

Item No. 9	Classification: Open	Date: 19 January 2022	Meeting Name: Local Pension Board
Report title:		Pension Fund Statement of Accounts & Audit Findings Report 2020-21	
From:		Senior Finance Manager, Treasury and Pensions	

Recommendations

The LPB is asked to:

- Note the attached Pension Fund Statement of Accounts for the financial year 2020-21 as Appendix A.
- Note the draft Pension Fund Audit Findings report as issued by Grant Thornton as Appendix B.

Background Information

1. The pension fund statement of accounts for 2020-21 was submitted for audit by the 31 May 2021 statutory deadline, with the pension fund annual report following in November 2021.
2. Grant Thornton completed additional work this year including a hot review of the pension fund accounts. This was conducted by a technical team separate from the team auditing the accounts and resulted in additional queries and information requests during the course of the audit. Following the completion of the hot review, recommendations were agreed on improvements to the narrative in the notes to the accounts.

Audit Opinion

3. The audit of the pension fund is almost complete. It was delayed due to resource issues at Grant Thornton.
4. Grant Thornton has confirmed the intention is to grant an unqualified opinion on the council and pension fund statement of accounts. The draft findings report by Grant Thornton on the pension fund statement of accounts is attached as Appendix B.
5. The purpose of Grant Thornton's Audit Findings Report (AFR) is to detail their findings and matters arising during the course of auditing the financial statements. As part of the audit, a small number of minor presentational issues were identified. No

adjustments to the pension fund's overall reported financial position has been required.

Community, Equalities (including socio-economic) and Health Impacts

6. Community Impact Statement

No immediate implications arising

7. Equalities (including socio-economic) Impact Statement

No immediate implications arising

8. Health Impact Statement

No immediate implications arising

9. Climate Change Implications

No immediate implications arising

10. Resource Implications

No immediate implications arising

11. Legal Implications

No immediate implications arising

12. Financial Implications

No immediate implications arising

13. Consultation

No immediate implications arising

AUDIT TRAIL

Lead Officer	Duncan Whitfield	
Report Author	Caroline Watson	
Version	Final	
<i>Dated</i>	12 January 2022	
<i>Key Decision?</i>	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Director of Law and Democracy	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
List other officers here		
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		

PENSION FUND

2020-21

LONDON BOROUGH OF SOUTHWARK PENSION FUND STATEMENT OF ACCOUNTS

FUND ACCOUNT

	Note	2020-21		2019-20	
		£000	£000	£000	£000
Dealings with members, employers and others directly involved in the fund					
Contributions	6	(60,237)		(55,151)	
Transfers in from other pension funds	7	(9,475)		(10,636)	
Subtotal			(69,712)		(65,787)
Benefits	8	61,446		59,692	
Payments to and on account of leavers	9	6,134		11,692	
Subtotal			67,580		71,384
Net reduction/(addition) from dealing with members of the fund			(2,132)		5,597
Management expenses	10		10,838		8,881
Net additions plus management expenses			8,706		14,478
Returns on investments					
Investment income	11	(13,175)		(15,578)	
Taxes on income	11	539		291	
Profit and losses on disposal of investments and changes in market value of investments	12	(363,153)		61,254	
Net return on investments			(375,789)		45,967
Net (increase)/decrease in the net assets available for benefits during the year			(367,083)		60,445
Opening net assets of the scheme			(1,581,541)		(1,641,986)
Net assets of the scheme available to fund benefits as at 31 March			(1,948,624)		(1,581,541)

NET ASSETS STATEMENT

	Note		31 March 2021 £000	31 March 2020 £000
Investment assets	12		1,928,101	1,542,755
Current assets	13		24,693	44,238
Current liabilities	13		(4,170)	(5,452)
Net assets of the scheme available to fund benefits as at 31 March			1,948,624	1,581,541

The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The estimated actuarial present value of promised retirement benefits is disclosed at note 19.

NOTES TO THE PENSION FUND STATEMENTS

1.INTRODUCTION

The Pension Fund (the fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Southwark Council (the council).

The following description of the fund is a summary only. For more detail, reference should be made to the pension fund annual report and the underlying statutory powers underpinning the scheme, namely the Public Service Pension Act 2013 and the LGPS Regulations.

a) General

The scheme is governed by the Public Service Pension Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended).

It is a contributory defined benefit scheme that provides pensions and other benefits for former employees of the council and other admitted organisations.

The overall investment strategy is the responsibility of the council as the administering authority of the fund. This responsibility is delegated to the Strategic Director of Finance and Governance, taking account of the advice of the pensions advisory panel. In line with the provisions of the Public Services Pensions Act 2013, the council has set up a local pension board to assist the council in its role as scheme manager of the Pension Fund. The board meets on a quarterly basis and has its own terms of reference. Board members are independent of the pensions advisory panel.

b) Membership

Membership of LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside of the scheme.

Organisations participating in the fund include:

- Scheduled bodies, which are largely academies and similar bodies whose staff are automatically entitled to be members of the fund
- Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

A list of participating organisations and their contributions for the financial year is included within the pension fund annual report. This is available from the council website.

	31 March 2021	31 March 2020
Number of contributors to the fund	7,126	6,888
Number of contributors and dependants receiving allowances	7,988	7,887
Number of contributors who have deferred their pensions	9,883	10,932

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2021. Employee contributions are matched by employers' contributions, which are set in accordance with the triennial actuarial funding valuations, the last being at 31 March 2019. For the 2020-21 financial year primary employer contribution rates ranged from 7.3% to 18.4% of pensionable pay, plus additional deficit payments where appropriate.

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2020-21

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014 the scheme became a career average scheme.

	Service pre 1 April 2008	Service post 31 March 2008	From 1 April 2014
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary	Each year worked is accrued at 1/49 of pensionable pay for the year
Lump sum	Automatic lump sum of 3 x pension. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	

In June 2020 the pension fund made a self-declaration to the Pensions Regulator with regard to the late processing of pension uplifts due to a payroll issue. The issue was resolved and all increases and arrears were paid in July 2021.

2. BASIS OF PREPARATION

The Statement of Accounts summarises the fund's transactions for the 2020-21 financial year and its position at year-end as at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – Revenue Recognition

a) Contributions income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis. The employer payroll contribution percentage rates are set by the fund based on advice of the fund actuary. Employee rates are set in Regulations.

Deficit funding contributions as advised by the fund actuary are accounted for on an accruals basis.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Scheme Regulations. Individual transfers in or out are accounted for when received or paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in. Bulk group transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2020-21

c) Investment income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current investment asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current investment asset. Property related income consists primarily of rental income. Rental income from operating leases on properties owned by the fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits and or losses during the year.

d) Fund account – benefits payable

Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

e) Fund account – taxation

The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

f) Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the council discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

All administrative expenses are accounted for on an accruals basis. All staff costs of pensions administration are charged direct to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

All investment management expenses are accounted for on an accruals basis. Fees for the fund managers and custodian are agreed in the respective mandates governing their appointments and are based broadly on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2020-21

Net Asset Statement

g) Financial assets

Investment assets are included in the net assets statement on a fair value or amortised cost basis as at the reporting date. Cash held by fund managers and the funds own cash are at amortised cost.

A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised by the fund. The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13. Details of the basis of valuation and disclosure levels within the fair value hierarchy are provided at note 13.

Foreign currency transactions have been brought into the accounts at the exchange rate that was in force when the transaction took place.

h) Freehold and leasehold property

Property assets have been included in the accounts at fair value as at 31 March each year. The valuation of direct property managed by Nuveen is carried out annually by an independent valuer.

i) Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes. The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

j) Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

k) Financial liabilities

The fund recognises financial liabilities at fair value or amortised cost as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the accounts (note 19).

m) Additional voluntary contributions

The fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. AVC assets are not included in the accounts but are disclosed as a note (note 6).

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2020-21

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies in Note 3 the council has had to make critical judgements about complex transactions and those involving uncertainty about future events. There were no such critical judgements made during 2020-21.

5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The statements contain estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, as balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 20. The estimates are sensitive to changes in the underlying assumptions underpinning the valuations, as indicated in the table below.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of retirement benefits	This applies to the estimation of the net liability to pay pensions, which depends upon a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	The approximate impact of changing the key assumptions on the present value of retirement benefits are: - an 0.1% change in the discount rate would be +/- £51m - an 0.1% change in the rate at which salaries are projected to increase would be +/- £5m - an 0.1% change in the rate of pension increase would be +/- £47m - a one year change in mortality assumptions would be +/- £94m
Freehold and leasehold property and pooled property	Valuation techniques are used to determine the carrying amount of pooled property funds and directly held freehold and leasehold property. Where possible these valuation techniques are based on observable data, but where this is not possible, management uses the best available data. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property.	The effect of variations in the factors supporting the valuation, estimated to be 7% would be an increase or decrease in the value of property of £18m, on a fair value of £255m.

6. CONTRIBUTIONS RECEIVABLE

Contributions represent the total amount receivable from employees and employers of the scheme.

	2020-21			2019-20		
	Employees £000	Employers £000	Total £000	Employees £000	Employers £000	Total £000
Southwark council	(12,463)	(42,334)	(54,797)	(11,904)	(38,308)	(50,212)
Admitted bodies	(315)	(884)	(1,199)	(270)	(805)	(1,075)
Scheduled bodies	(1,229)	(3,012)	(4,241)	(1,128)	(2,736)	(3,864)
Total	(14,007)	(46,230)	(60,237)	(13,302)	(41,849)	(55,151)

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2020-21

Contributions receivable from employers are shown below:

	2020-21 £000	2019-20 £000
Normal	(36,416)	(29,475)
Early retirement strain	(2,221)	(356)
Deficit funding	(7,593)	(12,018)
Total contributions from employers	(46,230)	(41,849)
Contributions from employees	(14,007)	(13,302)
Total	(60,237)	(55,151)

During 2020-21 employees made additional voluntary contributions (AVCs) of £0.3m (£0.3m in 2019-20). The value of the AVCs at 31 March 2021 was £3.6m (£2.8m at 31 March 2020).

7. TRANSFERS IN FROM OTHER PENSION FUNDS

Transfers in from other pension funds were as follows:

	2020-21 £000	2019-20 £000
Individual transfers	(9,475)	(10,636)
Total	(9,475)	(10,636)

8. BENEFITS PAYABLE

The table below shows the types of benefit payable by category:

	2020-21 £000	2019-20 £000
Pensions	53,003	50,347
Commutation of pensions and lump sum retirement benefits	7,147	8,108
Lump sums - death benefits	1,296	1,237
Total	61,446	59,692

The table below shows the total benefits payable grouped by entities:

	2020-21 £000	2019-20 £000
Southwark council	58,722	56,682
Admitted bodies	2,106	2,049
Scheduled bodies	618	961
Total	61,446	59,692

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2020-21

9. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2020-21 £000	2019-20 £000
Refund of contributions	121	430
Individual transfers out to other schemes	6,013	11,262
Total	6,134	11,692

10. MANAGEMENT EXPENSES

	2020-21 £000	2019-20 £000
Administrative costs	3,690	2,677
Investment and management expenses	6,661	5,632
Oversight and governance costs	487	572
Total	10,838	8,881

The 2020-21 fee for external audit services for the pension fund is £36,170 (£32,396 in 2019-20). Revised fees for both 2019-20 and 2020-21 are as agreed with the external auditor and the Public Sector Audit Appointments Ltd (PSAA).

The Pension Fund incurred expenses of £0.9m in relation to services provided by the council during 2020-21 (£0.9m during 2019-20).

The table below provides an analysis of investment and management expenses by fund manager:

	2020-21			2019-20		
	Fees £000	Transaction costs £000	Total £000	Fees £000	Transaction costs £000	Total £000
Nuveen	626	3,139	3,765	1,243	1,618	2,861
Newton Investment Management	1,038	-	1,038	1,019	-	1,019
BlackRock	702	-	702	473	-	473
Brockton Capital LLP	144	214	358	59	-	59
M and G Real Estate	205	-	205	201	-	201
London collective investment vehicle	205	-	205	89	-	89
Invesco Real Estate	158	-	158	167	-	167
Frogmore Real Estate Partners	65	-	65	130	-	130
Legal and General Investment Managers	53	-	53	73	-	73
Glenmont	-	-	-	470	-	470
Temporis	-	-	-	7	-	7
	3,196	3,353	6,549	3,931	1,618	5,549
Custody costs			112			83
Total			6,661			5,632

Performance fees in 2020-21 were nil (nil in 2019-20). Transaction costs include property management expenses.

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2020-21

11. INVESTMENT INCOME

	2020-21 £000	2019-20 £000
Dividends from equities	(4,278)	(4,533)
Income from pooled investment vehicles	(1,061)	(1,963)
Rent from properties	(7,814)	(9,069)
Interest on cash deposits	(22)	(13)
Total before taxes	(13,175)	(15,578)
Taxes on income	539	291
Total after taxes	(12,636)	(15,287)

12. INVESTMENT ASSETS

	31 March 2021 £000	31 March 2020 £000
Bonds		
Quoted overseas	-	6,177
Equity		
Quoted UK	34,648	25,195
Quoted overseas	198,877	140,725
Pooled Funds		
Fixed income overseas	135,739	120,788
Index linked gilts UK	159,852	153,575
Multi asset overseas	192,740	163,023
Unitised Insurance Policy		
Equity overseas	907,070	651,416
Property		
Direct property UK	187,470	189,550
Property unit trust UK	67,784	56,420
Infrastructure	41,247	31,803
Derivatives		
Forward currency contracts	-	222
London collective investment vehicle	150	150
Other investment balances	2,524	3,711
Total	1,928,101	1,542,755

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2020-21

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on the sale of investments during the year. The table below shows the movement in investment assets and the change in market value for the year:

	Opening balance	Purchases	Sales	Change in market value	Cash movement	Value as at 31 March 2021
	£000	£000	£000	£000	£000	£000
Bonds	6,177	8,731	(14,642)	(266)	-	-
Equity	165,920	54,707	(48,963)	61,861	-	233,525
Pooled funds	437,386	(11,563)	(8,658)	71,166	-	488,331
Unitised insurance policy	651,416	31,785	(11,040)	234,910	-	907,070
Property	245,970	19,777	(5,523)	(4,970)	-	255,254
Infrastructure	31,803	10,549	(2,031)	926	-	41,247
Derivatives	222	1,051	(799)	(474)	-	-
London collective investment vehicle	150	-	-	-	-	150
Other investment balances	3,711	-	-	-	(1,187)	2,524
Total	1,542,755	115,037	(91,656)	363,153	(1,187)	1,928,101

	Opening balance	Purchase	Sales	Change in market value	Cash movement	Value as at 31 March 2020
	£000	£000	£000	£000	£000	£000
Bonds	7,700	32,410	(34,393)	460	-	6,177
Equity	172,401	52,712	(47,120)	(12,073)	-	165,920
Pooled funds	441,856	383	-	(4,853)	-	437,386
Unitised insurance policy	716,671	122,200	(151,564)	(35,891)	-	651,416
Property	290,129	6,182	(41,289)	(9,052)	-	245,970
Infrastructure	-	32,454	(426)	(225)	-	31,803
Derivatives	90	3,101	(3,349)	380	-	222
London collective investment vehicle	150	-	-	-	-	150
Other investment balances	2,248	-	-	-	1,463	3,711
Total	1,631,245	249,442	(278,141)	(61,254)	1,463	1,542,755

The Pension Fund does not hold derivatives as a main asset class, but they are used by Newton Investment Management, the council's active equity fund manager, to hedge the currency risk of holding global equities. The currency forward contracts are traded over the counter.

The valuation of direct property managed by Nuveen is carried out by Knight Frank LLP. The valuer is RICS qualified and the valuation took place on 31 March 2021. All properties have been valued at market value.

The investment strategy statement can be accessed on the council's website. Alternatively a copy can be obtained on request from the Strategic Director of Finance and Governance, Southwark council, finance and governance, PO Box 64529, London SE1P 5LX.

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2020-21

The following investments represent more than 5% of investment assets at 31 March 2021.

Name of investment	Fund manager	31 March 2021	% of investment assets	31 March 2020	% of investment assets
		£000	%	£000	%
Low Carbon Target	Legal and General	365,710	19%	263,047	17%
Diversified Growth Fund	BlackRock	192,740	9%	163,023	11%
Low Carbon Target	BlackRock	167,117	9%	123,200	8%
Absolute Return Bond Fund	BlackRock	135,739	7%	120,788	8%
US Equity Fund	BlackRock	107,691	6%	77,284	5%

The market value of assets (excluding cash and accruals) managed by the investment managers at the balance sheet date 31 March 2021 has been set out in the table below.

	31 March 2021		31 March 2020	
	£000	%	£000	%
BlackRock	852,375	44%	673,584	44%
Legal and General Investment Managers	546,514	27%	415,217	27%
Nuveen	189,772	13%	195,651	13%
Newton Investment Management	233,526	11%	172,320	11%
M and G Real Estate	22,421	1%	22,358	1%
Invesco Real Estate	30,271	1%	14,953	1%
Glennmont	13,940	1%	11,700	1%
Temporis	23,818	1%	20,103	1%
Frogmore Real Estate Partners	7,365	1%	8,822	1%
Brockton Capital LLP	5,425	0%	4,186	0%
London collective investment vehicle	150	0%	150	0%
Total	1,925,577	100%	1,539,044	100%

13. CURRENT ASSETS AND LIABILITIES

The current assets of the fund are analysed as follows:

	31 March 2021	31 March 2020
	£000	£000
Contribution due from employers	5,789	1,116
Other current assets	3,149	2,717
Cash at managers	10,568	18,448
Cash and bank	5,187	21,957
Total	24,693	44,238

The current liabilities of the fund are analysed as follows:

	31 March 2021	31 March 2020
	£000	£000
Benefits	-	(15)
Professional fees	(1,964)	(2,283)
Investment	(1,518)	(2,072)
Taxes	(687)	(604)
Other	(1)	(478)
Total	(4,170)	(5,452)

14. RELATED PARTY TRANSACTIONS

The Pension Fund is required to disclose details of its financial relationship with related third parties. This has been defined as relationships that might materially prevent the fund from pursuing its separate interests or that might allow the fund to prevent another party from pursuing its interests independently, with material effect for the fund.

Through its administration of the fund, the fund has a related party interest with the council. The council charged the fund £0.9m in 2020-21 (£0.9m in 2019-20). Management of the Pension Fund is the responsibility of the council's Strategic Director of Finance and Governance and a small proportion of the costs of this post were apportioned to the fund in 2019-20 and 2020-21.

No officers' remuneration is paid directly by the fund; costs are instead recovered as part of the costs disclosed in note 10.

The pension advisory panel (PAP) offers advice to the Strategic Director of Finance and Governance. Councillor members of the PAP make an annual declaration of their interests which is available on the council's website.

The council is also the single largest employer of members of the Pension Fund and contributed £42.3m to the fund in 2020-21 (£38.3m in 2019-20).

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2020-21

15. FAIR VALUE HIERARCHY

The valuation of financial instruments has been classified into three levels in accordance with IFRS 13, according to the quality and reliability of information used to determine fair values.

Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3 are those where at least one input that could have a significant effect on the instruments valuation is not based on observable market data.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Futures and options in UK bonds	Level 1	Published exchange prices at the year-end	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Unquoted bonds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Overseas bond options	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not required
Pooled investments – overseas unit trusts and some property funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	Net assets value (NAV) based pricing set on a forward pricing basis	Not required
Freehold, leasehold properties	Level 3	Valued at fair value at the year-end by independent valuers	Existing lease terms and rentals; Independent market research; Nature of tenancies; Covenant strength for existing tenants; Assumed vacancy levels; Estimated rental growth; Discount rate	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2020-21

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Infrastructure funds	Level 3	Valued at fair value as provided by the fund manager	Purchase price at acquisition for newer or non-operational assets, estimated cash flows, government price support	Market prices and cash yields, government policies on energy subsidies, pace of shift to renewable and clean energy, discount rates

The following table shows the fair value valuation hierarchy of fund assets and liabilities.

Value as at 31 March 2021	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss	1,300,447	328,629	109,031	1,738,107
Non-financial assets at fair value through profit and loss	-	-	187,470	187,470
Total	1,300,447	328,629	296,501	1,925,577

Value as at 31 March 2020	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss	977,310	283,961	88,223	1,349,494
Non-financial assets at fair value through profit and loss	-	-	189,550	189,550
Total	977,310	283,961	277,773	1,539,044

The following table shows the reconciliation of fair value measurements within level 3.

	Opening balance £000	Purchase £000	Sales £000	Realised gain/(loss) £000	Unrealised gain/(loss) £000	Value as at 31 March 2021 £000
Property	245,970	19,777	(5,523)	3,098	(8,068)	255,254
Infrastructure	31,803	10,549	(2,031)	(260)	1,186	41,247
Total	277,773	30,326	(7,554)	2,838	(6,882)	296,501

	Opening balance £000	Purchase £000	Sales £000	Realised gain/(loss) £000	Unrealised gain/(loss) £000	Value as at 31 March 2020 £000
Property	290,129	6,182	(41,289)	5,001	(14,053)	245,970
Infrastructure	-	32,454	(426)	-	(225)	31,803
Total	290,129	38,636	(41,715)	5,001	(14,278)	277,773

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2020-21

Sensitivity of assets valued at level 3

Having analysed historical data, information received from valuers and the valuation techniques of fund managers, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges:

Value as at 31 March 2021	Assessed valuation range	Valuation as at 31 March 2021 £000	Value on increase £000	Value on decrease £000
Property	7%	255,254	273,122	237,386
Infrastructure funds	5%	41,247	43,310	39,185
Total		296,501	316,432	276,571

16. FINANCIAL INSTRUMENTS

The following table shows the classification of the Pension Fund's financial instruments:

	31 March 2021 £000	31 March 2020 £000
Financial assets		
Fair value through profit and loss	1,738,105	1,349,494
Amortised cost	21,429	46,833
Financial liabilities		
Amortised cost	(4,170)	(5,452)
Total	1,755,364	1,390,875

17. CONTINGENT LIABILITIES AND CONTRACTUAL ARRANGEMENTS

Outstanding capital commitments (investments) at 31 March 2021 totalled £65.6m (31 March 2020: £76.8m).

These commitments relate to outstanding call payments due on property and infrastructure funds. The amounts 'called' by these funds are irregular in both size and timing over a number of years from the date of each original commitment.

18. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and risk management

The Pension Fund's primary long-term risk is that the fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the Strategic Director of Finance and Governance advised by the pensions advisory panel. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the council and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

Price risk

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share price risk. This arises from investments held by the fund for which the future price is uncertain. All security investments present a risk of a loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the council to ensure it is within limits specified in the fund investment strategy.

Potential price changes are determined based on historical data and volatility of asset class returns. For example, 'riskier' assets such as equities will display greater potential volatility than bonds. The following table demonstrates the change in the net assets available to pay benefits, if the market price had increased or decreased. In consultation with the fund's investment advisers, the council has determined that the following movements in market price risk are reasonably possible:

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2020-21

2020-21 - asset type	31 March 2021 £000	Change %	Value on increase £000	Value on decrease £000
Total equities	1,140,745	13%	1,290,923	990,567
Total bonds and indexed linked	295,591	6%	312,883	278,299
Multi-asset	192,740	6%	204,316	181,164
Alternatives	41,247	3%	42,480	40,014
Property	255,254	2%	260,970	249,538
Other assets	2,524	0%	2,524	2,524
Total	1,928,101			

2019-20 - asset type	31 March 2020 £000	Change %	Value on increase £000	Value on decrease £000
Total equities	817,707	11%	904,377	731,079
Total bonds and indexed linked	280,541	5%	294,894	266,188
Multi-asset	163,023	5%	171,686	154,361
Alternatives	31,803	3%	32,672	30,933
Property	245,970	3%	253,766	238,172
Other assets	3,711	0%	3,711	3,711
Total	1,542,755			

The potential changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisers' most recent review. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the fund's investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as shown in the table above.

Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. Fixed interest securities and cash are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The fund's interest rate risk is routinely monitored by the council and its investment advisers in accordance with the fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

Fixed interest securities are exposed to interest rate risk. The table below demonstrates the change in value of these assets had the interest rate increased or decreased by 1%:

Assets exposed to interest rate risks	Market value £000	Value on 1% rate increase £000	Value on 1% rate decrease £000
As at 31 March 2021	135,739	137,096	134,382
As at 31 March 2020	126,966	128,236	125,696

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2020-21

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling. A strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits.

The fund's currency risk is routinely monitored by the council and its investment advisers in accordance with the fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

Assets exposed to currency risk	Value	Change	Value on foreign exchange rate increase £000	Value on foreign exchange rate decrease £000
	£000	%		
As at 31 March 2021	1,239,367	10	1,363,304	1,115,430
As at 31 March 2020	912,962	10	1,004,258	821,666

Analysis by currency	31 March 2021 £000	31 March 2020 £000
GB pound sterling (GBP)	1,035,079	762,109
US dollar (USD)	111,500	77,694
Euro (EUR)	36,173	32,335
Japanese yen (JPY)	16,070	8,817
Hong Kong dollar (HKD)	13,216	5,391
Swiss franc (CHF)	9,918	12,843
South Korean won (KRW)	5,958	2,874
Swedish krona (SEK)	4,377	2,757
Thai baht (THB)	4,065	1,826
Danish krone (DKK)	3,011	-
Canadian dollar (CAD)	-	3,637
Norwegian krone (NOK)	-	2,679
Total	1,239,367	912,962

Credit risk

This is the risk the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. For example a stock may lose value or a dividend due may not be paid. The fund's entire investment portfolio is therefore exposed to some form of credit risk. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

The Fund has set out a series of restrictions in each investment manager's agreement. These restrictions are intended to limit the risks from each individual investment and prevent unsuitable investment activity. The Fund also employs a global custodian to ensure that all transactions are settled in a timely manner.

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2020-21

Liquidity risk

This is the risk that the Pension Fund may not have the funds available to meet payments as they fall due. Historically the Fund has been cash positive (i.e. contributions received have been greater than benefits paid out). However, in recent years this has reversed with benefits paid now surpassing contributions received. The reduction in active members and a resulting change in the membership profile have increased the liquidity risk of the Fund going forward.

The Fund currently has two bank accounts. One is held by the global custodian and holds cash relating to investment activities, the other is the Pension Fund bank account, which holds the cash relating to member activities.

There is a strategy in place to forecast all income and expenditure for the Fund to ensure that sufficient funds will be made available to meet short-term commitments. In the event that there are insufficient available assets to meet liabilities when they fall due, the Fund would be able to redeem investment assets and recall cash resources from investment managers at short notice to meet this requirement.

19. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

IAS 26 (retirement benefit plans) requires the 'actuarial present value of promised retirement benefits' to be disclosed in the Pension Fund Accounts using the most recent actuarial valuation. The fund was last valued as at 31 March 2019.

	31 March 2019 £m	31 March 2016 £m
Fair value of net assets	1,642	1,256
Actuarial present value of promised retirement benefits	(2,192)	(1,671)
Surplus/(deficit) in the fund as measured for IAS 26	(550)	(415)

20. ACTUARIAL POSITION OF THE FUND

Statement of the Actuary for the year ended 31 March 2021

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the London Borough of Southwark Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2019 by Aon, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

Actuarial Position

1. The valuation as at 31 March 2019 showed that the funding level of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2019 (of £1,642.0m) covering 103% of the liabilities allowing, in the case of pre-1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay, and for other membership for future pension revaluation and increases.

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2020-21

2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2020 was:

18.3% p.a. of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date (the primary rate),

Plus

an allowance of 1.5% p.a. of pensionable pay for McCloud and Cost Management – see paragraph 9 below,

Less

1.5% p.a. of pensionable pay to remove surplus, over a recovery period of 20 years from 1 April 2020 (which together with the allowance above for McCloud and Cost Management comprises the secondary rate).

3. In practice, each individual employer's or group of employers' position is assessed separately taking into account other factors (see note 4 below) and contributions are set out in Aon's report dated 30 March 2020 (the "actuarial valuation report"). In addition to the contributions certified, payments to cover additional liabilities such as those arising from early retirements and ill-health retirements will be made to the Fund by the employers.

Total contributions payable by all employers over the three years to 31 March 2023 are estimated to be:

Year from 1 April	% of pensionable pay	Plus total contribution amount (£m)
2020	21.8	0.03
2021	21.6	-
2022	21.1	-

4. The funding plan adopted in assessing the contributions for each employer is in accordance with the Funding Strategy Statement. Different approaches were adopted in relation to the calculation of the primary contribution rate and stepping of contribution changes and grouping of employer contributions as agreed with the Administering Authority and reflected in the Funding Strategy Statement, reflecting the employers' circumstances. This included an agreement that where employers are in surplus, this has only led to an adjustment in contributions to the extent that this surplus is in excess of 10% of the value of that employer's liabilities (i.e. to the extent that the employer's funding level is greater than 110%).
5. The valuation was carried out using the projected unit actuarial method for most employers and the main financial actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount rate for periods in service	4.05% p.a.
Discount rate for periods after leaving service	4.05% p.a.
Rate of pay increases	3.60% p.a.
Rate of increase to pension accounts	2.10% p.a.
(in excess of Guaranteed Minimum Pension)	2.10% p.a.

The assets were valued at market value.

Further details of the assumptions adopted for the valuation, including the demographic assumptions, are set out in the actuarial valuation report.

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2020-21

6. The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S2 Heavy mortality tables with appropriate scaling factors applied based on an analysis of the Fund's pensioner mortality experience and a Fund membership postcode analysis using Aon's Demographic Horizons™ longevity model, and included an allowance for improvements based on the 2018 Continuous Mortality Investigation (CMI) Core Projections Model (CMI2018), with a long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting average future life expectancies at age 65 (for normal health retirements) were:

	Men	Women
Current pensioners aged 65 at the valuation date	20.7	23.5
Future pensioners aged 45 at the valuation date	22.5	25.4

7. The valuation results summarised in paragraphs 1 and 2 above are based on the financial position and market levels at the valuation date, 31 March 2019. As such the results do not make allowance for changes which have occurred subsequent to the valuation date. The Actuary, in conjunction with the Administering Authority, monitors the funding position on a regular basis.
8. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2020 to 31 March 2023 were signed on 30 March 2020. Other than as agreed or otherwise permitted or required by the Regulations, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2022 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.
9. There are a number of uncertainties regarding the Scheme benefits and hence liabilities:

Increases to Guaranteed Minimum Pensions (GMPs):

The 2019 valuation allows for the extension of the 'interim solution' for public service schemes to pay full inflationary increases on GMPs for those reaching State Pension Age (SPA) between 6 April 2016 and 5 April 2021. On 23 March 2021, the Government published a response to its consultation on the longer-term solution to achieve equalisation for GMPs as required by the High Court Judgement in the Lloyds Bank case. The response set out its proposed longer-term solution, which is to extend the interim solution further to those reaching SPA after 1 April 2021.

The results of the 2019 valuation do not allow for the impact of this proposed longer-term solution. Based on approximate calculations, at a whole of fund level, the impact of providing full pension increases on GMPs for those members reaching State Pension Age after 5 April 2021 is an increase in past service liabilities of between 0.1% to 0.2% across the Fund as a whole.

Cost Management Process and McCloud judgement:

Initial results from the Scheme Advisory Board 2016 cost management process indicated that benefit improvements/ member contribution reductions equivalent to 0.9% of pay would be required. However, the cost management process was paused following the Court of Appeal ruling that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' Pension Scheme (Sargeant) constituted illegal age discrimination. Government confirmed that the judgement would be treated as applying to all public service schemes including the LGPS (where the transitional arrangements were in the form of a final salary underpin) and a consultation on changes to the LGPS was issued in July 2020.

The employer contributions certified from 1 April 2020 as part of the 2019 valuation include an allowance of 1.5% of pay in relation to the potential additional costs following the McCloud judgement / cost management process. This was a simplified approach which did not take account of different employer membership profiles or funding targets and may be more or less than the assessed cost once the details of the LGPS changes arising from the McCloud judgement and (if applicable) arising from the 2016 cost management process have been agreed.

Work on the 2020 cost management process has now started, and it is possible that further changes to benefits and/or contributions may ultimately be required under the process, although the outcome is not expected to be known for some time.

SOUTHWARK COUNCIL
STATEMENT OF ACCOUNTS 2020-21

Goodwin

An Employment Tribunal ruling relating to Teachers' Pension Scheme concluded that provisions for survivor's benefits of a female member in an opposite sex marriage are less favourable than for a female in a same sex marriage or civil partnership, and that treatment amounts to direct discrimination on grounds of sexual orientation. The chief secretary to the Treasury announced in a written ministerial statement on 20 July 2020 that he believed that changes would be required to other public service pension schemes with similar arrangements, although these changes are yet to be reflected in LGPS regulations. We expect the average additional liability to be less than 0.1%, however the impact will vary by employer depending on their membership profile.

10. This Statement has been prepared by the Actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2019. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This Statement must not be considered without reference to the formal actuarial valuation report which details the context and limits of the actuarial valuation.

Aon does not accept any responsibility or liability to any party other than our client, the London Borough of Southwark, the Administering Authority of the Fund, in respect of this Statement.

11. The report on the actuarial valuation as at 31 March 2019 is available on request from the London Borough of Southwark, the Administering Authority of the Fund.

Aon Hewitt Limited
May 2021

21. POST BALANCE SHEET EVENTS

No such material events have occurred.

The Audit Findings Report for the London Borough of Southwark Pension Fund

Year ended 31 March 2021

17 November 2021



Contents



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Section

1. Headlines
2. Financial statements
3. Independence and ethics

Appendices

- A. Follow up of prior year recommendations
- B. Audit adjustments
- C. Fees
- D. Audit Opinion
- E. Management Letter of Representation

Page

- 3
4
14

16
17
18
19
23

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of the London Borough of Southwark Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Our audit work was completed remotely during June to November 2021. Our findings are summarised on pages 4 to 13. To date we have not identified any adjustments to the Pension Fund's reported financial position. We have identified some minor presentational issues which are documented in Appendix B. Our follow up of the recommendation from the prior year's audit is detailed in Appendix A.

At this stage our work is almost complete, following the sickness challenges encountered earlier in the audit. To date we have not identified any issues which may impact on our proposed audit opinion, subject to the completion of the following outstanding matters;

there are no matters of which we are aware that would require modification of our audit opinion [Refer to Appendix D] or material changes to the financial statements, subject to the following outstanding matters;

- completion of our outstanding testing – refer to Page 4 for more details
- receipt of management representation letter {Refer to Appendix E}; and
- receipt and review of the Annual Report
- review of the final set of financial statements

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

During the course of our work we identified that the Fund reported itself to the Pensions Regulator in April 2021 due to a delay in being able to process the Annual Pensions Uplift within the Pensions Payroll System. This error was subsequently corrected by the Fund in July 2021, and all pensioners received their arrears in the following month. No action was taken by the Pensions Regulator in respect of this issue, and this will not impact on our audit report in any way.

Our anticipated audit report opinion will be unmodified.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

No changes have been made to the approach set out in the Audit Plan issued on 2 June 2021.

Conclusion

At this stage our work is still in progress due to some sickness challenges which were encountered during the course of the audit, meaning our work will be continuing beyond the end of September. We are hopeful of completing our work by the middle of November to keep any delay to a minimum. These outstanding items include:

- completion of our outstanding testing in the following areas: Investments, Contributions and Benefits Payable.
- receipt of management representation letter; and
- review of the final set of financial statements.

2. Financial Statements



Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

We have revised the performance materiality due to the Net Assets of the Fund changing significantly from that at the planning stage resulting in a review of the appropriateness of the materiality figure.

We detail in the table below our determination of materiality for the London Borough of Southwark Pension Fund.

Pension Fund Amount (£) Qualitative factors considered

Materiality for the financial statements	19,000,000	Our Headline Materiality is based on the Net Assets of the Fund. Due to the considerable increase in the value from the prior year, we have revised this figure upwards ahead of the Final Accounts Audit.
Performance materiality	14,250,000	Performance Materiality is based on a percentage of the overall materiality.
Trivial matters	950,000	Triviality is based on a percentage of the overall materiality.

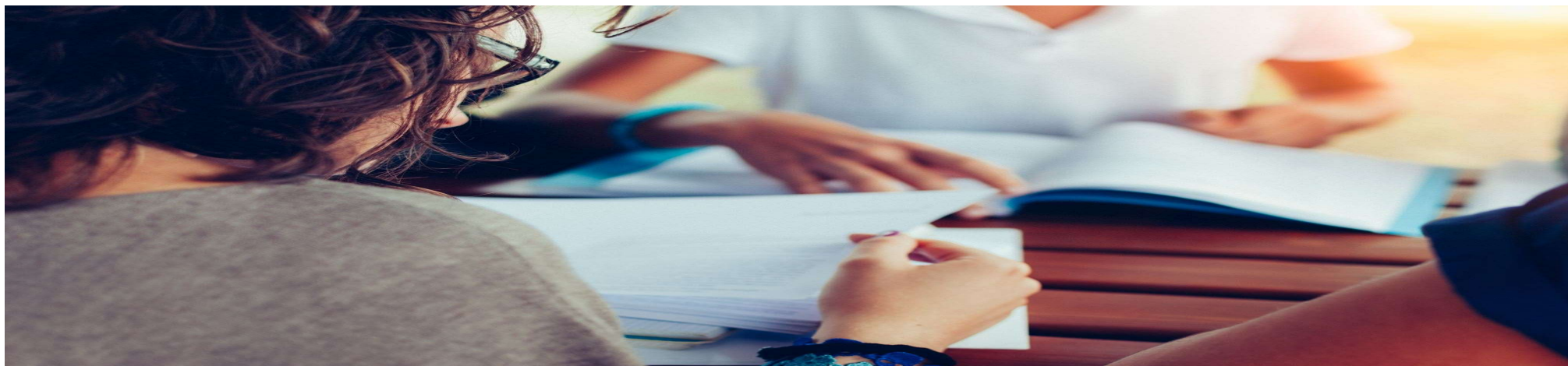


2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>During the audit, we have undertaken the following work:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determine the criteria for selecting high risk unusual journals • tested unusual journals made during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>Our audit work has not identified any issues in respect of this risk.</p>



2. Financial Statements - Significant risks

Risks identified in our Audit Plan

The revenue cycle includes fraudulent transactions (rebutted)

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including Southwark Council, mean that all forms of fraud are seen as unacceptable

Therefore we do not consider this to be a significant risk for the London Borough of Southwark Pension Fund.

Commentary

During the audit, we have undertaken the following work:

- reviewed and tested the Fund's revenue recognition policies
- performed testing on material revenue streams

Our audit work has not identified any issues in respect of this risk.

The expenditure cycle includes fraudulent transactions (rebutted)

Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially if an entity is required to meet financial targets.

Having considered the risk factors relevant to the Pension Fund, we have determined that no separate significant risk relating to expenditure recognition is necessary, as the same rebuttal factors listed above relating to revenue recognition apply. We consider that the risk relating to expenditure recognition would relate primarily to period-end journals and accruals which are considered as part of the standard audit tests mentioned and our testing in relation to the significant risk of Management Over-ride of Controls as mentioned on page 6.

During the audit, we have undertaken the following work:

- obtain an understanding of the design effectiveness of controls relating to operating expenditure.
- perform testing over post-year end transactions to assess completeness of expenditure recognition.
- test a sample of operating expenditure to gain assurance in respect of the accuracy of expenditure recorded during the financial year.

Our audit work has not identified any issues in respect of this risk.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

The valuation of Direct Property is incorrect (Level 3)

The Fund revalues its directly held property on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£255 million) and the sensitivity of this estimate to changes in key assumptions.

Management have engaged the services of a valuer to estimate the current value as at 31 March 2021.

We therefore identified valuation of directly held property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.

During the audit, we have undertaken the following work:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work
- independently request year-end confirmations from investment managers and custodian, and assessed their responses as part of our work.
- evaluated the competence, capabilities and objectivity of the valuation expert
- written to the valuer to confirm the basis on which the valuations were carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. We have also engaged our own valuer to assess the instructions to the Fund's valuer, the Fund's valuer's report and the assumptions that underpin the valuation.
- tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Fund's asset register/financial records
- where available, we have reviewed investment manager service auditor report on design effectiveness of internal controls.

Our work in this area identified an issue between the split of Property Investments in Note 12, as this incorrectly analysed the investments between Direct Property and Property Unit Trusts. However this had no impact on the total value of the investments held by the Fund at 31 March 2021.

No other issues were identified from the testing performed in this area.

2. Financial Statements – key judgements and estimates


This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – Direct Property - £255 million	<p>The Pension Fund has investments in Direct Property that in total are valued on the Net Asset Statement as at 31 March 2021 at £255 million.</p> <p>These properties are valued by a RICS Qualified Valuer as at 31 March 2021. The Valuer is employed by the Fund Manager on behalf of the Fund to provide valuations in line with the CIPFA Code of Practice guidance in this area.</p>	<p>Based on the work performed, we have been able to obtain sufficient assurance over the Direct Property Valuations included within the Accounts as at 31 March 2021.</p> <p>We have reviewed the work undertaken by the Fund's Valuer to derive the values as at 31 March 2021 for inclusion within the Accounts, and we are comfortable with the judgements made and the assumptions applied by the valuer in deriving these values.</p> <p>As mentioned on the previous page, we did identify some classification issues in the Accounts but these did not impact the value of these investments as at 31 March 2021.</p>	<p>● Light Purple</p>
Level 3 investments (excluding Direct Property)	<p>The Pension Fund has investments in Infrastructure Funds that in total are valued on the Net Asset Statement as at 31 March 2021 at £41 million.</p> <p>These investments are not traded on an open exchange/market and the valuation of these investments is highly subjective due to a lack of observable inputs. In order to determine the values, management rely on the valuation provided by the Fund Manager, which are usually based on an audited value of the fund as at 31 December 2020, with the valuation then rolled forward to March 2021, considering any cash movements which have taken place in the intervening period.</p>	<p>Based on the work performed, we have been able to obtain sufficient assurance over the Level 3 valuations included within the Accounts.</p> <p>We have, on a sample basis, reviewed the basis on which the valuation of the Funds/Investments has been prepared, and where appropriate, considered the Audited Accounts of the Funds/Investments as well. No issues were identified from the work performed in this area.</p>	<p>● Light Purple</p>





Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments - £329m	<p>The Pension Fund have investments in Bonds and Pooled Investment Vehicles that in total are valued on the Net Asset Statement as at 31 March 2021 at £329 million.</p> <p>Whilst these investments themselves are not actively traded on an open market, the underlying investments are and the valuations of these investments will be based on the value of these underlying investments at 31 March 2021, or the closest trade date to year end.</p> <p>The valuation of these investments has decreased by £45 million from their value at 31 March 2020 (£284 million).</p>	<p>Based on the work performed, we have been able to obtain sufficient assurance over the Level 2 valuations included within the Accounts.</p> <p>We have undertaken full triangulation of the closing valuations provided by the relevant Fund Managers to the values provided by the Fund's Custodian, and considered any significant variances identified from this work. No issues have been identified from the work performed in this area.</p>	 <p>Light Purple</p>

Assessment

-  [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit, Governance and Standards Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	During the course of our work we identified that the Fund reported itself to the Pensions Regulator in April 2021 due to a delay in being able to process the Annual Pensions Uplift within the Pensions Payroll System. This error was subsequently corrected by the Fund in July 2021, and all pensioners received their arrears in the following month. No action was taken by the Pensions Regulator in respect of this issue.
Written representations	A letter of representation has been requested from the Pension Fund, which is appended to this Report.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	<p>We requested from management permission to send confirmation requests to all of the Pension Fund's counter parties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.</p> <p>We requested management to send letters to those solicitors who worked with the Pension Fund during the year. All responses have been received and no issues have been identified.</p>
Accounting practices	<p>We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.</p>
Audit evidence and explanations/significant difficulties	<p>The Fund produced a good set of Accounts and working papers in line with the agreed timeframes, and responded promptly to the queries raised during the course of the audit despite the challenges of remote working. The small number of amendments identified in this Report reflect the quality of the draft Accounts prepared by management.</p>
Disclosures	<p>Inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unmodified opinion in this respect – refer to Appendix D.</p>
Matters on which we report by exception	<p>We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until 1 December 2021 and therefore this report has not yet been produced. We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.</p>

2. Financial Statements - other communication requirements



Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management’s use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity’s ability to continue as a going concern” (ISA (UK) 570).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor’s time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity’s services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Pension Fund and the environment in which it operates the Pension Fund’s financial reporting framework the Pension Fund’s system of internal control for identifying events or conditions relevant to going concern management’s going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

3. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. No non-audit services were identified which were charged from the beginning of the financial year to the current date.

Appendices

A. Follow up of prior year recommendations

We identified the following issues in the audit of the London Borough of Southwark Pension Fund's 2019/20 financial statements, which resulted in one recommendations being reported in our 2019/20 Audit Findings Report. Our work in respect of this recommendation is still in progress and we will provide an update to Management and the Audit, Governance and Standards Committee once this work is complete.

Assessment

- ✓ Action completed
- X Not yet addressed

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Issues in Member Data</p> <p>In 2016/17 we identified errors during our testing of the client's Member Data, which thus could have a potential impact on the accuracy of the data provided to the Actuary. This then could have a potential impact on the valuation provided by the Actuary to the Fund, although the risk of this is low.</p> <p>The Council has undertaken extensive data cleansing during 2017-18 and 2018-19 as part of the production of the annual benefit statements and also through the implementation of i-Connect software in all admitted bodies, scheduled bodies and schools which has significantly improved the quality of data held. The enhanced Member Self Service portal which facilitates member updates of data is now live and members will be made aware of this through newsletters. These will include activation keys which it is hoped will encourage them to log in.</p> <p>However we continued to find issues of this type in the three years since then, hence why it has been carried forward to 2020/21.</p>	<p>We are pleased to report that no issues were identified with the testing performed in this area during this year's audit. This is a reflection of the hard work put in by Management since the adverse finding in 2016/17 to strengthen the processes and controls in this area.</p> <p>Management should continue to ensure that robust processes and controls remain in place over this area given its importance to the overall value of the Pension Fund Liability.</p>

B. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted and unadjusted misstatements

To date, no adjusted or unadjusted misstatements have been identified from the work performed during the course of the audit.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit to date which have been made in the final set of financial statements.

Disclosure omission	Impact on the Accounts	Adjusted?
Note 12 – Investments Classification	The split of Property Investments held by the Fund was incorrectly analysed between Direct Property and Property Unit Trusts in the first draft of the Accounts. This has subsequently been corrected in the updated Accounts.	✓
Note 12 – Investment Purchases and Sales	Our testing on the purchases and sales included within the Accounts identified that the balances for Newton were incorrect in Note 12 – Purchases increases to £115,037k and Sales increases to £91,656k. This has no impact on the closing market value of the fund as the difference is adjusted via the Change in Market Value Column in the same Note.	✓
Minor Disclosure Issues <ul style="list-style-type: none"> - Note 1 – Introduction - Note 3 – Accounting Policies - Note 4 – Critical Judgements - Note 5 – Estimation Uncertainty - Note 14 – Related Parties - Note 15 – Fair Value Hierarchy - Note 18 – Financial Instruments 	A number of other minor disclosure amendments have been processed. None of these are individually significant enough to warrant separate disclosure.	✓

C. Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

The fees reconcile to the financial statements – refer to Note 10 of the Pension Fund Accounts for confirmation of this.

Audit fees	Proposed fee	Final fee
Pension Fund Audit	36,170	TBC
Total audit fees (excluding VAT)	£36,170	TBC

We can confirm no non-audit services have been delivered in respect of the Pension Fund.

D. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the Pension Fund with an **unmodified audit report**.

Independent auditor's report to the members of Southwark Council on the pension fund financial statements of the London Borough of Southwark Pension Fund

Opinion

We have audited the financial statements of the London Borough of Southwark Pension Fund (the 'Pension Fund') administered by Southwark Council (the 'Authority') for the year ended 31 March 2021 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2021 and of the amount and disposition at that date of the fund's assets and liabilities,
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the Pension Fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Strategic Director of Finance and Governance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

In our evaluation of the Strategic Director of Finance and Governance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Strategic Director of Finance and Governance's use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Strategic Director of Finance and Governance with respect to going concern are described in the 'Responsibilities of the Authority, the Strategic

D. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the Pension Fund with an **unmodified audit report**.

Director of Finance and Governance and Those Charged with Governance for the financial statements' section of this report.

Other information

The Strategic Director of Finance and Governance is responsible for the other information. The other information comprises the information included in the Statement of Accounts and the Annual Governance Statement, other than the Pension Fund's financial statements, our auditor's report thereon, and our auditor's report on the Authority's financial statements. Our opinion on the Pension Fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Pension Fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Pension Fund's financial statements or our knowledge of the Pension Fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Pension Fund 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.

Opinion on other matter required by the Code of Audit Practice (2020) published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the Pension Fund's financial statements and our knowledge of the Pension Fund, the other information published together with the Pension Fund's financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the Pension Fund financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters in relation to the Pension Fund.

Responsibilities of the Authority, the Strategic Director of Finance and Governance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Strategic Director of Finance and Governance. The Strategic Director of Finance and Governance is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Strategic Director of Finance and Governance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Pension Fund's financial statements, the Strategic Director of Finance and Governance is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that

D. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the Pension Fund with an **unmodified audit report**.

the services provided by the Pension Fund will no longer be provided.

The Audit, Governance and Standards Committee is Those Charged with Governance for the Pension Fund. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Pension Fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and

adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

- We enquired of senior officers and the Audit, Governance and Standards Committee, concerning the Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;

- the detection and response to the risks of fraud; and

- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

- We enquired of senior officers, internal audit and the Audit, Governance and Standards Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

- We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:

- the journals posted by relevant officers during the course of the year, taking into account a range of different criteria to focus our testing on the most risky journals.

- Our audit procedures involved:

- evaluation of the design effectiveness of controls that the Strategic Director of Finance and Governance has in place to prevent and detect fraud;

- journal entry testing, with a focus on those journals that have been deemed risky via our assessment based on a range of criteria;

- challenging assumptions and judgements made by management in its significant accounting estimates in respect of level 3 investments; and

D. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the Pension Fund with an **unmodified audit report**.

- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition.

- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation

- knowledge of the local government pensions sector

- understanding of the legal and regulatory requirements specific to the Pension Fund including:

- the provisions of the applicable legislation

- guidance issued by CIPFA, LASAAC and SOLACE

- the applicable statutory provisions.

- In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.

- the Authority's control environment, including the policies and procedures

implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

Use of our report

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

[Signature]

Ciaran McLaughlin, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

xx November 2021

E. Management Letter of Representation

[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG

xx November 2021

Dear Sirs

London Borough of Southwark Pension Fund

Financial Statements for the year ended 31 March 2021

This representation letter is provided in connection with the audit of the financial statements of the London Borough of Southwark Pension Fund for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial

statements.

iii. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of Level 3 Investments. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. Except as disclosed in the financial statements:

- a. there are no unrecorded liabilities, actual or contingent
- b. none of the assets of the Fund has been assigned, pledged or mortgaged
- c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

vii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

viii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

E. Management Letter of Representation – Pension Fund

ix. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

x. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

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

xii. We have updated our going concern assessment. We continue to believe that the Fund's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that that :

a. the nature of the Fund means that, notwithstanding any intention to liquidate the Fund or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the Fund's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xiii. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Fund via remote arrangements, in compliance with the

nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

xiv. We have communicated to you all deficiencies in internal control of which management is aware.

xv. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xvi. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xvii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund, and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xviii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xix. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xx. We have drawn to your attention all correspondence and notes of meetings with regulators, in particular our correspondence with the Pensions Regulator in respect of the delay in processing the Pensions Uplift on the Pensions Payroll System.

xxi. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

xxii. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.

xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

E. Management Letter of Representation – Pension Fund

Approval

The approval of this letter of representation was minuted by the Fund’s Audit, Governance and Standards Committee at its meeting on 20 September 2021

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of the Fund



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