



Informing the audit risk assessment for Devon Pension Fund 2022/23



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 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 your business or any 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.

Table of Contents

Section	Page
Purpose	4
General Enquiries of Management	6
Fraud	9
Fraud Risk Assessment	10
Laws and Regulations	15
Impact of Laws and Regulations	16
Related Parties	18
Going Concern	20
Accounting Estimates	22
Accounting Estimates - General Enquiries of Management	23
Appendix A – Accounting Estimates	26

Purpose

The purpose of this report is to contribute towards the effective two-way communication between Devon Pension Fund's external auditors and Devon Pension Fund's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

For this report, we have called the Audit Committee 'those charged with governance', however we appreciate the Investment & Pension Fund Committee fulfils much of the responsibility normally associated with an Audit Committee. Where we have used the term Audit Committee, this term should be considered as either the Audit Committee and/or Investment & Pension Fund Committee. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Purpose

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Pension Fund's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

This report includes a series of questions on each of these areas and the response we have received from Pension Fund's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2022/23?	<ul style="list-style-type: none"> • Negative investment returns resulting from geo-political instability, rising inflation and rising interest rates. • Outcome of triennial actuarial valuation.
2. Have you considered the appropriateness of the accounting policies adopted by Devon Pension Fund? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?	There are very few changes to CIPFA's Code of Practice for 2022/23. Consequently, the Authority's accounting policies are largely unchanged from the previous year.
3. Is there any use of financial instruments, including derivatives? If so, please explain	Significant value of financial instruments. Some use of forward currency contracts.
4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?	There have been no significant transactions outside the normal course of business.

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	Management is not aware of any material changes in circumstances that would lead to impairment of non-current assets in the Pension Fund.
6. Are you aware of any guarantee contracts? If so, please provide further details	Management is not aware of any material guarantee contracts related to the Pension Fund.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	Management is not aware of any material loss contingencies and/or un-asserted claims in relation to the Pension Fund.
8. Other than in house solicitors, can you provide details of those solicitors utilised by the Pension Fund during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Nigel Giffin KC has provided advice in relation to a contributions payment received in 2019/20, in relation to discussions around the accounting treatment adopted by the employer for the payment. This is not relevant to the financial statements for 2022/23.

General Enquiries of Management

Question	Management response
9. Have any of the Pension Fund's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	Management is not aware of any attempted frauds regarding the Pension Fund.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Link Asset for Treasury Management Barnett Waddingham for actuarial advice and valuations
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	Management has not identified any assets where material credit / loss provisions may be required.

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Devon Pension Fund's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Devon Pension Fund's management.

Fraud risk assessment

Question	Management response
<p>1. Has Devon Pension Fund assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Pension Fund's risk management processes link to financial reporting?</p>	<p>The risk of material misstatement due to fraud is assessed as low.</p> <p>There is regular monitoring of budgets which would identify any material variances.</p> <p>There are controls within systems that require more than one employee to be involved in the processing and authorisation of any material transactions –such as payments.</p> <p>The financial statements are reviewed by the Director of Finance and Public Value and other members of the Finance Leadership Team.</p> <p>Reconciliations are carried out between Finest and data held by the Fund Custodian.</p> <p>Internal Audit reviews the system of internal controls and the main accounting systems. Devon Audit Partnership (DAP) provides a regular update to the Audit Committee regarding its work and key findings. DAP is due to present its annual report on the Pension Fund for 2022/23 to the Investment and Pension Fund Committee on 16 June.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Bank mandate fraud, and fraud related to the impersonation of senior officers, both continue to be areas of concern. The sophistication of fraudsters attacks has increased, and there is a continued risk to the authority of such scams not being identified.</p> <p>No significant risk of fraud to the Statement of Accounts or disclosures has been identified.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Devon Pension Fund as a whole, or within specific departments since 1 April 2022? If so, please provide details</p>	<p>No significant risk of fraud to the Statement of Accounts or disclosures has been identified.</p>

Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>The internal audit team maintain a record of incidents that have occurred during the year. This can be provided to external audit on request.</p> <p>The Pension Fund Risk Register is reviewed on a quarterly basis by the Pension Board and annually by the Investment and Pension Fund Committee.</p>
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Devon Pension Fund where fraud is more likely to occur?</p>	<p>Bank mandate fraud, and fraud related to the impersonation of senior officers, both continue to be areas of concern. The sophistication of fraudsters attacks has increased, and there is a continued risk to the authority of such scams not being identified.</p> <p>Additional guidance and awareness training have been provided to front line Finance staff, and other support staff (such as school admin personnel) to increase their awareness of such threats and how to respond to concerns that they may have.</p> <p>Management has not identified any particular locations where fraud is more likely to occur.</p>

Fraud risk assessment

Question	Management response
<p>6. What processes do Devon Pension Fund have in place to identify and respond to risks of fraud?</p>	<p>Awareness is key to identifying the possibility of fraud and as such it is essential that staff are aware of the possibility of fraud within their working environment. We have an e-learning “fraud awareness” module in place to help managers increase their fraud awareness.</p> <p>Our internal audit team, Devon Audit Partnership (DAP) issues regular fraud bulletins to raise awareness of the possibility of fraud; identify the circumstances of their occurrence and the controls that should be in place and adhered to by staff to minimise the risk of similar frauds taking place within the authority.</p> <p>Where areas of fraud risk are identified, these are reviewed by management and subject to audit review to ensure the controls in place are fit for purpose and being adhered to.</p> <p>All allegations of fraud are taken seriously and are investigated promptly by management in conjunction with Internal Audit, HR and Legal Services as applicable.</p> <p>The annual internal audit plan includes time for fraud prevention, detection and investigation. This plan is subject to annual review and takes into account any areas of concern which have been raised by colleagues within other local authorities, or national initiatives in areas where fraudsters are known to operate.</p> <p>Through the work undertaken by Internal Audit, Trading Standards and various law enforcement partners, all significant findings are advertised via the media and the public website to raise awareness of the implications of what can happen to a fraudster if they are found out and a conviction successfully obtained.</p> <p>Bank mandate fraud, and fraud related to the impersonation of senior officers, both continue to be areas of concern. The sophistication of fraudsters attacks has increased, and there is a continued risk to the authority of such scams not being identified. Additional guidance and awareness training have been provided to front line Finance staff, and other support staff (such as school admin personnel) to increase their awareness of such threats and how to respond to concerns that they may have.</p> <p>In May 2018 the former Counter Fraud team of Plymouth City Council joined DAP. This enables DCC to access a range of specialist services, including 7 qualified Counter Fraud Specialists. In addition, the internal audit team contains a number of audit professionals (27 staff), who are trained at designing systems and controls to prevent and detect fraud and to investigate this should it arise.</p>

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Devon Pension Fund, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>Management considers that there is a strong control environment for Devon County Council and Devon Pension Fund.</p> <p>Segregation of duties is embedded in the control environment and for each major financial system.</p> <p>Devon Audit Partnership undertakes a thorough programme of internal audit reviews and reports the key findings of each audit and its overall conclusion to the Audit Committee. In its annual report to the Audit Committee in June 2022 it concluded that there was “Reasonable Assurance” on the adequacy and effectiveness of the internal control framework within the County Council.”</p> <p>There are controls within systems that require more than one employee to be involved in the processing and authorisation of any material transactions –such as payments. The financial statements are reviewed by the Director of Finance and Public Value and other members of Finance Leadership Team.</p> <p>Management has not identified any particular areas for increased risk of override of controls or inappropriate influence over the financial reporting process. There is regular monitoring of income and expenditure against the budget. Summary reports are provided to members</p> <p>At year end overall financial performance in the financial statements is reconciled back to the Outturn Report reported to Cabinet.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>Management has not identified specific areas where there would be fraudulent misreporting in the financial statements.</p>

Fraud risk assessment

Question	Management response
<p>9. How does Devon Pension Fund communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>These are communicated through messages via the Insider publication, Core Briefings, senior management team meetings etc. as part of the management process.</p> <p>In addition, guidance is available to staff on the relevant policies around business practices and ethical behaviour; including within the Code of Business Conduct the need to be transparent and register gifts and hospitality offered but declined.</p> <p>A short training and awareness session has recently been produced by our Counter Fraud Team and can be found on DEL (Devon Learning) under the Essentials for All category.</p> <p>There is a new E learning session on fraud. https://inside.devon.gov.uk/news/are-you-fraud-aware/</p> <p>Our Anti-Money Laundering Policy has recently been updated(SharePoint Private) and we encourage all employees, especially those involved with financial transactions, to make themselves aware of the policy.</p> <p>We have prepared a short training video with the aim of raising awareness of our Anti-Money Laundering Policy. Anti Money Laundering Guide for Council Staff -YouTube</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>The Authority has in place controls to reduce the risk of fraud –including segregation of duties. Controls are reviewed by Devon Audit Partnership and any significant weaknesses are reported to the Audit Committee.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>The Authority is not aware of any related party relationships or transactions that could give rise to instances of fraud.</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>When preparing the annual internal audit plan, the internal audit provider (Devon Audit Partnership) will bring to the attention of the audit committee the important role that members play in setting a zero-tolerance approach for fraud.</p> <p>When undertaking internal audit assignments all auditors will assess the control environment against the threat of fraud and corruption. Auditors will assess the effectiveness of controls in place to prevent and detect fraud and make recommendations for further improvement if required.</p> <p>The internal audit plan will refer to time set aside to respond and investigate concerns / allegations of fraud and corruption.</p> <p>Internal Audit (Devon Audit Partnership) provides reports to the Audit Committee on a six monthly and annual basis; part of this report refers to counter fraud arrangements.</p> <p>The reports will refer to counter fraud work (such as the National Fraud Initiative) and provide a summary of the frauds / irregularities that the Authority has faced in the year. As this is a public report, details of the frauds are reported at a summary level, but more details can be provided to members if they request. In addition, DAP will also take the annual audit plan for review to both the Devon Pension Board and the Investment and Pension Fund Committee.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>The County Solicitor has overall responsibility for the maintenance and operation of the whistleblowing policy and to ensure that a central record is kept for all referrals.</p> <p>Internal Audit maintains a record of referrals of any financial irregularities include whistleblowing. Each year a copy of this record is provided to external audit.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>No reports been made under the Bribery Act.</p>

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that Devon Pension Fund's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Devon Pension Fund have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Pension Fund's regulatory environment that may have a significant impact on the Pension Fund's financial statements?</p>	<ul style="list-style-type: none"> • Regular review of internal processes and controls, including TPR Code of Practice toolkit and internal audit review. • Annual breaches report created and presented to the Devon Pension Board. • Robust risk register is in place which is reviewed regularly and presented to the Devon Pension Board on a quarterly basis.
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>In the event of litigation or claims, Peninsula Pensions work closely with the relevant authority, Director of Finance and Public Value and the DCC in-house legal team. The majority of claims in respect of pensions administration are dealt with via the Internal Dispute Resolution Procedure.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2022 with an on-going impact on the 2022/23 financial statements? If so, please provide details</p>	<p>Management is not aware of non-compliance with any laws and regulations.</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p>	<p>Management is not aware of any actual or potential litigation or claims that would affect the financial statements</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does Devon Pension Fund have in place to identify, evaluate and account for litigation or claims?	In the event of litigation or claims, Peninsula Pensions work closely with the relevant authority, Director of Finance and Public Value and the DCC in-house legal team. The majority of claims in respect of pensions administration are dealt with via the Internal Dispute Resolution Procedure.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	An in-depth review of the Devon Pension Fund was conducted by The Pension Regulator in 2018/19 which found no issues of non-compliance. We are not aware of any issues of non-compliance.

Related Parties

Matters in relation to Related Parties

Devon Pension Fund are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Devon Pension Fund;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Pension Fund;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Pension Fund, or of any body that is a related party of the Pension Fund.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Pension Fund's perspective but material from a related party viewpoint then the Pension Fund must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Devon Pension Fund's 2021/22 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> • the nature of the relationship between these related parties and Devon Pension Fund • whether Devon Pension Fund has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions. 	<p>Each year the note to the Statement of Accounts is updated for any changes to related parties. This note is comprehensive.</p>
<p>2. What controls does Devon Pension Fund have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Chief Officers (Chief Executive and those reporting to the Chief Executive) and Councillors are contacted in March and asked to disclose any related party relationships. The ledger is interrogated for any transactions with disclosed organisations. If responses have not been received then reminders are issued and further reminders if required. Where responses are not forthcoming then the Register of Interests is reviewed by Finance to identify potential disclosures. Non-DCC Members of the Investment and Pension Fund Committee are also contacted.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Significant transactions are subject to authorisation –whether they are with related parties or not. There is segregation of duties –one officer will process claims and another will approve them according to the Council's Scheme of Delegation.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>The Pension Fund operates the same financial controls to significant transactions regardless of whether or not the transactions are of a regular nature or a one-off.</p>

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, 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 body'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.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Devon Pension Fund will no longer continue?</p>	<p>The Council is required to act as the administering authority of the pension fund by the Local Government Act 1972, and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require that the funds held are invested. There are no indications that this will be changed.</p> <p>Peninsula Pensions provide a benefits administration service for the Devon Pension Fund but are a DCC in-house team. There are no plans or proposals to outsource the services provided by Peninsula Pensions.</p> <p>Management of the Fund's investment allocations, previously outsourced to a variety of external investment managers is now 95% managed by the Brunel Pension Partnership, a company owned jointly by 10 LGPS administering authority, including DCC. Brunel make available a variety of different investment funds for the DCC Pension Fund to invest in.</p>
<p>2. Are management aware of any factors which may mean for Devon Pension Fund that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>The Authority is not aware of any factors which mean that statutory services will no longer be provided.</p>

Going Concern

Question	Management response
<p>3. With regard to the statutory services currently provided by Devon Pension Fund, does Devon Pension Fund expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Devon Pension Fund to cease to exist?</p>	<p>The CIPFA Code for Local Authority Accounting requires the Statement of Accounts to be prepared on a going concern basis.</p> <p>“...Going concern assumption</p> <p>2.1.2.9 Going concern – an authority’s financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future (see also paragraph 3.4.2.23 for bodies that follow the Code but may be discontinued without statutory prescription). Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern....”</p> <p>There is no reason whatsoever why there would be any departure from this basis. Management is satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements.</p>
<p>4. Are management satisfied that the financial reporting framework permits Devon Pension Fund to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p>	

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	The notes to the Pension Fund Statement of Accounts will set out the estimations of uncertainty. As per note 3 of the 21/22 Statement of Accounts, these are unlisted assets (namely private equity, infrastructure and debt funds) and Actuarial present value of promised retirement benefits.
2. How does the Pension Fund's risk management process identify and address risks relating to accounting estimates?	Key uncertainties will be set out in the notes to the accounts (see Note 3 of the 21/22 Statement of Accounts). The material assumptions affect the fund investments assets pooled funds and the net liability to pay pensions.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	<p>The Authority would only consider that there was a need to change accounting estimates if this was required by a change to the Code or errors identified with the accounts.</p> <p>The Authority has not identified any issues that would require the need to change the method of calculating accounting estimates.</p>
4. How do management review the outcomes of previous accounting estimates?	<p>Where the valuation of pooled infrastructure funds in the following period differs significantly from estimates in the Statement of Accounts then the impact would be identified in the following year and reported in the Investment Management Briefing report.</p> <p>Actuarial present value of promised retirement benefits estimations are done on a yearly basis and changes would be reported in the following years pension Funds statement of Accounts.</p>
5. Were any changes made to the estimation processes in 2022/23 and, if so, what was the reason for these?	<p>We do not expect to make changes to the estimation processes in 2022/23.</p> <p>Actuarial roll forward data will have been refreshed as part of the triennial valuation.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>Management assigns work to appropriately qualified staff with the required skills. If those skills or qualifications are not available in-house then the specialised services will be sought externally.</p> <p>For the assessments of the pooled funds the external fund managers prepare these valuations in accordance with International Private Equity and Venture Capital Valuation Guidelines.</p> <p>In order to assess the Funded Obligations and issue an IAS26 report under International Accounting Standard 19 then specialist actuarial skills have been commissioned from a registered actuary, Barnett Waddingham.</p>
<p>7. How does the Pension Fund determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>The Pension Fund Accounts use fair values as per accounting code requirements. The Pension Fund uses only recognised and certified external organisations who have the specialised services and skills to undertake the work.</p>
<p>8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>If there are unexpected variances or movements on balances then management will make enquiries of the expert, but the Authority relies on the professional experience and qualifications of the experts –hence why they are commissioned. The actuary and fund managers are commissioned to provide estimates for which there is no suitably qualified in-house resources.</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>Management reports any uncertainties about assumptions used to the Investment Committee. The Pension fund Statement of accounts, which includes the estimates of the Actuary and the fund managers, are presented to the Audit Committee.</p> <p>The Code prescribes the accounting policies which are to be used and are disclosed in the accounts.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	Appendix A sets out the significant accounting estimates.
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	The management arrangements for the accounting estimates, as detailed in Appendix A is reasonable.
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	The Director of Finance and Public Value certifies the Statement of Accounts presents a true and fair view and the Audit Committee receives a report from external audit regarding the findings of its work.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Level 2 investments	NAV based pricing, where prices are published and/or are based on valuation of underlying assets which are listed on a public exchange.	Market conditions, historical data and financial projections.	External Fund Managers and independent investment advisors.	The Pension Fund accounts sets out material uncertainties.	No
Level 3 investments	Based on cash flow analysis and comparable transaction multiples in accordance with the International Private Equity and Venture Capital Valuation Guidelines.	Market conditions, historical data and financial projections.	External Fund Managers and independent investment advisors.	The Pension Fund accounts sets out material uncertainties.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of Actuarial Present Value of Promised Retirement Benefits	This has been assessed using projected unit credit method, an estimation of the pensions that will be payable in future years dependant on assumptions on mortality rates(CMI 2020 model), rate of inflation, discount rate and rate of increase for salaries and pensions.	Every three years the actuary performs triennial valuations, the most recent being 31stMarch 2019. Actuary uses a roll-forward method to update the estimate.	Registered Actuary – Barnett Waddingham LLP	It is not possible to assess the accuracy of the estimated liabilities, without completing a full valuation. Using the roll-forward approach should not introduce any material distortions.	No



grantthornton.co.uk

© 2022 Grant Thornton UK LLP

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.