Dorset County Pension Fund

Final report to the Audit Committee on the 2020 audit

20 December 2021

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Partner Introduction

The key messages in this report:

We have pleasure in presenting our Audit Findings Report to the Audit Committee for the 2020 audit of the Dorset County Pension Fund (the "Fund"). As we planned our audit upon receiving the draft accounts in August 2020, the extent and impact of COVID-19 was well known.

We would like to extend our thanks to Fund management for their assistance during the audit, especially given the logistical challenges of remote working. The regular communication we have had with management and the use of technology allowed us to continue to deliver the audit. This report serves as our final report upon signing the Fund accounts.

We would like to draw your attention to the key messages of this report:

Audit scope

Our reporting responsibilities as auditor of the Fund are to:

- Form an opinion on the financial statements of the Fund as included in the Statement of Accounts of Dorset Council, which are prepared under the Code of Practice on Local Authority Accounting 2019/20 ("the Code") issued by CIPFA;
- Form an opinion on the consistency of those financial statements of the Fund, included within the Authority's Statement of Accounts, with those included in the Pension Fund's Annual Report; and
- Report to "those charged with governance" on certain additional matters, including any unadjusted errors over our reporting threshold ("RT"), our independence and any other issues we consider should be brought to their attention.

Audit status and findings to date

As all open matters have now been cleared, we will be issuing an unqualified audit opinion on the financial statements of the Fund.

The significant findings in the 2020 audit relate to directly held property and pooled property fund disclosures. Within our planning report, we identified that there were material uncertainties applied to underlying property valuations issued by valuers at 31 March 2020. Through our audit work it has been noted that all four of the Fund's pooled property managers issued such material uncertainty clauses. Further, all four funds had suspended trading as of 31 March 2020.

The impact of this is that additional disclosures were required in the accounts regarding the material uncertainty valuation issues, and in addition the lack of fund trading has meant that the pooled property funds are classified as level 3 assets within the Fund's fair value hierarchy analysis. This has required further disclosures regarding level 3 assets to be included in the draft accounts as a consequence. These amendments are further discussed on page 11.

Given that the pooled property funds with material uncertainties represent only 10% of the total Fund assets, we consider that this is not a fundamental asset class within the accounts, and therefore have concluded that an emphasis of matter paragraph in our audit report, drawing the reader's attention to this fact, is not required.

Partner Introduction

The key messages in this report (continued):

Significant audit risk

Our significant audit risk is unchanged from that identified in our planning report.

Please refer to page 9 for further details in respect of our testing of the significant risk.

Brexit

The UK left the European Union on 31 December 2020. Businesses and indeed their pension schemes should continue to plan for disruption and change across its operations, for example through resourcing restrictions; contract management; withholding taxes and other investment transactions such as foreign exchange volatility. As part of the audit, we considered:

- What operational plans the Audit Committee may have made and how this impacts the financial statements;
- Fair value of assets as at the Fund's year end; and
- The impact on the strength of the employer covenant and any going concern implications.

No issues arose from our consideration of the impact of Brexit with regards to the Fund.

Significant issues identified last year

The impact of COVID-19 has meant that we have had to undertake the audit entirely remotely for 2020. Throughout our audit work, we have been able to continue to audit remotely, and management have been fully operational, working remotely. We have not identified any significant operational issues arising from our review of how management have addressed the challenges from COVID-19; we have reflected on the valuation challenge posed over the Fund's property holdings on page 11, where material uncertainty clauses have been made by the underlying valuers. We have also reviewed the investment portfolio valuation changes post year end and have not noted any significant changes to the overall portfolio value. We have also seen that employer contributions have continued to be made post year end in line with statutory requirements and the funding agreements. No other issues have been noted in our audit work.

Partner Introduction

The key messages in this report (continued):

Audit Quality

We have committed to delivering a robust challenge of the key judgements taken in the preparation of the financial statements; to gain a strong understanding of your internal control environment; and to deliver a well-planned audit that raises findings early with those charged with governance.

We have supplemented our core pension audit team with the following specialists:

1. *Real estate specialists*, who have assisted in designing appropriate audit procedures to audit the pooled property funds valuations; and
2. *IT specialists* who reviewed the general access and change management controls associated with the administration system.

Going Concern

We are required to comment on the going concern basis of preparation of the financial statements in our audit report. As part of this process, details of the work we perform around the going concern assessment are detailed below:

- considered the statutory basis of the Fund;
- considered the results of the 2019 triennial valuation; and
- assessed the risk to the Fund of non-receipt of contributions from its admitted bodies.

We have no issues to raise in this regard.

Our Conclusion

In reaching our conclusions we considered the control observations and the results from our testing on pages 10 to 14. In addition, we noted:

- the significant accounting judgements and estimates appear reasonable; and
- As set out in appendix 1, we have identified one uncorrected misstatement and one disclosure deficiency to report to you, for which we will obtain a representation for the non-adjustment of this item on the basis that it is not material.

As all open matters have now been cleared, we will be issuing an unqualified audit opinion on the financial statements of the Fund.

Partner Introduction

The key messages in this report (continued):

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Going concern

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As all open matters have now been cleared, we will be issuing an unqualified audit opinion on the financial statements of the Fund.

Materiality

Our Approach to Materiality

Basis of our materiality benchmark

- The audit partner has estimated financial statement materiality as £27.1m (PY: £30.3m), based on professional judgement, the requirement of auditing standards and the net assets of the Fund. This figure is based on the draft 2020 financial statements.
- We have used 1% of Fund net assets as the benchmark for determining our materiality levels.

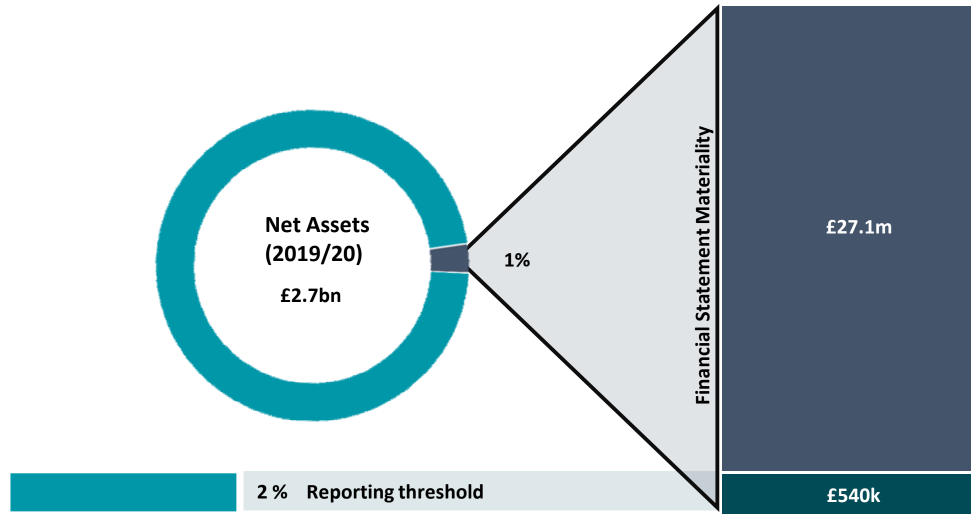
The basis for our materiality calculation is the same as the previous year.

Reporting to those charged with governance

- We report to you all misstatements found in excess of 2% of financial statement materiality. We report to you misstatements below this threshold if we consider them to be material by nature.
- As set out in the appendices, we have identified two uncorrected misstatements and two disclosure deficiencies to report to you, for which we will obtain a representation for the non-adjustment of.

Materiality Calculation

Although materiality is the judgement of the audit partner, the AC members must be satisfied the level of materiality chosen is appropriate for the scope of the audit.



Scoping

Significant risks and areas of focus dashboard

Risk Identified	Material Balance	Management Judgement	Proposed Approach	Fraud Risk	Further Details
Significant Risk Management override of controls	✗	⚠	**D&I**	✗	Pg. 10
Significant Risk Valuation of direct property investments	✓	⚠	**D&I**	✓	Pg. 11
Other Focus Area Completeness and valuation of investments	✓	⚠	**D&I**	✗	Pg. 13
Other Focus Area Completeness and accuracy of contributions	✓	⚠	**D&I**	✗	Pg. 15
Other Focus Area Accuracy of retirement benefits and transfers out values	✓	⚠	**D&I**	✗	Pg. 16

Significant risk	Low levels of management judgement/complexity	**D&I**	Design and Implementation
Other area of audit focus	Medium levels of management judgement/complexity	**OE**	Operating Effectiveness
	High degree of management judgement/complexity		


Significant
audit risks

Significant risk

Management override of controls

Risk identified

In accordance with ISA 240 (UK), management override is always a significant risk for financial statement audits. The primary risk areas surrounding the management override of internal controls are over the processing of journal entries and the key assumptions and estimates made by management.

Response of those charged with governance

The Audit Committee does not have access to the Fund accounting system and does not process any journals in respect of the Fund and.

The financial reporting process in place has an adequate level of segregation of duties.

Deloitte comment

We have no matters to bring to the attention of the AC from our work performed.

Deloitte response to significant risk identified

In order to address the significant risk, our audit procedures consisted of the following:

- Used Spotlight, our data analytics software, in our journals testing to interrogate 100% of journals posted across the Fund. This uses intelligent algorithms that identify higher risk and unusual items;
- Performed a walkthrough of the financial reporting process to identify the controls over journal entries and other adjustments posted in the preparation of the financial statements;
- Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Reviewed the accounting estimates for bias, such as year-end creditor and debtor postings and the valuation of unlisted investments, that could result in material misstatement due to fraud, including whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicate a possible bias on the part of management;
- Agreed that there is an appropriate level of segregation of duties over processing journal entries to the financial statements throughout the year;
- Tested the design and implementation of controls around the journals process and investment and disinvestment of cash during the year; and
- Reviewed related party transactions and balances to identify if any inappropriate transactions had taken place.

Significant risk

Valuation of direct property investments

Risk identified

The Fund has a significant holding in directly held UK properties, both freehold and leasehold. As noted on page 5, due to the uncertainty created by the COVID-19 crisis and the material uncertainty clause included in the report of external property valuers, we have identified the valuation of these investment balances as a significant risk. The valuation of direct properties is based on assumptions, geographical location and market trends. Due to the specialist nature of this investment type, the valuation is more challenging for us to assess as auditor and we therefore consult with internal specialists to inform our audit response.

Response of those charged with governance

The Fund has engaged BNP Paribas and, for a particular portion or the portfolio, Allsop LLP) to assist in the valuation of the direct property holdings. There are regular valuation meetings held between Fund management and the valuers to monitor Fund property. CBRE are also engaged as the investment manager responsible for the indirect property holdings.

Deloitte comment

As a result of the COVID-19 outbreak, which has caused extensive disruption to businesses and economic activities on a global level in all sectors, the property valuers have reported their valuation on the basis of 'material valuation uncertainty'. The declaration does not mean that the valuation cannot be relied upon but it does mean that less certainty, and a higher degree of caution, should be attached to the valuation of the properties than would normally be the case. As a result of this, and following discussion with DRE, we have recommended enhanced disclosures in the Fund financial statements in respect of estimation uncertainty and recommended disclosure of the sensitivity of the property valuations to a +/-15% change.

Given that total property investments (direct and indirect) represent 10.7% of total Fund net assets, we have not included an emphasis of matter within our audit report.

Deloitte response to significant risk identified

In order to address the significant risk, our audit procedures consisted of the following:

- Assessed the design and implementation of controls around the valuation of direct properties and of key controls over the completeness and valuation of indirect property investments by obtaining the investment manager internal control report (where applicable) and evaluating the implications for our audit of any exceptions noted;
- Assessed the reliability, competence and capabilities of CBRE in their role as valuer of direct property holdings;
- Vouched the Fund financial statements to the direct third party confirmation provided by BNP Paribas, including an assessment of post balance sheet events and the impact on the valuation of direct property;
- Consulted with property specialists within Deloitte Real Estate (DRE) to review the property portfolio and to discuss individual properties as required based on the outcome of our expectation analysis; and
- Prepared an expectation of the year end valuation for properties held directly by the Fund using comparable market indices and compared the expectation to the valuation provided by BNP Paribas. This included a review of the geographical location and nature of the properties in the portfolio, along with consultation with Deloitte Real Estate to support our understanding of "MSCI Property Indexes Methodology, September 2020“;


Audit focus areas

Areas of audit focus

Completeness and valuation of investments - property pooled investment vehicles ('PIVs')

Risk identified

The Fund holds property PIVs within its investment portfolio. Just prior to the Fund year end, the impact of COVID-19 resulted in surveyors including a 'material uncertainty' clause in their valuations due to the impact of COVID-19 on the property sector. As a result of COVID-19, there have been fewer market transactions resulting in less transparency and more judgement being involved in the preparation of property valuations.

This has meant we have had to perform additional procedures and testing in this area.

Response of those charged with governance

The Fund obtains monthly valuation statements from the property managers to substantiate the carrying value of each manager's holding of property.

Deloitte comment

All property PIVs managers confirmed that a material uncertainty around their valuation existed as at the year end, and that all holdings had suspended trading at the year end date.

Disclosures were enhanced with regards to the existence of the material uncertainty clauses affecting the valuations and, additionally, the fair value hierarchy was amended for these assets from level 2, to level 3, to reflect the trading suspension in place at the year end.

Further, all four funds confirmed they released their material uncertainties in September 2020, however one Fund remains gated at present. The draft accounts note all funds released gating and material uncertainty clauses, therefore an amendment is required to accurately report this position in the accounts still.

The four pooled property funds of £36.3m accounted for 1.4% of the Fund net assets at the year-end. Total property investments (direct and indirect) represent 10.7% of total Fund net assets In our judgement, this is not considered to be significant enough for an emphasis of matter to be added to our audit report.

Additionally, the sensitivities of pooled property valuations have been added to the fair value level 3 reconciliation and sensitivity disclosure notes.

No other matters have arisen with our testing over the valuation of property PIVs.

Deloitte response to focus area identified

We have enhanced our testing of property PIVs in the current year and have drawn upon internal experience with our colleagues in Deloitte Real Estate in relation to our testing approach.

We have obtained independent confirmations from each of the four property managers, and also reconciled the year end valuation with the latest audited accounts Net Assets Value available, rolled forward to the year end using appropriate market benchmarks specific to the UK property market.

We also confirmed with each manager whether the Fund holding as at 31 March 2020 had material uncertainty clauses included, and whether the Fund had suspended trading. We also requested updates for these as of December 2020.

In addition, we have reviewed the disclosures in the draft financial statements around property fund valuations.

Audit focus areas

Completeness and valuation of investments other than property funds

Risk identified

The Fund holds a large and highly material portfolio of investments. Within this portfolio, there are a number of alternative investments, including investments in an infrastructure fund totalling £186.3m. These funds do not have publicly available prices and are infrequently priced, increasing the risk of stale pricing.

Given the significance of investments to the Scheme, the accurate valuation of these investment balances was identified as an area of focus.

Response of those charged with governance

The Fund appoints various investment managers and State Street as custodian for these investments.

Deloitte response to risk identified

In order to address this focus area, our audit procedures consisted of the following:

- Tested the design and implementation, and the operating effectiveness where applicable, of key controls over the completeness and valuation of investments by obtaining the investment manager internal control report (where applicable) and evaluating the implications for our audit of any exceptions noted;
- Agreed the year end valuations and sales and purchases totals in the accounts to the reports received directly from the investment managers and State Street as custodian, and reconciled these to the individual confirmations received from the investment managers;
- Agreed registered funds and directly held investments to publicly available prices, including expanding our corporate bonds sample to reprice the whole portfolio as a response to the valuation risk arising from COVID;
- Performed independent valuation testing for a sample of year-end alternative investment holdings by rolling forward the valuation as per the latest audited accounts using cash flows and an appropriate index as a benchmark;
- Ensured appropriate stale price adjustments have been posted to the financial statements;
- Performed a unit reconciliation in which the opening investment balances and unit quantities are reconciled to the closing investment balances and unit quantities by taking into account the movement that occurred during the year (i.e. purchases, sales, change in market value); and
- Reviewed the classifications of investments throughout the investment notes to ensure these were accurately presented and in line with the 2019 final position.

Deloitte Comment

Due to differences in the reporting by BNYM and the sales and purchases initially disclosed in the draft accounts, we identified a misstatement in the classification of purchases and sales within the ‘Equities – Quoted’ and ‘Pooled Investment Vehicles’ lines in the reconciliation disclosure. An adjustment was proposed and corrected for in the financial statements. Further details are available on page 23.

We have also identified one uncorrected disclosure deficiency. In note 15 of the draft accounts, the investment reconciliation includes the cash and cash equivalents, other investment assets and other investment liabilities. These balances are reported 'below-the-line' and should not disclose purchases, sales of a change in market value. A change in market value balance has been disclosed in the draft accounts for the 'Cash & cash equivalents' balance.

Audit focus areas

Completeness and accuracy of contributions

Risk identified

There is some complexity surrounding the accuracy and completeness of employee and employer contributions received by the Fund. The employer primary and secondary contribution rates are dictated by the actuarial valuation and these vary between the contributing employers. Employee contributions are based on varying percentages of employee pensionable pay – this can vary month to month and the Fund has no oversight of the individual employer payrolls.

As a result of this, we have made the accuracy and completeness of contributions an area of audit focus.

Response of those charged with governance

The administration team monitors the due dates of contributions and that the correct amounts are received into the Fund bank account to ensure that payments are in accordance with the actuarial valuation.

Employers must also complete a contributions return confirming that the contributions paid during the year are accurate and complete.

Deloitte response to risk identified

In order to address this area of audit focus, our audit procedures consisted of the following:

- Reviewed the design and implementation of key controls over the contribution process;
- Performed an analytical review of the employer and employee normal contributions received in the year, basing our expectation on the prior year audited balance, adjusted for the movement in active member numbers, contribution rate changes and any average pay rise awarded in the year;
- Tested the reconciliation of the total number of active members between the membership records and the employer payroll records;
- For a sample of monthly contributions paid, checked that they have been paid within the due dates per the LGPS Regulations; and
- Performed the reconciliation of the total number of active members between the membership records and the employer payroll records.

Deloitte comment

From performing the procedures described, we have no matters to bring to the attention of the Audit Committee.

Audit focus areas

Accuracy of retirement benefits and transfer out values

Risk identified

The risk principally relates to the inaccurate application of the LGPS regulations and rules to the calculation of retirement benefits and transfers out during the Fund year.

The administration team calculate retirement benefits. Incorrect benefits calculations and/or making payments to the wrong members, or people who are not eligible for benefits, can lead to misstatement of the financial statements, financial loss, pensioners being wrongly paid, reputational damage and breaches of the Pensions Acts.

Response of those charged with governance

Benefits are calculated and paid by the Scheme's in-house administration team

Deloitte comment

From performing the procedures described, we have no matters to bring to the attention of the Audit Committee.

Deloitte response to risk identified

In order to address this area of audit focus, our audit procedures consisted of the following:

- Tested the design and implementation of key controls operating within the Altair infrastructure and reviewed the process that Fund management have put in place to ensure benefits are paid in accordance with the LSPS Regulations & Rules;
- Agreed a sample of benefits paid to the calculations and payment including both lump sum and monthly pension;
- Agreed a sample of benefits paid through to a signed option form to ensure that it was in line with members wishes;
- Reviewed the member file for a sample of benefits paid to ensure adequate sign off of all internal processes; and
- For a sample of transfers out, confirmed that the receiving Scheme was an HMRC registered Scheme and the Independent Financial Advisor was Financial Conduct Authority registered.

Other audit findings

Finding	Recommendation
Membership Reconciliations We identified that the Pension Manager could not supply a membership number reconciliation between 2018-19 and 2019-20. The reconciliation should show movements of members in the financial year and retrospective changes that revised any prior-year figures. This reconciliation would allow us to audit the movement of member numbers, which we have not been able to do.	It is recommended that the Pension Manager develops an Altair report that can count the total (and identify individual) retrospective changes to membership data. In addition, it is recommended that the Pension Database Administrator runs a data extract of Membership data on, or as close to 31 March as possible. It is also recommended that the Pension Fund Manager performs a reconciliation between prior-year reported membership numbers and revised membership numbers. We also recommend that you create a policy over how you account for those undecided members within the year end accounts.
Non-compliance with ISS (Investment Strategy Statement) The 2018 ISS which was in place during the Fund year details the planned asset allocation of the Fund's investment holdings. We have tested the actual holdings allocation and compared these to the ISS allocation. We noted per the ISS that the Fund is allowed a of +/-% difference depending on the relevant fund. Per the testing performed, we noted that the following funds were outside threshold; Global equities, Emerging Markets, Bonds, diversified growth, private equity and infrastructure	Management should complete regular reviews and should take steps to ensure that the investment allocation is in line with the allocation outlined in the Statement of Investment Principles.
McCloud disclosure It is noted that the McCloud exposure within the Fund notes relates to the expected cost of full rectification for the Fund, relating to all accrued liabilities. As pension schemes do not account for the future liabilities of the Fund, the Fund’s exposure to McCloud at 31 March 2020 is technically only that element relating to settled pensions in payment at that date. While this reduced element is currently not able to be quantified, it does represent a contingent liability, but upon assessing a reasonable estimate, this amount should be recorded as a provision in the Fund accounts. We note that the adjustment is not expected to be material.	We recommend that the disclosure for McCloud is enhanced in future years with reference to the Fund’s exposure to past benefit payments, in addition to the Fund as a whole exposure, and that a provision is recorded when the settled benefits element of the exposure is quantified to a reasonable degree of accuracy.

IT audit findings

Finding	Recommendation
Password settings on the Oracle database underlying the Altair application do not meet industry standards. In particular: • Minimum length and complexity is not enforced. • This would allow a very short password which increases the possibility of being hacked. • Lockout threshold is 10 attempts, where industry standards recommend 3. • Expiry is 180 days, where best practice is 90 days. • Furthermore, password history is not enforced, making the function of ageing passwords less useful in password security.	Management should consider the mandatory parameters when users are setting passwords, with consideration given to adjusting those parameters to fall in line with industry best practice.
The following general deficiencies were identified in user access right management that indicates low controls around level of accesses granted to end users: • The starters' process does not include any formal documentation relating to the correct privileges to be assigned to users in each job role. This increases the risk of a user being assigned inappropriate access. • Movers – There is no formal movers process. • There is no formal user access review process in place. Although a monthly user report is viewed, this only considers employment status and is reviewed by members of the Systems Team, not business users. • Leavers - the leaver tested for implementation of control was a casual worker whose account was left open after he left, in case he was to return. It was left open for over 4 months, and only disabled once it was clear he wouldn’t return to work over the Christmas period. • Business user with admin access - One business user (Karen Gibson, Pension Service Manager) was found to have privileged access on the application.	Management should review user access controls so as to reduce the risk that a particular user might be given an inappropriate level of access, which is not identified on a timely basis since there is lack of user access right review.

Maintaining audit quality

Our approach to quality

AQR team report and findings

Audit quality remains our number one priority and we have a relentless commitment to it. We continue to invest in and enhance our Audit Quality Monitoring and Measuring programme.

In July 2020, the Financial Reporting Council ("FRC") issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections, providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2019/20 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm-wide quality control systems, a key aspect of evaluating our audit quality.

We are pleased with our results for the inspections of FTSE 350 entities achieving 90% assessed as good or needing limited improvement, which included some of our highest risk audits. Our objective is for 100% of our audits to be assessed as good or needing limited improvement and we know we still have work to do in order to meet this standard. We are however, extremely disappointed one engagement received a rating of significant improvements required during the period. This is viewed very seriously within Deloitte and we have worked with the AQR to agree a comprehensive set of swift and significant firm-wide actions.

We are also pleased to see the impact of our previous actions on prior year adjustments is reflected in the results of current year inspections with no findings in this areas. In addition the FRC identified good practice examples including in: risk assessment, group oversight, our comprehensive IFRS9 expected credit loss audit programme and our audit committee reporting.

Embedding a culture of challenge in our audit practice underpins the key pillars of our audit strategy. We invest continually in our firm-wide processes and controls, which we seek to develop globally, to underpin consistency in delivering high quality audits whilst ensuring engagement teams exercise professional scepticism through robust challenge.

All the AQR public reports are available on its website.
https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit Committee and the Treasurer discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations.
- Our internal control observations.
- Other insights we have identified from our audit.

Scope of our work

Our observations are developed in the context of our audit of the Fund financial statements.

We described the scope of our work in our proposed audit plan, which has been shared with you.

The audit insights and other control findings of this report provide details of additional work we have performed alongside the audit of the Fund financial statements.

This report has been prepared for the Audit Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

What we don't report

- As you will be aware, our audit is not designed to identify all matters that may be relevant to the Audit Committee.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- Finally, the views on internal controls and Fund risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the Fund financial statements and the other procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Cardiff| 20 December 2021

Appendices

Key audit matters

Appendix 1: Corrected audit adjustments

Corrected audit adjustments

Detail	Debit/ (credit) Fund Account £m	Debit/ (credit) Net Asset Statement £m
Corrected misstatements identified in current year	-	-
Classification of Purchases and Sales [1]		
Purchases: Equities – Quoted		0.384
Sales: Equities – Quoted		(0.179)
Change in Market Value: Equities – Quoted	(0.205)	
Purchases: Pooled Investment Vehicles		(0.384)
Sales: Pooled Investment Vehicles		0.179
Change in Market Value: Pooled Investment Vehicles	0.205	
Total	-	-

Corrected disclosure deficiencies

[1]: It was identified through the testing of purchases and sales that there were purchases/sales related to certain items that had been incorrectly classified within the 'Equities - Quoted' line in the investments reconciliation in the draft accounts. The year-end balance for these items had been correctly included within the ‘Pooled Investment Vehicles’ balance, whilst sales and purchases were incorrectly classified in the 'Equities - Quoted' line of the investment reconciliation.

This required reclassifications of £384 million (purchases) and £179 million (sales) from the 'Equities - Quoted' to the 'Pooled Investment Vehicles' lines in note 15 of the accounts. This in turn had an impact on the change in market value of both investment classes, with the Change in Market Value balance for 'Equities - Quoted' requiring adjustment by -£205 million and the Change in Market Value balance for 'Pooled Investment Vehicles' requiring adjustment by £205 million. This results in a net difference of zero to the total Change in Market Value balance, but does impact the disclosure of purchases and sales within the two asset classes detailed above.

Appendix 2: Uncorrected audit adjustments

Uncorrected audit adjustments

Detail	Debit/ (credit) Fund Account £m	Debit/ (credit) Net Asset Statement £m
Uncorrected misstatements identified in current year	**-**	**-**
Stale Pricing: Overstatement of Property Pooled Investment Vehicles [1]		
Pooled Investment Vehicles - Property		(1.4)
Change in Market Value: Pooled Investment Vehicles – Property	1.4	
Stale Pricing: Understatement of Private Equity valuation [2]		
Private Equity		(3.7)
Change in Market Value: Pooled Investment Vehicles – Private Equity	3.7	
Total	**5.1**	**(5.1)**

Uncorrected audit adjustments

[1]: Based on correspondence with the Investment Manager, CBRE, and our testing of the valuation statements provided by CBRE, it was confirmed that the valuations presented in the financial statements were based on February 2020 net asset values. These therefore represent stale prices used in the year-end reporting. We obtained an updated valuation statement from CBRE that detailed the valuation as at 31 March 2020. The valuations as at 31 March 2020 were found to be £1.4 million higher than the balances used in the preparation of the financial statements.

[2]: State Street reporting has been used in the preparation of the financial statements. For the value of a number of funds managed by HarbourVest, differences were identified in the local currency (USD) value reported by State Street and the local currency value reported to Deloitte by HarbourVest. It was confirmed by HarbourVest that the differences are as a result of a 'stale price' being used by State Street in their reporting. As confirmed to us by HarbourVest, State Street have relied on estimated information, which was originally provided by HarbourVest to State Street. However, since then, final quarter end valuations were prepared by HarbourVest. These final valuations were provided to Deloitte. This resulted in differences in comparison to the valuations reported by State Street. We have converted the final quarter end valuations from the local currency amount to the reporting currency amount (GBP) to confirm the total differences.

Appendix 3: Uncorrected disclosure deficiencies

Uncorrected disclosure deficiencies

Detail
Uncorrected disclosure identified in current year
A change in market value balance is disclosed for the 'Cash & cash equivalents' balance in the investments reconciliation table in the financial statements [1]
The Pension Fund has not recognised a liability or provision relating to the past service cost element pertaining to settled benefits in respect of the McCloud ruling [2]

Uncorrected disclosure deficiencies

[1]: In note 15 of the draft accounts, the investment reconciliation includes the cash and cash equivalents, other investment assets and other investment liabilities balances. These balances are reported 'below-the-line' and should not disclose purchases, sales or a change in market value. A change in market value for the 'Cash & cash equivalents' balance has been disclosed in this note.

[2]: The Pension Fund has not recognised a liability or provision relating to the past service cost element pertaining to settled benefits in respect of the McCloud ruling. The Pension Fund does not consider it practicable to determine the exact quantity of this amount, but consider that the amount would be immaterial. However, the Pension Fund has disclosed within the contingent liability note at Notes 23 Fund financial statements, an indication of the estimated impact on liabilities for the main employers in the Fund.

Appendix 4: ISA 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Scheme and management. It is important that management, with the oversight of those charged with governance, places a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment. This involves a commitment to creating a culture of honesty and ethical behaviour which can be reinforced by an active oversight by those charged with governance. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process.

Auditor's Responsibility

An auditor conducting an audit in accordance with ISAs (UK) is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs.

As part of our partner-led planning process, as an audit team we have considered the possible avenues of fraud within the Scheme and have outlined our approach to each consideration below.

Consideration	Approach
Fraudulent posting of journal entries – the purposeful misstatement of the financial statements	We have outlined our approach to the mitigation of this risk on page 11.
Fraudulent valuation of investment assets - incentive to overstate asset values	We have outlined our approach to the mitigation of this risk on pages 10 and 14.
Misappropriation of cash - disinvestments not processed in accordance with the investment mandate	In response to this risk, we performed a walkthrough of the disinvestment process and assessed the design and implementation of the identified controls. We inspected the investment mandate in place and the signed disinvestment instruction to ensure it has been processed appropriately. We then tracked the disinvestment proceeds to the Fund bank account.
Creation of fictional pensioner records and payments to non Scheme members	In response to this risk, we performed a walkthrough of the process and assessed the design and implementation of controls around pensioner set up and amendments to existing UPM records to ensure there are appropriate controls and enforced segregation of duties. In addition, we performed design and implementation testing of controls associated with payments made from the Fund bank account to ensure they are authorised in accordance with payment limits.
Circumvention of the review process within UPM	In response to this risk, we performed a walkthrough of the process and assessed the design and implementation of controls around the processing of retirement and transfers out cases to ensure there is segregation of duties. We also evaluated the controls around user access level reviews to ensure there is appropriate segregation between those performing a process and those reviewing the process and ensured that the same process cannot be performed and reviewed by the same person.
Pensioner existence – payment of pensions to deceased members	In response to this risk, we performed a walkthrough of the process and assessed the design and implementation of controls around the existence of pensioners to ensure the timely suspension of pensions to deceased members.

Appendix 5: Fraud responsibilities and representations

Responsibilities explained

Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and the AC, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our Responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified management override of control and the valuation of directly held property as key audit risks within the Fund.

Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will request the following to be stated in the representation letter signed on behalf of the AC:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud OR We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund and involves:
  (i) management;
  (ii) employees who have significant roles in internal control; or
  (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by employees, former employees, analysts, regulators or others.

Appendix 5: Fraud responsibilities and representations (continued)

Inquiries

We will make the following inquiries regarding fraud:

Management:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the Fund.
- Management's communication, if any, to the AC regarding its processes for identifying and responding to the risks of fraud in the Fund.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the Fund.
- We plan to involve management from outside the finance function in our inquiries.

Internal audit

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the Fund, and to obtain its views about the risks of fraud.

The Audit Committee

- How the Audit Committee exercises oversight of management's processes for identifying and responding to the risks of fraud in the Fund and the internal control that management has established to mitigate these risks.
- Whether the Audit Committee has knowledge of any actual, suspected or alleged fraud affecting the Fund.
- The views of the Audit Committee on the most significant fraud risk factors affecting the Fund.

Cyber Breaches

- How the Audit Committee exercises oversight of the management's processes to prevent and identify any cyber breaches.
- Whether the Audit Committee has knowledge of any cyber breaches that have resulted in more than inconsequential unauthorised access of data, applications, services, networks or devices.

Appendix 6: Independence and fees

A Fair and Transparent Fee

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm the audit engagement team and others in the firm (as appropriate), Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Fund.
Fees	Our audit fee for the year ending 31 March 2020 is £19,362 for the Fund. The fee reflected here is the scale fee. In line with recent PSAA correspondence that scale fees should be negotiated by individual s151 officers, we will be looking to discuss with the Authority the current level of fee which we deem to be too low given the size and complexity of the body. The above fee also excludes the cost of providing IAS 19 letters to other local authorities that will be recharged by the Fund to the other local authorities. It also excludes the fee for the additional audit work we have had to do in relation to COVID-19 assurance. These fees are in the process of being quantified and will be discussed with management. The above fees exclude VAT.
Non audit services	In our opinion, there are no inconsistencies between the FRC's Ethical Standard and the Fund's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Ethical Standard 2019	The FRC has released the Ethical Standard 2019. The standard classes pension schemes as 'other entities of public interest ' where assets are greater than £1bn and there are 10,000 members. As a result, non audit services will be limited primarily to reporting accountant work, audit related and other regulatory and assurance services. All other advisory services to these entities, their UK parents and world-wide subs will be prohibited.

Appendix 7: Topical matters

The National Audit Office has issued the new Code of Audit Practice applicable for 2020/21 audits onwards

Issue

The National Audit Office issued the new Code of Audit Practice for 2020/21 onwards. The Code is applicable to NHS Trusts and Foundation Trusts, CCGs, and Local Authorities.

The Code remains aligned (where relevant) with generally accepted auditing standards, with the intention that this will allow the Code to adapt to any changes arising as a result of the wider debate within the audit profession (such as the Brydon Review and the Redmond Review).

The most significant changes are around Value for Money (the arrangements to secure economy, efficiency, and effectiveness in the use of resources), which:

- Change the approach away from the auditor performing a risk assessment, and then only performing further work if a significant risk were identified, to specifying procedures that will need to be undertaken in each of three areas. This will require a minimum level of work at every local public body, with additional risk based work where relevant.
- Moving the focus of reporting to providing public narrative commentary on each of criteria considered for all bodies. This will be included in a separate "Annual Auditor's Report", which will be a public narrative report, which for NHS bodies will be issued alongside the audit opinion.
- The audit opinion will continue to include reporting by exception where the auditor is not satisfied in respect of arrangements in place (which is a change from the initial proposals consulted upon).

The three criteria that would be considered in Value for Money work would be:

- **Financial sustainability:** How the body plans and manages its resources to ensure it can continue to deliver its services.
- **Governance:** How the body ensures that it makes informed decisions and properly manages its risks and finances.
- **Improving economy, efficiency and effectiveness:** How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Where the auditor identifies significant weaknesses in VfM arrangements, the Code includes an expectation that the auditor will issue recommendations to the audited body, and considers whether to do so when identified.

Other proposed changes include:

- Giving the NAO the ability to specify whether auditors should issue 'enhanced' auditor reports (as is already done for NHS Foundation Trusts);
- Clarifying expectations on reporting by introducing key principles for effective reporting, so that auditors ensure that any reporting is as effective and transparent as possible and promotes local improvement.

We note that the changes are likely to increase the scope of work required for audits, both in required procedures on Value for Money and in the need for an additional public report each year.

The NAO will now move forward in developing supporting guidance on the detail of what will be required

Next steps

- We will update the Authority as the requirements develop.
- We will agree with the Authority as soon as practicable how to implement changes from the new Code in our audit approach for 2020/21 onwards.