Report to the Audit, Governance and Standards Committee

ESSEX PENSION FUND

Audit Completion Report: Year ended 31 March 2019

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WELCOME

Introduction

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We have pleasure in presenting our Audit Completion Report to the Audit, Governance and Standards Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2019, specific audit findings and areas requiring further discussion and/or the attention of the Audit, Governance and Standards Committee. At the completion stage of the audit it is essential that we engage with the Audit, Governance and Standards Committee on the results of our audit of the financial statements comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit, Governance and Standards Committee meeting and to receiving your input.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

We would also like to take this opportunity to thank the management and staff of the Pension Fund for the co-operation and assistance provided during the audit.

David Eagles, Partner
For and on behalf of BDO LLP
18 July 2019

David Eagles
Partner

t: +44(0)1473 320728
m: +44(0)7967 203431
e: David.Eagles@bdo.co.uk

Nuwan Indika
Audit Manager

t: +44(0)1473 320807
m: +44(0)7966 243886
e: Nuwan.Indika@bdo.co.uk

Vusal Asgarov
Audit senior

t: +44(0)1473 320878
m: +44(0)7583 037138
e: Vusal.Asgarov@bdo.co.uk

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. This report has been prepared solely for the use of the Audit, Governance and Standards Committee and those charged with governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

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This summary provides an overview of the audit matters that we believe are important to the Audit, Governance and Standards Committee in reviewing the results of the audit of the financial statements of the Pension Fund for the year ended 31 March 2019.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

Overview

Our audit work is substantially complete and subject to the successful resolution of outstanding matters, we anticipate issuing our opinion on the financial statements for the year ended 31 March 2019 in line with the agreed timetable.

Outstanding matters are listed in the appendices.

There were no significant changes to the planned audit approach and no additional significant audit risks have been identified.

No restrictions were placed on our work.

Audit report

We anticipate issuing an unmodified audit opinion on the financial statements.

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Final materiality

Final materiality was determined based on 1% of net assets. Specific materiality (at a lower level) was set for the fund account balances and this was based on 5% of total contributions receivable.

Following receipt of the draft financial statements for audit we updated the materiality figures. This increased the materiality from £65m to £70m. Specific materiality for Fund Account was decreased from £13.8m to £12.0m.

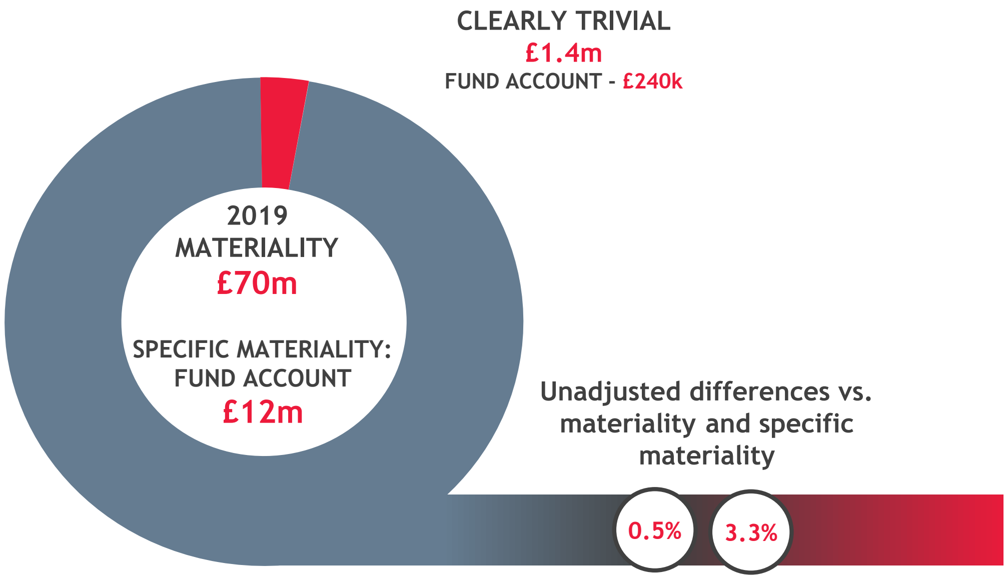
Material misstatements

We did not identify any material misstatements.

Unadjusted audit differences

We identified one audit adjustment that, if posted, would increase the 'Net increase in the assets available for benefits during the year' in the Fund Account and increase 'Net assets of the scheme available to fund benefits' in the Net Asset Statement by £394k.

The above audit adjustment is below the overall triviality applied to the Net Assets Statement, but above the specific triviality applied to the Fund Account.



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Financial reporting

- We have not identified any non-compliance with accounting policies or the applicable accounting framework.
- No significant accounting policy changes have been identified impacting the current year.
- Going concern disclosures are deemed sufficient.
- We are yet to receive the pension fund annual report. Upon receipt of the annual report we will read this to ensure that the information included in the annual report is consistent with the financial statements and our knowledge acquired in the course of the audit.

Other matters that require discussion or confirmation

- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation.

Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Pension Fund in accordance with the Financial Reporting Council's Ethical Standard.

AUDIT RISKS OVERVIEW

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As identified in our Audit Plan dated 13 March 2019, we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant Management Estimates or Judgement	Use of Experts Required	Error Identified	Significant Control Findings	Discussion points / Letter of Representation
Management override of controls	Significant	Yes	No	No	No	No
Valuation of investments (unquoted and direct property investments)	Significant	Yes	No	Yes, unadjusted	No	No
Pension liability valuation	Significant	Yes	Yes	No	No	Yes - impact of GMP and McCloud on whole fund liability
Valuation of investments (pooled investments)	Normal	No	No	No	No	No
Contributions receivable	Normal	No	No	No	No	No
Classification of financial instruments (IFRS 9)	Normal	No	No	No	No	No

Areas requiring your attention

MANAGEMENT OVERRIDE OF CONTROLS

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ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud.

- **Significant risk**
- **Normal risk**
- **Significant management judgement**
- **Use of experts**
- **Unadjusted error**
- **Adjusted error**
- **Additional disclosure required**
- **Significant Control Findings**
- **Letter of Representation point**

Risk description

ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements requires us to presume that the risk of management override of controls is present and significant in all entities.

Work performed

We carried out the following planned audit procedures:

- Determined key risk characteristics to filter the population of journals, using our IT team to assist with the journal extraction.
- Using our data analytics software BDO Advantage, reviewed and verified large and unusual journal entries made in the year and agreed the journals to supporting documentation.
- Reviewed accounting estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias.
- Reviewed for any significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual to obtain an understanding of the business rationale of any such transactions.
- Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.

Results and conclusions

From the work completed we have identified no evidence of systematic bias or management override in the processing of journals entries and other adjustments, or making of significant accounting estimates.

We have not identified any unusual transactions or transactions that are outside the normal course of business for the Pension Fund.

VALUATION OF INVESTMENTS (UNQUOTED AND DIRECT PROPERTY INVESTMENTS)

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There is a risk that unquoted and direct property investments are not appropriately valued in the financial statements.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	■
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	■

Risk description

The investment portfolio includes unquoted private equity, debt, infrastructure and timberlands which are valued by the fund managers. The pension fund also makes direct investments in freehold and leasehold properties which are based on valuations received from the fund managers. The valuation of these assets may be subject to a significant level of assumption and estimation, and valuations may not be based on observable market data. Due to significance of these valuations, even a small change in assumptions and estimates could have a material impact on the financial statements.

In some cases, the valuations are provided at dates that are not coterminous with the pension fund's year end and need to be updated to reflect cash transactions (additional contributions or distributions received) since the latest available valuations. Due to current market volatility the valuation received can quickly become outdated.

As a result, we considered there to be a significant risk that investments are not appropriately valued in the financial statements.

Work performed

We carried out the following planned audit procedures:

- Obtained direct confirmation of investment valuations from the fund managers and request copies of the audited financial statements (and member allocations) from the fund;
- Reviewed the valuation completed by the fund manager and any significant assumptions made in the valuation;
- Where the financial statement date supporting the valuation is not coterminous with the pension fund's year end, we confirmed that appropriate adjustments have been made to the valuations in respect of additional contributions and distributions with the funds; and
- Ensured investments have been correctly valued in accordance with the relevant accounting policies.

Results and conclusions

The direct confirmations obtained from fund managers identified that the valuation of private equity and property investments have overstated by non material amounts of £8.9m and £1.4m respectively. The investment valuations for timberlands and infrastructure have understated by £6.6m and £3.8m respectively. These variances are due to the fact that some investment reports used during the preparation of financial statements were not coterminous with the year-end date and therefore estimates were made. The net difference of the above misstatements along with other non material differences identified amounting to £0.4m, which was included within the uncorrected misstatements schedule for the impact of change in market value in the Fund Account.

For investments in private equity, illiquid debt, infrastructure and timberlands, we obtained audited financial statements of the underlying investee funds, and valuations were recalculated by adjusting the additional contributions and distributions where relevant. This identified that the valuation of private equity being overstated by an extrapolated value of £6.5m and investment in infrastructure being overstated by £1.8m. These amounts were offset by the understatement of valuations in investment in timber and illiquid debts by £6.5m and £1.6m respectively, giving a net difference of £0.2m. Therefore, we are satisfied that the valuation of unquoted investments in the Net Assets Statements is reasonable.

The direct investment properties held by the pension fund have been revalued by external professional valuers Knight Frank LLP. We are satisfied with the skills and expertise of the valuer and concluded that we can rely on the management expert. Overall valuation of investment properties has increased by approx. 3.5% during the year to £383m. Although, this is higher than the increase in MSCI sector capital value index by 1% during the year, overall movement in valuation is well within out materiality of £70m. We are therefore satisfied that the valuation of direct properties held by the Pension Fund is reasonable.

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There is a risk that the membership data and cash flows provided to the actuary in the roll-forward valuation may not be correct, or the valuation uses inappropriate assumptions to value the liability.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	■

Risk description

An actuarial estimate of the pension fund liability to pay future pensions (referred to in the notes to the financial statements as the "actuarial present value of promised retirement benefits") is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on a roll-forward of data from the 2016 triennial valuation, updated where necessary, and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.

Following a ruling on gender discrimination on a Lloyds case, the courts found that UK defined benefit schemes must equalise Guaranteed Minimum Pensions (GMP). Actuaries estimate that this could result in an increase in pension liabilities by up to 0.5% (not material) but are not expected to include this in the 31 March 2019 valuation as Government has extended the 'interim solution' from December 2018 through to April 2021 to potentially fund this through an alternative long-term methodology known as 'conversion'.

Following the ruling on age discrimination on the McCloud case, where members approaching retirement age received protected benefits moving to the career average relevant earnings scheme from the final salary scheme, Government will have to remedy the discrimination in the LGPS.

There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.

Work performed

We carried out the following planned audit procedures:

- Agreed the disclosures to the information provided by the pension fund actuary;
- Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data;
- Reviewed the controls for providing accurate membership data to the actuary; and
- Checked whether any significant changes in membership data have been communicated to the actuary.
- Discussed with the actuary how the impact of the GMP gender discrimination and McCloud age discrimination judgements have been taken into account in the liability assumptions at 31 March 2019.

PENSION LIABILITY VALUATION
Continued

(Continued)

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	■

Results and conclusions

We have agreed the disclosures in Note 15 to the pension Fund financial statements to the information provided by the actuary and have identified no issues.

Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations is noted in the following page.

Our review of the controls to ensure data provided to the actuary for the roll forward valuation at 31 March 2019 is complete and accurate did not identify any issues. We identified differences in the cashflow information sent to the actuary as at month 11 plus one month estimates to the actual figures for the year, but we did not consider these to be significant differences that would materially impact on the liability valuation.

In respect of the McCloud judgement, the Pension Fund has requested an updated valuation of the whole fund liability to take account of the impact of this ruling. An updated actuary report was now received by the Pension Fund which shows the estimated impact on total liabilities as at 31 March 2019 from McCloud judgement to be £79.3m. This represents 0.8% of the total liabilities as at 31 March 2019. The Government Actuary Department (GAD) has undertaken an LGPS-wide impact assessment and a worse case scenario suggests that the liability could increase by up to 3.2% for active members where the fund has an average age of 46 and salaries increase at +1.5% above CPI. The estimate prepared by the actuary Barnett Waddingham has used the analysis prepared by GAD and is based on the assumption that salaries are assumed to increase at 1.5% p.a. above CPI in addition to a promotional scale. However, the actuary has allowed for a short-term overlay from 31 March 2016 to 31 March 2020 for salaries to rise in line with CPI. The assumptions used by the actuary in estimating the impact of McCloud judgement are considered to be reasonable and in line with the GAD review.

In respect of GMP gender equalisation, the Government's interim solution, originally in place from 2016 to 2018, has been extended to 2021 to find time to agree whether the LPGS or Government should fund these additional costs. Actuaries have not been treating these costs consistently on triennial and balance sheet valuations. We note that Barnett Waddingham has made an allowance for GMP costs in its calculation of fund liabilities and the actuary report states that the valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, the actuary has assumed that the Fund will be required to pay the entire inflationary increase. These assumptions are considered to be reasonable and in line with our expected accounting treatment for additional liability.

PENSION LIABILITY VALUATION
Continued

Significant accounting estimates/judgements: pension liability

Overview

The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows.

Changes in 2018/19 (before adjustments for McCloud)

The actuarial valuation of future benefits has increased from £9,447 million to £9,725 million.

Changes in assumptions that have increased the liability include an increase CPI and future pension increases (from 2.3% to 2.4%), increases in salaries (from 3.8% to 3.9%), and a reduction to the discount rate (from 2.55% to 2.4%). Mortality assumptions have reduced by approx. 1.3 years. This has resulted in a decrease in the liabilities from these actuarial assumptions of £543 million.

Discussion

The pension liability to pay future pensions has increased by £278 million to £9,725 million at 31 March 2019.

We compared the assumptions and estimates used by the actuary with the expected ranges provided by the independent consulting actuary.

	Actual	Expected / range	Comments
RPI increase	3.4%	3.40% - 3.45%	Reasonable
CPI increase	2.4%	2.40% - 2.45%	Reasonable
Salary increase	3.9%	--	Reasonable (derived from RPI assumptions)
Pension increase	2.4%	2.40% - 2.45%	Reasonable
Discount rate	2.4%	2.35% - 2.45%	Reasonable
Mortality - LGPS:			
- Male current	21.3 years	22.2 - 25.0	Lower than bottom end of range
- Female current	23.6 years	25.0 - 26.6	Lower than bottom end of range
- Male retired	22.9 years	20.6 - 23.4	Reasonable
- Female retired	25.4 years	23.2 - 24.8	higher than top end of range
Commutation:			
- Pre 2008	50%	50%	Reasonable
- Post 2008	50%	50%	Reasonable

3 out of 4 mortality assumptions are outside the expected range based on national data. However, the actuary uses an analysis based on local data which takes into account postcode variations that confirms the mortality data used.

We are satisfied that the assumptions used are not unreasonable or outside of the expected ranges. We have included specific representations that management confirm that the assumptions used reflect their understanding of the future expectations of the scheme.

Impact

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VALUATION OF POOLED INVESTMENTS

There is a risk that unquoted and direct property investments are not appropriately valued in the financial statements.

Significant risk	
Normal risk	■
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

The fair value of funds (principally pooled investments) is provided by individual fund managers and reviewed by the Custodian (Northern Trust). These valuation are reported on a quarterly basis although there may be amendments to the 'flash' valuations initially provided and subsequent final valuations that may be received after the draft accounts have been prepared.

There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements.

Work performed

We carried out the following planned audit procedures:

- Obtained direct confirmation of investment valuations from the fund managers including any subsequent final valuations to 'flash' valuations in the draft accounts;
- Ensured that investments have been correctly valued in accordance with the relevant accounting policies; and
- Obtained independent assurance reports over the controls operated by both the fund managers and custodian for valuations and existence of underlying investments in the funds.

Results and conclusions

The investment valuations included in the financial statements for pooled investments were agreed to the valuations provided by the fund managers with trivial variances.

We obtained independent assurance reports for each fund manager and the custodian and these did not reveal any issues with the effectiveness of controls operated by fund managers and custodian for valuations and existence of underlying investments in the funds. The assurance report for one of the fund managers had a qualification in respect of change management and logical access controls. Whilst we have not identified any control issues affecting the valuation and existence of investments managed by the fund manager in question, we agreed investment managed by the fund manager to independent market prices and confirmed that the valuations are accurate.

Where the assurance reports obtained are not coterminous with pension fund year end we obtained bridging letters confirming the satisfactory operation of controls within the fund managers and the custodian.

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There is a risk that employers may not be calculating contributions correctly or the pension fund does correctly charge costs arising on pension strain for early retirements and augmented pensions.

Significant risk	
Normal risk	■
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

Employers are required to deduct amounts from employee pensionable pay based on tiered pay rates and to make employer normal and deficit contributions in accordance with rates agreed with the actuary.

Additional contributions are also required against pension strain for unreduced pensions for early retirements and augmentation of pensions.

There is a risk that employers may not be calculating contributions correctly, paying over the full amount due to the pension fund.

Work performed

We carried out the following planned audit procedures:

- Tested a sample of normal contributions due (and additional deficit contributions where included in a higher employer rate) for active members including checking to employer payroll records;
- Reviewed contributions receivable and ensured that income is recognised in the correct accounting period where the employer is making payments in the following month; and
- Carried out audit procedures to review contributions income in accordance with the Actuary's Rates and Adjustments Certificate, including specified increased rates to cover the minimum contributions to be paid as set out in the Certificate.

Results and conclusions

We carried out analytical procedures to establish expected normal and deficit contributions to be receivable during the year. Our analytical procedures used the prior year amounts received and these were adjusted for the known and expected changes during the year such as the change in membership, contribution rates and the deficit contributions set out in the actuary report. This produced expected normal and deficit contributions which were within our tolerable threshold.

We also substantively tested normal contributions for active members by agreeing a sample of contributions to payroll records and to the employer returns received. For a sample of active members we recalculated the employee and employer contributions by the relevant rates and confirmed the accuracy of calculations. We identified no issues from the testing.

For deficit contributions, we agreed a sample to the Actuary's report and identified no issues.

We also reviewed monthly contributions received from employers and ensured that these have been recognised in the correct financial year.

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CLASSIFICATION OF FINANCIAL INSTRUMENTS (IFRS 9)

There is a risk that financial instruments are not classified and measured in accordance with new financial reporting standard.

Significant risk
Normal risk
Significant management judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant Control Findings
Letter of Representation point

Risk description

IFRS 9 financial instruments has been implemented for 2018/19 and requires all relevant financial instrument assets (principally investments and receivables) and liabilities (principally payables) to be categorised under new criteria based on their business model and contractual cash flows that will determine their classification and basis of valuation.

The pension fund has short term receivables and will be required to calculate an expected credit loss on the receivables, rather than the previous model based on incurred losses.

There is a risk that financial instruments are not classified and measured in accordance with IFRS 9 and the new disclosures required by these new standards are omitted.

Work performed

We carried out the following planned audit procedures:

- Reviewed the work performed by the pension fund to assess the impact of IFRS 9 on the financial statements; and
- Reviewed the disclosures required relating to the adoption of the new accounting standard.

Results and conclusions

As investment assets in the pension fund are already carried at fair value through profit and loss (FVTPL), this was not required a reclassification within the financial assets.

Some receivables carried at amortised cost would require an expected credit loss impairment (ELC) review. This is not required for contributions due from other local authorities and Government bodies as the Code states that these cannot have credit impairments. Therefore, this was impacted only on receivables for non-government admitted and scheduled bodies contributions due. We reviewed the working papers prepared by management and confirmed that the ECL model has been correctly applied and the impact is not material.

We are satisfied that the overall impact of IFRS 9 on the pension fund financial statements is not material. Sufficient level of disclosures has been given within the financial statements concerning the impact of IFRS 9.

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The following are additional significant and other matters arising during the audit which we want to bring to your attention.

Issue	Comment
Accuracy of membership data: Our audit work identified that currently there are approximately 22,000 unconfirmed leavers whose status is to be confirmed as a leaver or deferred pensioner. The total number of unconfirmed leavers for the administering authority Essex County Council (ECC) is approximately 10,000. Within the membership disclosure note, these unconfirmed leavers have been included as deferred pensioners. Our membership data substantive testing identified 1 member who appeared to be unconfirmed leavers in the system, but the notification of leaving form has been received from the employer and a deferred benefit letter has been sent by the pension fund to the member. It was noted that even though the notification of leaving was received, the pension fund has queried some issues on the notification for which no responses had been received.	The Essex Pension Fund currently has approximately 169,000 members. The total number of unconfirmed leavers represents approximately 13% of the total membership and therefore constitutes a significant proportion. Form discussion with management we understand that unconfirmed leavers on the system is due to the pension fund waiting for information from the employer and/or from the member themselves, and therefore these leavers cannot be processed on the system. Unconfirmed leavers in respect of the County Council (ECC) is due to ECC being unable to send official leaver details automatically for approximately 4 years after they changed the payroll system. The ECC is now able to provide this information and are currently working through the backlog. From discussions with the actuary, we noted that the actuary does not obtain membership data from the pension fund for the roll forward valuations, but instead adjusts the membership data based on cash flow information. Within the year end data submission return the pension fund reports any significant movements in membership data, which typically arise from bulk transfers and major redundancy programmes. Therefore, the existence of unconfirmed leavers will have no significant impact on the calculation of pension figures as these leavers would have been reflected through the changes in cash flow data. We also expect that the actuary will adjust the membership data to reflect these leavers during the triennial valuation which is currently undergoing. Nevertheless we consider the above matter to be a significant matter to be reported to the Audit, Governance and Standards Committee.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

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Fraud

Whilst the directors have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Plan on 25 March 2019.

Laws and regulations

We have made enquiries of management regarding compliance with laws and regulations and reviewed correspondence with the relevant authorities. We consider pension regulations to be the most relevant for your business.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

Internal audit

We reviewed the audit work of the Pension Fund's internal audit function to assist our risk scoping at the planning stage.

Related parties

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud.

We did not identify any significant matters in connection with related parties.

UNADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

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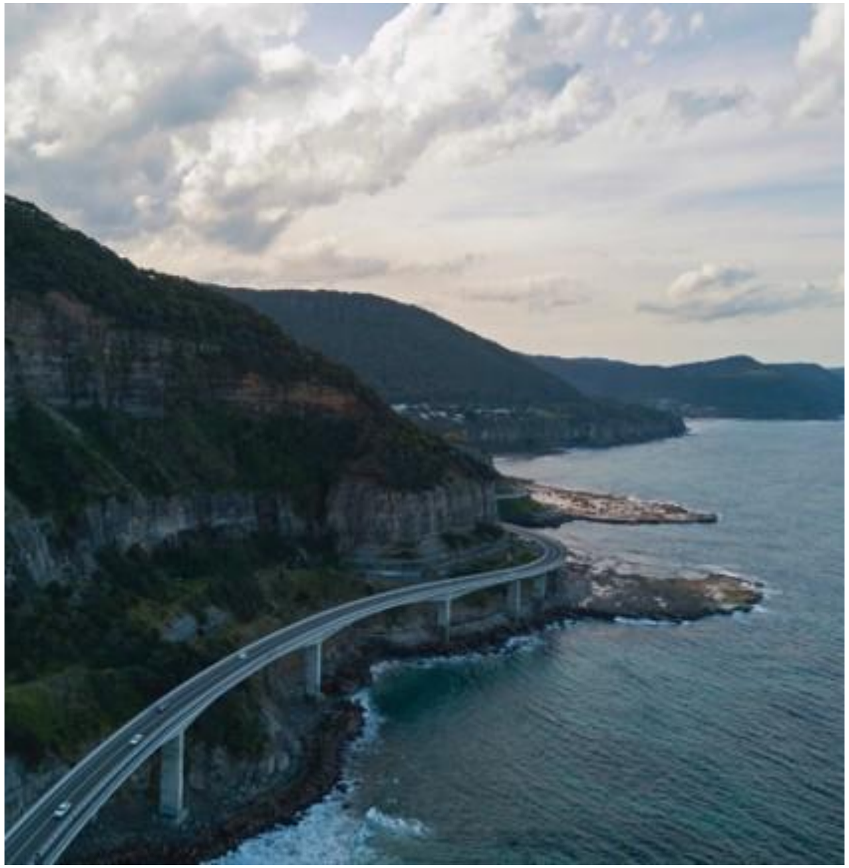

We are required to bring to your attention unadjusted differences and we request that you correct them.

There is one unadjusted audit difference identified by our audit work which would increase the 'Net increase in the assets available for benefits during the year' in the Fund Account and increase 'Net assets of the scheme available to fund benefits' in the Net Asset Statement by £394k if adjusted.

The above audit adjustment is below the overall triviality applied to the Net Assets Statement of £1.4m, but above the specific triviality applied to the Fund Account of £240k.

You consider the differences to be immaterial in the context of the financial statements as a whole.

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UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Fund Account			Net Assets Statement	
Unadjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Net increase in the assets available for benefits during the year	508,466				
1: The difference between the investment valuation per draft accounts and fund manager confirmations					
DR Investment - timber				6,560	
DR Investment - infrastructure				3,298	
DR Investment – private debt				1,122	
CR Investments – private equity					8,911
CR Investments – property					1,409
CR Investments – equity					266
CR Changes in market value of investments			394		
Total unadjusted audit differences	**394**		**394**	**10,980**	**10,586**
Net increase in the assets available for benefits during the year if above issues adjusted	508,860				

UNADJUSTED AUDIT DIFFERENCES: DETAIL (CONTINUED)

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Impact on the Net Assets of the scheme available to fund benefits	Net Assets £'000
Balance before unadjusted audit differences	7,027,288
Adjustments identified above	394
Balance after unadjusted audit differences	7,027,682

REPORTING ON OTHER INFORMATION

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We comment below on other reporting required to be considered in arriving at the final content of our audit report:

Matter	Comment
We are required to report on whether the financial and non-financial information in the Pension Fund Annual Report is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	We are yet to receive the pension fund Annual Report. Upon receipt of the Annual Report we will read this to ensure that the information included in the Annual Report is consistent with the financial statements and our knowledge acquired in the course of the audit.

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We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Audit, Governance and Standards Committee.

As the purpose of the audit is for us to express an opinion on the Pension Fund's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

We have not identified any significant deficiencies.

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OTHER DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Payment of lump sum retirement grant and transfers out	Within our testing for payment of lump sum retirement grants we identified that currently the pension fund does not independently review and approve the retirement grant payment schedule forms. We also noted that the payment of cash equivalent transfer forms are also not subject to independent review and approval before the payments are made. Non authorisation of these forms could result in fraudulent payments being made.	We recommend that appropriate controls are designed and implemented to ensure that the payments made are subject to independent review and approval before the payments are made.	The UPM system used by the Pension Fund to make these payments follows a multi-step procedure which requires a separate processer and authoriser. We believe this audit comment stems from sight of the batch schedule after processing but prior to authorising. This UPM system captures and records a complete digital audit trail, and the Fund's approach to processing these payments was approved by internal audit and the Fund's previous external auditors.

OVERVIEW

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Opinion on financial statements

We anticipate issuing an unmodified opinion on the financial statements.

There are no matters that we wish to draw attention to by way of 'emphasis of matter'.

Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting of the Pension Fund's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

There are no material uncertainties in relation to going concern disclosed in the financial statements of which we are aware that we need to draw attention to in our report.

Other information

We are yet to receive the pension fund annual report. Upon receipt of the annual report we will read this to ensure that the information included in the annual report is consistent with the financial statements and our knowledge acquired in the course of the audit.

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Under ISAs (UK) and the FRC's Ethical Standard we are required, as auditors, to confirm our independence.

Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2019.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Plan.

We have not identified any relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Pension Fund.

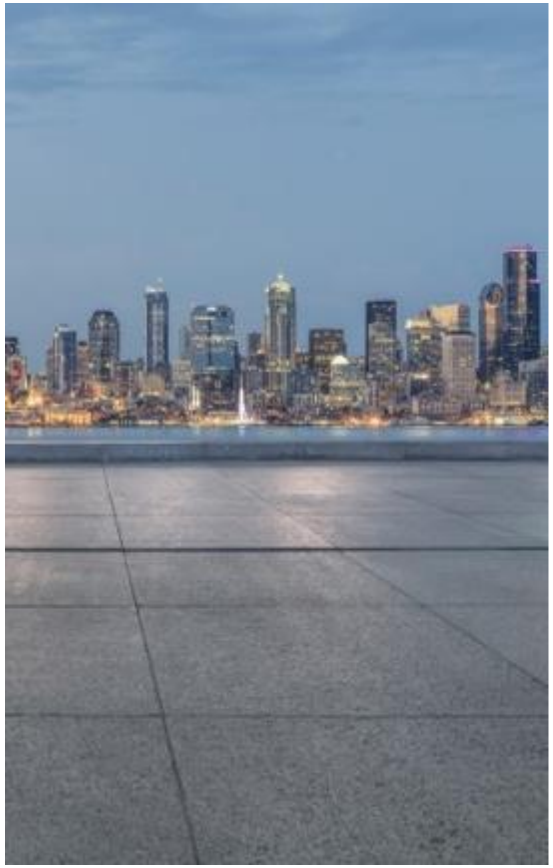
We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Pension Fund.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

FEES

Fees summary	2018/19 Actual £	2018/19 Planned £	2017/18 Actual £
Audit fee			
Code audit fee: financial statements	24,075	24,075	31,266
Other fees under PSAA arrangements			
Additional fee for IAS19 assurance requests from scheduled bodies	[(1)] 5,500	5,500	5,500
Total fees	**29,575**	**29,575**	**36,766**

[(1)] We anticipate charging an additional fee of £5,500 in 2018/19 to take into account the additional work required to respond to IAS 19 assurance requests from scheduled bodies. This is consistent with the additional fee charged in 2017/18.



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RESPONSIBILITIES AND REPORTING

Responsibilities and reporting

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Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your financial statements. We report our opinion on the financial statements to the members of the Council.

We read and consider the ‘other information’ contained in the Pension Fund Annual report. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

What we don’t report

Our audit is not designed to identify all matters that may be relevant to the Audit, Governance and Standards Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

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	Issue	Comments
1	Significant difficulties encountered during the audit.	No exceptions to note.
2	Written representations which we seek.	We enclose a copy of our draft representation letter.
3	Any fraud or suspected fraud issues.	No exceptions to note.
4	Any suspected non-compliance with laws or regulations.	No exceptions to note.
5	Significant matters in connection with related parties.	No exceptions to note.

COMMUNICATION AND REPORTS ISSUED

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Those Charged with Governance (TCWG)

References in this report to those charged with governance are to the Council as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit, Governance and Standards Committee.

Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Communication	Date (to be) communicated	To whom
Audit Plan	13 March 2019	Audit, Governance and Standards Committee
Audit completion report	29 July 2019	Audit, Governance and Standards Committee

OUTSTANDING MATTERS

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We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2019.

The following matters are outstanding at the date of this report and could impact our audit opinion. We will update you on their current status at the Audit, Governance and Standards Committee meeting at which this report is considered:

- Receipt of bank confirmation letter for HSBC deposit account
- Receipt of the pension fund annual report from management and our review thereon.
- Completion of partner, manager and quality control review of the audit file and clearance of review points.
- Technical clearance
- Subsequent events review
- Management letter of representation, as attached in Appendix D to be approved and signed

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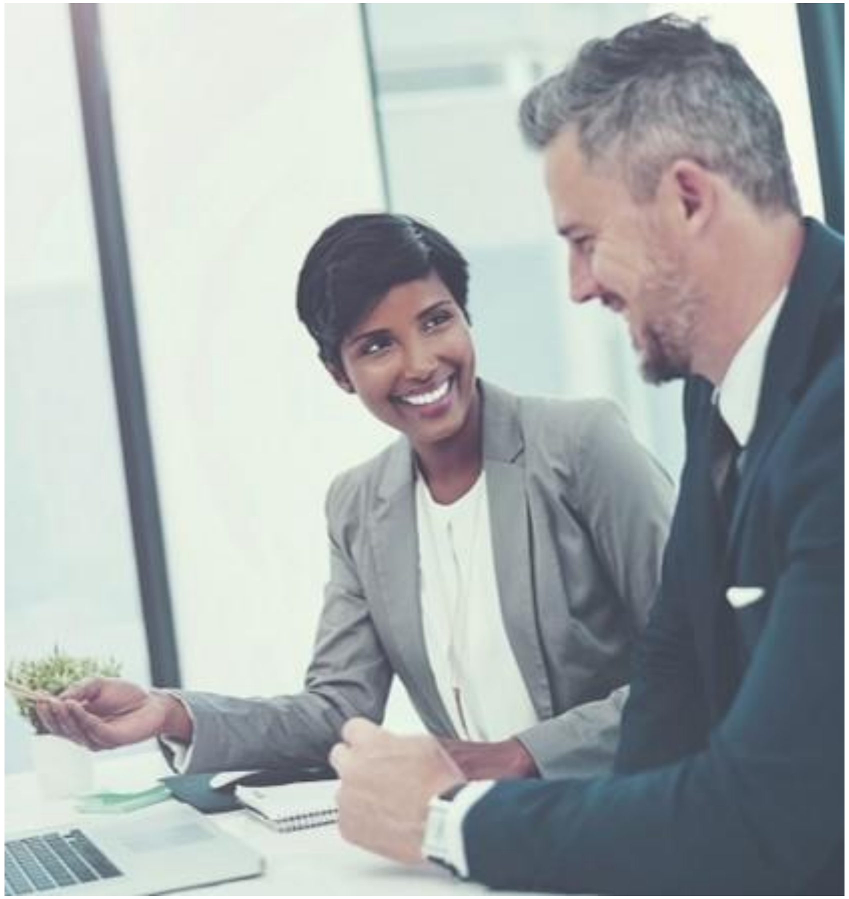

BDO is totally committed to audit quality

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at www.bdo.co.uk

Letter of representation

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[Client name and Letter headed paper]

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
IP3 9SJ

Dear Sirs

Financial statements of Essex Pension Fund for the year ended 31 March 2019

We confirm that the following representations given to you in connection with your audit of the Pension Fund's financial statements for the year ended 31 March 2019 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Executive Director for Corporate and Customer Services has fulfilled her responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2019 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Pension Fund, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Pension Fund's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control, to approve the Annual Report and Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records of the Pension Fund have been made available to you for the purpose of your audit and all the transactions undertaken by the Pension Fund have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of management and other meetings have been made available to you.

Going concern

We have made an assessment of the Pension Fund's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the Pension Fund is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis. Furthermore, we confirm that the disclosures included in note 1 to the financial statements are sufficient.

In making our assessment we did not consider there to be any material uncertainty 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.

Laws and regulations

In relation to those laws and regulations which provide the legal framework within which the Pension Fund's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

We have not made any reports to The Pensions Regulator nor are we aware of any such reports having been made by any of our advisers. We confirm that we are not aware of any matters which have arisen that would require a report to The Pensions Regulator. There have been no communications with the Pensions Regulator or other regulatory bodies during the year or subsequently covering areas of non-compliance with any legal duty.

Post balance sheet events

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

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Fraud and error

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

Misstatements

We attach a schedule showing uncorrected misstatements that you have identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

Related party transactions

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

Other than as disclosed in note 13 to the financial statements, there were no loans, transactions or arrangements between the Pension Fund and Council members or their connected persons at any time in the year which were required to be disclosed.

Carrying value and classification of assets and liabilities

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

Accounting estimates

The value at which investment assets are recorded in the net assets statement is the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuations, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the scheme. Any significant changes in those values since the year end date have been disclosed to you.

None of the assets of the scheme has been assigned, pledged or mortgaged.

The following key assumptions have been used to calculate the actuarial present value of future pension benefits disclosed in the financial statements:

- RPI increase 3.4%
- CPI increase 2.4%
- Salary increase 3.9%
- Pension increase 2.4%
- Discount rate 2.4%
- Mortality: Current pensioners - male 21.3 years and female 23.6 years / future pensioners - male 22.9 years and female 25.4 years
- Commutation: pre-April 2008 - 50% / post-April 2008 - 50%

We consider these assumptions to be appropriate for the purposes of estimating the pension liability in accordance with the Code and IAS 19 and IAS 26.

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Litigation and claims

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the requirements of accounting standards.

Confirmation

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

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director and member has taken all the steps that they ought to have taken as a director or member of the Council in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Margaret Lee

Executive Director for Corporate & Customer Services

S151 Officer, Essex CC & Essex Pension Fund

Date:

Cllr Terry Cutmore

Chairman of the Audit, Governance and Standards Committee

Date:

FOR MORE INFORMATION:

David Eagles
Partner

t: +44(0)1473 320728
m: +44(0)7967 203431
e: David.Eagles@bdo.co.uk

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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