

PENSION FUND ANNUAL REPORT AND ACCOUNTS 2019-20

Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

Recommendation: that the Pension Fund Annual Report and Accounts for 2019/20 be adopted, subject to completion of the external audit.

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### **1. Introduction**

- 1.1 The Pension Fund Annual Report, including the Statement of Accounts, is brought to the Committee each year for approval. The draft report for 2019/20 is enclosed.
- 1.2 The Pension Fund Accounts are due to have been considered, along with the County Council accounts by the Devon County Council Audit Committee on 26 November. This is later than usual due to the extension of audit deadlines as a result of the pandemic. The Investment and Pension Fund Committee's role is to approve the full Annual Report which contains the statement of accounts together with other information about the Fund's performance during the year.

### **2. Annual Report and Statement of Accounts**

- 2.1 The Annual Report has been compiled in compliance with guidance issued by CIPFA (the Chartered Institute of Public Finance and Accountancy) in March 2019. The general principles in compiling the Pension Fund accounts are those recommended by CIPFA. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.
- 2.2 A new section has been added into the report this year to report on the Pension Fund's approach to Climate Change and the measurement of the carbon footprint of the Fund's equity investments. This reports on the 21.5% reduction in the carbon footprint between March 2019 and December 2019 and also looks at fossil fuel exposure.

2.3 In addition, the Annual Report includes:

- A forward from the Chair of the Investment and Pension Fund Committee.
- An introduction from the County Treasurer outlining the major issues during the year.
- Details of the training that members have received as required by the CIPFA Code of Practice on Knowledge and Skills.
- Details of attendance at both the Investment and Pension Fund Committee and the Pension Board.
- A market update from the Fund's Independent Advisor.
- An annual report detailing the work of the Pension Board.
- A section on investment pooling, setting out the costs and savings resulting from the pooling initiative.
- A cost transparency section highlighting the underlying investment costs over and above those included in the statement of accounts.
- The Fund's key risks from the Risk Register and the mitigating controls.
- Details of the voting and engagement activity undertaken during the year in relation to the Fund's responsible investment policies set out in the Investment Strategy Statement
- A summary of the performance of the Fund's external managers, followed by reports from each manager outlining their performance, stewardship activity and their market outlook going forward.
- Details of pension fund income and expenditure for the year against the budget forecast, and explanation of significant variances.
- Details of the employee and employer contributions paid during the year, split by employer.
- Pensions Administration Performance – additional information on value for money and key performance data in relation to pensions administration.
- The Statement of Accounts.
- More detailed information about the operation of the Fund.
- Details of the Fund's top equity holdings and pooled funds. Given that all of the Fund's equity investments are now in pooled funds this has, for the first time, been compiled on a "look through" basis showing the top underlying holdings within the pooled funds that the Fund is invested in.
- The Fund's statutory statements.

2.4 The statement of accounts has been audited by Grant Thornton, the Council's external auditors. A copy of the draft Audit Findings report for the Devon Pension Fund is attached at Appendix 1. This includes an evaluation of the Pension Fund's internal controls environment, including its IT systems and controls and substantive testing on significant transactions and material account balances, including the procedures outlined in the report in relation to the key audit risks. However, it should be noted that there remain some outstanding items to be completed which are detailed within the Headlines section of the Audit Findings Report. While these items remain outstanding

the audit cannot be formally signed off. An oral update will be provided at the meeting, and a representative of Grant Thornton will be present to answer any questions.

### **3. Conclusion**

- 3.1 As outlined in paragraph 2.4, there are a number of outstanding items from the external audit that will need to be reported orally to the Committee. In addition, the County Council's Audit Committee is meeting on the day before the Investment and Pension Fund Committee to consider the Devon County Council Statement of Accounts, including the Pension Fund accounts. The outcome of the Audit Committee and any issues arising will also be reported at the meeting.
- 3.2 The Committee is asked to adopt the Pension Fund Annual Report and Accounts for 2019/20, subject to completion of the external audit and any outstanding issues, as per paragraph 3.1.

Mary Davis  
County Treasurer

Electoral Divisions: All

Local Government Act 1972:

List of Background Papers: Nil

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# The Audit Findings for Devon Pension Fund

Year ended 31 March 2020

18 November 2020

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.



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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 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Devon Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2020 for those charged with governance.

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
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| <p><b>Covid-19</b></p> <p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Pension Fund. The Fund focused on identifying key operational and strategic risks, using new interim working practices to ensure that functions could continue during 'lock down'. Our experience of working with the pensions finance team has demonstrated that while operations continue, these are inevitably taking more time to complete than in a normal year.</p> <p>Pension Funds are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.</p> | <p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 28 April 2020. In that addendum we reported an additional financial statement risk in respect of Covid-19. Further detail is set out on page 6.</p> <p>Restrictions for non-essential travel has meant both Pension Fund and audit staff have had to adapt to ensure we have gained sufficient audit evidence for the balances with the financial statements. This has meant a greater reliance on video calling for many aspects of the audit, particularly in terms of the use of sharing of screens to watch transaction listings being run. Where information is normally provided in a spreadsheet format, we have undertaken additional levels of testing to ensure that the information provided has not been manipulated prior to being sent to the audit team.</p> <p>We are pleased to report that this process has worked well with both teams collaborating to identify solutions to hurdles presented by remote working. However, the remote working has impacted on delivery and additional resources have been necessary on both sides in order to complete the work in accordance with the new extended reporting timetable.</p> |
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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Devon Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2020 for those charged with governance.

|                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|-----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Financial Statements</b> | <p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and</li><li>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li></ul> | <p>We commenced our post-statements remote audit on 1 July 2020 and as at 13 November 2020 our audit is almost complete. Our findings are summarised on pages 5 to 14.</p> <p>Based on our work undertaken to date, we have identified no material errors or adjustments to the financial statements.</p> <p>Audit adjustments are detailed in Appendix B.</p> <p>The draft financial statements were presented for audit in accordance with the agreed timetable on 1 July 2020. The accounts were supported by good quality working papers and we generally received prompt responses to our queries.</p> <p>Subject to completing our remaining audit procedures set out below, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 26 November 2020, as detailed in Appendix D.</p> <p>The following are the key areas are outstanding:</p> <ul style="list-style-type: none"><li>• enquiries regarding a deficit payment made to the fund;</li><li>• completion of investment testing for level 1 and level 2 investments;</li><li>• agreement with management of the extent of the material property uncertainty;</li><li>• receipt of management representation letter;</li><li>• review of the Pension Fund Annual Report;</li><li>• review of the final set of financial statements; and</li><li>• issuing IAS 19 assurances to other auditors (see pages 15 and 16).</li></ul> <p>We have also raised recommendations for management as a result of our audit work in Appendix A. Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting the asset valuation material uncertainties with the Pension Fund's property investments that are disclosed within its financial statements. See page 12.</p> |
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## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

# Audit approach

## Overview of the scope of our audit

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

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

## Audit approach

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

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

We have had to alter our original audit plan, as communicated to you on 27 February 2020, to reflect our response to the Covid-19 pandemic. As a result we identified a new significant Covid-19 related financial statement risk. We have also reduced our materiality level since planning to reflect the reduction in the value of net assets at year end. The changes have focused on understanding what arrangements the fund has put in place to produce materially accurate financial statements and to demonstrate the impact on going concern assessment.

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 26 November 2020, as detailed in Appendix E. These outstanding items are recorded on page 4 of this report.

## Our approach to materiality

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

Materiality levels have been revised to reflect the fall in net assets at year end. We have kept the benchmarks used consistent with that at planning, as we believe these remain appropriate at the year end.

|                                                                                           | Pension Fund (£) | Qualitative factors considered                                                                                                                                                                                                                                                                               |
|-------------------------------------------------------------------------------------------|------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Materiality for the financial statements (figures in brackets are the values at planning) | £40.1m<br>(£43m) | We considered the proportion of the net assets to the Fund to be an appropriate benchmark for the financial year. In the prior year we used the same benchmark. Our materiality equates to approximately 1% of your net assets for the year ended 31 March 2020.                                             |
| Performance materiality                                                                   | £30m<br>(£32m)   | We have determined this using 75% of materiality. This is considered an appropriate benchmark as we have not identified a history of significant deficiencies in the control environment or a large number of significant misstatements in prior year audits. The management and finance team remain stable. |
| Trivial matters                                                                           | £2m<br>(£2m)     | This is based on 5% of materiality, which we consider to be an appropriate threshold to use in terms of our reporting to the Audit Committee as 'Those Charged with Governance'.                                                                                                                             |

# Significant audit risks

## Risks identified in our Audit Plan

### Covid-19

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have had an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:

- remote working arrangements and redeployment of staff to critical front line duties may have impacted on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation;
- volatility of financial and property markets will have increased the uncertainty of assumptions applied by management to asset valuation, and the reliability of evidence we can obtain to corroborate management estimates;
- for instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification of the instruments if trading may have reduced to such an extent that quoted prices are not readily and regularly available and therefore do not represent actual and regularly occurring market transactions;
- whilst the nature of the Fund and its funding position (i.e. not in a winding up position or no cessation event) means the going concern basis of preparation remains appropriate management may need to consider whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

## Auditor commentary

We:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications on our materiality calculations and audit approach;
- liaised with other audit suppliers, regulators and government departments to coordinate practical cross sector responses to issues as and when they arise;
- evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic, including management's assessment of the impact of Covid-19 upon forecast cashflows;
- evaluated whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely;
- evaluated whether sufficient audit evidence can be obtained to corroborate management's fair value hierarchy disclosure;
- evaluated whether sufficient audit evidence can be obtained to corroborate significant management estimates such as Level 3 asset valuations; and
- discussed with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence.

The Fund responded well to the challenge of remote working and were able to produce draft financial statements in accordance with the agreed timetable, albeit this was a month later than in previous years.

The Pension Fund has disclosed that a material uncertainty exists in respect of property assets held by the Fund and will refer to this in our audit opinion as an 'emphasis of matter'. Our opinion is not qualified in this respect. See also page 12.

# Significant audit risks

## Risks identified in our Audit Plan

### The revenue cycle includes fraudulent transactions

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

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

## Auditor commentary

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

- there was little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition were very limited
- the culture and ethical frameworks of local authorities, including Devon Pension Fund, meant that all forms of fraud are seen as unacceptable

Therefore we did not consider this to be a significant risk for Devon Pension Fund.

## Management override of controls

Under ISA (UK) 240 there was a non-rebuttable presumed risk that the risk of management over-ride of controls was present in all entities.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

We:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determined the criteria for selecting high risk unusual journals
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

There are no matters to report based on the work undertaken.

# Significant audit risks

## Risks identified in our Audit Plan

### Valuation of Level 3 Investments

The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.

By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represented a significant estimate by management in the financial statements due to the size of the numbers involved (£158 million at 31 March 2019) and the sensitivity of this estimate to changes in key assumptions.

Under ISA 315, significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.

Management utilised the services of investment managers as valuation experts to estimate the fair value as at 31 March 2020.

We therefore identified valuation of Level 3 investments as a significant risk.

## Auditor commentary

We:

- evaluated management's processes for valuing Level 3 investments;
- 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;
- independently requested year-end confirmations from investment managers;
- for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreed these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2020 with reference to known movements in the intervening period;
- tested revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register; and
- where available reviewed investment manager service auditor reports on design effectiveness of internal controls.

Our work in this area is complete; there are no issues we wish to report to the Audit Committee.

# Significant audit risks

## Risks identified in our Audit Plan

### Actuarial Present Value of Promised Retirement Benefits

The Fund disclosed the Actuarial Present Value of Promised Retirement Benefits within its Notes to the Accounts. This represented a significant estimate in the financial statements.

The Actuarial Present Value of Promised Retirement Benefits is considered a significant estimate due to the size of the numbers involved (£7.4 billion in 2018/19) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Fund's Actuarial Present Value of Promised Retirement Benefits as a significant risk, which was one of the most significant assessed risks of material misstatement.

## Auditor commentary

We:

- updated our understanding of the processes and controls put in place by management to ensure that the Fund's Actuarial Present Value of Promised Retirement Benefits was not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Fund's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Fund to the actuary to estimate the liability;
- tested the consistency of disclosures with the actuarial report from the actuary; and
- undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. Please see page 10 (overleaf) for our work in this area.

Our work in this area is complete; there are no issues we wish to report to the Audit Committee.

# Significant audit risks

Risks identified in our Audit Plan      Auditor commentary      Assessment

## Actuarial Present Value of Promised Retirement Benefits

The Fund disclosed the Actuarial Present Value of Promised Retirement Benefits within its Notes to the Accounts. This represented a significant estimate in the financial statements.

The Actuarial Present Value of Promised Retirement Benefits is considered a significant estimate due to the size of the numbers involved (£7.4 billion in 2018/19) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Fund's Actuarial Present Value of Promised Retirement Benefits as a significant risk, which was one of the most significant assessed risks of material misstatement.

As stated on page 9, we used PwC as our auditor's expert to assess the actuary and the assumptions made by them.

The table below summarises where Devon Pension Fund falls in the acceptable ranges set by PwC:

| Assumption                                           | Actuary Value | PwC range                   | Assessment   |
|------------------------------------------------------|---------------|-----------------------------|--------------|
| Duration of liabilities                              | 21 years      | 15 to 22 years              | ●<br>(Green) |
| Discount rate                                        | 2.35%         | 2.35%                       | ●<br>(Green) |
| RPI Inflation                                        | 2.7%          | 2.65% to 2.80%              | ●<br>(Green) |
| CPI Inflation and Pension increase rate              | 1.9%          | 1.85% to 1.95%              | ●<br>(Green) |
| Salary growth                                        | 2.9%          | 2.9% (assumes 1% above CPI) | ●<br>(Green) |
| Life expectancy – Males at 65 (current pensioners)   | 22.9 years    | 21.4 to 23.3 years          | ●<br>(Green) |
| Life expectancy – Females at 65 (current pensioners) | 24.1 years    | 23.7 to 24.7 years          | ●<br>(Green) |
| Life expectancy – Males at 65 (future pensioners)    | 24.3 years    | 22.8 to 24.7 years          | ●<br>(Green) |
| Life expectancy – Females at 65 (future pensioners)  | 25.5 years    | 25.2 to 26.2 years          | ●<br>(Green) |

●  
**Green**

### Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated (red)
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic (amber)
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious (yellow)
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious (green)

# Significant findings – going concern

## Our responsibility

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

## Going concern commentary

### Management’s assessment process

The County Treasurer, as s151 officer, has a reasonable expectation that the Fund will continue for the foreseeable future. Members concur with this view. For this reason, the Fund continues to adopt the going concern basis in preparing the financial statements.

Management have confirmed that:

- no decision has been made to wind up the Pension Fund and no events have occurred that would trigger a wind-up;
- they have taken into account all available information about the future, which is at least, but not limited to, twelve months from the date when the financial statements are authorised for issue; and
- no material uncertainties related to events or conditions that cast significant doubt upon the Pension Fund’s ability to continue as a going concern exist that require disclosure.

## Auditor commentary

Chapter 6, Annex 6.5 of the CIPFA Code on the “Presentation of Financial Statements for Pension Funds” notes going concern as a particularly important reporting requirement and that para 3.4.2.23 of the Code applies. The CIPFA Code of Practice 2019/20 Code para 3.4.2.23 states “Local authorities that can only be discontinued under statutory prescription shall prepare their financial statement on a going concern basis of accounting; that is, the financial statement shall be prepared on the assumption that the function of the authority will continue in operational existence for the foreseeable future”.

For defined benefit schemes the Pension SORP gives further guidance in that even where a defined benefit scheme is significantly underfunded it should continue to be treated as a going concern for accounting purposes unless a decision has been made to wind up the scheme.

The LGPS is a statutory scheme which can only be wound up by government and the presumption in local government is that the going concern assumption does apply unless there is specific evidence to the contrary from factors such as an announcement to wind up the administering authority.

Management set out their ‘going concern considerations’ as part of their response to our ‘informing the audit risk assessment’ shared with the Audit Committee in July 2020. We have identified that:

- the fund is a statutory pension provider and therefore cannot legally close;
- the actuary has set contribution rates for all employers up to 2022/23, this re-affirms that the fund intends to continue as a going concern; and
- the fund also undertakes monitoring of the cash position and this has been estimated going forward to cover the 12 months from the date of approval of the financial statements. This shows a positive cash balance is maintained throughout 2020/21 and into the next financial year.

In addition:

- our audit did not identify any events or conditions which may cast significant doubt on the going concern assumption;
- as at the 2019 actuarial valuation, the fund showed an increase in the funding level;
- in any given year contributions are typically in line with benefit payments made; and
- the fund has significant assets that are readily liquidated should additional cash be required.

As such we consider that the preparation of accounts on a going concern basis is a reasonable and valid one and there are no indications of material uncertainty.

## Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

| Significant matter                                                                                                                                                                                                                                                                                                                                                                                                             | Commentary                                                                                                                                                                                                                                                                                                                                                                                                                            | Auditor view                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Impact of Covid-19 on asset valuations at year end.</b></p> <p>Given the timing of Covid-19 in relation to the year end of the 31 March 2020, we identified that there would be volatility in both financial and property markets that would increase the uncertainty of assumptions applied by management to asset valuation and the reliability of the evidence we can obtain to corroborate management estimates.</p> | <p>The fund holds £373m in pooled property investments and £215m of private infrastructure and debt funds at 31 March 2020.</p> <p>Uncertainty regarding the valuation of these investments at the year end has been disclosed in the Pension Fund's financial statements.</p>                                                                                                                                                        | <p>Some investments are quoted and officers have used 31 March 2020 valuations within the financial statements which can therefore take into account the impact of Covid-19.</p> <p>We are working with officers to review valuation reports to assess the extent to which there is a material uncertainty with these investments.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <p><b>McCloud</b></p> <p>The pension liability disclosed in the draft financial statements (Note 21) included an allowance for the implications of the McCloud ruling.</p>                                                                                                                                                                                                                                                     | <p>Clarification has recently been received on the restitution for McCloud and implications of the Goodwin case on pension liabilities. Expectations were that pension liabilities will be lower than was originally estimated in actuarial reports produced for 31 March 2020.</p> <p>The Pension Fund's actuary included a full allowance for the McCloud ruling and management do not consider the likely fall to be material.</p> | <p>Our expectation was that there would be a slight fall in the liability.</p> <p>In our view the Government's consultation on amendments to the LGPS, following the McCloud judgement, is a non-adjusting post balance sheet event and we concur with management's view not to adjust the financial statements based on a revised valuation.</p> <p>Audited bodies should consider whether disclosure is necessary in line with the requirements of IAS 10 (for material non-adjusting events) and disclose the nature of the event and either an estimate of its financial effect, or a statement that such an estimate cannot be made.</p> <p>Again we concur with management's view that this restitution is not likely to be material, given the full liability is £55m.</p> |

# Significant findings – key estimates and judgements

| Accounting area            | Summary of management's policy                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Auditor commentary                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Assessment                                                                                          |
|----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|
| <b>Level 3 investments</b> | <p>The Pension Fund has investments in pooled investments that in total are valued on the net asset statement as at 31 March 2020 at £315m. These investments are not traded on an open exchange or market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management has employed expert fund managers who have the necessary experience and technical expertise to ensure the correct valuation of these investments in the year end accounts.</p> <p>The fund are also supported by investment advisors and the custodian who are independent from the fund managers who can advise on the performance of this type of investments.</p>                                                                    | <p>As outlined in our testing of the valuation of level 3 investments (see page 8) we have:</p> <ul style="list-style-type: none"> <li>assessed management's experts, reviewing their competence, expertise and objectivity where appropriate;</li> <li>considered the valuation techniques used against industry practice; and</li> <li>reviewed the adequacy of disclosure of the estimate in the financial statements.</li> </ul> <p>Our work in this area is complete; there are no issues we wish to report to the Audit Committee.</p> | <br><b>Green</b> |
| <b>Level 2 investment</b>  | <p>The Pension Fund investments in level 2 investments totalled on the balance sheet as at 31 March 2020 at £2,873m. The investments are not directly traded on an open exchange / market and the valuation of the investment is subjective, although is often derived from investments in underlying quoted equities and so is not as subjective as a Level 3 investment. In order to determine the value, management has employed expert fund managers who have the necessary experience and technical expertise to ensure the correct valuation of these investments in the year end accounts.</p> <p>The fund are also supported by investment advisors and the custodian who are independent from the fund managers who can advise on the performance of this type of investments.</p> | <p>Similar to our approach for level 3 investments outlined above, we have:</p> <ul style="list-style-type: none"> <li>assessed management's experts, reviewing their competence, expertise and objectivity where appropriate;</li> <li>considered the valuation techniques used against industry practice; and</li> <li>reviewed the adequacy of disclosure of estimate in the financial statements.</li> </ul> <p>As noted on page 4, our work in this area has yet to be finalised.</p>                                                   |                |

**Assessment**

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated (Red)
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic (Amber)
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious (Yellow)
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious (Green)

## Other matters for communication

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

| <b>Issue</b>                                                    | <b>Auditor commentary</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-----------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Matters in relation to fraud</b>                             | <p>We have previously discussed the risk of fraud with the Audit Committee.</p> <p>We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</p>                                                                                                                                                                                                                                                                                                                         |
| <b>Matters in relation to related parties</b>                   | <p>We are not aware of any related parties or related party transactions which have not been disclosed.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Matters in relation to laws and regulations</b>              | <p>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</p>                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Written representations</b>                                  | <p>A letter of representation has been requested from the Pension Fund which is included in the Audit Committee papers.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Confirmation requests from third parties</b>                 | <p>We requested from management permission to send confirmation requests to all of the fund managers and other financial institutions that work with the Fund. This permission was granted and the requests were sent and all were ultimately returned with positive confirmation. Please note that we are still finalising our work on the Pension Fund's investments.</p> <p>Obtaining suitable external confirmations from fund managers remains a time consuming process, with it rare that information requested is returned in full at the first request.</p> |
| <b>Disclosures</b>                                              | <p>Our review found no material omissions in the financial statements.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>Audit evidence and explanations/significant difficulties</b> | <p>All information and explanations requested from management was provided.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Matters on which we report by exception</b>                  | <p>We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements.</p> <p>The Pension Fund Annual Report is not required to be published until December 2020 and therefore this work has not yet commenced.</p>                                                                                                                                                                                                                            |

# 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 Pension Fund's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

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

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

Details of fees charged are detailed in Appendix D

## Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council and Pension Fund and the following non-audit service was identified. We set out the threats to our independence and safeguards that have been applied to mitigate these. Both Public Sector Audit Appointments Ltd (PSAA), in the Terms of Appointment, and the National Audit Office, in its Auditor Guidance Notes, expects that auditors will cooperate with other local government auditors and therefore we are required to undertake this work.

|                          | Fees £  | Threats identified | Safeguards                                                                                                                                                                                                                                                                                                                                                                                                                              |
|--------------------------|---------|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Audit related</b>     | £10,000 | Self review        | This is not considered a significant threat as we are not reviewing any information that we have prepared. As this is an audit related service, it is acceptable for the audit team to carry out this work. In addition, we have not prepared the financial information on which our assurances will be used by the requested auditors to form an opinion on as part of their opinion on the financial statements of the admitted body. |
|                          |         | Management         | The scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. We will not be making any recommendations as part of this work.                                                                                                                                                                                                   |
| <b>Non-audit related</b> | None.   |                    |                                                                                                                                                                                                                                                                                                                                                                                                                                         |

These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees.

## Audit Related Services Fees

In addition to the audit fees we set out in Appendix C our final proposed fees for audit related services provided during the course of our audit are described below.

| Audit related                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | £      | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>IAS 19 assurance letters to other auditors</b></p> <p>In addition to the audit of the main financial statements, we are also responsible for the audit of the Pension Fund. In that capacity, we have been contacted by the audits of fourteen other auditors who are admitted bodies of the pension scheme to provide assurance in terms of our work on the Pension Fund audit. Both PSAA, in the Terms of Appointment, and the National Audit Office, in its Auditor Guidance Notes, expects that auditors will cooperate with other local government auditors and therefore we are required to respond.</p> <p>We are required to respond to requests received from other auditors of admitted bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations. The Chief Financial Officer has given his consent for us to respond directly to the auditors of these admitted bodies in relation to these requests.</p> | 10,000 | <p>The Financial Reporting Council has highlighted that the quality and scope of work by audit firms in respect of IAS 19 assurance letters needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.</p> <p>As in 2018/19, we are proposing to recover the cost of this extra work through an additional invoice to Devon Pension Fund and it will again be for the Pension Fund to determine any appropriate recharges. Working this way is the most effective option for those admitted bodies. However, before we invoice the Pension Fund, we will be seeking the agreement from those admitted bodies regarding their preferred way of dealing with this.</p> <p>For 2019/20 IAS 19 letters of assurance are required for the following admitted bodies of Devon Pension Fund:</p> <ul style="list-style-type: none"> <li>• Dartmoor National Park</li> <li>• Devon and Cornwall Police</li> <li>• Devon and Somerset Fire</li> <li>• Devon County Council</li> <li>• East Devon District Council</li> <li>• Exeter City Council</li> <li>• Mid Devon District Council</li> <li>• North Devon District Council</li> <li>• Plymouth City Council</li> <li>• South Hams District Council</li> <li>• Teignbridge District Council</li> <li>• Torbay Council</li> <li>• Torridge District Council</li> <li>• West Devon District Council</li> </ul> |

Our estimate is that the fee for this will be £3,000 plus an additional £500 for each body which requests a letter of assurance.

# Action plan

We have identified one recommendation for the Pension Fund as a result of issues identified during the course of our audit. We have agreed this recommendation with management and we will report on progress on this recommendation during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| Assessment                                                                                        | Issue and risk                                                                                                                                                                                                                                                                                                                                      | Recommendations                                                                                                                                                                                                                                                    |
|---------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <br><b>Amber</b> | <p><b>Critical judgements</b></p> <p>The financial statements set out a number of judgements which management consider are critical when determining how to apply the accounting policies of the Pension Fund.</p> <p>Our view is that not all of the matters disclosed are 'critical' and also that the actual judgement applied is not clear.</p> | <p>We recommended that the Pension Fund reviews the critical judgements disclosed within the financial statements to ensure that they are (a) critical and that (b) the judgement applied is clearly set out.</p> <p><b>Management response</b></p> <p>Agreed.</p> |

**Risk rating**

- High priority (red)
- Medium priority (amber)
- Low priority (green)

# Follow up of prior year recommendation

We identified the following issue in the audit of Devon Pension Fund's 2018/19 financial statements, which resulted in one recommendation being included in our 2018/19 Audit Findings report.

| Assessment | Issue and risk previously communicated                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Update on actions taken to address the issue                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| X          | <p><b>Critical judgements</b></p> <p>The financial statements set out a number of judgements which management consider are critical when determining how to apply the accounting policies of the Pension Fund.</p> <p>Our view is that not all of the matters disclosed are 'critical' and also that the actual judgement applied is not clear.</p> <p>We recommended Devon Pension Fund review the critical judgements disclosed within the financial statements to ensure that they are (a) critical and that (b) the judgement applied is clearly set out.</p> | <p>The disclosures are unchanged from the 2018/19 financial statements.</p> <p>Typically, these disclosures cover significant issues in applying accounting policies where management has had to exercise judgement in situations where a different judgement might have led to a materially different accounting treatment.</p> <p>Disclosures need to identify the specific judgements that management has made in a manner that enables the reader to understand their impact.</p> <p>As noted on page 17, we have repeated this recommendation in 2019/20.</p> |

**Assessment**

- ✓ Action completed
- X Not yet addressed

# Audit adjustments

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

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

| Detail                   | Pension Fund Account £'000 | Net Asset Statement £' 000 | Impact on total net assets £'000 |
|--------------------------|----------------------------|----------------------------|----------------------------------|
| None identified to date. |                            |                            |                                  |
| <b>Overall impact</b>    | <b>£0</b>                  | <b>£0</b>                  | <b>£0</b>                        |

## Misclassification and disclosure changes

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

| Disclosure omission      | Detail | Auditor recommendations | Adjusted? |
|--------------------------|--------|-------------------------|-----------|
| None identified to date. |        |                         |           |

# Audit adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

| Detail                   | Pension Fund Account £'000 | Net Asset Statement £' 000 | Impact on total net assets £'000 | Reason for not adjusting |
|--------------------------|----------------------------|----------------------------|----------------------------------|--------------------------|
| None identified to date. |                            |                            |                                  |                          |
| <b>Overall impact</b>    | <b>£0</b>                  | <b>£0</b>                  | <b>£0</b>                        |                          |

## Impact of prior year unadjusted misstatements

There were no adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

## Fees

Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes:

- Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties.
- Management's assumptions and estimates - there is increased uncertainty over many estimates including property and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. We have included an Emphasis of Matter in the Audit Report in respect of the material uncertainty on property values.
- Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies.
- Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including the delays in receiving accounts, quality of working papers, and delays in responses. These are understandable and arise from the availability of the relevant information and/or the availability of key staff (due to shielding or other additional Covid-19 related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.

We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached <https://www.frc.org.uk/covid-19-guidance-and-advice> (see guidance for auditors) sets out the expectations of the FRC.

Please note that any proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

## Fees

We confirm below our final fees charged for the audit. The amounts reported are subject to final review at the conclusion of our work.

| <b>Audit fees</b>                       | <b>Fee as per audit plan</b> | <b>Proposed fee (subject to approval)</b> |
|-----------------------------------------|------------------------------|-------------------------------------------|
| Pension Fund                            | £26,274                      | 30,215                                    |
| Valuation of derivatives                | 0                            | 1,000                                     |
| Local factors                           | 0                            | TBC                                       |
| <b>Total audit fees (excluding VAT)</b> | <b>£26,274</b>               | <b>TBC</b>                                |

The Audit Plan presented in February 2020 included £4,250 in addition to the scale fee (£22,024) to take account of the additional scepticism required on the audit and the raising of the bar by our regulator.

The proposed fee, which is subject to approval by PSAA, includes an additional allowance of 15% for the factors related to Covid-19, as outlined on the previous page.

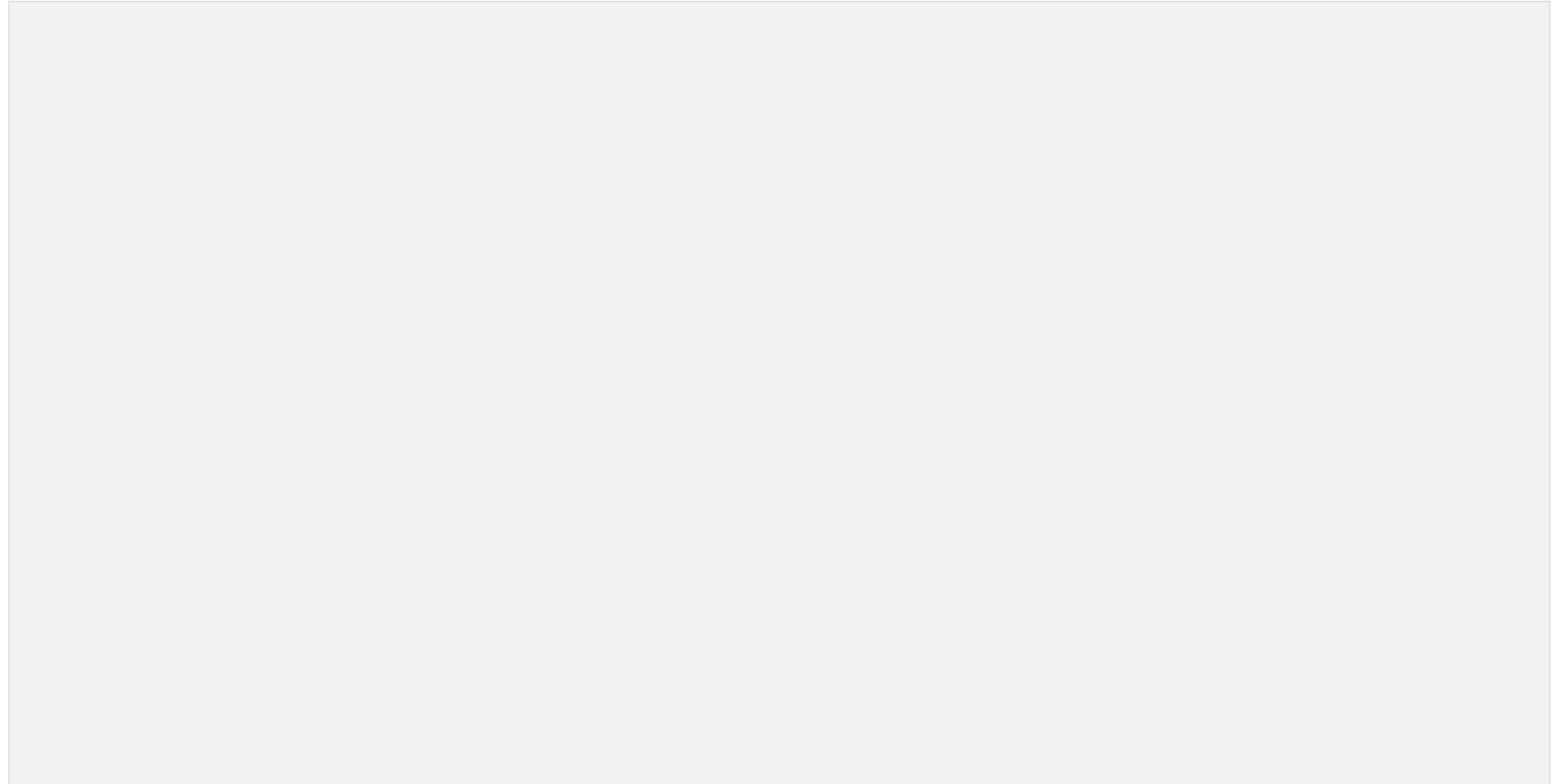
The fees per the financial statements (note 8c) show the audit fee as £24,105 and this is:

|                                                                                    |                |
|------------------------------------------------------------------------------------|----------------|
| Scale fee for the year                                                             | 22,024         |
| Add: Additional audit fees re previous year (McCloud) (approved by PSAA)           | 1,500          |
| Add: Timing difference of IAS 19 fees from 2018/19 reimbursed by one admitted body | 581            |
| <b>Total</b>                                                                       | <b>£24,105</b> |

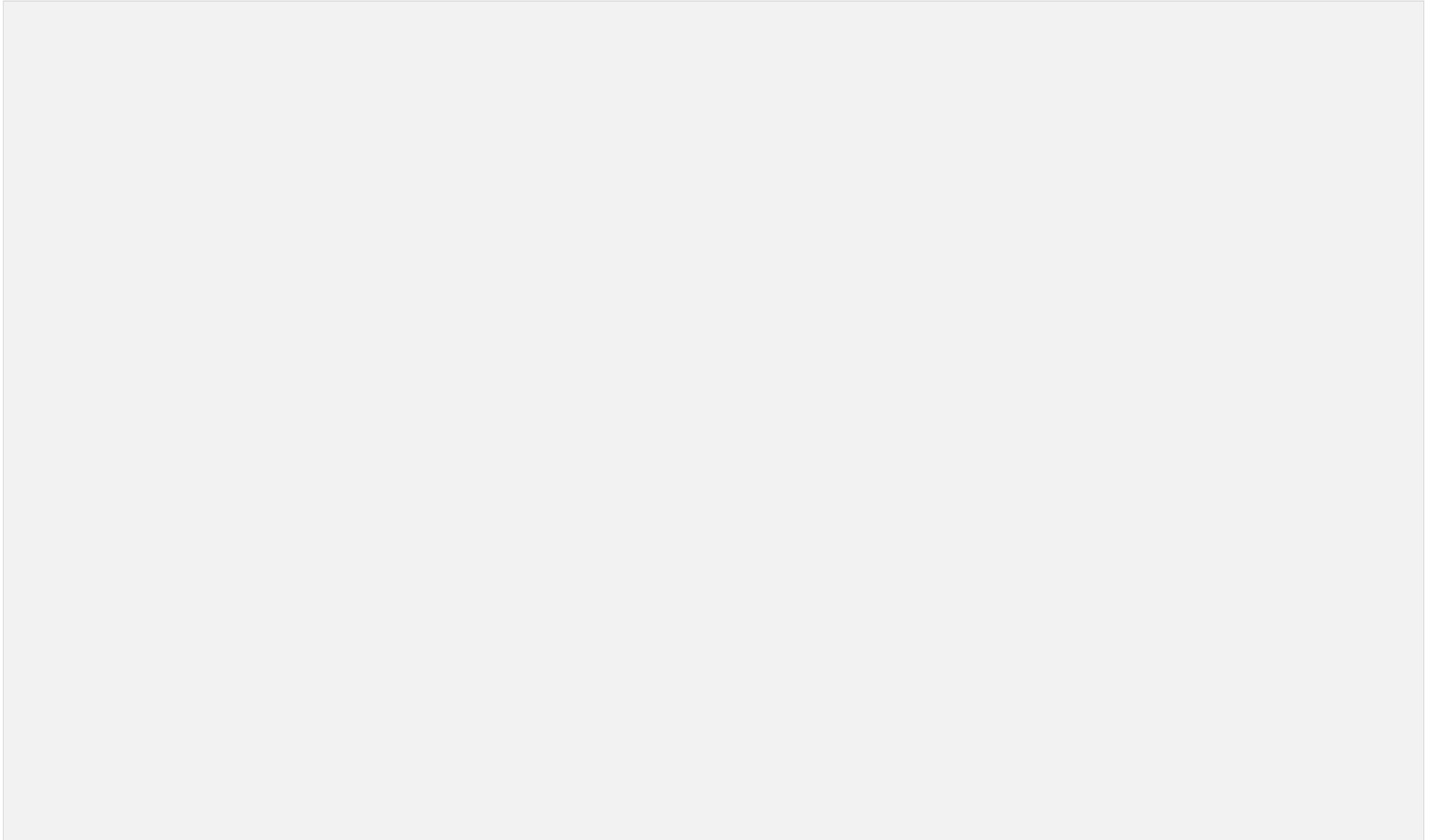
| <b>Non-audit fees for other services</b>                       | <b>Proposed fee</b> | <b>Final fee</b> |
|----------------------------------------------------------------|---------------------|------------------|
| Audit Related Services IAS 19 Assurances (see pages 15 and 16) | 10,000              | TBC              |
| Non- Audit Related Services                                    | nil                 | nil              |
| <b>Total non-audit fees (excluding VAT)</b>                    | <b>£10,000</b>      | <b>TBC</b>       |

# Audit opinion

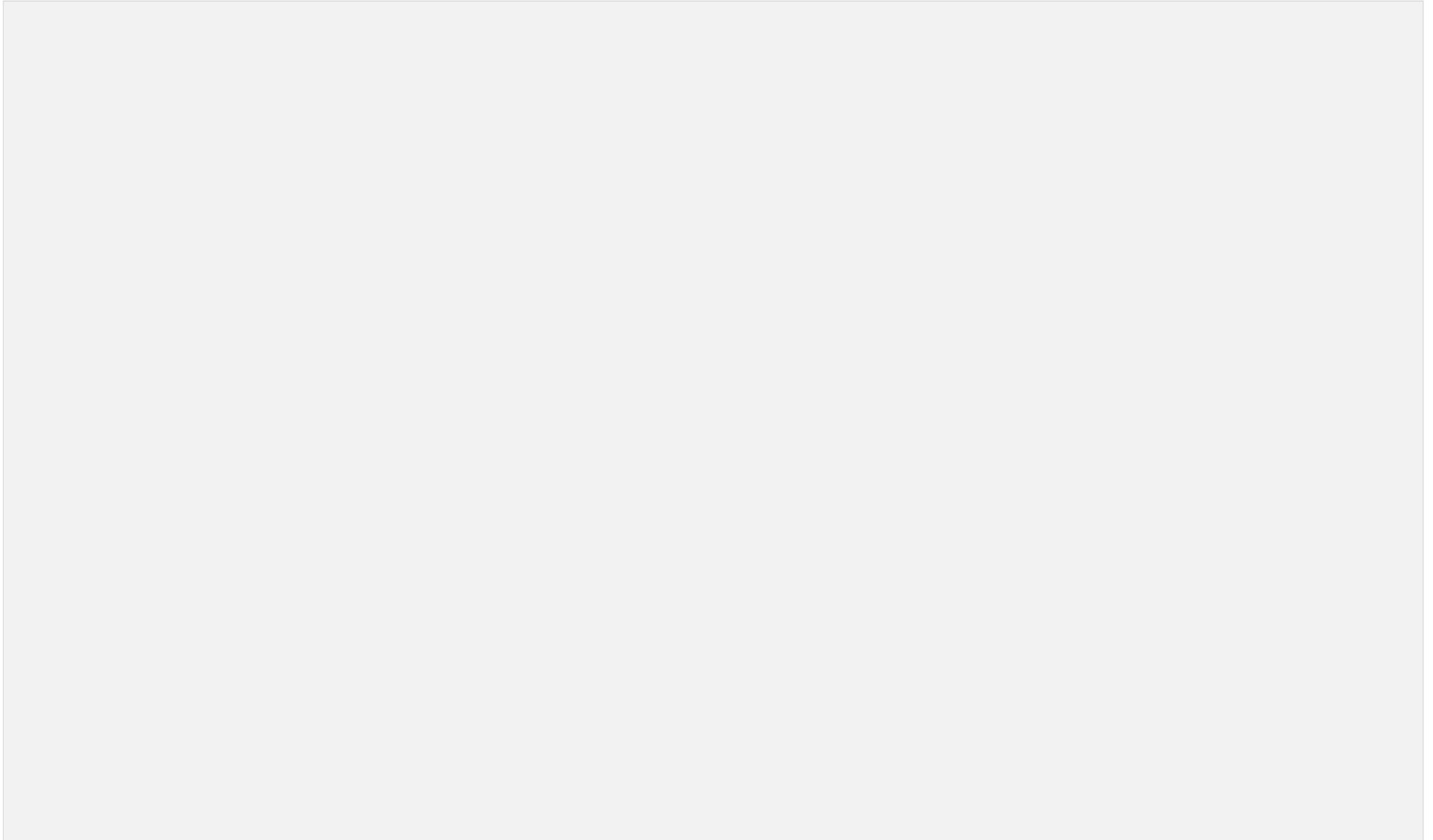
**We anticipate we will provide the Devon Pension Fund with an unmodified audit report which will include an 'emphasis of matter' regarding the valuation of property investments.**



# Audit opinion



# Audit opinion





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