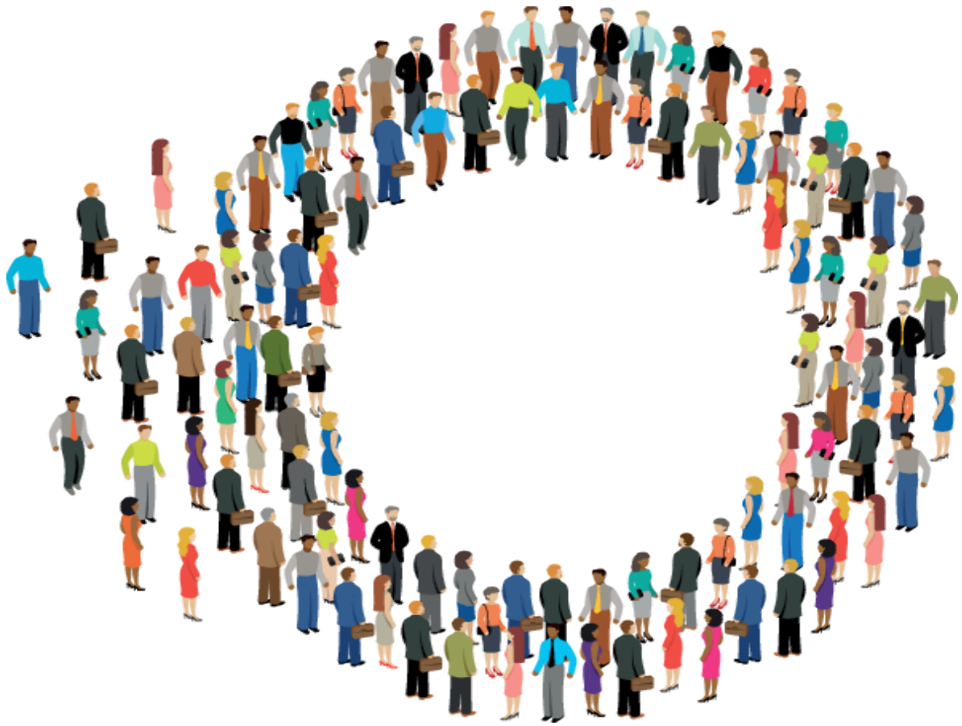
Deloitte.

ROYAL BOROUGH OF
WINDSOR &
MAIDENHEAD
WWW.RBWM.GOV.UK



Royal County of Berkshire Pension Fund

Final report to the Audit & Governance Committee for the year ended 31 March 2021

Issued on 8 November 2023 for the meeting on the 16 November 2023

Contents

01 Our audit status update report

02 Appendices

Introduction

The key messages in this report

We have pleasure in presenting our final report to the Audit & Governance Committee of Royal Borough of Windsor & Maidenhead (the "Committee") for the 2021 audit of the Royal County of Berkshire Pension Fund (the "Fund"). The scope of our audit was set out within our planning report presented to the Audit Committee on 29 July 2021.

Status of the audit – Pension Fund	At the date of issue of this report, our audit of the pension Fund for the year ended 31 March 2021 is substantially complete. We have set out on page 4 the procedures that are in progress. Changes have been made to the audit timetable we presented in our planning report, initially as a result of delays experienced in receiving information from the Fund and its third-party service organisations across key areas of testing. Where delays were due to weaknesses in governance or controls, we have included our comments on this within the control observations and other findings section of the report. Subsequent delays to the audit of the administering authority have resulted in a significant change to the reporting timetable for the pension Fund audit. As part of our approach for the 31 March 2021 audit, we have obtained authority to liaise directly with the Fund's investment managers rather than having information collated through Local Pensions Partnership ("LPP"). This has improved the flow of information for our testing of the alternative investment funds and reduced the communication burden on LPP. This included directly obtaining audited financial statements of the alternative investment funds, without which it was not possible for us to conclude on our testing. We have now received all the information we require in respect of the alternative investments. On investigation, the alternative investment portfolio was materially understated in the draft financial statements by £48.1m. This was due to the inclusion of some stale valuations that had not been adjusted for trading activity across the first quarter of 2021. This is the third year we have performed the audit of the Fund and we have identified material misstatements in all three years (£31.5m and £74.5m overstatements in 2020 and 2019 respectively). We therefore draw your attention to the high priority recommendations on pages 8 and 9. Responses have been provided for all IAS 19 requests received during the original audit timescale from auditors of other Fund employers. We have noted in those letters that incomplete cash flow information was provided to the Fund actuary, that there was an associated control weakness, that the assets were adjusted by £48.1m as noted above and that there were other control weaknesses that would be reported to this Committee at the conclusion of the audit. The letters also note that the audit was still in progress at the time of writing. Another request has subsequently been received and we are in the process of preparing our response, pending the completion of the audit.

Introduction
The key messages in this report (continued)

Conclusions from our testing	We have set out a summary of misstatements and disclosure deficiencies identified on pages 19 and 20 of this report. The main adjusted misstatement relates to the overstatement of alternative investments as noted above. There is an uncorrected disclosure misstatement relating to the absence of an adjustment to the IAS 26 disclosure to account for the expected impact of the Goodwin case on the Fund's future liabilities.
Audit procedures outstanding	The audit is substantially complete. We anticipate issuing an unqualified audit opinion on the pension Fund financial statements within the Royal Borough of Windsor and Maidenhead ('RBWM') statement of accounts and the related consistency opinion within the Fund's own annual report subject to the completions of the following procedures: • Receipt of the final Berkshire Pension Fund 2021 financial statements; • Finalisation of our internal quality review procedures; • Update of our subsequent events and finalise going concern procedures; and • Receipt of the signed representation letter. Following the Government budget announcements on Friday 23 September 2022, gilt yields rose significantly. This has had a material impact on pension assets and liabilities across many schemes, with the value of both falling dramatically. For many schemes using a liability driven investment ("LDI") strategy, this has prompted calls for collateral to top up their LDI, often at short notice, which can cause liquidity problems. An LDI investment is a holding or portfolio of holdings primarily slated toward gaining enough assets to cover all present and future liabilities through exposure to derivatives such as swaps or repurchase agreements. Deloitte worked with management to understand the impact of this on the Fund when considering subsequent events. Given the lack of LDI exposure within the Fund's investment portfolio, the impact was limited.
Management representations	We will obtain written representations from the Section 151 Officer on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the representation letter will be issued ahead of signing the financial statements.
Audit fee	As explained in our 2020 fee letter, our audit fee is based on assumptions about the scope and required time to complete our work. For the reasons set out above, our audit was not concluded by the original 30 September 2021 deadline, and it has required substantial further input. The audit has also required additional procedures in response to COVID-19, Russia's invasion of Ukraine, the gilts crisis in September 2022 and the banking crisis in early 2023. We continue to discuss the impact on the audit fee with the Authority and Public Sector Audit Appointments ("PSAA"). The final fee amount will be communicated to the Committee.

Our audit explained

We tailor our audit to your organisation

1. Identify changes in the Fund and environment
2. Determine materiality
3. Scoping
4. Significant risk assessment
5. Conclude on significant risk areas
6. Other findings
7. Our audit report

Identify changes in your Fund and environment

In our planning report we identified the key changes in the Fund. This was the ongoing COVID-19 pandemic which continued to impact ways of working both for officers, members of the Fund and the Deloitte audit team throughout much of the audit.

Determine materiality

We set our final materiality at £24.0m based on approximately 1% of total net assets of the Fund.

We report to you in this paper all misstatements above £1.2m.

Scoping

There have been no changes to the scope of our work which is carried out in accordance with the Code of Audit Practice and supporting auditor guidance notes issued by the NAO.

Significant risk assessment

In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement. We report our observations on these risks arising from our work carried out to date in this report. No additional financial statement significant risks have been identified since our planning report.

Conclude on significant risk areas

We draw to the Committee's attention our observations on the significant audit risks from the work performed. The Committee members must satisfy themselves that officers' judgements are appropriate.

Other findings

As well as our conclusions on the significant risks we are required to report to you our observations on the internal control environment as well as any other findings from the audit. These are set out starting on page 8 of this report.

Our audit report

On completion of the closing audit procedures, we expect to issue an unmodified audit opinion on the financial statements.

Significant risks

Management override of controls

Risk identified

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

Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that the Fund's draft financial statements were understated by approximately £48.1m due to the inclusion of stale valuations for some alternative investment funds that had not been adjusted for updated valuations or transactions across the first quarter of 2021.

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

Significant and unusual transactions

We have not noted any significant unusual transactions relating to the current year. During the course of the audit we received a copy of the communication with the Pensions Regulator to report the issue of the unauthorised overnight loan. This was addressed in our audit report on the year ended 31 March 2020.

Journals

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

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

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

Accounting estimates

We have performed a review of the accounting estimates.

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

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

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

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

Issues identified

- We have identified control deficiencies, set out on pages 8 to 15;
- We have not identified any significant bias in the key judgements made by officers based on work performed; and
- We have not identified instances of management override of controls in the financial statements.

Significant risks (continued)

Valuation of the longevity hedge

Risk identified

The Fund holds a material longevity insurance policy to hedge longevity risk. A longevity hedge is designed to insure the Fund against the risk that pensioners live longer than the current mortality assumptions. Valuation of longevity hedges are sensitive to relatively small movements in the key assumptions used in the actuarial calculations. The setting of these assumptions involves judgement. The longevity hedge was valued as a liability of £133.2m in the 2020/21 Statement of Accounts (£121.8m in 2019/20) and is therefore quantitatively material. As a result of this we consider the valuation of the longevity hedge to be a significant risk.

Key judgements and our challenge of them

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

We note that the initial valuation included in the draft accounts was updated during the audit from a liability of £131.2m to £133.2m following a revised report by the Fund actuary.

Key judgements include:

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

Deloitte response

We have:

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

Deloitte view

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

The valuation control in place at the actuary was designed satisfactorily and implemented in respect of the year end valuation.

We recommend that the actuary monitors the mortality experience of the swap and tests the ongoing appropriateness of assuming the base mortality is in line with the pension Fund assumptions. This represents a process insight from our specialists which has been communicated with management.

Control observations

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

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

Area	Observation
Valuation of the private equity portfolio and other alternative funds	In our final reports on the 2019 and 2020 audits, we recommended that the Authority review the terms and conditions of its relationship with all investment service providers and seek assurance that controls are in place to ensure that the most recent audited financial statements of each investment fund, along with the regular capital valuation statements and any evidence of any capital transactions are received and regularly reviewed in a timely fashion. Our testing approach for alternative investment funds includes obtaining the most recent audited financial statements of the investment fund along with information about capital committed and any capital transactions that occurred since the date of the audited financial statements. Obtaining the specific information we require and receiving this in a timely manner has continued to be difficult and we have experienced delays. This had a direct impact on the progress of this testing. It also continues to indicate the absence of robust controls around the management of these funds. We are aware that the Fund has taken steps to better understand the processes, controls and responsibilities of the investment service providers and that consideration is being given to how best to address this observation. Audit testing in the 2021 year audit revealed that the alternative funds were understated in the draft financial statements by approximately £48.1m. This error has been adjusted in the final financial statements. In discovering and resolving this misstatement it was noted that there was no process or control in place to determine the valuation of alternative funds at the year end for which only stale pricing was available, or to update the financial statements for any year end valuations of these funds that were released before the financial statements were finalised for signing. These matters represent significant control weaknesses. We recommend that the Fund continues to review the terms and conditions of its relationship with all investment service providers and takes steps to ensure that controls are in place such that the most recent audited financial statements of each fund, along with the regular capital valuation statements and any evidence of any capital transactions are received and regularly reviewed in a timely fashion. We recommend that the Fund also ensures that controls within the financial reporting process are implemented such that the best estimate of the fair value of investments is used in the draft financial statements and that material changes to the investment balances that come to light before signing are reflected in the financial statements. Where the Fund does not have the appropriate resource within its staff, it should provide clear instructions to LPP or the custodian to perform the processes and controls required. **Management comment:** *A formal process for updating the financial statements for material changes in valuations arising from stale pricing has been implemented for the year ended 31 March 2022 onwards. This includes a peer review control of the adjustment.*

Control observations (continued)

Area	Observation
Review of financial statements	The design of the control for review of the financial statements did not include checking the draft statements to the underlying workings. We also noted that for the 2021 financial statements there was no evidence of a formal review and, at the time of testing this control, there was an absence of any review process. Furthermore, there was no evidence that the CIPFA checklist had been used in the accounts preparation process, or in any review that may have taken place. This weakness in control increases the likelihood of misstatements in the financial statements. Deloitte performed a detailed review of the first draft financial statements against the CIPFA 2020/21 checklist requirements. We noted a number of deficiencies and these were communicated to Fund management for amendment in later versions of the financial statements which included the insufficient disclosure of transaction costs, inappropriate fair value classifications and insufficient disclosure of management remuneration. We recommend that the design of the financial statement review control is amended to include checking to underlying working papers, the completion of a full CIPFA checklist, and is communicated clearly to all those involved in the preparation and review process. The implementation of the control should be evidenced appropriately and this evidence should be retained for a sufficient period. **Management comment:** *A control involving a peer review of a completed CIPFA checklist has been implemented from the year ended 31 March 2022 onwards.*
Review of journals	The design of the control for review of journal postings does not include a formal description of the review process. There was no clear evidence available that a review took place over journal postings at year end, before the nominal ledger was circulated for our testing. We also noted that some of the monthly investment posting updates did not occur within a reasonable timeframe. Furthermore, during journal testing it was noted that there were multiple errors in original journal postings that had to be adjusted in subsequent journal entries by the same user. This suggests that any control implemented over journal review was deficient. We recommend that the design of the journal posting review control is amended to include a well defined scope, for example a checklist. We also recommend that it is communicated clearly to all those involved in the preparation and review process, and takes place in a timely manner before journals are posted to the accounting system. The implementation of the control should be evidenced appropriately and this evidence should be retained for a sufficient period. **Management comment:** *A system driven journal workflow process was implemented in April 2022.*

Control observations (continued)

Area	Observation
Separation of the Fund from the Authority	In reconciling the journal activity for the year, it was noted that some journal postings included activity for both the Fund's financial statements and those of the Authority. On reviewing the journal population as a whole for both the Fund and the Authority we concluded that the population was complete for the year ended 31 March 2021. We also noted that some payments made to the Authority by the Fund for costs incurred on behalf of the Fund, were not formally invoiced by the Authority and that there was no evidence of formal authorisation available for these transactions. We recommend that the general ledgers of both entities are maintained in isolation. We also recommend that formal documentation is prepared by the Authority to request payments from the Fund, and that this is reviewed and authorised by the Fund before payments are made. Furthermore, sufficient appropriate evidence should be retained demonstrating that the control has operated for all such transactions. **Management comment:** *Separation of the ledgers was implemented on 1 April 2023.*
Lack of formal policies to ensure compliance with laws and regulations	From discussions with Fund management during the audit, we have noted that there is neither a formal policy nor a procedure in place to ensure compliance with relevant laws and regulations. There is a schedule of topics to be brought to the Panel for consideration, but this relies on the pension manager maintaining his knowledge of the legal environment. Management also confirmed that there was no formal professional development or annual learning requirement for the pensions manager to enable them to perform this role with consistency. We recommend that a formal process is implemented to ensure the Fund is aware of, and complies with, all relevant laws and regulations. **Management comment:** *A Head of Fund has subsequently been appointed. The job description for this role includes ensuring compliance with all relevant laws and regulations. There is also a retrospective check in place each year that confirms compliance with laws and regulations (statutory governance compliance statement presented annually to the Pension Fund Committee).*
Lack of controls to identify and respond to accounting estimates	From discussions held with Fund management and procedures performed in our response to the impact of ISA 540 on the current year audit, we have identified that there is no formal control in place to identify and report on accounting estimates. Although there has been no change in accounting estimates across the previous years' audits, which has meant that this issue has not impacted the completeness of financial statement disclosures around these estimates, this represents a control deficiency. We recommend that a control is designed to identify and report on accounting estimates, and implemented on at least an annual basis in conjunction with the preparation of the financial statements. **Management comment:** *Consideration of estimates will be incorporated into the financial statements preparation checklist and subjected to peer review.*

Control observations (continued)

Area	Observation
Lack of review of data extraction and provision to the actuary	There was no evidence available during the audit of a formal review of the data extraction and the subsequent provision of this data to the actuary in respect of IAS19 letters and, at the time of testing this control, there was a lack of awareness of any review process. We recommend that a control is implemented to review the data extraction, along with any other information required as part of the IAS 19 reporting, before this is provided to the actuary. We recommend that this includes a reasonableness check against expectations of the Fund's activity. We recommend that the implementation of the control is evidenced appropriately and this evidence is retained for a sufficient period. **Management comment:** *A reasonableness check of the information is carried out before providing the data extraction to the actuary. Formal documentation of this review will be implemented in future periods.*
Unauthorised journal posting	As part of our review of journals, we considered the authority of the personnel posting each journal. A list is maintained by the Authority of the authorisations in place for members of the team, indicating which types of journal entry they are permitted to post. We noted one journal was posted outside these authority limits. The journal had been authorised by the CFO and we received evidence to support the posting. However, this demonstrates another aspect of the weakness in control over the journal posting process. We recommend that the design of the journal posting review control is amended to include confirmation that the preparer has the authority to post the journal. We also recommend that it is communicated clearly to all those involved in the preparation and review process, and takes place in a timely manner before journals are posted to the accounting system. The implementation of the control should be evidenced appropriately and this evidence should be retained for a sufficient period. **Management comment:** *A system driven journal workflow process was implemented in April 2022.*
IT control – Lack of formalised process for revoking user access and user access review	Deloitte noted that access rights reviews for the Fund's accounting software, PTX, are only partially performed as only users account status is reviewed, and no documentation is maintained. For Altair, it was noted that there were no user access right reviews performed during the period under audit. Without a formalised process for removing access, the both Altair & PTX systems are vulnerable to unauthorised access. We recommend that user access reviews are formally documented and communicated with control owners. This will ensure they will be operated in a consistent manner by different control owners. Furthermore, it is recommended that the access right review procedures are expanded to cover level of access granted to each user and are not only verifying appropriateness of user. **Management comment:** *A solution is being considered and, where possible, will be implemented for the year ending 31 March 2024.*

Other Findings

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

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

Area	Observation
IT control - Finance and operations users with elevated access	User Access Provisioning Business Users have administrative access to provision access in the Altair system. The Pension Administration Manager has access to create/edit/delete users in the system. This represents a lack of segregation of duties as business users should not have administrative access to the system. Privileged-level Access The following Business Users have administrative access within the Altair system: Pension Services Manager, Pension Administrator Manager and Head of Pension Fund. They have access to provision and deprovision user access as well as make changes to the system configurations. This represents a lack of segregation of duties as business users should not have administrative access to the system. User access provisioning controls are a vital measure to help ensure access is provided only on a “need to do” or “need to know” basis. With business users identified with elevated access in the system, there is a risk that unauthorised transactions are performed bypassing the principle of “least access” and violating segregation of duties. We recommend that administrative accounts within the Altair system are restricted to IT personnel only. Senior finance or operations users can be granted higher privileges commensurate with their job roles and responsibilities however we recommend that it does not include IT administration level privileges. IT administration level privileges in the systems often provide access to make changes into logged transactions which might prevent identification of inappropriate actions on a timely basis. **Management comment:** *A solution is being considered and, where possible, will be implemented for the year ending 31 March 2024.*

Other Findings (continued)

Area	Observation
Approach to the pension liability disclosure	Our actuarial specialists reviewed aspects of the IAS 26 disclosure of the Fund's future liabilities. Following a case involving the Teachers' Pension scheme, known as the Goodwin case, differences between survivor benefits payable to members with same-sex or opposite-sex survivors have been identified within a number of public sector pension schemes. As a result, the Government have confirmed that a remedy is required in all affected public sector pension schemes, which includes the LGPS. It was noted that no allowance has been made by the Fund actuary in the liability valuation for the Goodwin case. Our actuarial specialists confirmed that this assumption is not reasonable and there is an estimated cost of approximately £5m (0.1% of the liability). This has been included within this report as an unadjusted misstatement. We recommend that the Fund takes steps to ensure that all non-trivial adjustments to the liability are included at each valuation and that it satisfies itself that appropriate procedures are in place at the actuary to cleanse and check the member data used in each valuation. **Management comment:** *This finding has been noted. We also note that the Fund actuary does not agree with Deloitte's conclusion on the impact of the Goodwin ruling.*
Inappropriate fair value hierarchy classifications	Following testing of the fair value hierarchy disclosure within the initial draft financial statements, it was noted that five pooled funds had been classified as level 1 holdings. From our assessment, this appeared to be based on the nature of funds' underlying holdings rather than the nature of the investment held by the pension Fund i.e. units in a pooled investment vehicle. This approach to the classification is not in line with accounting standards. When the issue was identified it was corrected by management in both 2020 and 2021 financial statements. Similarly, forward foreign exchange contracts had been given a level 1 classification. These are exchange traded derivatives and therefore they are available across an active market. However, this market in not sufficiently liquid to justify a level 1 classification. In the absence of trading volume, we consider a level 2 classification to be appropriate for these instruments and an adjustment has been raised. We recommend that the Fund takes steps to ensure that all holdings are reviewed against fair value literature to ensure that appropriate levels are being allocated and disclosed within the financial statements. **Management comment:** *A change of process was implemented for the year ended 31 March 2022 onwards.*
Maintenance of records	We note that lump sums are often paid as part of the pensioner payroll. Due to the way in which lump sums are recorded on the accounting ledgers, the Fund was unable to provide a definitive list of payees for some of the accounting entries sampled as part of our testing. It is important that the Fund ensures that adequate records are created and retained to evidence the rationale for all payments leaving the Fund. **Management comment:** *A solution is being considered and, where possible, will be implemented for the year ending 31 March 2024.*

Other Findings (continued)

Area	Observation
Bank and custodian mandates	We examined the mandates provided for the bank account and for investment/disinvestment transactions with the custodian. On review of the list of names on the mandates it was noted that they included personnel within RBWM who were not officers of the Fund. We also noted that they included the names of personnel who were no longer employed by RBWM. We note that in April 2021, an updated JP Morgan mandate has been signed which removes personnel that have left RBWM, however, this has been signed post year end and was therefore not effective during the year ended 31 March 2021. We recommend that all mandates are reviewed and updated accordingly when changes to key personnel occur to ensure they are complete and contain only relevant personnel. We recommend that they are reviewed at least on an annual basis, and sooner if signatories leave office. **Management comment:** *This finding has been noted.*
Multiple members with the same member identifier	From analytics performed around the pension payroll and pensioner membership, we noted two member identifiers for which there were two different members allocated. This means that the member identifiers were not unique to individual members. We have raised this with Fund management who confirmed this is due to an error, with these identifiers being allocated outside the system. The identifiers have since been updated for each of the members affected. We recommend that steps are taken by the Fund to ensure that all members have a unique member identifier which is consistent within the Fund administration system. **Management comment:** *A solution is being considered and, where possible, will be implemented for the year ending 31 March 2024.*
Initial nominal ledgers and trial balances were incomplete	Deloitte received nominal ledgers and trial balances from Fund management in June 2021 in line with the audit timetable. This information was reviewed within analytics software used for assessing journal entries. In subsequent discussions with management, we became aware that other journals in the form of re-analysis and updates to the change in market value of the longevity swap were to be posted in addition to the nominal and trial balance provided initially. Deloitte has performed specific testing procedures to obtain evidence and assurance over these additional postings, with no issues noted. We recommend that the Fund finalise its nominal ledger and trial balance reporting before sharing this with Deloitte for audit purposes. **Management comment:** *A review process was implemented for the year ended 31 March 2022 onwards.*

Other Findings (continued)

Area	Observation
Oversight by those charged with governance	The high volume of control observations and other findings are an indicator of weaknesses in governance arrangements. In respect of the prior year's audit, governance weaknesses in the pension Fund contributed to a qualified Value For Money opinion for RBWM. In respect of the current year's audit, we have concluded that these weaknesses contribute the significant weaknesses in Value For Money arrangements that we have reported to the Audit & Governance Committee in the accompanying report on the council audit. We acknowledge that these findings and observations have been raised based on work on the financial statements for the year ended 31 March 2021, and that since then progress has been made by management in line with their comments within. We recommend that those charged with governance ensure that a robust governance structure is in place. This could involve, for example, implementing the Three Lines of Defence model or similar. Within this governance structure, management should design and implement appropriate controls to manage risks, and report on these controls to those charged with governance. The governance structure should also include sufficient involvement of an internal audit function to provide those charged with governance assurance about the effectiveness of governance and internal controls.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

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

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

What we don't report

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

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

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

The scope of our work

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

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

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

Deloitte LLP

Deloitte LLP

St Albans

8 November 2023

Appendices

Prior Year Findings

In our 2020 final audit report, we noted the following significant issues. Within these slides, we have provided an update on the status of these matters following our 2021 audit.

Finding	2020/21 Status
A material error of £31.5m in the value of alternative funds arising from the absence of a controls to determine the valuation of stale price funds and to update the financial statements if new information came to light. We recommended that the Fund ensures controls within the financial reporting process are implemented such that the best estimate of the fair value of investments is used and that material changes to the investment balances are reflected in the financial statements.	We note that this finding was still present in the 2020/21 audit year and therefore we have raised this as a control finding on page 8 of this report.
In our final report on the 2019 audit, we recommended that the Authority ensures that the longevity swap valuations provided by the actuary are reviewed and that the assumptions are understood and agreed before inclusion in the financial statements. Procedures performed during our 2020 audit revealed that, while the longevity swap valuation had been discussed with Barnett Waddingham, there was no formal control design documented and no recorded evidence of implementation of the control. We recommended that evidence of this review and assessment is clearly documented.	We note that a control was implemented by management in 2020/21 in response to this finding. Deloitte have tested the design and implementation of this new control in the year with no issues noted.
We noted that administration system super-users have the access rights to edit their own member records and those of each other. Whilst any editing of the system can be reviewed, there is no formal review of this editing activity and no evidence was available of any other mitigating controls. We recommended that the IT system is updated to prevent super-users from editing their own records, that any editing of each other's records is checked by a third person, and that an annual review of the system audit report is conducted to ensure that this control is being implemented and evidenced.	We note that a control was implemented by management in 2020/21 in response to this finding. Deloitte have tested the design and implementation of this new control in the year with no issues noted.

Prior Year Findings (continued)

Finding	Status
The Fund made an overnight loan to the Authority on the 27 June 2019 of £1.2m. The amount was returned to the Fund in full on 28 June 2019. We recommended that the Fund does not enter into similar transactions in the future, at least not without appropriate consideration by those charged with governance and a breach has been reported to the Pensions Regulator.	We note that we have not identified any such transactions across our 2020/21 audit. This breach was reported to the Pensions Regulator in line with expectations and no further issues are noted to date.
The design of the control for review of the financial statements did not include checking the draft statements to the underlying workings, nor was there evidence of formal review of this. We recommended that the design of the financial statement review control is amended to include checking to underlying working papers, the completion of a full CIPFA checklist, and is communicated clearly to all those involved in the preparation and review process.	We note that this finding was still present in the 2020/21 audit year and therefore we have raised this as a control finding on page 9 of this report.
The design of the control for review of journal postings did not include a formal description of the review process. There was no clear evidence available that a review took place through testing performed. We recommended that the design of the journal posting review control is amended to include a well defined scope. We also recommended that this amendment is communicated clearly to all those involved in the preparation and review process, and takes place in a timely manner before journals are posted to the accounting system.	We note that this finding was still present in the 2020/21 audit year and therefore we have raised this as a control finding on page 9 of this report.

Audit adjustments

Uncorrected misstatements

No adjustment has been made to the IAS 26 disclosure of the Fund's liability in light of the Goodwin case. We estimate the value of the disclosure misstatement to be approximately £5m (0.1% of the total liability).

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

Corrected misstatements

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

		Debit/ (credit) Fund account £m	Debit/ (credit) in Net asset statement £m	If applicable, control deficiency identified
Misstatements identified in current year				
Understatement of investments from stale priced alternative funds	(1)	(48.1)	48.1	Yes
Understatement of longevity liability position	(2)	2.0	(2.0)	Yes
Total		**(46.1)**	**46.1**	

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

(2) The longevity swap was initially included in the draft financial statements at (£131m). The actuary's revised valuation received during the audit showed a final value of (£133m). An adjustment was posted to correct this misstatement in the final financial statements.

Audit adjustments (continued)
Disclosures

Disclosure misstatements

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

Disclosure
Insufficient Disclosure of Transaction Costs On review of the Transaction Cost disclosure in note 11a of the financial statements we noted that these expenses had not been sufficiently split between the investment asset classes they arose against. **Inappropriate Fair Value Hierarchy Allocation** On review of the Fair Value Hierarchy disclosure in note 16a of the financial statements we noted that five pooled funds and some forward foreign exchange contracts had been incorrectly classified as level 1 holdings. See page 13 of our report for more details. **Insufficient Disclosure of Management Renumeration** On review of the Related Party Transactions disclosure in note 24 of the financial statements we noted that total renumeration paid to key management personnel in the year was not disclosed. All of the above matters were communicated to management and the changes have been made in full.

Fraud responsibilities and representations

Responsibilities explained

Responsibilities:

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

Required representations:

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

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

Audit work performed:

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

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

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

Independence and fees

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

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Fund.
Audit fees	The audit scale fee for the year ended 31 March 2021 is £19,120 however this is subject to change. Now that the audit is largely complete, we will discuss and agree the additional costs on the audit with Officers and Public Sector Audit Appointments Limited. Our fees for issuing IAS 19 assurance letters to other auditors in respect of participating employers are not included in the above audit fee. We have charged a fee of £2,650 per letter for any requests received to date in respect of scheduled bodies, which totals £10,600 for the 2021 audit. Additionally, we have charged £5,500 for a bespoke request in respect of an admitted body. This fee will increase should we need to issue another set of letters. The above fees exclude VAT and include out of pocket expenses.
Non-audit fees	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Fund's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Independence monitoring	We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We have no other relationships with the Fund, its members, officers and affiliates. We have not supplied any services to other known connected parties.
Ethical Standard 2019	The FRC has released the Ethical Standard 2019. The standard classes pension schemes as 'other entities of public interest ' where assets are greater than £1bn and there are more than 10,000 members. As a result, non-audit services will be limited primarily to reporting accountant work, audit related and other regulatory and assurance services. All other advisory services to these entities, their UK parents and world-wide subs will be prohibited.