

Audit Progress Report

Derbyshire Pension Fund – Year ended
31 March 2021

September 2021



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01

Section 01:

Executive summary

1. Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2020/21 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 4 of this report we have set out our conclusions and significant findings from our audit work to date. This section includes our conclusions so far on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of controls; and
- Valuation of investments within level 3 of the fair value hierarchy.

Based on the audit work completed to date there are no identified significant control deficiencies and no unadjusted misstatements envisaged that we are required to report to the Audit Committee.

Status and audit opinion

To-date we have completed a substantial proportion of our fieldwork on the financial statements for the year ended 31 March 2021. At this present time we envisage giving our opinion in November 2021 in line with the proposed timeframe for issuing our audit report on Derbyshire County Council's financial statements.

At the time of preparing this report, there are some matters outstanding as outlined in section 2. We will provide an update to you in relation to the matters outstanding through our Audit Completion Report. Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:



Audit opinion

We anticipate issuing an unqualified opinion, without modification, on the financial statements.



Consistency report

We anticipate concluding that the Pension Fund financial statements within the Pension Fund's Annual Report are consistent with the Pension Fund financial statements within the Statement of Accounts of Derbyshire County Council.



Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Fund and to consider any objection made to the accounts. No objections or questions from local electors have been received.

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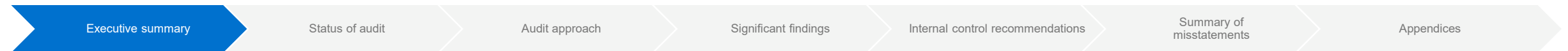
Summary of misstatements

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1. Executive summary

COVID-19 impacts

The implications of the pandemic required remote working in relation to this audit. Whilst auditing on a remote basis was challenging, we have been able to work in liaison with the finance team to deliver the audit and wish to thank them for their support.







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Section 02:

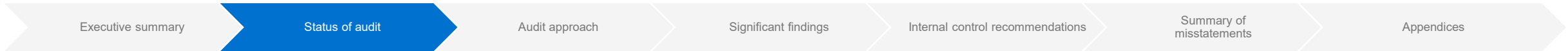
Status of the audit

2. Status of the audit

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

Audit area	Status	Description of the outstanding matters
Investments		Our review of the third party confirmations received is not yet fully complete.
Consistency opinion		We have not yet received a draft of the Pension Fund Annual Report. We will in due course compare the revised Pension Fund financial statements (within the Statement of Accounts of the Council) with the Pension Fund financial statements within the Pension Fund's Annual Report.
Finalised financial statements		The Pension Fund has revised its financial statements to reflect the updated valuations it has received from fund managers. Following consideration of the revised valuations we are completing our checks on the revised financial statements before giving our opinion.
Audit Quality Control and Completion Procedures		Our audit work, including the specific procedures carried out in relation to the significant audit risks identified, is yet to undergo the final stages of review by the Engagement Lead. In addition, there are residual procedures to complete, including completing our internal technical consultations on the proposed audit opinion and the updated financial statements, updating post balance sheet event considerations to the point of issuing the opinion and obtaining final management representations.

-  Likely to result in material adjustment or significant change to disclosures within the financial statements.
-  Potential to result in material adjustment or significant change to disclosures within the financial statements.
-  Not considered likely to result in material adjustment or change to disclosures within the financial statements.



03

Section 03:

Audit approach

3. Audit approach

Changes to our audit approach

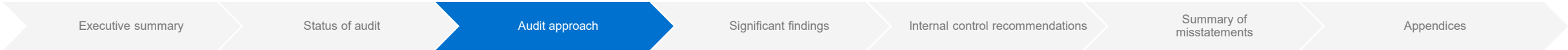
We provided details of our intended audit approach in our Audit Strategy Memorandum in June 2021. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

Our provisional materiality at the planning stage of the audit was set at £46.6 million using a benchmark of 1% of net assets available to pay benefits. We also set a separate provisional specific materiality for the fund account of £17.3 million at the planning stage of the audit using a benchmark of the higher of 10% of contributions receivable and 10% of benefits payable.

Our final assessment of materiality, based on the final financial statements and qualitative factors was set using the same benchmarks:

- Statement materiality £56.9 million.
- Fund account specific materiality £19.1 million.



04

Section 04: **Significant findings**

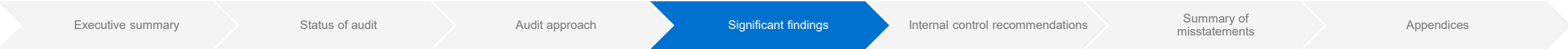
4. Significant findings

In this section we outline the significant findings from our audit work to date. These findings include:

- our audit conclusions regarding other significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. We currently envisage concluding that the financial statements have been prepared in accordance with the financial reporting framework; and
- any significant difficulties we experienced during the audit.

Significant risks

Management override of controls	Description of the risk
	In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.
	How we addressed this risk We addressed this risk through performing audit work over: <ul style="list-style-type: none">• Accounting estimates impacting amounts included in the financial statements;• Consideration of identified significant transactions outside the normal course of business; and• Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
	Audit conclusion Our work to date has provided the assurance we sought in each of these areas and has not highlighted any material issues to bring to your attention.



4. Significant findings

Valuation of investments within level 3 of the fair value hierarchy	Description of the risk
	<p>At 31 March 2021 the Pension Fund held investments which were not quoted on an active market with a fair value of £3,036.4 million, accounting for 53.5 per cent of the Fund's net investment assets. This included: Alternatives including tracker funds (£2,216.6m), Property (£407.1m), Infrastructure (£268.6m) and Private Equity (£144.1m). Inherently these assets are harder to value, as they do not have publicly available quoted prices from a traded market, and as such they require professional judgement or assumptions to be made when valuing them at year end.</p> <p>As the pricing of these investment assets is subject to judgements, they may be susceptible to pricing variances for 2020/21 due to the assumptions underlying the valuation. We therefore consider that there is an increased risk of material misstatement.</p>

How we addressed this risk

We addressed this risk by completing the following additional procedures:

- agreeing the valuation included in the Pension Fund's underlying financial systems to supporting documentation including investment manager valuation statements and cash flows for any adjustments made to the investment manager valuation;
- agreeing holdings from fund manager reports to the custodian's report;
- agreeing the investment manager valuation to audited accounts or other independent supporting documentation, where available;
- reviewing the valuation methodologies through review of accounting policies within audited financial statements and challenge of the fund manager, where required;
- where audited accounts are available, check that they are supported by a clear opinion; and

Valuation of investments within level 3 of the fair value hierarchy (cont'd)	How we addressed this risk (cont'd)
	<ul style="list-style-type: none"> • where available, reviewing independent control assurance reports to identify any exceptions that could present a risk of material misstatement in the Pension Fund's financial statements.
	<h3>Audit conclusion</h3> <p>Subject to completion of the outstanding matters on page 7, our work has provided the assurance we sought in the above areas. It has however highlighted a difference between the valuation of investments in the initial set of accounts prepared and the final version of the accounts on which we will be giving our opinion. This difference resulted from the timing of valuations received from fund managers. The adjusted misstatement involved is detailed on page 17 of this report.</p>

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4. Significant findings

Qualitative aspects of the Fund's accounting practices

We have reviewed the Fund's accounting policies and disclosures and our work to date has concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Fund's circumstances..

In line with our expectations, there have been no significant changes to accounting policies for the year ended 31 March 2021.

Draft accounts were received from the Fund on 10 June and were of a good quality.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management. It is however worth noting that our audit work has been completed through remote working arrangements as a result of the constraints imposed by the COVID-19 pandemic. Whilst challenging at times, through the effective use of technology and close liaison with finance and other officers of the Fund these challenges were overcome.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not to date exercised any of these powers as part of our 2020/21 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. No such objections have been raised.

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Value for Money

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Section 05:

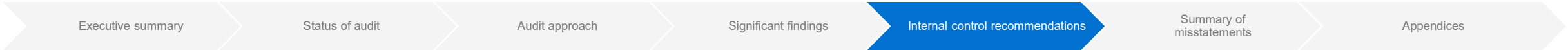
Internal control recommendations

5. Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported in this section are limited to those deficiencies and other control recommendations that we identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our work to date has not identified any internal control issues to bring to your attention. Should any issues arise during the completion of our audit, these will be reported to the Audit Committee in a follow-up letter.



06

Section 06:

Summary of misstatements

6. Summary of misstatements

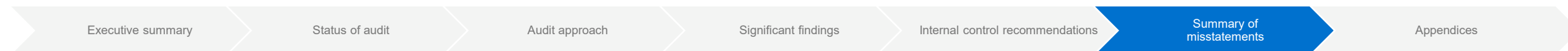
This section outlines the misstatements identified during the course of the audit to date, above the trivial threshold for adjustment of £1.7 million. Where the draft accounts are formally signed and published in accordance with the Regulations any subsequent amendments are referred to as misstatements. This is the case even if such amendments are inevitable and result from the timing of the information available from investment fund managers as is the case this year. The change to the accounts detailed below was identified and proposed by officers from proactively tracking the asset changes from the information received. It is our current understanding that there will be no unadjusted misstatements in relation to the Pension Fund's 2020/21 financial statements. The table below outlines our current understanding of the misstatements that have been adjusted by management.

Adjusted misstatements

	Fund Account		Net Assets Statement	
	Dr (£m)	Cr (£m)	Dr (£m)	Cr (£m)
1	Dr: Investments – Managed Funds Cr: Change in Market Value Difference between valuation of unquoted investments per pension fund accounts and third party confirmations received after the year-end	18.841	18.841	
Total adjusted misstatements		18.841	18.841	

Disclosure amendments

A number of minor disclosure amendments have been made in response to the review of the Pension Fund's financial statements by our technical team. All such matters have been addressed in the final version of the Pension Fund's financial statements.



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*where permitted under applicable country laws.