assessment of specific property related investment funds, and the impact on the overall fund valuation arising from updated RICS guidance, as Level 2 or Level 3 within the financial statements.

Significant difficulties during the audit

Despite the undoubted impact of the pandemic on both the preparation and completion of the draft accounts as well as our audit work, during the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management. We would like to express our thanks to management and officers for their co-operation throughout the audit.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2019/20 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. No such objections have been raised in relation to the Pension Fund.

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

Mazars LLP
Tower Bridge House
St Katharine's Way
London
E1W 1DD
[Date]

Dear Lucy

London Borough of Lambeth Pension Fund - audit for year ended 31 March 2020

This representation letter is provided in connection with your audit of the financial statements of London Borough of Lambeth Pension Fund ('the Pension Fund') for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) and applicable law.

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

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Pension Fund you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Director: Finance & Property that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Pension Fund committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Pension Fund in making accounting estimates, including those measured at current or fair value, are reasonable.

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Pension Fund have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Pension Fund has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Director: Finance & Property for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Pension Fund involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Pension Fund's financial statements communicated by employees, former employees, analysts, regulators or others.

Assets

I confirm that all assets held are free from liens, charges or any other encumbrance.

Related party transactions

I confirm that all related party relationships, transactions and balances have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

I have disclosed to you the identity of the Pension Fund's related parties and all related party relationships and transactions of which I am aware.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

Specific representation on unquoted investments

Unquoted investments are included in the net assets statement at the value estimated by the general partner managing each fund in accordance with the guidelines used by the industry, and based on the latest information to hand at the time of the valuation. I am satisfied, based on the knowledge I have, with the valuations, and am not aware of any subsequent events that would have a material impact on the estimated value of the unquoted investments.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Pension Fund will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Yours sincerely

Christina Thompson
Director: Finance & Property, Section 151 Officer

Independent auditor's report to the members of London Borough of Lambeth

Report on the financial statements

Opinion on the financial statements of London Borough of Lambeth Pension Fund

We have audited the financial statements of London Borough of Lambeth Pension Fund ('the Pension Fund') for the year ended 31 March 2020, which comprise the Fund Account, the Net Assets Statement, and notes to the 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 London Borough of Lambeth Pension Fund during the year ended 31 March 2020, and the amount and disposition of the Pension Fund's assets and liabilities as at 31 March 2020; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

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 section of our report. We are independent of the Council, as administering authority for the Pension Fund, in accordance with the ethical requirements that are relevant to our audit of the 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.

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 Director: Finance & Property's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director: Finance & Property has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Pension Fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Emphasis of Matter – the valuation of land and buildings and property investments

TBC - We draw attention to note xx of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of some of the Pension Fund's investment assets, in particular those related to Real Estate fund, as at 31 March 2020. As disclosed in note xx to the financial statements, the outbreak of Covid-19 has had an impact on financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. A material valuation uncertainty was therefore disclosed in the affected fund manager's report. Our opinion is not modified in respect of this matter.

Other information

The Director: Finance & Property is responsible for the other information. The other information comprises the Annual Governance Statement information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge 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 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.

APPENDIX B

DRAFT AUDITOR'S REPORT

Responsibilities of the Director: Finance & Property for the financial statements

As explained more fully in the Statement of the Director: Finance & Property' Responsibilities, the Director: Finance & Property 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, and for being satisfied that they give a true and fair view. The Director: Finance & Property is also responsible for such internal control as the Director: Finance & Property determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Director: Finance & Property is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution of the Pension Fund without transfer of services or function to another entity. The Director: Finance & Property is responsible for assessing each year whether or not it is appropriate for the Pension Fund to prepare the accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

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.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Use of the audit report

This report is made solely to the members of London Borough of Lambeth, as a body and as administering authority for the London Borough of Lambeth Pension Fund, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council 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 members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Lucy Nutley

for and on behalf of Mazars LLP
Tower Bridge House
St Katharine's Way
London, E1W 1DD

[Date]

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APPENDIX C

DRAFT CONSISTENCY REPORT

INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF LONDON BOROUGH OF Lambeth ON THE PENSION FUND FINANCIAL STATEMENTS INCLUDED WITHIN THE LONDON BOROUGH OF Lambeth PENSION FUND ANNUAL REPORT

We have examined the Pension Fund financial statements for the year ended 31 March 2020 included within the London Borough of Lambeth Pension Fund annual report, which comprise the Fund Account, the Net Assets Statement and the related notes.

Opinion

In our opinion, the Pension Fund financial statements are consistent with the audited financial statements of London Borough of Lambeth for the year ended 31 March 2020 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

I have not considered the effects of any events between the date I signed my report on the full financial statements (XXXX) and the date of this statement.

Respective responsibilities of the Director: Finance & Property and the auditor

As explained more fully in the Statement of the Director: Finance & Property Responsibilities, the Director: Finance & Property is responsible for the preparation of the Pension Fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to the Members of London Borough of Lambeth as a body, whether the Pension Fund financial statements within the Pension Fund annual report are consistent with the financial statements of London Borough of Lambeth.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the Pension Fund financial statements contained within the audited financial statements of London Borough of Lambeth describes the basis of our opinions on the financial statements.

Use of this auditor's statement

This report is made solely to the members of London Borough of Lambeth, as a body, in accordance with Part 5 paragraph 20(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 work has been undertaken so that we might state to the members of London Borough of Lambeth those matters we are required to state to them and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than London Borough of Lambeth and London Borough of Lambeth's members as a body, for our audit work, for this statement, or for the opinions we have formed.

Lucy Nutley

for and on behalf of Mazars LLP
Tower Bridge House
St Katharine's Way
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[Date]

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APPENDIX D INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

CONTACT

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