



Royal County of Berkshire Pension Fund

Final report to the Audit & Governance Committee for the year
ended 31 March 2020

Issued on 11 May 2021 for the meeting on the 17 May 2021

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Contents

01 Our audit status update report

Introduction	3
Our audit explained	5
Significant risks	6
Control observations and findings	8
Purpose of our report and responsibility statement	17

02 Appendices

Audit adjustments	18
Fraud responsibilities and representations	21
Independence and fees	22

Introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

We have pleasure in presenting our final report to the Audit & Governance Committee of Royal Borough of Windsor & Maidenhead (the "Committee") for the 2019/20 audit of the Royal County of Berkshire Pension Fund (the "Fund"). The scope of our audit was set out within our planning report presented to the Corporate Oversight & Scrutiny Panel in May 2020.

Status of the audit – Pension Fund

At the date of issue of this report, our audit of the pension Fund for the year ended 31 March 2020 is nearing completion. We have set out on page 4 the procedures that are in progress. Responses have been provided for all IAS 19 requests from auditors of other Fund employers, including two late requests for 2018/19 for Reading Borough Council and Slough Borough Council. Following the conclusion of some of the issues outstanding at the date of our previous report, and at the request of these auditors, we are in the process of reissuing letters in respect of the 2019/20 requests.

Significant changes have been made to the audit timetable we presented in our planning report as a result of delays experienced in receiving information from the Fund and its third party service organisations across many key areas of testing. Some of the delays were the result of the COVID-19 pandemic. Where delays were due to weaknesses in governance or controls, we have included our comments on this within the control observations and other findings section of the report.

The investment manager, Local Pensions Partnership ("LPP"), has found it difficult to obtain and provide some of the requested information for our testing of the alternative investment funds. This included audited financial statements of the funds, without which it was not possible for us to conclude on our testing. We have now received all the information we require in respect of the alternative investments.

On investigation, the alternative investment portfolio was materially overstated in the draft financial statements by £31.5m. This was due to the use of stale valuations that had not been adjusted to reflect the negative performance experienced by many funds during the first quarter of 2020 as a result of COVID-19. This is the second year we have performed the audit of the Fund and we have identified material misstatements in both years (£74.5m overstatement in 2018/19). We therefore draw your attention to the high priority recommendations on pages 8 to 13.

Following the receipt of the draft financial statements for the Fund as at 31 March 2020, we revised our materiality from £14.5m to £20.3m. The initial materiality calculation had been based on an estimate that net assets would be 70% of what they were at 31 March 2019, as an estimate of the potential effect of COVID-19 on investment values. In contrast, the draft reporting for 2019/20 showed a much higher net asset balance than predicted. Our reporting threshold has also been updated from £0.3m to £1.02m, which is in line with our revised materiality.

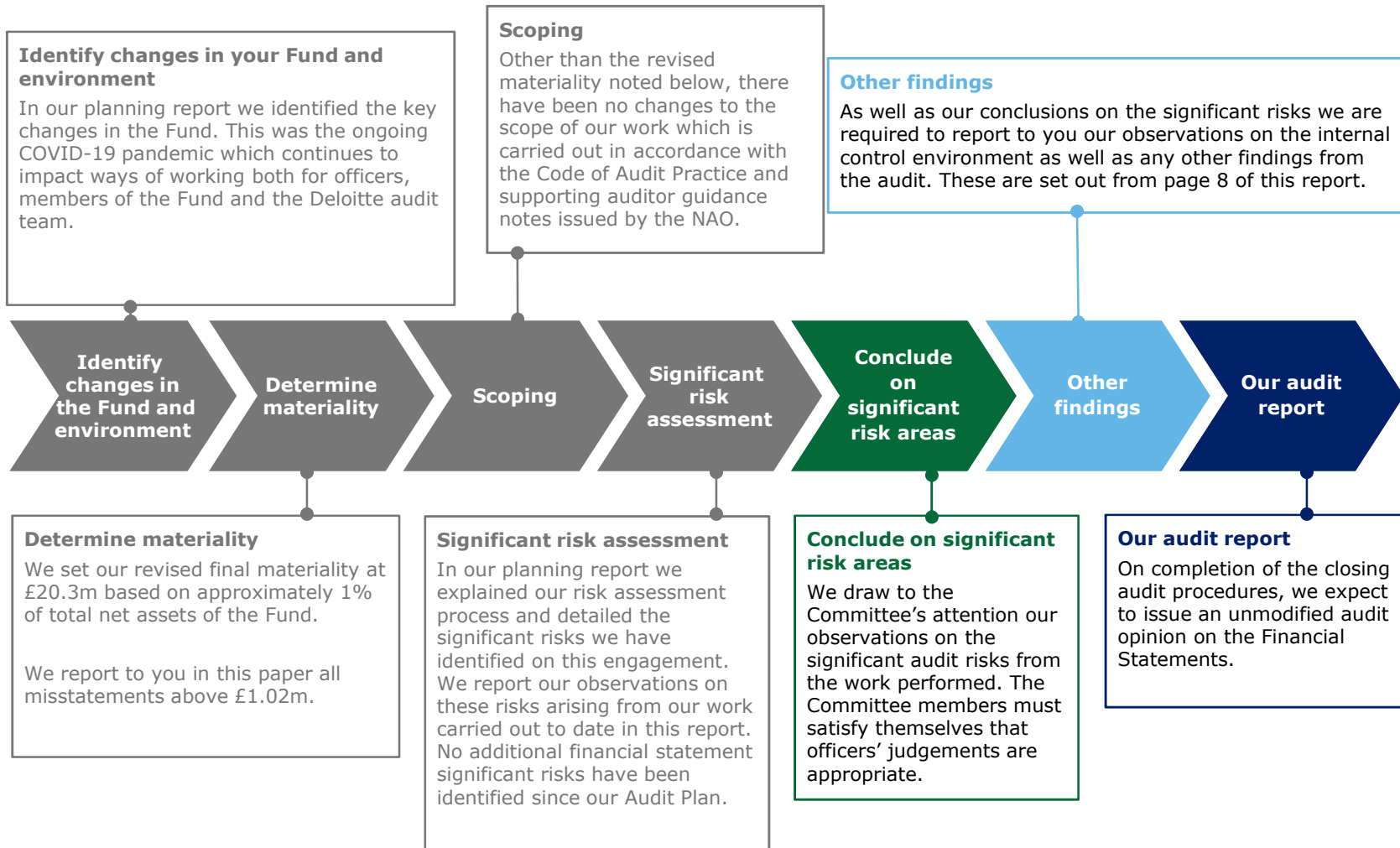
Introduction

The key messages in this report (continued)

Conclusions from our testing	<p>We have set out a summary of misstatements and disclosure deficiencies identified on pages 19 and 20 of this report. The main adjusted misstatement relates to the overstatement of alternative investments as noted above. The corrected disclosure misstatements relate to an undisclosed material uncertainty of property fund valuations and an undisclosed related party transaction of an overnight loan of £1.2m made by the Fund to the Royal Borough of Windsor and Maidenhead ("the Authority"). There is an uncorrected disclosure misstatement relating to the absence of an adjustment to the IAS 26 disclosure to account for the expected impact of the Goodwin case on the Fund's future liabilities.</p> <p>We note that following consideration of the permissibility of the overnight loan and the associated control weakness, the Fund has reported the issue to the Pensions Regulator. More details are provided on page 11.</p>
Audit procedures outstanding	<p>The following audit procedures are ongoing at the time that this report was released:</p> <ul style="list-style-type: none">• Receipt of evidence of one bank payment authorisation;• Finalisation of our internal quality review procedures;• Update of our subsequent events procedures; and• Receipt of the signed representation letter.
Management representations	<p>We will obtain written representations from the Section 151 Officer on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the representation letter has been issued ahead of signing the financial statements.</p>
Audit fee	<p>As explained in our 2019/20 fee letter, our audit fee is based on assumptions about the scope and required time to complete our work. For the reasons set out above, our audit was not concluded by the original 31 July deadline, or the extended 30 November deadline, and it has required substantial further input. The audit has also required additional procedures in response to COVID-19. We continue to discuss the impact on the audit fee with the Authority and Public Sector Audit Appointments ("PSAA"). The final fee amount will be communicated to the Committee.</p>

Our audit explained

We tailor our audit to your organisation



Significant risks

Management override of controls

Risk identified

In accordance with ISA 240 (UK) management override of controls is always a significant risk. This risk area includes the potential for officers to use their judgement to influence the financial statements as well as the potential to override the Fund's controls for specific transactions.

Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that the Fund's draft financial statements were overstated by approximately £31.5m due to the inclusion of 55 alternative investment funds at values that had not taken account of the impact of COVID-19 on performance.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Significant and unusual transactions

We note that the Fund made an overnight loan to the Authority on the 27 June 2019 of £1.2m. We have seen no evidence that the loan was authorised by the Fund. A control weakness has been noted on page 11 and the matter has been reported to the Pensions Regulator. We have not identified any other significant transactions outside the normal course of business nor any transactions where the business rationale was not clear in the current year.

Journals

We have performed design and implementation testing of the controls in place for journal approval. We also performed an assessment of the mandates in place for the transactions with the custodian and with the Fund's bank account.

We have used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest. This included consideration of related party transactions.

We have tested the appropriateness of a sample of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting, including making enquiries of individuals involved in the financial reporting process.

Accounting estimates

We have performed a review of the accounting estimates.

The key judgements in the financial statements are those selected as significant audit risks and other areas of audit interest.

We have reviewed the draft financial statements' accounting estimates for biases that could result in material misstatements due to fraud.

We also considered the impact of COVID-19 on the level of risk associated with potential frauds and adjusted our procedures accordingly.

We tested accounting estimates and judgements, focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources. The findings from our work on the longevity swap valuation are included on page 7 of this report.

Issues identified

- We have identified control deficiencies, set out on pages 8 to 13;
- Other than the undisclosed loan noted above, we have not identified any significant bias in the key judgements made by officers based on work performed; and
- We have not identified instances of management override of controls in the current year in our work to date.

Significant risks (continued)

Valuation of the longevity hedge

Risk identified

The Fund holds a material longevity insurance policy to hedge longevity risk. A longevity hedge is designed to insure the Fund against the risk that pensioners live longer than the current mortality assumptions. Valuation of longevity hedges are sensitive to relatively small movements in the key assumptions used in the actuarial calculations. The setting of these assumptions involves judgement. The longevity hedge was valued as a liability of £103.8m in the 2018/19 Statement of Accounts and £121.8m in the 2019/20 Statement of Accounts presented for audit and is therefore quantitatively material. As a result of this we consider the valuation of the longevity hedge to be a significant risk.

Key judgements and our challenge of them Deloitte response

The Fund's practice is to obtain a valuation from the Fund's actuary as at each year end. The actuary also reviews the assumptions relating to the overall Fund's liability on a triennial basis. The most recent triennial valuation was completed as at 31 March 2019.

During the audit the balance was revised by £2.08m (initial draft liability was £123.9m) due to the actuary issuing an updated report.

Key judgements include:

- The discount rates used in discounting the estimated cash flows associated with the instrument; and
- The mortality improvement assumptions.

We have:

- Performed an assessment of the actuarial expert in respect of their knowledge and experience in this area;
- Identified an absence of the review control that we recommended in our 2018/19 audit report with respect to the valuation of the longevity swap;
- Tested the design and implementation of the valuation review control in place at the actuary;
- Obtained a valuation report directly from the actuary and reconciled this to the financial statements disclosure;
- Reviewed the underlying documentation for the policy, including the population covered, the assumptions and other key inputs used in the calculation, and the agreed cash flows;
- Engaged in-house actuarial specialists to challenge and assess the reasonableness of the valuation of the policy based on the underlying terms of the contract and the forecast cash flows; and
- Compared our expectation of the value with that reported by the actuary, investigating any differences identified that are outside the range of results that we consider to be reasonable.

Deloitte view

Following review by our internal specialists we conclude that the assumptions used are in line with the market and that the value included in the financial statements is within an acceptable range based on the present value of the cash flows provided.

It is recommended that the actuary:

- monitors the mortality experience of the swap and tests the ongoing appropriateness of assuming the base mortality is in line with the pension Fund assumptions.
- continues to perform an Analysis of Change which will provide an additional layer of control on the results.
- challenges the premium schedule inputs from ReAssure (counterparty) should they change unexpectedly as this will provide an additional layer of control on the results.

We have identified a **control weakness** in this area and made recommendations for management to consider when valuing the longevity hedge in future. Our recommendations have been summarised from page 8.

Control observations

During the course of our audit we have identified internal control findings which we have included below for information.

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit to date and that we have concluded are of sufficient importance to merit being reported to you. We will report to you any other significant deficiencies we identify during the conclusion of our audit work in our final audit report.

Area	Observation
Valuation of the longevity swap	In our final report on the 2018/19 audit, we recommended that the Authority ensures that the valuations provided by the actuary are reviewed and that the assumptions are challenged, understood, and agreed before inclusion of the valuation in the financial statements. Discussions with officers of the Fund during the 2019/20 audit revealed that, while the longevity swap valuation had been discussed with Barnett Waddingham, there was no formal control design documented and no recorded evidence of implementation of the control. We have been informed that the discussion with Barnett Waddingham took place after inclusion of the valuation in the financial statements.
	This is a significant control weakness and we recommend that the Authority ensures that the valuations provided by the actuary are reviewed and that the assumptions are challenged, understood, and agreed before inclusion of the valuation in the financial statements. We recommend that evidence of this review and assessment is clearly documented.
Valuation of the convertible bond	In our final report on the 2018/19 audit, we recommended that the Authority ensures that the valuation of all bespoke investments is understood by the investment manager and that controls are designed and implemented to ensure an appropriate challenge is made of valuations received from any service organisation. In the current year the fair value of the bond included in the draft financial statements was very close to the final value in the 31 March 2019 financial statements. The value presented in the draft financial statements was £2.3m (2018/19: £2.2m), but given the complexity involved in valuing this instrument, we made enquiries of the Fund to ensure that there was an evidence-based rationale for this value. On investigation it was noted that there was no formal support for the decision to leave the value unchanged in the draft financial statements and no evidenced-based rationale had been prepared. Following discussions with management, a paper was provided by the investment manager to support the valuation decision.
	We recommend that the Committee ensures that the valuation of all bespoke investments is understood by the investment manager before completion of the draft financial statements, and that controls are implemented to ensure an appropriate challenge is made of valuations received from any service organisation. We recommend that evidence of this review and assessment is clearly documented.

Control observations (continued)

Area	Observation
Valuation of the private equity portfolio and other alternative funds	<p>In our final report on the 2018/19 audit, we recommended that the Authority review the terms and conditions of its relationship with all investment service providers and seek assurance that controls are in place to ensure that the most recent audited financial statements of each investment fund, along with the regular capital valuation statements and any evidence of any capital transactions are received and regularly reviewed in a timely fashion. Our standard testing approach for alternative investment funds includes obtaining the most recent audited financial statements of the investment fund along with information about capital committed and any capital transactions that occurred since the date of the audited financial statements. Obtaining the specific information we require and receiving this in a timely manner has continued to be difficult during the current year audit and we have experienced delays. This had a direct impact on the progress of this testing. It also continues to indicate the absence of robust controls around the management of these funds. We are aware that the Fund has taken steps to better understand the processes, controls and responsibilities of the investment service providers and that consideration is being given to how best to address this finding.</p>
	<p>Testing in the 2019/20 year audit revealed that the alternative funds were overstated in the draft financial statements by approximately £31.5m. This error was adjusted in the final financial statements. In discovering and resolving this misstatement it was noted that there was no process or control in place to determine the valuation of state price funds as at the year end, or to update the financial statements if new information came to light before they were signed.</p>
	<p>These matters represent significant control weaknesses. We recommend that the Fund continues to review the terms and conditions of its relationship with all investment service providers and takes steps to ensure that controls are in place such that the most recent audited financial statements of each fund, along with the regular capital valuation statements and any evidence of any capital transactions are received and regularly reviewed in a timely fashion. We recommend that the Fund also ensures that controls within the financial reporting process are implemented such that the best estimate of the fair value of investments is used in the draft financial statements and that material changes to the investment balances that come to light before signing are reflected in the financial statements. Where the Fund does not have the appropriate resource within its staff, it should provide clear instructions to LPP or the custodian to perform the processes and controls required.</p>
Retrospective review of investment decision making	<p>In our final report on the 2018/19 audit we also recommended that the Fund perform a review of the arrangements around pension asset investment decision making, monitoring and reporting of the valuation of those investments. This was to include an historic review of the arrangements with respect to the specific assets that were adjusted significantly to identify the lessons that can be learned and to embed this learning into the new arrangements. The outcome from these reviews was to be reported to both the Corporate Oversight & Scrutiny Committee and the pension Fund Panel. We note that the scope of the work did include these considerations and that the final report was provided to the Authority in July 2020.</p>

Control observations (continued)

Area	Observation
Review of financial statements	<p>The design of the control for review of the financial statements did not include checking the draft statements to the underlying workings. We also noted that for the 2019/20 financial statements there was no evidence of a formal review and, at the time of testing this control, there was a lack of awareness of any review process. Furthermore, there was no evidence that the CIPFA checklist had been used in the accounts preparation process, or in any review that may have taken place. This weakness in control increases the likelihood of misstatements in the financial statements.</p> <p>We recommend that the design of the financial statement review control is amended to include checking to underlying working papers, the completion of a full CIPFA checklist, and is communicated clearly to all those involved in the preparation and review process. The implementation of the control should be evidenced appropriately and this evidence should be retained for a sufficient period.</p>
Review of journals	<p>The design of the control for review of journal postings does not include a formal description of the review process. There was no clear evidence available that a review took place over journal postings for a month selected. We also noted that some of the monthly investment posting updates did not occur within a reasonable timeframe. Furthermore, during journal testing it was noted that there were multiple errors in original journal postings that had to be adjusted in subsequent journal entries. This suggests that any control implemented over journal review was deficient.</p> <p>Given that management override of controls is a significant risk of material misstatement and that we use journals testing to detect fraud and error, it is critical that this control weakness is addressed. We recommend that the design of the journal posting review control is amended to include a well defined scope, for example a checklist. We also recommend that it is communicated clearly to all those involved in the preparation and review process, and takes place in a timely manner before journals are posted to the accounting system. The implementation of the control should be evidenced appropriately and this evidence should be retained for a sufficient period.</p>
Administration system editing rights	<p>From the work performed on controls around member data, we noted that the system super-users have the access rights to edit their own member records and those of each other. Whilst any editing of the system can be reviewed in a system audit report, there is no formal regular review of this editing activity and no evidence was available of any other mitigating controls. On review of the system audit report for a two year period ended 31 March 2020, it was noted that both super-users had edited either their own or the other super-user's records. We performed additional procedures to determine if any of this activity had resulted in an alteration to the records that was inconsistent with the 2018/19 information submitted to the actuary. Nothing other than minor updates were noted.</p> <p>We recommend that the IT system is updated to prevent super-users from editing their own records, that any editing of each other's records is checked by a third person, and that an annual review of the system audit report is conducted to ensure that this control is being implemented and evidenced.</p>

Control observations (continued)

Area	Observation
No evidence of authorisation for overnight loan prior to payment	<p>As noted on page 6, the Fund made an overnight loan to the Authority on the 27 June 2019 of £1.2m. The amount was returned to the Fund in full on the 28 June 2019. Officers of the Fund have made it clear that they were aware of and approved the transaction at the time. However, there was no evidence available to demonstrate that the Fund authorised this transaction in advance of the payment to the Authority, nor was there a formal record of the business rationale from the perspective of the Fund for such a transaction. We have not noted any other similar transactions during the 2019/20 year.</p>
	<p>We also consider this transaction to be qualitatively material and therefore should be disclosed as a related party transaction in the notes to the Financial Statements of the Fund. This disclosure was not present in the initial draft, but has now been added following our audit recommendation.</p>
	<p>We recommend that the Fund implements a control to record and review the rationale for all transactions outside the normal course of business, including consideration of any relevant laws, regulations and conflicts of interest. We also recommend that sufficient appropriate evidence is retained, demonstrating that the control has operated for all such transactions.</p>
Separation of the Fund from the Authority	<p>We consider that the lack of control over cash leaving the Fund is an indication of poor governance and is therefore a red breach which should be reported to the Pensions Regulator. The Fund has informed the Regulator. We recommend that the Fund does not enter into similar transactions in the future, at least not without appropriate consideration by those charged with governance.</p>
	<p>In reconciling the journal activity for the year, it was noted that some journal postings included activity for both the Fund's financial statements and those of the Authority. On reviewing the journal population as a whole for both the Fund and the Authority we concluded that the population was complete for the year ended 31 March 2020. We also noted that some payments made to the Authority by the Fund for costs incurred on behalf of the Fund, were not formally invoiced by the Authority and that there was no evidence of formal authorisation available for these transactions.</p> <p>We recommend that the general ledgers of both entities are maintained in isolation. We also recommend that formal documentation is prepared by the Authority to request payments from the Fund, and that this is reviewed by the Fund before payments are made. Furthermore, sufficient appropriate evidence should be retained demonstrating that the control has operated for all such transactions.</p>

Control observations (continued)

Area	Observation
Benefit calculations	There were issues noted with the control environment for benefit calculations, and updating records for member deaths.
	There is no evidence of what has been checked by the reviewer of benefit calculations e.g. a checklist or printout of the calculation and its inputs with tickmarks. Instead the reviewer confirms they have checked the inputs of the calculation on the administration system. While the reviewer will have much experience of the process and what to check, this is not documented and there is no formal process to ensure every figure has been checked, or if there are other matters to consider.
	No periodic review of the benefits system calculation is in place. We note that large pension schemes typically have a process in place whereby administrators regularly review the system calculation, or the actuary periodically reviews and tests the system calculation, to ensure it is calculating members' benefits accurately in line with the scheme's rules.
	For the audit year 2019/20, the control over updates to the pensioner member records on death was not implemented correctly in the year due to the absence of the administration team member who processes these updates. The person was absent due to illness from November 2019 to January 2020. The screening process was restarted after this.
	We recommend that a formal record is retained of the points checked by the reviewer of benefit calculations, that a periodic review of the calculations produced by the benefits system is scheduled and carried out by a suitably qualified person and that contingencies are put in place to ensure benefits controls continue to operate in the event of personnel absences.

Control observations (continued)

Area	Observation
Monthly investments update review delayed	<p>During the year to the 31 March 2020, there were occasions that the implementation of the review control over the monthly investments update did not occur within a reasonable timeframe. The update of the monthly investments reconciliation for January 2020 was not performed until May 2020, which is 4 months after the month in which it relates. This delay in ensuring the investments' accounting records are up to date could result in management decisions and reporting being based on out of date information. We acknowledge that the Fund was seeking to appoint a replacement accountant during that part of 2020. A finding relating to continuity planning has been included on the next page.</p> <p>We recommend that the accounting records are updated on a timely basis to ensure management information is sufficiently up to date to correctly inform decision making.</p>
IT control – Altair audit trail of changes	<p>Part of the work of our IT specialists included a review of aspects of the Altair audit trail of changes. It was noted that the filtering on the 'End Date/Time' for the report does not ensure all changes for each month are extracted as 2 minutes from each month are missed. The Audit Trail Of Changes can be extracted for each month to show all the changes made to the Altair system. Whilst we acknowledge that 2 minutes per month is a very small portion not covered, onscreen inspection showed that the report produced for the audit was not filtered to include all changes in the report extraction as 2 minutes of each month were missed due to insufficient filtering of the 'End Date/Time' parameter. We performed additional procedures to gain comfort over the Altair editing by super-users as noted on page 10 and did not detect any unusual changes to the records.</p> <p>We recommend that the annual review of the Altair audit trail include ensuring that completeness of the reports generated for review.</p>
Administration system – segregation of duties controls	<p>As part of our review of controls around the retirement benefits system it was noted that the system did not prevent individuals signing off their own work as reviewed. We did not find any evidence that an individual has prepared work and signed it off as reviewed, but the possibility exists within the current system.</p> <p>We recommend that controls are implemented within the system to ensure that work prepared must be sent to someone with review responsibilities.</p>

Other Findings

During the course of our audit we have identified findings which we have included below for information.

The purpose of the audit was for us to express an opinion on the financial statements. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you. We will report to you any other significant findings we identify during the conclusion of our audit work in our final audit report.

Area	Observation
Lack of continuity plans in relation to absence of key individuals	We have noted during our audit that the departure in early 2020 of the Fund accountant has led to delays in providing a number of elements of documentation. This may also have contributed to the failure of some financial statement controls as noted above. The impact of the departure may have been more significant if not for the assistance provided by the outgoing accountant, months after he had left his post. We note that accounting is not the only area of the Fund's operations that could be susceptible to changes in key personnel. Therefore we recommend that continuity plans be developed for all key roles within the Fund's operations.
Internal audit and monitoring of controls	It was noted that there was no formal internal audit review of the controls of the Fund for the year to 31 March 2020. In place of a review by internal audit, the Fund performed an overall governance review, including a pensions governance report commissioned by the Authority. However, given the number of control deficiencies noted above, we recommend that the internal audit function of the Authority is engaged annually to assess the operation of controls at the Fund.
Compliance with LGPS regulations and the regulator	Within the administration strategy document, it is noted that there should be clear procedures laid out in relation to confirming compliance with LGPS regulations and the regulator. No evidence was available to demonstrate that formal procedures exist. We recommend that procedures are developed in response to the requirements, and which ensure that the Fund meets its statutory obligations and regulatory requirements.

Other Findings (continued)

Area	Observation
Approach to the pension liability disclosure	<p>Our actuarial specialists reviewed aspects of the IAS 26 disclosure of the Fund's future liabilities. Following a case involving the Teachers' Pension scheme, known as the Goodwin case, differences between survivor benefits payable to members with same-sex or opposite-sex survivors have been identified within a number of public sector pension schemes. As a result, the Government have confirmed that a remedy is required in all affected public sector pension schemes, which includes the LGPS. It was noted that no allowance has been made by the Fund actuary in the liability valuation for the Goodwin case. Our actuarial specialists confirmed that this assumption is not reasonable and there is an estimated cost of approximately £8m (0.2% of the liability). This has been included within this report as an unadjusted misstatement.</p> <p>Furthermore it was noted that the approach taken by the Fund actuary towards member data cleansing and checks was not in line with best practice.</p> <p>We recommend that the Fund takes steps to ensure that all non-trivial adjustments to the liability are included at each valuation and that it satisfies itself that appropriate procedures are in place at the actuary to cleanse and check the member data used in each valuation.</p>
IAS 19 cash flows incomplete	<p>In performing procedures relating to our response to IAS 19 letter requests from the auditors of scheduled bodies, we noted that the cash flow information provided to the actuary for the year to 31 March 2020 was incomplete. The report produced on the 2 June 2020 indicated that it covered all 12 months of the year and the actuary had used it as the basis for the cash flow elements of the IAS 26 and IAS 19 disclosures. However on inspection it was clear that some contributions cash flows had not been included of approximately £8.5m, and the March 2020 pensions payroll and the bulk transfer out were missing from the benefits cash flows. These differences have been reported to the auditors of the scheduled bodies who requested an IAS 19 response.</p> <p>We also noted as part of the IAS 19 work that there was an absence of a formal review control associated with the provision of information to the actuary. We have been informed some aspects of the information upload were reviewed, but there was no formal review process or record of the informal review.</p> <p>We recommend that the cash flow reporting is reviewed carefully and checked for reasonableness against expectations before it is provided to the actuary.</p>
Lack of procedures to detect subsequent events	<p>Following enquiry we were informed by the Fund that there are no formal procedures in place to detect and deal with subsequent events. Material subsequent events should be disclosed in the notes to the financial statements and therefore we recommend that a process is implemented to consider this up to the date of signing of the financial statements.</p>

Other Findings (continued)

Area	Observation
Maintenance of records	<p>As part of our testing of the bulk transfer out we noted that no detailed member by member calculation was available to support the total valuation presented by the actuary for the bulk transfer, and no official confirmation communications from the receiving scheme were available.</p> <p>We also noted that lump sums can be paid as part of the pensioner payroll. Furthermore, due to the way in which lump sums are recorded on the accounting ledgers, the Fund was unable to provide a definitive list of payees for some of the accounting entries sampled as part of our testing.</p> <p>It is important that the Fund ensures that adequate records are created and retained to evidence the rationale for all payments leaving the Fund.</p>
Bank and custodian mandates	<p>We examined the mandates provided for the bank account and for investment/disinvestment transactions with the custodian. On review of the list of names on the mandates it was noted that they included personnel within RBWM who were not officers of the Fund. We also noted that they included the names of personnel who were no longer employed by RBWM.</p> <p>We recommend that all mandates are reviewed and updated accordingly to ensure they are complete and contain only relevant personnel. We also recommend that they are updated on an annual basis, or as soon as signatories leave office.</p>

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit & Governance Committee and the Fund discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Fund.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by officers or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

The scope of our work

Our observations are developed in the context of our audit of the financial statements. We described the scope of our work in our audit plan and again in this report.

This report has been prepared for the Audit and Governance Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

We welcome the opportunity to discuss our report with you and receive your feedback.



Jonathan Gooding

for and on behalf of Deloitte LLP

St Albans

11 May 2021

Appendices



Audit adjustments

Uncorrected misstatements

No adjustment has been made to the IAS 26 disclosure of the Fund's liability in light of the Goodwin case. We estimate the value of the disclosure misstatement to be approximately £8m (0.2% of the total liability).

There are no other misstatements that have been identified up to the date of this report which have not been corrected by officers of the Fund.

Corrected misstatements

The following misstatements have been identified which have been corrected by officers. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

		Debit/ (credit) Fund account £m	Debit/ (credit) in Net asset statement £m	If applicable, control deficiency identified
Misstatements identified in current year				
Overstatement of investments from stale priced alternative funds	[1]	(31.5)	31.5	Yes
Overstatement of longevity swap liability	[2]	2.1	(2.1)	No
Total		(29.4)	29.4	
Misstatements identified in prior years – see prior year ISA 260 for details				
Revaluation of longevity swap		40.3	(40.3)	Yes
Revaluation of convertible bond		34.2	(34.2)	Yes
Total		74.5	(74.5)	

(1) 55 alternative funds had been included within the draft financial statements at stale prices, unadjusted for market movements up to the year end. Valuations received during the audit showed that these funds had decreased in value in aggregate by a material amount.

(2) During the audit, the actuary updated the longevity swap valuation.

Audit adjustments (continued)

Disclosures

Disclosure misstatements

The following disclosure misstatements have been identified which officers have corrected.

Disclosure

Material uncertainty of property fund valuations

In our planning report dated the 21 May 2020, we identified that property valuers had experienced difficulties in assessing the market value of properties as at the 31 March 2020 due to the restrictions in force as a response to COVID-19. This was an industry wide issue and, following guidance issued by the Royal Institute for Chartered Surveyors, it was expected that all valuers will report a material uncertainty over the value of property assets held at 31 March 2020 as a result of Covid-19 factors. In response to the valuation uncertainties, many property funds were gated as at 31 March 2020. Our plan included assessing the extent to which this issue affected the Fund.

As part of the audit we received more information about the material property funds. We consulted with our Deloitte Real Estate Specialists, including consideration of the type and nature of the properties held. On review of the evidence received it was concluded that a material uncertainty did exist over the valuation of the Fund's property funds as at 31 March 2020. Given the value of the property funds included within the Fund's financial statements (approximately £292m), the presence of a material uncertainty over these valuations should be disclosed in the financial statements. This disclosure was absent from the draft financial statements, but has now been added in response to this audit finding.

Related party transaction

As noted within our controls findings on page 11, the Fund made an overnight loan to the Authority of £1.2m on 27 June 2019. We are considering the permissibility under the relevant regulations of the overnight loan made by the Fund to the Authority, but we consider this transaction to be qualitatively material and requiring disclosure as a related party transaction. This disclosure was absent from the draft financial statements, but has now been added in response to this audit finding.

Critical judgements and estimates

On review of the critical judgements and estimates disclosed in notes 4 and 5 of the financial statements we noted that the disclosures were not in line with the applicable International Financial Report Standards. Both notes 4 and 5 required significant changes to the wording during the audit as a result of the issues we identified. The changes have been made in full.

Concentration of investments

Note 14 to the financial statements includes disclosure of investment instruments that are greater in value than 5% of the Fund's net assets. The draft accounts did not include the longevity swap within this list. The swap was in a liability position with a magnitude of approximately 6.1% of the Fund's net assets as at the 31 March 2020. The longevity swap has now been included within the disclosure appropriately.

Fraud responsibilities and representations

Responsibilities explained



Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with officers and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



Required representations:

We have asked the Fund to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the Fund.

We have also asked the Fund to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



Audit work performed:

In our planning we identified valuation of the longevity hedge, valuation of the convertible bond and management override of controls as key audit risks for the Fund.

During course of our audit, we have had discussions with officers and those charged with governance.

In addition, we have reviewed officers' own documented procedures regarding fraud and error in the financial statements.

Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Fund.
Audit fees	<p>The scale fee for the 2019/20 audit of the Pension Fund was £19k. This is the same scale fee as the 2018/19 audit. Our audit fee is based on assumptions about the scope and required time to complete our work.</p> <p>As noted earlier in this report, our audit was not concluded by the original 31 July deadline and it has required substantial further input. We continue to discuss the impact on the audit fee with the authority and Public Sector Audit Appointments ("PSAA"). The final fee amount will be communicated to the Committee once agreed.</p>
Non-audit fees	There were audit related services carried out regarding the issuance of assurance letters to the auditors of participating employers. The fees for this work are being considered as part of the discussions around the main audit fee. There are no other non-audit fees.
Independence monitoring	We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We have no other relationships with the Fund, its members, officers and affiliates. We have not supplied any services to other known connected parties.
Ethical Standard 2019	The FRC has released the Ethical Standard 2019. The standard classes pension schemes as 'other entities of public interest' where assets are greater than £1bn and there are more than 10,000 members. As a result, non audit services will be limited primarily to reporting accountant work, audit related and other regulatory and assurance services. All other advisory services to these entities, their UK parents and world-wide subs will be prohibited.



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