

# The Audit Findings Report for Devon Pension Fund

**Year ended 31 March 2023**

26 January 2024



# Contents



## Your key Grant Thornton team members are:

### Peter Barber

Key Audit Partner

E peter.a.barber@uk.gt.com

### David Bray

Senior Manager

E david.bray@uk.gt.com

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This Audit Findings 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. Its contents have been discussed with management.

Name: Peter Barber  
For Grant Thornton UK LLP  
Date: 26 January 2024

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 2023 for the attention of 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 transactions of the Pension Fund during the year ended 31 March 2023 and of the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay promised retirement benefits after the end of the fund 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.

We commenced our post-statements audit in June 2023 and provided an update on the progress of the audit to the County Council's Audit Committee on 27 November 2023. At that time our audit was substantially complete.

Our work has now been finalised and we expect to issue an unqualified opinion on the Pension Fund's financial statements for the year ended 31 March 2023 shortly after the Audit Committee meeting on 28 February 2024. Please see Appendix F for our proposed audit opinion.

This year we undertook the audit remotely utilising a pooled pension team across our five Local Government Pension Fund audits in the South West. Our findings are summarised on pages 5 to 16.

Changes to the national timetable brought forward the accounts production date from 31 July 2022 (in 2021/22) to 31 May 2023. The Pension Fund's draft financial statements were provided to us on 29 June 2023, in advance of our post-statements audit.

The financial statements were prepared to a good standard and were supported by good quality working papers. Once again, the work required to discharge our responsibilities has increased. This additional work reflects the continuous raising of the bar and us as auditors providing greater challenge to the Pension Fund especially in the areas subject to greatest estimation and uncertainty.

We did not identify any material errors or adjustments to the financial statements and the small number of audit adjustments are detailed in Appendix C.

Our follow up of recommendations from the prior year's audit are detailed in Appendix B and we are pleased to report that these have both been addressed.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.

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 and we also expect to be in a position to issue this shortly after the Audit Committee meeting on 28 February 2024.

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# 1. Headlines

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## National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 1% (5 of 467) of local government bodies had received audit opinions in time to publish their 2022/23 accounts by the deadline of 30 September 2023. Although the Devon Pension Fund 2022/23 audit was substantially complete in November 2023, we were unable to issue our opinion until we had completed our audit for the administering body, Devon County Council.

We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see [About time? \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/about-time/)

We would like to thank everyone at the Pension Fund for their support in working with us to get to the current state of completion by this point.

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## Local context - triennial valuation

Triennial valuations for local government pension funds have been published. These valuations, which are as at 31 March 2022, provide updated information regarding the funding position of the Pension Fund and set employer contribution rates for the period 2023/24 – 2025/26.

For the Pension Fund, the valuation was undertaken by Barnett Waddingham, and showed that the Fund had assets sufficient to cover 98% of the accrued liabilities as at 31 March 2022, which has increased from 91% at the 2019 valuation. The results of the latest triennial valuation are reflected in Note 22 to the financial statements. These valuations also provide updated information for the net pension liability on employer balance sheets.

We have performed testing of the completeness and accuracy of triennial valuation source data. This was to support our work providing assurances to auditors of employer bodies. As part of this work, we tested a sample of 50 and found the source data to be complete and accurate. This additional testing is only required after each triennial review, rather than annually. Please see Appendix D for the impact of this work on our 2022/23 audit fee.

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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.

For Devon Pension Fund, the Audit Committee of Devon County Council fulfils the role of those charged with governance.

The Investment and Pension Fund Committee considers the draft financial statements and is part of the overall Member oversight process.

## 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 Devon County Council's Audit Committee on 25 September 2023.

## Conclusion

Our audit work is complete and we anticipate issuing an unqualified audit opinion shortly after the Audit Committee meeting on 28 February 2024.

The final concluding tasks include:

- receipt of management representation letter – please see page 13; and
- final enquiries re subsequent events.

## Acknowledgements

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

## 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.

Materiality levels remain the same as reported in our audit plan on 25 September 2023. We set out in this table our determination of materiality for the Pension Fund.

	Pension Fund Amount	Qualitative factors considered
Materiality for the financial statements (headline)	£66.4m	We considered the proportion of net assets to the Fund to be an appropriate benchmark for the financial year. This is approximately 1.25% of your gross assets as at 31 March 2023.
Performance materiality	£46.4m	We have determined this using 70% of headline materiality. In prior years we have identified issues with regards to journals controls and also there were unadjusted errors with the 21/22 accounts which arose due to timing differences. In addition, the management and finance team remain stable.
Trivial matters	£3.3m	This is based on 5% of headline materiality, which we consider to be an appropriate threshold to use in terms of our reporting to the Audit Committee as 'Those Charged with Governance'.
Materiality for fund account	£24.5m	Due to the sensitivity of the fund account disclosures to those stakeholders who are admitted members of the Fund, we have determined a lower materiality threshold over the relevant fund account disclosures. This is approximately 10% of the fund's expenditure in the year to 31 March 2023.



## 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
<p><b>Management override of controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• evaluated the design and implementation of management controls over journals</li> <li>• analysed the journals listing and determined the criteria for selecting high risk unusual journals</li> <li>• identified potentially unusual journals made during the year and the accounts production stage for appropriateness and corroboration</li> <li>• tested the potentially unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness</li> <li>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul> <p>Our approach to the testing of journals in 2022/23 reflected the control deficiencies reported in 2021/22. These issues have been satisfactorily addressed and there are no issues from our work that we wish to bring to the Audit Committee's attention. Please also see our IT findings (page 12) and our follow-up of the prior year's recommendations (Appendix B, page 21).</p>

## 2. Financial Statements: Significant risks

### Risks identified in our Audit Plan

### Commentary

#### Valuation of Level 3 investments

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

By their nature, Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

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

Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2023.

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

We have:

- evaluated management's processes for valuing Level 3 investments;
- reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments to ensure that the requirements of the Code are met;
- independently requested year-end confirmations from investment managers and custodians;
- for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2023 with reference to known movements in the intervening period; and
- in the absence of available audited accounts, we evaluated the competence, capabilities and objectivity of the valuation expert.

Our work in this area is complete and there are no concerns we wish to bring to the Audit Committee's attention. However, we note the following:

- Our testing did identify some trivial valuation differences within individual valuations, although these were often due to timing differences – for example, the investment's financial statements may be up to 31 December 2022 whereas the Pension Fund is reporting to 31 March 2023.
- There was one investment (£16.6m) where audited financial statements were not available and so we reviewed the service auditor report. Overall, we are satisfied this investment is not materially misstated.



## 2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
<b>Improper revenue recognition (rebutted)</b>	<p>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:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Devon Pension Fund, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>We therefore did not consider this to be a significant risk for Devon Pension Fund when producing our audit plan.</p> <p>We have reconsidered our original assessment as part of our audit work on the Pension Fund's financial statements and are satisfied that this rebuttal remains appropriate.</p>
<b>Improper expenditure recognition (rebutted)</b>	<p>Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states:</p> <p>"As most public bodies are net spending bodies, then 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".</p> <p>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.</p> <p>We have rebutted this presumed risk for Devon Pension Fund because:</p> <ul style="list-style-type: none"> <li>• expenditure is well controlled and the Fund has a strong control environment; and</li> <li>• the Fund has clear and transparent reporting of its financial plans and financial position to those charged with governance.</li> </ul> <p>We therefore did not consider this to be a significant risk for Devon Pension Fund when producing our audit plan.</p> <p>We have reconsidered our original assessment as part of our audit work on the Pension Fund's financial statements and are satisfied that this rebuttal remains appropriate.</p>

## 2. Financial Statements: key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<b>Level 3 Investments – £687m</b>	<p>The Pension Fund has investments in a range of areas that in total are valued on the net asset statement as at 31 March 2023 at £687m (PY: £463m). These investments include UK and Overseas Unit Trusts (Venture Capital and Partnerships).</p> <p>These investments are not traded on an open exchange or market and the valuation of the investment is highly subjective due to a lack of observable inputs. Note 19 to the Pension Fund's financial statements sets out the basis of the valuations for the Level 3 investments.</p> <p>In order to determine the value, management has employed expert fund managers and other advisors who have the necessary experience and technical expertise to ensure the correct valuation of these investments in the year end accounts.</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>As noted on page 8, our testing identified some trivial valuation differences within individual valuations, although these were often due to timing differences – for example, the investment's financial statements may be up to 31 December 2022 whereas the Pension Fund is reporting to 31 March 2023.</p> <p>There are no concerns we wish to bring to the Audit Committee's attention.</p>	Light Purple

### 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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<b>Level 2 Investments – £4,564m</b>	<p>The Pension Fund has investments in a range of areas that in total are valued on the net asset statement as at 31 March 2023 at £4,564m (PY: £4,882m). These investments include pooled property funds and other managed funds.</p> <p>The investments are not directly traded on an open exchange / market as they may be restricted, for example, to Pension Funds that sit within the Brunel arrangement. The valuation of these investments is subjective, although valuations are based on observable inputs and so are not as subjective as Level 3 investments.</p> <p>Note 19 to the Pension Fund's financial statements sets out the basis of the valuations for the Level 3 investments.</p> <p>In order to determine the value, management has employed expert fund managers and other advisors who have the necessary experience and technical expertise to ensure the correct valuation of these investments in the year end accounts.</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 changes in the estimate; and</li> <li>reviewed the reasonableness of the sensitivities disclosed in the estimates section of the accounting policy.</li> </ul> <p>Our audit work has not identified any issues in respect of the valuation of Level 2 investments</p>	Light Purple









### 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: Information Technology

Our IT auditors have assessed the IT arrangements in place at the County Council (as administering body for the Pension Fund) and the Pension Fund itself.

This section provides an overview of results from that assessment of the Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas. For further detail of the IT audit scope and findings please see separate 'IT Audit Findings' report.

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating				Related significant risks/other risks	Additional procedures carried out to address risks arising from our findings
			Security management	Technology acquisition, development and maintenance	Technology infrastructure			
FINEST	Design effectiveness only					Management override of controls	Seven users with privileged access were identified. We reviewed the journals processed in the year and only two of these users had processed journals. None were above triviality, with the largest value being £1.9m. There is no evidence of management override of controls.	
Altair	Design effectiveness only					Contributions and benefits payments Member data	None.	

### Assessment

-  Significant deficiencies identified in IT controls relevant to the audit of financial statements
-  Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
-  IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
-  Not in scope for testing

## 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 management and the Chair of 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 supporting Committee papers.
<b>Audit evidence and explanations</b>	All information and explanations requested from management was provided.

## 2. Financial Statements: other communication requirements



Issue	Commentary
Confirmation requests from third parties	<p>We requested permission from management to send confirmation requests to the Pension Fund's custodian, fund managers and investment managers.</p> <p>This permission was granted and the requests were sent.</p> <p>All requested information that is available has now been provided, although we did experience some delays as, initially, audited financial statements for some investments had not been published.</p> <p>As noted on page 8, there was one investment (£16.6m) where audited financial statements were not available and so we reviewed the service auditor report. Overall, we are satisfied this investment is not materially misstated.</p>
Accounting practices	<p>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.</p>

## 2. Financial Statements: other communication requirements



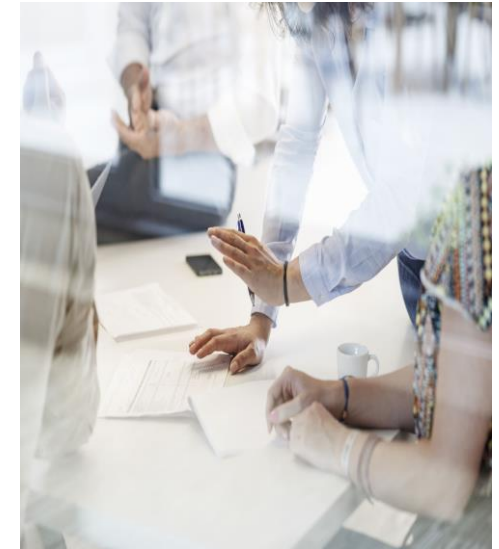
### Our responsibility

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.</p> <p>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
Other information	<p>The Pension Fund is administered by Devon County Council (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements. We are required to read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.</p> <p>No inconsistencies have been identified within the draft financial statements and we plan to issue an unmodified opinion in this respect – refer to Appendix F.</p>
Matters on which we report by exception	<p>We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements.</p> <p>Due to statutory deadlines the Pension Fund Annual Report was not required to be published until 1 December 2023. As noted on page 3, we expect to be in a position to issue this separate opinion shortly after the Audit Committee meeting on 28 February 2024.</p> <p>We are required to report if we have applied any of our statutory powers or duties as outlined in the Code. We have nothing to report on these matters.</p>





# 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 and consider that an objective reasonable and informed third party would take the same view. 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 there were no fees for the provision of audit-related or non-audit services. Please note that fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances should be considered work undertaken under the Code of Audit Practice for 2022/23 onwards. Please see Appendix D for further information.

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 [Grant Thornton International Transparency report 2023](#).

# 3. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Pension Fund that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Pension Fund held by individuals.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Pension Fund as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Pension Fund.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for future non-audit services and we confirm there were no fees for the provision of audit-related or non-audit services.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Pension Fund's board, senior management or staff.

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

# Appendices

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# A. Communication of audit matters to those charged with governance

<b>Our communication plan</b>	<b>Audit Plan</b>	<b>Audit Findings</b>
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

## Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

## Distribution of this Audit Findings Report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

## B. Follow up of prior year recommendations

We identified the following issues in the audit of Devon Pension Fund's 2021/22 financial statements, which resulted in two recommendations being reported in our 2021/22 Audit Findings Report. These have both been addressed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	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.	We recommended that the Pension Fund should 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. We found that, for 2022/23, investment journals that originate from the Investments database were prepared by the Investment Team, input by the Pension Fund Accountant and authorised by the Head of Investments.
✓	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 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. We found no instances where "200"USERID's have been used to approve any Pension Fund journal during the reporting period ending 31 March 2023.

### Assessment

- ✓ Action completed
- X Not 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

As noted on page 3, we have not identified any adjustments to the financial statements that resulted in an adjustment to the Pension Fund's reported financial position.

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure change identified during the audit.

Disclosure/issue/Omission	Auditor recommendations	Adjusted?
Statistical Summary	<p>The Members summary in Note 1 to the financial statements has the same figures for both 2022/23 and 2021/22.</p> <p>This note needs to reflect the actual numbers of contributors and pensioners for each financial year.</p> <p><b>Management response</b></p> <p>This matter has been adjusted in the current version of the statement of accounts on the Council's website. The original disclosure reported the statistical summary provided by the Actuary in the IAS 26 report and reflects membership used in the latest funding valuation and roll forward at 31 March 2023.</p>	✓

## Impact of unadjusted misstatements

There are no unadjusted misstatements.

# C. Audit Adjustments

## Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2021/22 financial statements

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for 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.	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 and non-audit services

We set below our proposed fees for the audit and confirm there were no fees for the provision of non audit services for 2022/23.

Please see page 25 regarding the non audit services undertaken in 2021/22.

Audit fees	Proposed Fee 2022/23
Devon Pension Fund Scale Fee set by PSAA	25,419
Proposed fee variations Per Audit Plan	14,750
<b>Core Pension Fund Audit per Audit Plan</b>	<b>40,169</b>
IAS 19 letters for employer body auditors*	21,400
Work on triennial valuation member data*	5,000
Re-issued IAS 19 letters for 2021/22 (£1,000 per admitted body)*	8,000
<b>Total audit fees per Audit Plan (excluding VAT)</b>	<b>£74,569</b>

\*Note that fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances to auditors of local government and NHS bodies should be considered work undertaken under the Code of Audit Practice for 2022/23 onwards. Provision of IAS 19 assurances to auditors of any other type of entity remains non-Code work. Please see page 25 for details of the fees for this work in 2021/22 and the safeguards in place.

The estimated fees disclosed in Note 11 of the Pension Fund's financial statements are £47,000 plus a further £26,400 for the IAS 19 letters and the additional work on the triennial valuation member data which the Pension Fund will re-charge to the admitted bodies.

The fees in Note 11 are estimated as the draft financial statements were prepared in advance of the production of our audit plan. The financial statements clearly disclose this fact.

The £47,000 estimated fees in Note 11 the financial statements are as follows:

PSAA Scale Fee (£24,000)

2020/21 fee variation (£13,000)

'Minor charges'\*\* (£10,000)

\*\* This is the terminology used in the Pension Fund's financial statements.



# D. Fees and non-audit services

## Audit and non-audit services

As set out on the previous page, fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23.

The fee for this work in 2021/22, as reported in that year's Audit Findings Report, was £19,000 and this was invoiced in November 2022.

We set out below the threat to our independence and safeguard that has been applied to mitigate this threat.

Service	Fees £	Threat identified	Safeguard
Non-audit Related			
IAS19 Assurance letters for Admitted Bodies	19,000	Self-Interest (because this is a recurring fee)	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 in comparison to the expected 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.

# E. Auditing developments

## Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'

**This impacts audits of financial statement for periods commencing on or after 15 December 2021.**

ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'

ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements'

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: <ul style="list-style-type: none"> <li>the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures</li> <li>the identification and extent of work effort needed for indirect and direct controls in the system of internal control</li> <li>the controls for which design and implementation needs to be assess and how that impacts sampling</li> <li>the considerations for using automated tools and techniques.</li> </ul>
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> <li>increased emphasis on the exercise of professional judgement and professional scepticism</li> <li>an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence</li> <li>increased guidance on management and auditor bias</li> <li>additional focus on the authenticity of information used as audit evidence</li> <li>a focus on response to inquiries that appear implausible</li> </ul>
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. <ul style="list-style-type: none"> <li>Consideration is also being given to the potential impacts on confidentiality and independence.</li> </ul>
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> <li>clarification of the requirements relating to understanding fraud risk factors</li> <li>additional communications with management or those charged with governance</li> </ul>
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

# F. Proposed audit opinion

Our proposed audit opinion is included below.

We anticipate we will provide the Pension Fund with an unmodified audit report. As set out on page 3, we will be unable to issue our final audit opinion on the Pension Fund financial statements until the audit of Devon County Council, the Administering Authority for the Pension Fund, is complete.

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

### Opinion on financial statements

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 2023, 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 2022/23.

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 2023 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 2022/23; 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's 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.

## F. Proposed audit opinion

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 2022/23 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 2022) 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.

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.

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.

Our responsibilities and the responsibilities of the Director of Finance and Public Value with respect to going concern are described in the relevant sections of this report.

### 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 and our auditor's report thereon, and our auditor's report on the Authority's financial statements. The Director of Finance and Public Value is responsible for the other information. Our opinion on the 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.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Pension Fund financial statements or our knowledge 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 financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Opinion on other matters 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, the other information published together with the Pension Fund's financial statements in the Statement of Accounts and Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the Pension Fund financial statements.

# F. Proposed audit opinion

## 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 and the Director of Finance and Public Value

As explained more fully in the Statement of Responsibilities set out on page 154, 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 and Annual Governance Statement, 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 2022/23, 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.

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 they have been informed by the relevant national body of the intention to dissolve the Pension Fund without the transfer of its services to another public sector entity.

## 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. Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

## F. Proposed audit opinion

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 framework the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 2003, 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 management 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 management, 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 management's 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 journals, accounting estimates and critical judgements made by management. Our audit procedures involved:

- evaluation of the design effectiveness of controls that management 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 the valuation of level 3 investments and IAS 26 pensions liability valuations, and
- 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.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including the management override of controls and the potential for fraud in revenue and expenditure recognition. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

## F. Proposed audit opinion

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.

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.

### 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 44 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.

### Signature:

Peter Barber, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

### Date:



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