

AUDIT REPORT ON THE PENSION FUND STATEMENT OF ACCOUNTS 2021/22

Report of the Director of Finance and Public Value

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

Recommendation: that the Committee note the Audit Findings Report from Grant Thornton.

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### **1. Introduction**

- 1.1 The draft Pension Fund Annual Report and Accounts were presented for approval at the last meeting of the Committee. It was resolved that the Pension Fund Annual Report and Accounts for 2021/22 be adopted, subject to approval of the Statement of Accounts by the Devon County Council Audit Committee and completion of the external audit. At the time the audit had not been completed and the Audit Findings Report for the Pension Fund was not available for review by the Committee.
- 1.2 The external audit has now been substantially completed by Grant Thornton, subject to a small number of remaining items, and the draft Audit Findings Report is attached at Appendix 1 to this report.

### **2. Audit Findings Report**

- 2.1 The draft Audit Findings 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.
- 2.2 The report highlights the process undertaken by the Investment Team to replicate the transactions and asset valuations held within the Fund Custodian's accounting system into the Devon CC Pension Fund ledger. This process has been in place for over ten years and given the lack of a direct interface between the Custodian's system and the Council's financial system is considered to be a relatively efficient method of transferring the data across.

- 2.3 The council is currently in the process of procuring a new general ledger finance system, which may provide the opportunity to update the process by which the transactions and balances from the Fund Custodian are recorded within the Council's ledger.
- 2.4 Appendix C of the report highlights adjusted misstatements, misclassification and disclosure changes. These adjustments were reflected in the version of the Statement of Accounts within the Pension Fund Annual Report presented to and approved by the Investment and Pension Fund committee at the October meeting. Officers have noted Grant Thornton's recommendations in Appendix A on note 12 for consideration in future, but we do not propose to amend the 2021/22 statement of accounts.
- 2.5 The unadjusted misstatements highlighted relate to valuations of fund assets that were based on December estimates, adjusted for cashflows, where March valuations were not available. Grant Thornton have concluded that the estimates were based on the best available evidence at the time that the accounts were prepared and were prudent estimates. These differences are not material and no adjustment to the statement of accounts is proposed.

### **3. Conclusion**

- 3.1 Subject to a small number of outstanding matters, Grant Thornton anticipate issuing an unmodified audit opinion. A representative of Grant Thornton will be available at the meeting to answer any questions.
- 3.2 The Committee is asked to note the Audit Findings Report and the changes to the Pension Fund Statement of Accounts as set out in the report.

Angie Sinclair  
Director of Finance and Public Value

Electoral Divisions: All

Local Government Act 1972:  
List of Background Papers: Nil  
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## Appendix 1



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.

# The Audit Findings for Devon Pension Fund

Year ended 31 March 2022

Devon Pension Fund

15 November 2022



# Contents



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

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# 1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Devon Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2022 for those charged with governance.

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## Financial Statements

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

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

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion [Appendix E] or material changes to the financial statements, subject to the following outstanding matters:

- receipt of evidence to support a new starter
- receipt of one outstanding confirmation from a financial institution;
- additional work on Brunel-related level 2 investments;
- completion of our internal quality review processes
- receipt of management representation letter; and
- receipt and review of the final version of the Pension Fund's Annual report
- review of the final set of financial statements.

Our anticipated audit report opinion will be unmodified.

Our audit work was completed on remotely during July-November. Our findings are summarised on pages 4 to 15.

We have not identified any material adjustments to the financial statements.

Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

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## 2. Financial Statements

### Overview of the scope of our audit

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

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

### Audit approach

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

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls; 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 not had to alter our audit plan, as communicated to you on 7 June 2022.

### Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries noted on page 3 being resolved, we anticipate issuing an unqualified audit opinion following the County Council's Audit Committee meeting on 29 November 2022, as detailed in Appendix E.

Please note that we will be unable to complete our work and issue our audit opinion until the audit of Devon County Council has been finalised.

### Acknowledgements

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

## 2. Financial Statements



### Our approach to materiality

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

We have revised the materiality due to the actual net assets changing significantly from that at the planning stage resulting in a review of the appropriateness of the materiality figure.

We detail in the table our determination of materiality for Devon Pension Fund.

|                                          | Pension Fund Amount (£) | Qualitative factors considered              |
|------------------------------------------|-------------------------|---------------------------------------------|
| Materiality for the financial statements | 54.1m                   | This is 1% of the Pension Fund's net assets |
| Performance materiality                  | 40.6m                   | This is 75% of headline materiality         |
| Trivial matters                          | 2.7m                    | This is 5% of headline materiality          |





## 2. Financial Statements - Significant risks

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

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

### Risks identified in our Audit Plan

### Commentary

#### **The revenue cycle includes fraudulent transactions (rebutted)**

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

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

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

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

No specific work was planned or performed as the presumed risk has been rebutted. We have reconsidered this rebuttal during the audit and confirm that this remains appropriate for Devon Pension Fund.

#### **The expenditure cycle includes fraudulent transactions (rebutted)**

Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states:

“As most public bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition”. Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit.

We have rebutted this presumed risk for Devon Pension Fund because:

- expenditure is well controlled and the fund has a strong control environment
- there is no incentive for management to misrepresent expenditure and;
- the Fund has clear and transparent reporting of its financial plans and financial position to those charged with governance.

We therefore do not consider this to be a significant risk for Devon Pension Fund.

No specific work was planned or performed as the presumed risk has been rebutted. We have reconsidered this rebuttal during the audit and confirm that this remains appropriate for Devon Pension Fund.



## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

### Commentary

#### Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk of management override of controls at all entities.

We therefore identified management override of controls, in particular by way of manual journal entries, 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 have:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determined the criteria for selecting high risk unusual journals
- identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness

Our work identified the following issues:

- As previously reported in 2020/21, there are inadequate controls over the use of the “200” IDs used by two senior officers to post and approve journals over £200k. We tested all journals relating to the Pension Fund that were approved using these IDs and identified no issues.
- The Head of Investments prepares the journals for the investment balances and send the details to the Senior Accountant (Strategy) to be posted on the system. The Head of Investments then authorises the journals that have been posted, meaning that these journals are in effect being self-authorised.
- The transactions and balances for the investments originate from a Microsoft Access database that was designed by the Head of Investments. No other members of staff use or understand the database, it is not easy to link the output to the input, and reconciliations are not routinely performed or recorded.

See Appendix A for our recommendations in respect of these issues.

## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

#### Valuation of Level 3 investments

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

By their nature, level 3 investments lack observable inputs and therefore represent a significant estimate by management within the financial statements. These estimates are both significant in value and in the sensitivity of the estimate to changes in 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 utilise the services of investment managers and the custodian as valuation experts to estimate the fair value as at 31 March 2022.

We therefore identified valuation of level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.

### Commentary

We have:

- evaluated management's processes for valuing level 3 investments;
- reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met;
- independently requested year end confirmations from investment managers and the custodian;
- documented our understanding of the role of Brunel Pensions Partnership;
- Documented our understanding of the processes conducted by the in-house pensions team for level 3 investments not managed by Brunel;
- for a sample of investments, tested the valuation by obtaining and reviewing the 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 31 March 2022 with reference to known movements in the intervening period and;
- where available, reviewed investment manager service auditor reports on the effectiveness of their internal controls.

Our audit work has identified that due to the timing of fund manager reports, the Fund has used the most recent information available for level 3 investments. In some cases this is the valuation report dated 31 December 2021. As part of our audit procedures we have reviewed the 31 March 2022 reports for all except three immaterial investments (with a total value of £972k) that were available at the time of audit, after the draft financial statements were submitted. This work highlighted that the value of these investments had increased by £12.5m and therefore that the estimate as at the 31 March 2022 was understated by this amount. We have reported this as an unadjusted misstatement in Appendix C but recognise that the draft financial statements were produced using the most up to date information.

## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

#### Actuarial present value of promised retirement benefits

The Fund discloses the actuarial present value of promised retirement benefits within its notes to the accounts. This represents 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 along with the sensitivity of the estimate to changes in key assumptions.

We therefore identified the 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.

### Commentary

We have:

- 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 is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (the actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capability and objectivity of the actuary who carries out the fund's 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;
- Undertaken 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.

Our audit work has not identified any issues that we wish to report to the Audit Committee

## 2. Financial Statements - key judgements and estimates

| Significant judgement or estimate  | Summary of management's approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Audit Comments                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Assessment |
|------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>Level 3 Investments – £463m</b> | <p>The Pension Fund has level 3 investments that in total are valued on the balance sheet as at 31 March 2022 at £463.4m.. The level 3 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. The basis of valuation of level 3 investments is set out in note 24 to the financial statements.</p> <p>Due to the timing of fund manager reports the Fund has used the most recent information available for level 3 investments, which in some cases is the valuation report dated 31 December 2021. As part of our audit procedures we have reviewed the 31 March 2022 reports that were available at the time of audit, after the draft financial statements were submitted. This work highlighted that the value of these investments had increased by £12.5m and therefore that the estimate as at the 31 March 2022 was understated by this amount. We have reported this as an unadjusted misstatement but recognise that the draft financial statements were produced using the most up to date information.</p> <p>The value of the level 3 investments has increased by £158m in 2021/22.</p> | <p>We have:</p> <ul style="list-style-type: none"> <li>reviewed management's assessment and estimation process for level 3 investments and consider it to be robust;</li> <li>assessed the estimates provided for level 3 investments and tested the validity of the assumptions;</li> <li>assessed the adequacy of management's experts;</li> <li>tested the appropriateness of the underlying information used to determine the estimate;</li> <li>reviewed the consistency of the estimate against industry practice and previous audit work;</li> <li>tested the reasonableness of the increase in the estimate; and</li> <li>reviewed the reasonableness of the sensitivities disclosed in the estimates section of the accounting policy.</li> </ul> <p>Due to the timing of the valuation reports used in producing the estimate we consider management's assumptions to be cautious, as we have noted an understatement of £12.5m as set out on page 8.</p> | Grey       |

### Assessment

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

## 2. Financial Statements – key judgements and estimates

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

| Significant judgement or estimate | Summary of management's approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Audit Comments                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Assessment |
|-----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| Level 2 Investments – £4,882m     | <p>The Pension Fund has level 2 investments that in total are valued at £4,882m as at 31 March 2022.</p> <p>Management rely upon the custodian to provide the financial investment values. This is provided in a monthly report, detailing each Fund's performance and value. Management review this report for accuracy and completeness. As well as obtaining the custodian report, the Pension Fund also obtain details direct from the Brunel and complete a comparison between their estimate, the custodian's estimate, and the Fund Manager's estimate. All significant variances are reviewed and addressed.</p> <p>The custodian does not prepare independent valuations and relies on the information provided by the fund managers.</p> <p>As the level 2 valuations are based upon observable inputs the degree of estimation is minimal and both the fund managers and custodians are able to provide robust assumptions for values at year end. Nevertheless, there is a degree of estimation adopted in the valuation process and therefore there is an element of subjectivity.</p> <p>The basis of valuation for each category of level 2 investment is set out in note 24 to the financial statements.</p> <p>The value of the investments has increased by £516m in 2021/22.</p> | <p>We have:</p> <ul style="list-style-type: none"> <li>reviewed management's assessment and the estimation process for level 2 investments and consider it to be robust;</li> <li>assessed the estimates provided for level 2 investments and tested the validity of the assumptions;</li> <li>assessed the adequacy of management's experts;</li> <li>tested the appropriateness of the underlying information used to determine the estimate;</li> <li>reviewed the consistency of the estimate against industry practice and previous audit work;</li> <li>tested the reasonableness of the increase in the estimate; and</li> <li>reviewed the reasonableness of the sensitivities disclosed in the estimates section of the accounting policy.</li> </ul> <p>Due to the timing of the valuation reports used in producing the estimate we consider management's assumptions to be cautious, as we have noted an understatement of £8.8m based on our work to date.</p> <p>The net assets statement included derivative assets of £3,232k and derivative liabilities of (£5,535), a net liability of (£2,303). The supporting evidence showed that there was no asset, with there being a liability of (£2,303). The gross figures were therefore incorrect but the net impact on the Net Assets Statement is nil.</p> <p>Our work in this area is still in progress with evidence outstanding for one fund in particular. Our work with regard to Brunel is also in progress, as highlighted on page 3.</p> | Grey       |

### Assessment

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

## 2. Financial Statements - 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>At the planning stage we discussed the possible impacts of the war in Ukraine, specifically as they relate to any of Devon Pension Fund's holdings in Russian investments which may be the subject of sanctions or might otherwise experience a substantial decrease in value.</p> | <p>Our discussions with management confirmed that while the Pension Fund had some investments of this nature they were immaterial (c£8m). The approach taken by management was to fully impair these to a nil value, reflecting both their likely financial value but also the difficulty in divesting from them given restrictions on sales resulting from sanctions and Russian central bank action.</p> | <p>We consider management's treatment to have been both proportionate and appropriate.</p> |

## 2. Financial Statements - other communication requirements

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

| Issue                                                            | Commentary                                                                                                                                                                                                                                                             |
|------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Matters in relation to fraud</b>                              | We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.                                                |
| <b>Matters in relation to related parties</b>                    | We are not aware of any related parties or related party transactions which have not been disclosed.                                                                                                                                                                   |
| <b>Matters in relation to laws and regulations</b>               | 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.                                                                                           |
| <b>Written representations</b>                                   | A letter of representation has been requested from the Pension Fund, which is included in the Audit Committee papers.                                                                                                                                                  |
| <b>Confirmation requests from third parties</b>                  | We requested permission from management to send confirmation requests to custodians and fund managers and the Pension Fund's bank. This permission was granted and the requests were sent and received, with one still outstanding at the date of drafting our report. |
| <b>Accounting practices</b>                                      | We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.                                                         |
| <b>Audit evidence and explanations/ significant difficulties</b> | All information and explanations requested from management was provided.                                                                                                                                                                                               |



## 2. Financial Statements - other communication requirements



### Our responsibility

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

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

## 2. Financial Statements - other responsibilities under the Code

| Issue                                          | Commentary                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Disclosures</b>                             | No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Matters on which we report by exception</b> | We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until 1 December 2022. We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed. |



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# 3. Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix D

## Transparency

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

# 3. Independence and ethics

## Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following non-audit services were identified which were charged from the beginning of the financial year to November 2022, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

| Service                                           | Fees £ | Threats identified                              | Safeguards                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|---------------------------------------------------|--------|-------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Audit related                                     |        |                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Audit of Brunel Pension Partnership Limited (BPP) | 40,000 | None                                            | <p>We do not consider the audit of BPP as a threat to our independence as Devon Pension Fund cannot exercise control over BPP.</p> <p>The audit of BPP is carried out by a specialist team, authorised by the Financial Standards Authority.</p> <p>The fee of £40,000 is not significant compared to the audit fees of the ten participating pension funds.</p> <p>Please note that this fee is not included in the financial statements of Devon Pension Fund as it is payable by BPP.</p> |
| IAS 19 Assurance letters for Admitted bodies      | 19,000 | Self-Interest (because this is a recurring fee) | <p>The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £19,000. This is not significant in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.</p>                                  |

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.

Appendices

# A. Action plan – Audit of Financial Statements

We have identified a number recommendations for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2022/23 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                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| High       | The Head of Investments prepares the journals for the investment balances and send the details to the Senior Accountant (Strategy) to be posted on the system. The Head of Investments then authorises the journals that have been posted, meaning that these journals are in effect being self-authorised. This is a significant control weakness as it represents management override of controls. | <p>The Pension Fund must introduce appropriate controls for its investment journals that originate from the Investments database, ensuring that there is appropriate segregation of duties between the originator of the journal and the approver.</p> <p><b>Management response</b></p> <p>There are at least two officers involved in the processing and authorising of these journals. Management considers the control environment to be robust.</p>      |
| High       | As previously reported in 2020/21, there are inadequate controls over the use of the “200” IDs used by two senior officers to post and approve journals over £200k.                                                                                                                                                                                                                                  | <p>The Council should introduce enhanced controls over the authorisation of its journals to ensure there is adequate segregation of duties and appropriate IT access controls.</p> <p><b>Management response</b></p> <p>There are at least two officers involved in the processing and authorising of these journals. Management considers the control environment to be robust. Manual controls are still valid, even if they are not built into FINEST.</p> |

## Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

# A. Action plan – Audit of Financial Statements (continued)

| Assessment | Issue and risk                                                                                                                                                                                                                                                                                                                                                                                        | Recommendations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Medium     | The transactions and balances for the investments originate from a Microsoft Access database that was designed by the Head of Investments. No other members of staff use or understand the database, it is not easy to link the output to the input, and reconciliations are not routinely performed or recorded.                                                                                     | <p>The Pension Fund should review its arrangements for recording the transactions and balances for its investments to ensure that the knowledge of how the database works does not reside with one key officer. Reconciliations should be performed periodically to ensure the integrity of the data within the Access database, with consideration being given potential replacement arrangements given that Microsoft Access is not widely used.</p> <p><b>Management response</b></p> <p>The transactions and balances originate from excel reports provided by the Fund Custodian. The Access database is used to allocate the balances and transactions to Finest account codes to upload to the DCC ledger. Action is taken to reconcile the journal transactions and the balances on the Finest ledger back to the original Fund Custodian report, both before and after the journal entries are processed to ensure that Finest reconciles to the Custodian's accounting records. The database automates a process which would otherwise need to be a more manual process and more likely to result in errors. The Council is currently looking to purchase a new general ledger system to replace Finest. This may provide the opportunity to update the process by which the transactions and balances from the Fund Custodian are recorded within the Council's ledger.</p> |
| Low        | Note 12 – Key management personnel - is not in the format suggested in the CIPFA example accounts, which includes disclosure of short term benefits, post employment benefits, other long-term benefits and termination benefits for key management personnel. The note also does not disclose elected members as key management personnel, although the figures includes costs for relevant members. | <p>The Pension Fund should review the note for 2022/23 to ensure it discloses the costs of the Fund has determined to be the key management personnel, considering the format of the note in line with that suggested in the CIPFA example accounts.</p> <p><b>Management response</b></p> <p>The note gives full disclosure of the relevant information, and complies with the Code. We will consider the practicalities and costs of revising the approach for next year's accounts.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |

## Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice



## B. Follow up of prior year recommendations

We identified the following issues in the audit of Devon Pension Fund's 2020/21 financial statements, which resulted in one recommendation being reported in our 2020/21 Audit Findings report. We have followed up on the implementation of our recommendations and note that it is still to be completed.

| Assessment | Issue and risk previously communicated                                                                                                                                                                                                                                                                                                       | Update on actions taken to address the issue                                                                                                                   |
|------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| X          | <p><b>Journals</b></p> <p>We identified a significant control weakness regarding the processes in place for journals above £200k.</p> <p>We recommended that the Council should introduce enhanced controls over the authorisation of its journals to ensure there is adequate segregation of duties and appropriate IT access controls.</p> | <p>Management have introduced some additional manual compensating controls, although these do not address the underlying control weakness. See Appendix A.</p> |

### Assessment

- ✓ Action completed
- X Not yet addressed

# C. 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 2022.

| Detail                                                                                                                                                                                                                                                                                                                                  | Pension Fund Account<br>£'000 | Net Asset Statement<br>£' 000                          | Impact on total <b>net assets</b> £'000 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|--------------------------------------------------------|-----------------------------------------|
| The net assets statement included derivative assets of £3,232k and derivative liabilities of (£5,535), a net liability of (£2,303). The supporting evidence showed that there was no asset, with there being a liability of (£2,303). The gross figures were therefore incorrect but the net impact on the Net Assets Statement is nil. | -                             | Derivative Asset (3,232)<br>Derivative liability 3,232 | Nil                                     |
| <b>Overall impact</b>                                                                                                                                                                                                                                                                                                                   | <b>Nil</b>                    | <b>Nil</b>                                             | <b>Nil</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                 | Detail                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Adjusted? |
|----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| Note 23 – Hedge Accounting | The hedge accounting note has been removed from the financial statements as the Pension Fund does not apply hedge accounting to any of its investments.                                                                                                                                                                                                                                                                                                                                                                                                      | ✓         |
| Note 8 – Audit Fees        | Additional disclosures have been added to the note to reflect the updated audit fee position for 2021/22 and 2020/21.                                                                                                                                                                                                                                                                                                                                                                                                                                        | ✓         |
| General                    | Management provided an initial draft set of financial statements on 4 July 2002 in order for the audit to commence. The final draft financial statements were authorised for issue by the s.151 officer on 27 July 2022 and incorporated a number of amendments to correct disclosure and presentational issues. Our audit has identified a number of other amendments have been made to the draft accounts to correct minor disclosure and presentational issues. These issues do not warrant being individually reported to Those Charged with Governance. | ✓         |

# C. Audit Adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 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<br>£'000 | Net Asset Statement<br>£' 000 | Impact on total net assets<br>£'000 | Reason for<br>not adjusting                                                                          |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|-------------------------------|-------------------------------------|------------------------------------------------------------------------------------------------------|
| Due to the timing of fund manager reports the Fund has used the most recent information available for level 3 investments, which in some cases is the valuation report dated 31 December 2021. As part of our audit procedures we have reviewed the 31 March 2022 reports that were available at the time of audit, after the draft financial statements were submitted. This work highlighted that the value of these investments had increased by £12.5m and therefore that the estimate as at the 31 March 2022 was understated by this amount. We have reported this as an unadjusted misstatement but recognise that the draft financial statements were produced using the most up to date information. | 12,534                        | 12,534                        | 12,534                              | The difference is immaterial, and relates to a timing difference in the availability of information. |
| A number of level 2 investments had differences in valuations at 31 March 2022 due to timing of audited financial statements or other trivial differences. Our work is still in progress in this area, however the collective value of the differences at the time of drafting the report of £8,825k represents an immaterial unadjusted misstatement.                                                                                                                                                                                                                                                                                                                                                        | 8,825                         | 8,825                         | 8,825                               | The difference is immaterial, and relates to a timing difference in the availability of information. |
| <b>Overall impact</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | <b>£25,172</b>                | <b>£25,172</b>                | <b>£25,172</b>                      |                                                                                                      |

# D. Fees

We confirm below our final fees charged for the audit and the provision of non-audit services.

| Audit fees                              | Proposed fee   | Final fee      |
|-----------------------------------------|----------------|----------------|
| Pension Fund Audit                      | 38,374         | 38,374         |
| <b>Total audit fees (excluding VAT)</b> | <b>£38,374</b> | <b>£38,374</b> |

Reconciliation of audit fees to the financial statements:

- £31k - fees per financial statements (Note 8)
- £7K – additional fees not approved by PSAA before completion of accounts
- £38k - total fees per above

| Non-audit fees for other services                  | Proposed fee   | Final fee      |
|----------------------------------------------------|----------------|----------------|
| <b>Audit Related Services</b>                      |                |                |
| Audit of Brunel Pension Partnership Limited (BPP)* | 40,000         | 40,000         |
| IAS19 Assurance letters for Admitted Bodies        | 10,000         | 19,000         |
| <b>Total non-audit fees (excluding VAT)</b>        | <b>£50,000</b> | <b>£59,000</b> |

\*Please note that this fee is not included in the financial statements of Somerset Pension Fund as it is payable by BPP.

The variation between the proposed and final fee for the IAS 19 assurance letters is due to a national rebasing of fee, reflecting the increased level of work required to inform and prepare these assurances.

# E. Audit opinion

Our draft audit opinion is included below.

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

## Independent auditor's report to the members of Devon County Council on the pension fund financial statements of Devon Pension Fund

### Opinion

We have audited the financial statements of Devon Pension Fund (the 'Pension Fund') administered by Devon County Council (the 'Authority') for the year ended 31 March 2022 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2022 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

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

## Conclusions relating to going concern

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

In our evaluation of the Director of Finance and Public Value's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

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

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

The responsibilities of the Director of Finance and Public Value with respect to going concern are described in the 'Responsibilities of the Authority, the Director of Finance and Public Value and Those Charged with Governance for the financial statements' section of this report.

# E. Audit opinion (continued)

## Other information

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

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

We have nothing to report in this regard.

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

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

## Matters on which we are required to report by exception

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

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

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

## Responsibilities of the Authority, the Director of Finance and Public Value and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance and Public Value. The Director of Finance and Public Value is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance and Public Value determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

# E. Audit opinion (continued)

In preparing the Pension Fund's financial statements, the Director of Finance and Public Value is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Pension Fund will no longer be provided.

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

## **Auditor's responsibilities for the audit of the financial statements**

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

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

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

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- We enquired of senior officers and the Audit Committee, concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
  - Large and unusual journals
  - Journals posted by senior officers



# E. Audit opinion (continued)

- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Director of Finance and Public Value has in place to prevent and detect fraud;
  - journal entry testing, with a focus on large and unusual journals and those posted by senior officers;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of level 3 investments and IAS 26 pensions liability valuations;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition.
- Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government pensions sector
  - understanding of the legal and regulatory requirements specific to the Pension Fund including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.

- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

## Use of our report

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

Julie Masci, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor  
Bristol



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