

# Appendix 1



## The Audit Findings for Devon Pension Fund

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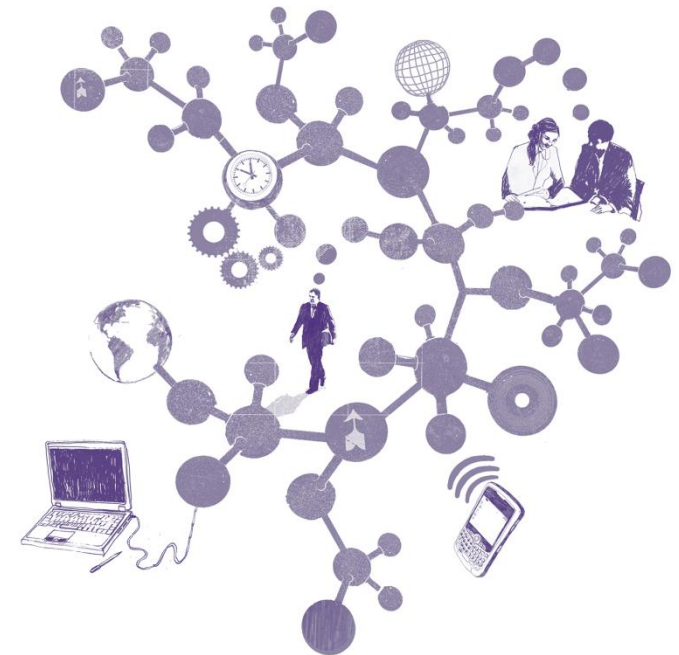
**Year ended 31 March 2015**

22 September 2015

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22 September 2015

Dear Members

### **Audit Findings for Devon Pension Fund for the year ending 31 March 2015**

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Devon Pension Fund, the Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents will be discussed with the Audit Committee.

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

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. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Elizabeth Cave, Director.

#### **Chartered Accountants**

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# Section 1: Executive summary

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# Executive summary

## **Purpose of this report**

This report highlights the key matters arising from our audit of Devon Pension Fund's (the Fund) financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Fund's financial statements present a true and fair view of the financial position and expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

## **Introduction**

We have made one change to our Audit Plan as previously communicated to you. This involved the re-classification of risk to the valuation of level 3 investments to a significant risk.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Our audit is substantially complete although we are finalising our work in the following areas:

- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- review of the Pension Fund annual report, and
- final senior management and quality reviews.

We cannot formally conclude the audit and issue an audit certificate until we have completed our review of the Pension Fund Annual Report. We will review the Annual Report on completion and then issue our report and certificate of completion or separate audit statement on the pension fund annual report together with our audit certificate.

## **Key issues arising from our audit**

### **Financial statements opinion**

We anticipate providing an unqualified opinion in respect of the Fund's financial statements.

The key messages arising from our audit of the Fund's financial statements are:

- the draft financial statements and the supporting working papers were prepared to a high standard.
- no significant issues have been identified and only some minor presentation and disclosure amendments have been made as a result of our audit

We have not identified any adjustments affecting the Fund's reported financial position. However, we have agreed with officers some minor adjustments to improve the presentation of the financial statements.

Further details are set out in section two of this report.

## **Controls**

### **Roles and responsibilities**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council as the administering authority.

### **Findings**

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section two of this report.

### **The way forward**

Matters arising from the financial statements audit have been discussed with the County Treasurer and the finance team.

## **Acknowledgment**

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

**Grant Thornton UK LLP**  
**September 2015**

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## Section 2: Audit findings

01. Executive summary

**02. Audit findings**

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04. Communication of audit matters

# Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 27 March 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

## **Changes to Audit Plan**

In the conduct of our audit we have made only one change our planned audit approach, which we communicated to you in our Audit Plan dated 27 March 2015. This was to re-classify the audit of the valuation of level 3 investments as a significant risk. We communicated this to the Treasurer in our updated plan dated 27th July 2015.

## **Audit opinion**

We provide two opinions on the Pension Fund, as follows:

- an audit opinion on the Pension Fund financial statements included in the Council's Statement of Accounts
- an opinion on the Pension Fund financial statements included in the Pension Fund Annual Report, which confirms if these financial statements are consistent with the financial statements in the Statement of Accounts

Our proposed audit opinion on the Pension Fund financial statements in the Statement of Accounts is set out in Appendix B.

We have recently received a final copy of the Fund's Annual Report. We will confirm the wording of our proposed opinion on the financial statements in the Annual Report on completion of our review of the Annual Report.



# Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>Improper revenue recognition</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>We rebutted this presumption during the interim phase of the audit, and this was communicated to members as part of the audit plan.</p>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journal entries</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

# Audit findings against significant risks continued

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p><b>Investment - Level 3</b>                      A level 3 investment is one where at least one input that could have a significant effect on the value of the investment is not based on observable market data. The most common example of which are investments in private equity, which are valued using various techniques.</p>	<ul style="list-style-type: none"> <li>• Walkthrough testing of investments completed confirms processes and controls operating satisfactorily.</li> <li>• For the two Level 3 Investments, we tested valuations by obtaining and reviewing audited accounts at the latest date for individual investments and agreeing these to the fund manager reports at that date. We reconciled those values to the values at 31st March 2015 with reference to known movements in the intervening period.</li> <li>• The existence of investments were confirmed directly with independent custodians.</li> <li>• We reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risks identified.</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Investment Income</b></p>	<p>Investment activity not valid</p>	<p>We have undertaken the following work in relation to these risks:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• reviewed the reconciliation of information provided by the fund manager, the custodian and the Pension Funds own records</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risks identified</p>
<p><b>Investments – Level 2</b></p> <p><b>Level 2 investments are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.</b></p>	<p>Fair value measurement is not correct</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• reviewed the reconciliation of information provided by the fund manager, the custodian and the Pension Funds own records</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified</p>

# Audit findings against other risks continued




Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Scheme Contributions</b>	Recorded contributions not correct.	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• tested key controls</li> <li>• reviewed contributions received with reference tip changes in number of staff and pay</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified
<b>Member data</b>	Member data is not correct	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• tested key controls</li> <li>• tested a sample of member data to supporting documentation</li> <li>• agreed the figures included in the accounts to supporting documentation</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.

## Audit findings against other risks continued


Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Benefits payable</b></p>	<p>Benefits improperly calculated/claims liability understated</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• tested key controls</li> <li>• tested a sample of benefit payment to ensure that they are reasonable.</li> <li>• tested a sample of retirement grants to supporting documentation</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

# Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	Contributions are accounted for on an accruals basis, not simply when cash payments are made or received.	We have no issues to report over the: <ul style="list-style-type: none"> <li>• Appropriateness of the policy relating to contributions</li> <li>• Adequacy of disclosure of accounting policy.</li> </ul>	
<b>Estimates and judgements</b>	Management have disclosed their accounting policy, and disclosed key estimates and judgements around: <ul style="list-style-type: none"> <li>– Asset Valuations</li> <li>– Pension Fund Liability</li> </ul>	We have no issues to report over the: <ul style="list-style-type: none"> <li>• Appropriateness of policies under relevant accounting framework</li> <li>• Extent of judgements involved</li> <li>• Adequacy of disclosure of accounting policies</li> </ul>	
<b>Other accounting policies</b>	We have reviewed the Committee's policies against the requirements of the CIPFA Code and accounting standards.	We have no issues to report over the: <ul style="list-style-type: none"> <li>• Appropriateness of the accounting policies disclosed</li> <li>• Adequacy of disclosure of accounting policy</li> </ul>	

## Assessment

 Marginal accounting policy which could potentially attract attention from regulators

 Accounting policy appropriate and disclosures sufficient

 Accounting policy appropriate but scope for improved disclosure

# Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit Committee and been made aware of any reporting . We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Fund</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed</li> </ul>
6.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We obtained direct confirmations from Aviva, Aberdeen Asset Management, State Street, UBS and Lazard for investment balances and requested from management permission to send confirmation requests to Barclays for bank and investment balances . This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.</li> </ul>
7.	<b>Going concern</b>	<ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.</li> </ul>

## Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our 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 control. We considered and walked through the internal controls for **investments, member data, benefits and contributions** as set out on page 10, 11 and 12 above.

The controls were found to be operating effectively and we have no matters to report to the Audit Committee.



# Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	Included in the Pension Fund for 2013/14 is £3,248K relating to death grants. There is a difference of up to £326K between the figure in the Altair database and the ledger for payments (DCDL). If a death occurs close to the beginning or end of the year then the liability in Altair could be recorded in a different year from the ledger.	<p>The Council regularly reconciles Altair to the ledger DCDL – with particular focus on transactions close to year end.</p> <p>This year our testing identified another difference between the Altair system and the ledger. Subsequent enquires showed that the difference had been previously identified by the administration team but not corrected. We are satisfied this is not a reconciliation issue but it would be better to correct errors when they are identified.</p>

**Assessment**

Action completed

X Not yet addressed

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## Section 3: Fees, non-audit services and independence

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# Fees, non-audit services and independence

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

## Fees

	Per Audit plan £	Actual fees £
Pension fund scale fee	28,603	28,603
Agreed fee variation	0	0
<b>Total audit fees</b>	<b>28,603</b>	<b>28,603</b>

## Independence and ethics

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

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

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## Section 4: Communication of audit matters

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**04. Communication of audit matters**

# Communication of audit matters to those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

	Audit Plan	Audit Findings
<b>Our communication plan</b>		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

# Appendices

# Appendix A: Audit opinion

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

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DEVON COUNTY COUNCIL**

We have audited the pension fund financial statements of Devon County Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The pension fund financial statements comprise the Pension Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of Devon County Council in accordance with Part II of the Audit Commission Act 1998, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010 and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Director of Strategic Resources and auditor**

As explained more fully in the Statement of Responsibilities, the County Treasurer is responsible for the preparation of the Authority's Statement of Accounts, which include the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

### **Scope of the audit of the pension fund financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information and the annual report to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on the pension fund financial statements**

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2015 and of the amount and disposition of the fund's assets and liabilities as at 31 March 2015, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

### **Opinion on other matters**

In our opinion, the information given in the annual report for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements

Elizabeth Cave  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor  
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September 2015:



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