

Bromley Pension Fund Audit results report

Year ended 31 March 2020

24 March 2022

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

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London Borough of Bromley

24 March 2022

General Purpose and Licensing Committee

Dear Committee Members

We are pleased to attach our Audit Results Report for the forthcoming meeting of the General Purpose and Licensing Committee. This report summarises our audit results in relation to the audit of Bromley Pension Fund for 2019/20.

We have substantially completed our audit of Bromley Pension Fund for the year ended 31 March 2020.

Subject to concluding the outstanding matters listed in this report, we anticipate issuing an unqualified audit opinion on the financial statements in the form at Section 3 of this report.

This report is intended solely for the use of the General Purpose and Licensing Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement given the additional pressures they have faced responding to the pandemic and working remotely.

We welcome the opportunity to discuss the contents of this report with you at the Committee meeting on 5 April 2022.

Yours faithfully

Debbie Hanson

Debbie Hanson

Associate Partner

For and on behalf of Ernst & Young LLP

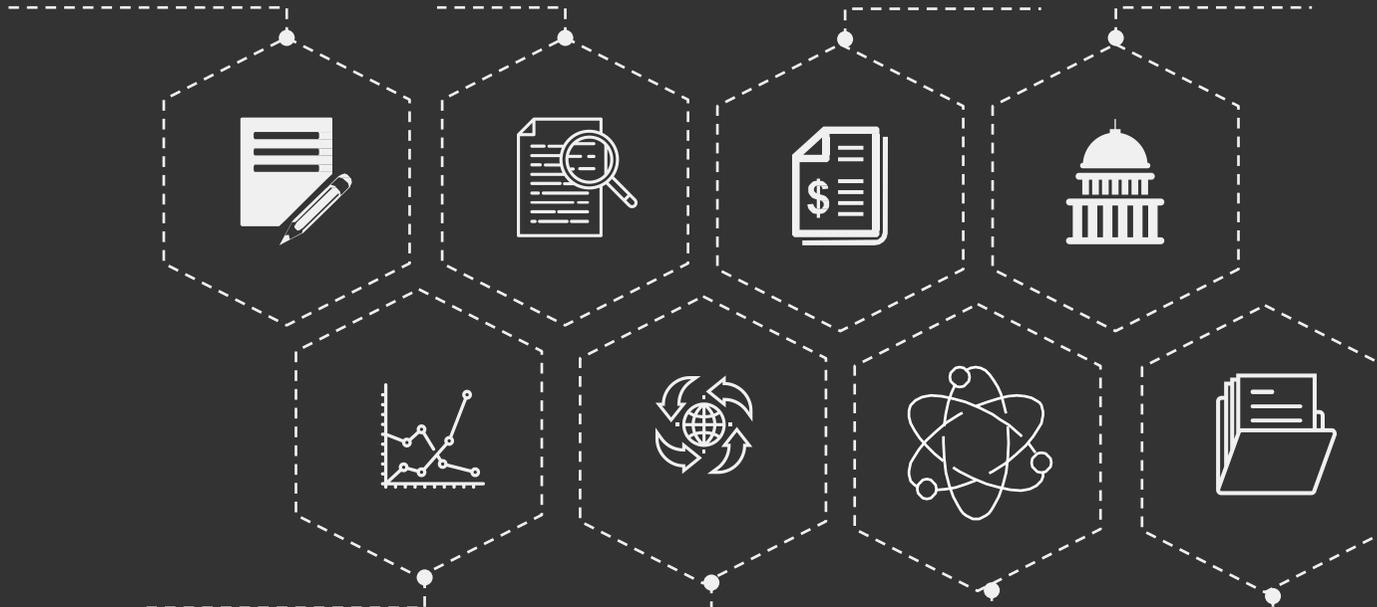
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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01 Executive Summary

Executive Summary

Scope update

In our Audit Planning Report presented to the July 2020 Audit Sub-Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

Changes to our risk assessment as a result of Covid-19

- ▶ **Valuation of Investments** - Financial markets have experienced some volatility even before the advent of Covid-19. The uncertain impact of the virus on markets has had an impact on pooled property funds with underlying property investments being subject to “material uncertainty” which was included as emphasis of matter in the audit report on their financial statement. We considered level 3 investment valuations to be a significant risk when we planned the audit, and Covid-19 has increased the level of risk.
- ▶ **Disclosures on going concern** - The pandemic has had a significant impact on the value of investments and as a result there was a need for the Fund to consider its financial plans for 2020/21 and the medium term. We determined that the unpredictability of the current environment gave rise to a risk that the Fund may not appropriately disclose the key factors relating to going concern, underpinned by management’s assessment with particular reference to Covid-19 and the Fund’s actual year end financial position and performance.
- ▶ **Events after the balance sheet date** - We identified an increased risk that further events after the balance sheet date related to the Covid-19 pandemic may need to be disclosed, specifically for the Fund, changes to the value of investments after the initial lockdown announcement. The amount of detail required in the disclosure needs to reflect the specific circumstances of the Fund.
- ▶ **Changes in materiality** - We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment.

	Planning Materiality	Performance Materiality	Audit differences
	Our planning materiality represents 1% of the prior year’s net assets, consistent year on year.	Performance materiality represents 75% of planning materiality and is the top of our range, consistent year on year.	We will report all uncorrected misstatements relating to the primary statements (net asset statement and fund account) greater than 5% of planning materiality.
Planned	£10.39 million	£7.79 million	£0.519 million
Final	£10.07 million	£7.55 million	£0.503 million
Adjusted Final	£10.09 million	£7.57 million	£0.505 million

**Adjusted final amount is the calculated materiality after the corrected misstatements were reflected in the statement of account balances.*

- ▶ **Change in the Engagement Partner** - Suresh Patel, the engagement partner for the audit of the Fund was replaced by Debbie Hanson. Debbie will be signing off the opinion for the pension fund accounts.

Executive Summary

Scope update (continued)

Information produced by the entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Fund's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19: The changes to audit risks, audit approach and auditor reporting requirements increased the level of work we needed to perform. We have set out the impact on our audit fee on page 25.

Status of the audit

As at the date of this report, the audit of Bromley Pension Fund's financial statements for the year 31 March 2020 is substantially complete and procedures outlined in our Audit Plan have been completed. Subject to satisfactory completion of the following items we expect to issue an unqualified opinion on the financial statements in the form which appears at Section 3.

- Finalisation of the statement of accounts and updating the Annual Report with the changes in the accounts.
- Completion of the subsequent events testing up to the date of our audit report.
- Receipt and review of the management representation letter.

Audit differences

Management have agreed to adjust most of audit differences and misstatement on disclosures arising from our audit, which largely relating to the valuation of investment assets. Management also agreed to reclassify the pooled property fund amounting to £47 million from Level 2 to Level 3 fair value hierarchy and update the disclosure note relating to this reclassification.

Management however opted not to make the change in the disclosed amount of the actuarial present value of liabilities from the estimated impact of Goodwin amounting to £1.213 million. This was because the Fund's view was that the additional pension cost is not significant, and is certainly well within the margins inherent in the roll-forward calculation which forms the basis of the accounting figures.

We include further details of the adjusted audit difference, amended disclosures and uncorrected misstatement in disclosures in Section 4.

Executive Summary

Areas of audit focus

Our Audit Plan identified significant risks and areas of focus for our audit of the Fund's financial statements. We summarise below our latest findings. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and other identified during the period is summarised in the "Areas of Audit Focus" section of this report.

Fraud Risk	Findings & conclusions
Risk of management override of controls: Investment income and/or investment asset could be misstated during the entry of investment journals	We carried out standard procedures to address fraud risks as set out in our Audit Plan, including identifying risks, considering controls and their effectiveness, testing journal entries and revising estimates for evidence of management bias. We considered this risk to be centred on inappropriate journals. We concluded the testing and the details of the procedures performed and conclusion is detailed in Section 2 of this report.
Significant Risk	Findings & conclusions
Valuation of investments under Level 3 fair value hierarchy (new risk not identified in our Audit Plan)	We undertook additional procedures, as described more fully in Section 2 of this report, to gain material assurance over the year-end valuation of the Fund's pooled property fund disclosed as Level 3 in the fair value hierarchy, which are inherently more difficult to value. This risk is a new significant risk identified during the audit due to the emphasis of matter included in the opinion of the audited financial statement of the pooled property fund relating to the material uncertainty of underlying property investments. We concluded the testing of the accounts associated with significant risks and we summarised our findings in the audit difference section.
Other Areas of Audit Focus	Findings & conclusions
Valuation of investments under Level 2 fair value hierarchy	We carried our procedures as set out in our Audit Plan to ensure that these investment valuations are supported. We concluded the testing of the accounts associated with areas of audit focus as identified in the Audit Plan. We have raised no issues from the procedures performed.
Disclosures on going concern (new risk not specifically identified in our Audit Plan)	Note 2 of the draft accounts stated that they are prepared on a going concern basis but included no further disclosures. Management have now provided a detailed going concern assessment, including a cashflow forecast covering the going concern period, of at least 12 months from the date of our audit report. They have also prepared an associated disclosure for inclusion in Note 2 of the accounts. We are satisfied with the revised Note 2.
Post balance sheet events (new risk not specifically identified in our Audit Plan)	Note 4 of the draft accounts did not include the non adjusting post balance sheet events which details the consideration of the Fund of the impact of the Covid 19 pandemic on the valuation of its investment assets after 31 March 2020. Management reflected the consideration of impact of the Covid 19 pandemic on the valuation of Covid 19 post 31 March 2020 in an updated Note 4 in the final set of accounts. We are satisfied with the revised Note 4.

Executive Summary

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

There are no significant deficiencies to bring to your attention. We have, however, identified through our work some areas where internal control should be improved. These are considered further in Section 6 of this Report.

Other reporting issues

Members' data testing - triennial valuation as at 31 March 2019

Report on the actuarial triennial valuation as at 31 March 2019 was released by Mercer on 31 March 2020. The purpose of the actuarial valuation is to determine the expected costs of providing the benefits built up by members at the valuation date and compare this against the funds held by the Fund. The report also aims to determine the contributions needed to cover the costs of the benefits that active members will build up in the future and other costs incurred in the running the Fund.

As part of our work, we performed testing on the data in the member's listing submitted by the Fund to the actuary. We selected 25 samples for each of the five reports (active, deferred, dependents, pensions and undecided/frozen) submitted to the actuary and agreed the data submitted to the underlying supporting documents in the system used by the management. We concluded the testing and the details of the procedures performed and conclusion is detailed in Section 6 of this report.

Consistency check of the Pension Fund's Annual Report

We are required to give a consistency opinion on the Pension Fund's Annual Report, comparing this to the audited financial statements. The related consistency check will be completed once we have received the updated Pension Fund's Annual Report.

Independence

Please refer to Section 8 for our update on Independence. There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.



02

Areas of Audit Focus



Areas of Audit Focus

Fraud risk

Risk of management override of controls: Investment income and/or investment asset could be misstated during the entry of investment journals

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. The risk arises due to the susceptibility of the investment income and valuation journals to manipulation which may result to material misstatement of the year-end investment asset value and/or investment income.



What did we do and what judgements did we focus on?

- Undertook a review of reconciliations to the fund manager and custodian reports and investigated any reconciling differences;
- Re-performed the detailed investment note using the reports we have acquired directly from the custodians or fund managers, including the agreement of investment additions and disposals in the year;
- Tested the appropriateness of manual journal entries recorded in the general ledger related to investment income and valuation and ensuring that:
 - The amount is consistent with the fund manager/custodian report;
 - Correct authorisations have been obtained;
 - The transactions are in the normal course of business or, if they are outside of the normal course, the business rationale for them is reasonable.

We utilised our data analytics capabilities to assist with our work, including journal entry testing. We assessed journal entries for evidence of management bias and evaluated for business rationale.

What are our conclusions?

Based on the procedures performed our findings and conclusions are:

- We have not identified any material weaknesses in controls or evidence of material management override; and
- We have not identified any instances of inappropriate judgements being applied

In relation to our mandatory procedures regardless of specifically identified fraud risks:

- Our testing of journals is complete and we have not identified adjustments outside of the normal course of business. However, we have noted that proper approval and authorisation was not in place in posting journal transactions in 2019/20. We included this findings as part of Section 6 of this report.
- Our testing of unusual transaction is complete and we have not identified any inappropriate balances or material misstatements.

Areas of Audit Focus

Significant risk

Valuation of investments under Level 3 Fair Value hierarchy

What is the risk?

Investments at Level 3 are those where at least one input that could have a significant effect on the asset's valuation is not based on observable market data. There were £47 million of Level 3 investments in the 2019/20 draft financial statements.

Judgements are made by the investment managers or administrators to value these investments where prices are not publicly available. The material nature of investment assets means that any error in judgement could result in a material valuation error. Further, the impact of Covid-19 pandemic added to the uncertainty over the valuation of Level 3 investments.



What did we do and what judgements did we focus on?

To gain assurance over the valuation of complex investments, for a sample of level 3 investments (encompassing Private Equity, Pooled Property and Infrastructure Investments) we:

- ▶ Reviewed the basis of valuation for level 3 investments and assessed the appropriateness of valuation methods used;
- ▶ Reviewed the latest audited financial statements for the relevant fund managers to ensure there are no matters arising that highlight weaknesses in the funds valuation; and
- ▶ Performed analytical procedures to check the valuation output for reasonableness against our own expectations.

In response to the increased volatility due to Covid-19 we also:

- ▶ Made enquiries of the Pension Fund to understand how they have assessed the valuation of these assets;
- ▶ Reviewed disclosures in the Pension Fund's financial statements to ensure that, where significant estimates and/or judgements have been made in relation to valuation of complex investments, they are appropriate disclosed.

We evaluated controls assurance reports to ensure there were no specific control failures that could impact the valuation of investments. We also assessed the quality of the controls underpinning the valuations.



Areas of Audit Focus

Significant risk

What are our conclusions?

Based on the procedures performed, our findings and conclusions are:

- During our testing of the valuation of pooled property fund we identified an emphasis of matter in the audit report on the financial statement of the pooled property fund as at 31 March 2020. The emphasis of matter relates to the material uncertainty over the valuation of the investment property held by the Fund. Our assessment of the impact of the material uncertainty on the fair value hierarchy resulted in a transfer of the pooled property fund from Level 2 to Level 3 of the fair value hierarchy. We have communicated the matter with management and management have agreed to transfer the pooled property fund from Level 2 to Level 3 in the fair value hierarchy and reflect this amendment in the related notes.
- Our testing of the valuation of the Level 3 investments did not identify any difference above our audit difference threshold. We therefore have sufficient assurance over the material accuracy of these balances.

Having considered the potential impact of Covid-19 on the valuation of pooled property investment assets, we concluded that we do not need to include an emphasis of matter paragraph in our audit report in respect of the material uncertainty disclosures included in the pooled property fund's audited financial statements as at 31 March 2020. This assessment is based on our sensitivity analysis, which indicates that there would need to be a 21% change in the value of pooled property fund for there to be a material impact of the Pension Fund's financial statements. As such, we consider that it is unlikely that the impact of Covid-19 of the Pension Fund's pooled property investment asset valuations will result in a material uncertainty for the pension fund.



Areas of Audit Focus



Valuation of investments under Level 2 fair value hierarchy

The valuation of investments under level 2 fair value hierarchy are based on observable inputs such as bid price in the market for similar instruments. There is a risk that the comparable inputs are not appropriate and valuation could therefore be misstated.

As part of our procedures related to these balances, we identified the relevant inputs and assumptions used in valuing the investments. We obtained the valuations directly from the fund managers and compared these to independently obtained observable inputs such as bid price in the market for similar instruments and recalculated the value of the investments using the determined observable inputs. We used the EY Investment Secure Pricing site and other online sources (e.g. Bloomberg) to obtain the market value of these investments. We also performed analytical procedures and checking the valuation inputs and outputs for reasonableness against our own expectations.

Our testing resulted in two adjustments in the investment balances: (1) understatement in the net other investment balance in Bailiee Gifford Global Equities amounting to £887k; and (2) understatement in the pooled investment balance in Schroder Multi - Asset Income amounting to £559k. The details of these adjustments are documented under Section 4 of this report.



Going concern disclosure

The ongoing disruption to daily life and the economy as a result of the Covid-19 virus has a pervasive impact upon the financial statements. Understandably, the priority for the Pension Fund to date has been to ensure the safety of staff and the delivery of business critical activities. However, the financial statements need to reflect the impact of Covid-19 on the Pension Fund's net assets statement and fund account. Due to the significant uncertainty about the duration and extent of disruption, we have requested evidence of the going concern assessment up to and including around April 2023.

The draft accounts included a statement that the accounts had been prepared on a going concern basis. However, following audit enquiry the Fund carried out an assessment of the impact of the Covid-19 pandemic on its income, expenditure, investment assets, cashflow as well as considering the recent triennial valuation. We reviewed the assessment, focusing on the reasonableness of the financial impact assessment, cashflow and liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions. We also discussed with management the need to make specific disclosures in the 2019/20 statements.

We have reviewed management's assessment of the Fund's ability to continue as a going concern. We are satisfied that management's going concern disclosure in the Note 2 of the accounts is appropriate.



Areas of Audit Focus



Post balance sheet events consideration and disclosure

The Covid-19 pandemic has had an ongoing impact on stock markets around the world. As a result, the Fund has considered the current impact on investment asset values.

Note 4 of the draft accounts disclosed the global economic impact of Covid-19 which caused a significant reduction in the value of pension fund assets as at 31 March 2020. The Fund also disclosed that, although equity markets have started to stabilise and recover since then, there remains considerable uncertainty on the financial impact in future years. We are satisfied that management's disclosure on the impact of Covid-19 adequately reflects the non-adjusting movement in asset values since 31 March 2020.



03 Draft Audit Report



Draft Audit Report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF BROMLEY PENSION FUND

Opinion

We have audited the pension fund financial statements for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 20. 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 pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and the amount and disposition of the 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 for the audit of the financial statements section of our report below. We are independent of 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 the Comptroller and Auditor General's (C&AG) AGN01, 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 of Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance 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.

Other information

The other information comprises the information included in the Statement of Accounts 2019/20, other than the financial statements and our auditor's report thereon. The Director of Finance is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 the other information, we are required to report that fact.

We have nothing to report in this regard.



Draft Audit Report

Our opinion on the financial statements

Matters on which we report by exception

We 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 written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- 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;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Director of Finance

As explained more fully in the Statement of the Responsibilities for the Statement of Accounts, the Director of Finance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Finance 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 the Pension Fund either intends to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 <https://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 London Borough of Bromley, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the London Borough of Bromley and the London Borough of Bromley's members as a body, for our audit work, for this report, or for the opinions we have formed.



04 Audit Differences





Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of corrected and uncorrected differences

We report to you any corrected and uncorrected misstatement greater than our reporting level of £0.503 million. We have noted two misstatements above this amount.

Corrected misstatement

- Understatement in the other investment balance in Bailee Gifford investments amounting to £0.887 million as a result of incorrectly recording payables on purchase balance amounting to £1.366 million and receivables from sales amounting £0.476 million. We noted that these balances were already reflected in the year end balance of Bailee Gifford, thus recording these balances as part of other investment balance resulted in understatement of other investment balances.
- Understatement in the Schroder’s Multi-Asset Income amounting to £0.559 million. We noted the understatement as a result of the comparison made to the bid price as per the EY Investment Pricing Security. The amount reported as pooled investment under the draft statement of account amounted to £96.071 million whereas the valuation as per our independent check was £96.630 million which resulted in difference of £0.559 million.

In addition to the corrected audit differences above, we noted findings relating to misstatement in the disclosures and/or lack thereof which management agreed to amend in the statement of accounts. These includes the following changes in the disclosures

- A fuller disclosure of going concern demonstrating the Fund’s ability to continue as a going concern.
- A missing note for the material total benefits amounting to £34 million which breaks down the benefits paid between the administering authority, scheduled and administering bodies.
- Detailed financial instruments disclosures that categories both financial assets and financial liabilities into the various financial instrument categories. Disclosures for all categories of financial instruments held by the Fund (i.e. long term debtor, current assets and the current liabilities)
- Missing note on the fair value hierarchy disclosures including the transfer of pooled property fund from Level 2 to Level 3.
- The amount of the sales, change in market value in pooled investments and cash deposits was incorrectly presented in the related investment disclosure note. The sales amount should be disclosed as £131.628 million not £11.628 million, the change in market value in pooled investments should be disclosed as £21.236 million not £141.236 million and the cash deposit should be disclosed as £1.061 million not £119.438 million.

We also noted minor inconsistencies between the Council’s accounts and the related notes of the Pension Fund accounts which management also agreed to amend.

Uncorrected misstatement

Management have not amended the note relating to the Actuarial Present Value of Promised Retirements to take into account the estimated impact of Goodwin on the actuarial present value of liabilities. The estimated increase in this figure amounted to £1.213 million which was 0.1% of the 2019/20 reported balance of £1,213 million.



05 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2019/20 with the audited financial statements. We are satisfied that the pension fund financial statements are consistent with the full annual statement of accounts of the London Borough of Bromley for the year ended 31 March 2020.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We also have a duty to make written recommendations to the Authority/Pension Fund, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We have had no reason to exercise these duties.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Fund’s financial reporting process. We have no matters to report.



06

Assessment of Control Environment

Assessment of Control Environment



Financial controls

Fund's Control Environment

It is the responsibility of the Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware. We have, however, identified two recurring areas for internal control improvements and one new area which we consider below.

IAS 19 Protocol

As part of our IAS19 protocol work conducted on behalf of the London Borough of Bromley, we were required to test membership data submitted by the Fund to the actuary that was used to inform the triennial valuation of the Fund at 31 March 2019. We randomly selected a sample of 25 entries from each of the 5 data extracts from the pensions administration system that were submitted to the actuary for this purposes, and sought to agree key data points to prime documentation.

The detailed membership testing has been completed and we noted exceptions from 12 of the 25 samples we selected from the reports submitted to the actuary. The details of the exceptions is documented in slide 27.

Assessment of Control Environment

Observation

The Council accounts and Pension Fund accounts are not set up as separate and discrete company codes on the General Ledger. This results in some journal entries appearing to be one-sided in either the Council or Pension Fund accounts. We have undertaken work to show that journals are in balance overall as there is one final balancing journal transaction which is reflected as a non-material temporary loan by the Council to the Pension Fund on the Fund's Balance Sheet. Although we are satisfied this does not have a material impact on the financial statements, internal control should be improved by accounting for the Council and Pension Fund on separate and discrete company codes on the General Ledger.

Recommendation 1

Establish separate and discrete company codes on the General Ledger to fully separate Council and Pension Fund transactions.

Management comment

The financial system upgrade to Oracle Fusion will be implemented by early May 2022. There will be separate and discrete company codes in a sub ledger for the Pension Fund.

Responsible Officer - Senior Accountant (Pension Fund), Head of Finance (ASCHH) and Financial Systems Manager.

Assessment of Control Environment

Observation

Although Bromley Pension Fund has its own bank account this is not currently used. All cash receipts and payments relating to both the Council and Pension Fund are made out of the main Council bank account. Although we satisfied that cash is correctly disclosed in the Fund's financial statements we note it is a requirement of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 that all pension schemes should operate their own bank account.

Recommendation 2

Use the separate Pension Fund bank account for Pension Fund cash transactions.

Management comment

There is a separate bank account for the Pension Fund. It is planned that by early May 2022, all Pension Fund transactions will go through this bank account.

Responsible Officer - Senior Accountant (Pension Fund), Head of Finance (ASCHH) and Financial Systems Manager



Assessment of Control Environment

Observation

Manual journals are not subject to any authorisation or second review. We confirmed with the Principal Accountant that there were no review or approval process in place for the manual journals and the journals are directly posted in the system. Although our review and testing of journals has not highlighted any evidence of material error or fraud, appropriate review of journals prior to posting is a key management control, particularly for significant value journal entries.

Recommendation 3

Establish a proportionate control such that significant value manual journals are subject to review and authorisation prior to processing on the General Ledger.

Management comment

Significant value manual Pension Fund journals will be prepared for input into the GL by a separate member of the Finance Team and reviewed and approved by the Senior Accountant (Pension Fund) prior to processing in the GL. A field will be maintained on the journal template, detailing the inputter, reviewer and date(s).

Responsible Officer - Senior Accountant (Pension Fund).

Assessment of Control Environment

Observation

Our review of the underlying data for a sample of the members' data submitted to the actuary by the pension fund noted 12 exceptions out of the 25 items we selected from the undecided report generated by the pension administrator in the Altair system. These includes the following:

- We were not able to obtain supporting documents for one sample for the date of birth and gender of the member due to unavailability of the supports. The pension fund manager noted that they don't have access to the paper documents as far back as that date.
- We have noted inconsistencies in the date of joining from the three of the samples selected. The pension manager noted that they only include in the system the information that they received from the employer. The pension manager further noted that this record is updated once claims for refund or transfer out were made by the member.
- We also noted 12 samples which do not have a date of deferment and/or frozen refund amounts in the submission. We were able to trace either the date of deferment or refund amount of some of the items, however this was noted as an exception since there were no details in the submission to the actuary. We obtained confirmation from the actuary (through the pension fund manager) of the impact of this on the calculation and they noted for the missing data fields they would estimate the pension based on the data fields they have. (e.g. they can estimate the pension based on the contribution paid). The actuary noted that the liabilities for these members are very small and have no significant impact on the Fund.

Recommendation 4

Review of the records in the Altair system should be conducted to be able to ascertain that the records in the system is complete and accurate.

Management comment

Management responsible for Administration have provided LBB with an update on all the exceptions noted during testing and all hold a date of leaving with a number having been processed fully to deferred status or payment of a refund made. There are exceptional cases where the employer does not provide the leaver information or notification and these are identified via the end of year processing and a member are then held in undecided leaver status until they can be processed as a deferred or a payment of the refund of contributions can be made. No documentation is provided or payment paid to a member without verification of the data and this is checked by a senior member of the Pension Team. We have monitoring and controls processes in place regarding the data held on the pension database, to support this, our recent data accuracy marks for the year 2021 was 96.9% which was considered as very impressive by the LBB Pension Monitoring Team

Responsible Officer - Pension Manager (Liberata).



07

Independence

Independence

Confirmation

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning report taken to the Audit Sub-Committee in July.

We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your General Purposes and Licensing Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Committee on 5 April 2022.

We confirm we have not undertaken any non-audit work outside the NAO Code requirements in relation to our work.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, senior management and its affiliates, including all services provided by us and our network to your Authority, senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The table overleaf includes a summary of the fees that are due to us in the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees due for the years ended 31 March 2019 and 2020. We confirm that we have not undertaken any non-audit work. We confirm that none of the services have been provide on a contingent fee basis. As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

	Final fee 2019/20	Planned fee 2019/20	Final Fee 2018/19
	£	£	£
Scale Fee - Code work	16,170	16,170	16,170
Additional work and associated fees:			
Going concern and PBSE assessments and disclosures including EY consultations (1)	TBC	-	-
Work on investment under Level 3 fair value hierarchy (2)	TBC	-	-
IAS19 assurance to the auditor of LB Bromley (3)	TBC	5,000	-
Work on the 2019 triennial valuation of the Fund (4)	TBC	TBC	-
Total indicative Pension Fund fee	TBC	21,170	16,170

Notes:

Changes to our risk assessment.

1. We reported in the Audit Plan that we would need to carry out additional work to review, assess and challenge the Fund's going concern assessment and associated disclosure. We also highlighted that, to ensure that we are giving the right assurance to the Fund, EY instigated a consultation process involving the Firm's Professional Practice Directorate. We will confirm the final fees associated with this additional work on completion of the audit. We will discuss the fee with the Director of Finance and this will be subject to approval by PSAA.
2. Transfer of pooled property fund from Level 2 to Level 3 fair value hierarchy posed as a significant risk, therefore additional work was performed to address the significant risk.

These items are outside of the PSAA fee regime and will be subject to agreement with the Director of Finance.

3. We reported in the Audit Plan the fee associated with the additional procedures we are required to perform to provide IAS19 assurances to the auditor of the London Borough of Bromley.
4. We reported in the Audit Plan that as a result of the triennial valuation of the Fund as at 31 March 2019 we would be required to undertake additional testing of membership date. This work has now been completed and we will now quantify the final fee and agree with the Director of Finance.

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
 - Tax advocacy services
 - Remuneration advisory services
 - Internal audit services
 - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the General Purpose and Licensing Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the Standards and General Purposes committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will monitor and assess any proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020. We will work with you to ensure orderly completion of the services within mutually agreed timescales.

We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 30 June 2021:

[EY UK 2021 Transparency Report | EY UK](#)

A close-up photograph of a person's hand reaching into a filing cabinet to touch a folder. The cabinet is filled with numerous folders of various colors (yellow, blue, white) and sizes, each containing stacks of papers. The background is a textured, light-colored wall.

08 Appendices

Appendix A

Required communications with the General Purpose and Licensing Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the General Purposes and Licensing Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Plan - dated June 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan - dated June 2020
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report - dated March 2022

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	The assessment of the pension fund's ability to continue as a going concern is still in progress as at the date of the issuance of this report.
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	Audit Results Report - dated March 2022
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the General Purpose and Licensing Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to General Purposes and Licensing Committee responsibility. 	Audit Results Report - dated March 2022

Appendix A

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the Authority 	Audit Results Report - March 2022
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> ▶ Relationships between EY, the company and senior management, its affiliates and its connected parties ▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▶ Related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit 	Audit Plan - dated June 2020 and Audit Results Report - March 2022

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
	<ul style="list-style-type: none"> ▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy ▶ Details of any contingent fee arrangements for non-audit services ▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▶ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence 	
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit Results Report - March 2022

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	Audit Results Report - March 2022
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit Results Report - March 2022
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report - March 2022
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit planning report is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit Plan - dated June 2020 and Audit Results Report - March 2022

Appendix B

Regulatory update

Since the date of our last report to the Audit Sub-Committee, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on Bromley Pension Fund 
Going concern - ISA (UK) 570 (Revised September 2019)	<ul style="list-style-type: none"> ▶ The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, however EY have early-adopted the revised standard for all of our audits of periods ending on or after 30 June 2020. ▶ This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. 	<ul style="list-style-type: none"> ▶ Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage. ▶ Further updates will be provided when possible.
Independence	<ul style="list-style-type: none"> ▶ As noted in more detail on page 26, the Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and will be effective from 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to companies that are UK Public Interest Entities (PIEs). This prohibition will also extend to any UK parent and apply to all worldwide subsidiaries. A narrow list of permitted services will continue to be allowed. 	<ul style="list-style-type: none"> ▶ We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under the FRC Revised Ethical Standard 2019 which will be effective from 15 March 2020. Non-audit services which are in progress as at 15 March 2020 and are permitted under the existing ethical standard will be allowed to continue under the existing engagement terms until completed. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

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About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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