A photograph of two women running in a modern, open-plan building with large concrete pillars and a high ceiling. The woman on the left is wearing a red tank top and black leggings, while the woman on the right is wearing a grey tank top and black leggings with a red stripe. They are running on a polished floor that reflects their figures. A large red vertical bar is on the left side of the image.

Report to the Audit, Governance and Standards Committee

ESSEX PENSION FUND

Audit Completion: year ended 31 March 2021

IDEAS | PEOPLE | TRUST



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WELCOME

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We have pleasure in presenting our Audit Completion Report to the Audit, Governance and Standards Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2021, specific audit findings and areas requiring further discussion and/or the attention of the Audit, Governance and Standards Committee. At the completion stage of the audit it is essential that we engage with the Audit, Governance and Standards Committee on the results of our audit of the financial statements comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit, Governance and Standards Committee meeting and to receiving your input.

In the meantime, if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

We would also like to take this opportunity to thank the management and staff of the Council for the co-operation and assistance provided during the audit.

David Eagles, Partner
for and on behalf of **BDO LLP**, Appointed Auditor

10 January 2024



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. This report has been prepared solely for the use of the Audit, Governance and Standards Committee and Those Charged with Governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

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This summary provides an overview of the audit matters that we believe are important to the Audit, Governance and Standards Committee in reviewing the results of the audit of the financial statements for the year ended 31 March 2021.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.



Overview

Our audit work on the financial statements is substantially complete. Nothing has come to our attention from the work we have completed to date that would result in a modification of our audit opinion.

Outstanding matters are listed on page 26. in the appendices.

We presented our Audit Planning Report to the Audit, Governance and Standards Committee in March 2021. There have been no significant changes to the planned audit approach and no additional significant audit risks have been identified.

No restrictions were placed on our work.

Audit report

We anticipate issuing an unmodified audit opinion on the financial statements.

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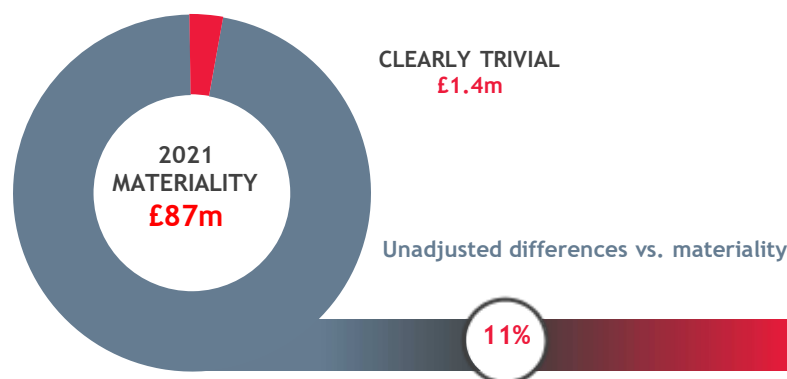
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Final materiality

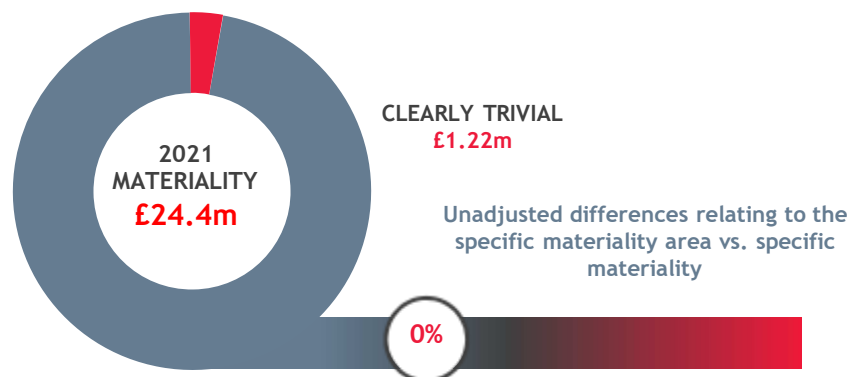
Financial materiality was determined based on 1% of net assets. Specific materiality (at a lower level) was set for the fund account balances (excluding changes in market value of investments) and this was based on 7.5% of gross expenses in the Fund Account.

Following the receipt of the draft financial statements for audit, we updated the material figures. This increased materiality from £84.7m to £87m. Specific materiality for the Fund Account was decreased from £24.6m to £24.4m to reflect actual gross expenditure recognised in the statement of accounts presented for audit. The percentage threshold applied remained at 7.5%.

FINANCIAL STATEMENTS MATERIALITY



FUND ACCOUNT MATERIALITY



Material misstatements

We did not identify any material misstatements.

Unadjusted audit differences

We identified one audit adjustment that, if posted, would reduce 'Net decrease in the assets available for benefits during the year' in the Fund Account and increase 'Net assets of the scheme available to fund benefits' in the Net Asset Statement by £9.529 million.

OTHER MATTERS

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Financial reporting

- We have not identified any non-compliance with accounting policies or the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21
- No significant accounting policy changes have been identified impacting the current year
- Going concern disclosures are deemed sufficient
- The Annual Report and other information included in the Statement of Accounts with the financial statements is consistent with the financial statements and our knowledge acquired in the course of the audit.

Other matters that require discussion or confirmation

- Control deficiency identified in relation to logical access controls over the UPM and Oracle IT applications (see page 19)
- Confirmation on fraud, contingent liabilities and subsequent events
- Letter of representation (see page 30)

Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Council in accordance with the Financial Reporting Council's (FRC's) Ethical Standard.



AUDIT RISKS OVERVIEW

As identified in our Audit Planning Report dated 10 March 2021, we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported	Discussion points / Letter of Representation
Management override of controls	Significant	Yes	No	No	No	No
Valuation of investments (unquoted and direct property investments)	Significant	Yes	Yes	Yes, unadjusted	No	No
Pension Liability Valuation	Significant	Yes	Yes	No	No	No
Valuation of investments (pooled investments)	Normal	No	No	No	No	No
Contribution receivable	Normal	No	No	No	No	No

 Areas requiring your attention



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ISA (UK) 240 notes that management is in a unique position to perpetrate fraud.

Significant risk

Normal risk

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Significant control findings to be reported

Letter of representation point

Risk description

Management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively. We are required to consider this as a significant risk of material misstatement due to fraud.

Work performed

We carried out the following planned audit procedures:

- Reviewed and verified journal entries made in the year, agreeing the journals to supporting documentation; determined key risk characteristics to filter the population of journals; and used our IT team to assist with the journal extraction
- Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias
- Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.

Results

Our work has not identified any evidence of systematic bias or management override in the processing of journal entries and other adjustments.

Material accounting estimates for the Pension Fund included valuation of investments and pension liability. Our audit work on these accounting estimates are set out in the following pages. The audit work performed provided reasonable assurance that the accounting estimates are reasonable and free from management bias.

Our review of the unadjusted audit differences (see page 16) has not identified any evidence of management bias or deliberate misstatement.

We have not identified any unusual transactions or transactions that are outside the normal course of business.

VALUATION OF INVESTMENTS (UNQUOTED AND DIRECT PROPERTY INVESTMENTS)

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Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

The investment portfolio includes unquoted private equity, debt, infrastructure and timberlands which are valued by the fund managers. The pension fund also makes direct investments in freehold and leasehold properties which are based on valuations received from the fund managers. The valuation of these assets may be subject to a significant level of assumption and estimation, and valuations may not be based on observable market data. Due to significance of these valuations, even a small change in assumptions and estimates could have a material impact on the financial statements.

In some cases, the valuations are provided at dates that are not coterminous with the pension fund's year end and need to be updated to reflect cash transactions (additional contributions or distributions received) since the latest available valuations. Due to current market volatility the valuation received can quickly become outdated.

As a result, we consider there to be a significant risk that investments are not appropriately valued in the financial statements.

Work performed

We carried out the following planned audit procedures:

- Obtained direct confirmation of investment valuations from the fund managers and requested copies of the audited financial statements (and member allocations) from the fund;
- Reviewed the valuation completed by the fund manager and any significant assumptions made in the valuation;
- For property valuations, we agreed input data used by the valuer such as agreeing rental information to the underlying rental agreements, and reviewed the rental yields against the comparable data and indices for reasonableness;
- Where the financial statement date supporting the valuation was not coterminous with the pension fund's year end, we confirmed that appropriate adjustments have been made to the valuations in respect of additional contributions and distributions with the funds; and
- Ensured investments have been correctly valued in accordance with the relevant accounting policies.

VALUATION OF INVESTMENTS (UNQUOTED AND DIRECT PROPERTY INVESTMENTS) 2

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Significant management judgement	
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Results and conclusions

Our review of the direct confirmations obtained from fund managers identified that the valuation of private equity was understated by a non material amount of £9.529 million. This variance is due to some investment reports used during the preparation of the financial statements not being coterminous with the pension fund's year-end. Management were therefore required to estimate the value of the affected investments. More recent valuations for these investments were available during our audit and, when compared to the amount recognised in the Net Assets Statement, identified the above variance against the estimates used. The variance identified is included within the uncorrected misstatements schedule (see page 16) for the impact of change in market value in the Fund Account and investment value in the Net Assets Statement.

For investments in private equity, illiquid debt, infrastructure and timberlands, we obtained audited financial statements of the underlying investee funds, and valuations were recalculated by adjusting the additional contributions and distributions where relevant. Given the extended period to prepare financial statements during the year, net asset statements at 31 March 2021 were available for the investment in illiquid debt, infrastructure and timberland. Our recalculations of valuations for these investment categories did not identify any variances outside of our threshold.

In respect of private equity, we reviewed a sample of audited financial statements of the underlying investee funds. Our recalculations of valuations for these investment categories did not identify any variances outside of our threshold.

The direct investment properties held by the pension fund have been valued by an external professional valuer. We are satisfied with the skills and expertise of the valuer and concluded that we can rely on them in their capacity as management's expert. Our review of the input used by the valuer (i.e. rental information) confirmed that they are accurate and reasonable.

The overall valuation of investment properties has increased by approximately 1.2% during the year to £406m. The MSCI sector capital value index has changed for the following sectors:

- Industrial - 9.3% increase
- Offices - 5.2% decrease
- Warehouses and shops - 13.2% decrease

Given the above movements and the weighting of property types held by the pension fund, the increase in investment property valuations of 1.2% is consistent with our expectations and is within our materiality of £87m. We are therefore satisfied that the valuation of direct properties held by the Pension Fund is reasonable.

PENSION LIABILITY VALUATION

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The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty.

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Significant management judgement	
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Unadjusted error	
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Additional disclosure required	
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Letter of representation point	

Risk description

An actuarial estimate of the pension fund liability to pay future pensions is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the Pension Fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.

The most recent actuarial valuation of the pension fund liability was carried out during the 2019/20 year to calculate the liability as at 31 March 2019. This involved the provision of membership and cash flow data from the pension fund to the actuary, data cleansing by the actuary and re-setting the financial and actuarial assumptions related to the valuation. The estimate of the pension fund liability at 31 March 2021 is based on a roll-forward of data from the 2019 triennial valuation, updated where necessary.

There is a risk the valuation disclosed in the notes to the Pension Fund accounts is not based on appropriate membership data (where there are any significant changes) or uses inappropriate assumptions to value the liability.

Work performed

We carried out the following planned audit procedures:

- Reviewed the controls in place to ensure that the data provided from the fund to the actuary is complete and accurate;
- Tested a sample of transfers and cash flow data sent to the actuary for existence and accuracy;
- Reviewed the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data. We used the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions;
- Checked whether any significant changes in membership data have been communicated to the actuary; and
- Agreed the disclosure to the information provided by the actuary.

PENSION LIABILITY VALUATION 2

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Significant risk

Normal risk

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Significant control findings to be reported

Letter of representation point

Results and conclusions

The Pension Fund has established controls and procedures to ensure completeness and accuracy of membership data provided to the actuary. Our review of the controls to ensure data provided to the actuary is complete and accurate did not identify any issues.

In respect of cash flow data provided to the actuary for the IAS 19 valuations, we identified no issues. However, testing of the cash flow data provided to the actuary for the roll forward valuation at 31 March 2021 identified some differences between the estimated contributions based on month 11 actual amounts plus one month of estimates and the actual amounts for the year, but we did not consider these to be significant differences that would materially impact on the liability valuation.

Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations is noted on the following page. The annual data return template from the actuary included details of bulk transfers as these are estimated by the actuary. This data is subjected to data confirmation with individual employers to ensure that they are reasonable. We are therefore satisfied that any significant changes in membership data have been communicated to the actuary.

We agreed the disclosures in Note 3 to the pension fund financial statements to the information provided by the actuary and have identified no issues.

Following the ruling on age discrimination on the McCloud case and gender discrimination on a Lloyds case in the prior year, the actuary has made an allowance at the last accounting date and therefore was already included in the opening liability for this year. This allowance was therefore incorporated in the roll forward approach and the actuary has confirmed that this was re-measured 31 March 2021. The approach adopted by the actuary is considered reasonable.

PENSION LIABILITY VALUATION 3

Continued

Significant accounting estimate: Pension Liability

Overview

The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows.

Changes in 2020/21

The actuarial valuation of future benefits has increased by £2,730 million, from £9,259 million to £11,989 million.

Changes in assumptions that have increased the liability include a increase in CPI and future pension increases (from 1.90% to 2.80%) and a rise in salary increases (from 2.90% to 3.80%), which was partially offset by reduction to the discount rate (from 2.35% to 2%).

Mortality assumptions have not been changed significantly during the year, as such this has resulted in a decrease in the liabilities from these actuarial assumptions only by £105 million (1%). The liability has decreased by £126 million (1.2%) due to experience loss.

Discussion

The pension liability to pay future pensions has increased by £2,730 million to £11,989 million at 31 March 2021.

We compared the assumptions and estimates used by the actuary with the expected ranges provided by the independent consulting actuary PwC.

	Actual	Expected / range	Comments
RPI increase	3.20%	3.15% - 3.35%	Reasonable
CPI increase	2.80%	2.80% - 2.85%	Reasonable
Salary increase	3.80%	3.80% - 3.85%	Reasonable
Pension increase	2.80%	2.80% - 2.85%	Reasonable
Discount rate	2.00%	1.95% - 2.05%	Reasonable
Mortality - LGPS:			
- Male current	21.6 years	20.5 - 23.1	Reasonable
- Female current	23.6 years	23.3 - 25.0	Reasonable
- Male retired	22.9 years	21.9 - 24.4	Reasonable
- Female retired	25.1 years	24.8 - 26.4	Reasonable
Commutation:			
- Pre 2008	50%	50%	Reasonable
- Post 2008	50%	50%	Reasonable

All the financial and mortality assumptions are within the expected range based on national data and therefore the assumptions are considered to be reasonable. We are satisfied that the assumptions used are not unreasonable or outside of the expected ranges. We have requested specific representations from management to confirm that the assumptions used reflect their understanding of the future expectations of the scheme (see letter of representation on page 30).

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VALUATION OF INVESTMENTS (POOLED INVESTMENTS)

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There is a risk that pooled investments may not be appropriately valued and correctly recorded in the financial statements.

Significant risk

Normal risk

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required Significant control findings to be reported

Letter of representation point

Risk description

The fair value of funds (principally pooled investments) is provided by individual fund managers and reviewed by the Custodian (Northern Trust). These valuation are reported on a monthly/quarterly basis although there may be amendments to the 'flash' valuations initially provided and subsequent final valuations that may be received after the draft accounts have been prepared.

There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements.

Work performed

We carried out the following planned audit procedures:

- Obtained direct confirmation of investment valuations from the fund managers including any subsequent final valuations to 'flash' valuations in the unaudited accounts;
- Ensured that investments have been correctly valued in accordance with the relevant accounting policies; and
- Obtained independent assurance reports over the controls operated by both the fund managers and custodian for valuations and existence of underlying investments in the funds.

Results and conclusion

The investment valuations included in the financial statements for pooled investments were agreed to the valuations provided by the fund managers with trivial variances.

We agreed that the investments have been correctly valued using the closing bid market price in line with the accounting policy.

We obtained independent assurance reports for each fund manager and the custodian and these did not reveal any issues with the effectiveness of controls operated by fund managers and custodian for valuations and existence of underlying investments in the funds. The assurance report for one of the fund managers was qualified in respect of IT system change management and logical access controls. Whilst we have not identified any control issues affecting the valuation and existence of investments managed by the fund manager in question, we agreed investments managed by the fund manager to independent market prices and confirmed that the valuations are accurate.

Where the assurance reports obtained were not coterminous with pension fund year end, we obtained bridging letters confirming the satisfactory operation of controls within the fund managers and the custodian to the 31 March 2021.

CONTRIBUTIONS RECEIVABLE

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There is a risk that employers may not be calculating contributions correctly and paying over the full amount due to the pension fund.

Significant risk

Normal risk

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Significant control findings to be reported

Letter of representation point

Risk description

Employers are required to deduct amounts from employee pensionable pay based on tiered pay rates and to make employer normal and deficit contributions in accordance with rates agreed with the actuary.

Additional contributions are also required against pension strain for unreduced pensions for early retirements and augmentation of pensions.

There is a risk that employers may not be calculating contributions correctly and paying over the full amount due to the pension fund.

Work performed

We carried out the following planned audit procedures:

- Tested a sample of normal contributions due (and additional deficit contributions where included in a higher employer rate) for active members including checking to employer payroll records;
- Reviewed contributions receivable and checked that income is recognised in the correct accounting period where the employer is making payments in the following month; and
- Carried out audit procedures to review contributions income in accordance with the Actuary's Rates and Adjustments Certificate, including specified increased rates to cover the minimum contributions to be paid as set out in the Certificate.

Results and conclusions

We carried out analytical procedures to establish expected normal and deficit contributions to be receivable during the year. Our analytical procedures used the prior year amounts received and these were adjusted for the known and expected changes during the year such as the change in membership, contribution rates and the deficit contributions set out in the actuary report. This produced expected normal and deficit contributions which were within our tolerable threshold.

We also substantively tested normal contributions for active members by agreeing a sample of contributions to payroll records and to the employer returns received. For a sample of active members we recalculated the employee and employer contributions by the relevant rates and confirmed the accuracy of calculations. We identified no issues from the testing.

For deficit contributions, we agreed a sample to the Actuary's report and identified no issues. We also reviewed monthly contributions received from employers and confirmed that these have been recognised in the correct financial year.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

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Fraud

Whilst the Council (as administering authority) and the Executive Director, Corporate Services have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Planning Report on 10 March 2021.

Laws and regulations

The most significant considerations for your organisation are the:

- Local Government Acts of 1972 and 2003
- Local Government Finance Acts of 1988, 1992 and 2012
- Local Audit and Accountability Act 2014
- Accounts and Audit Regulations 2015
- VAT legislation
- PAYE legislation.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

Internal audit

We reviewed the audit work of the Council's internal audit function to assist our risk scoping at the planning stage.

Related parties

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud.

We did not identify any significant matters in connection with related parties.

Service auditor reports

We reviewed the service auditor reports in respect of the following Pension Fund functions that are outsourced to, or hosted by, other bodies:

- All investments are managed by Fund Managers

We reviewed all of the relevant service auditor control reports and identified some control reports with a number of exceptions during their control testing. We performed additional work for two of the service organizations to obtain additional assurance where the controls reports could not be relied upon,

UNADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

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We are required to bring to your attention unadjusted differences and we request that you correct them.

We identified one audit adjustment that, if posted, would reduce the 'Net decrease in the assets available for benefits during the year' in the Fund Account and increase 'Net assets of the scheme available to fund benefits' in the Net Asset Statement by £9.529 million.

This audit adjustment is due to some private equity investment reports used during the preparation of the financial statements not being coterminous with the pension fund's year-end. Management were therefore required to estimate the value of the affected investments. More recent valuations for these investments were available during our audit and, when compared to the amount recognised in the Net Assets Statement, identified the above variance against the estimates used.

UNADJUSTED AUDIT DIFFERENCES: DETAIL

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	Fund Account			Net Assets Statement	
	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Unadjusted audit differences					
Net increase in the assets available for benefits during the year	(2,111,511)				
1: Impact of brought forward unadjusted misstatements					
DR Changes in market value of investments	19,123	19,123			
CR Investments (opening balance at 1 April 2020)					(19,123)
2: The difference between the investment valuation per draft accounts and fund manager confirmations					
DR Investments				9,529	
CR Changes in market value of investments	(9,529)		(9,529)		
Total unadjusted audit differences	9,594	19,123	(9,529)	9,529	-
Net increase in the assets available for benefits during the year if above issues adjusted	(2,101,917)				

Further details relating to the impact of the brought forward adjustment of £19.123 million are included in our 2019-20 Audit Completion Report. This adjustment only affects the opening balance of investments at 1 April 2020 in the Net Asset Statement and has no impact on the value of investments at 31 March 2021. However, this adjustment does affect the changes in market values of investments (the overstatement of the opening investment balances means that the increase in market value recognised in the fund account is understated by the same amount).

ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

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We are required to bring to your attention other financial reporting matters that the Audit, Governance and Standards Committee is required to consider.

The following four disclosure adjustments were made by management:

- The removal of the £32.3m net transfer recognised on the UBS investments and recognition of an additional £32.3m in purchases for 'Equities - Unit life assurance policies' in note 12.2.
- The reduction in the sales and purchases recognised for 'Property unit Trusts' of £2.65m.
- The value of investments in Russia/Belarus & Ukraine at 31st March 21 were added to the Post balance sheet event disclosure at note 7.
- The implementation date for IFRS 16 was amended to 1st April 2024 in note 8, following delay of implementation across LGPS.

The above adjustments have no impact on the closing value of the associated investments.

A number of other minor disclosure corrections and enhancements were made to improve the clarity of the financial statements.



REPORTING ON OTHER INFORMATION

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

Matter	Comment
We are required to report on whether the financial and non-financial information in the Narrative Report is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	We are satisfied that the other information in the Narrative Report is consistent with the financial statements and our knowledge.

OTHER DEFICIENCIES

As the purpose of the audit is for us to express an opinion on the Council's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

Area	Observation & implication	Recommendation	Management response
Oracle IT system	<p>Upon review of the privileged accounts for Oracle across both the Council and Pension Fund, we identified one individual in the Council with administration level access when their job role (which involved processing and monitoring of transactions) did not require it.</p> <p>There is an inherent segregation of duties risk when an individual has administrative access rights to a system as well as a transaction processing / monitoring role on that system.</p>	Assign administrative privileges to an independent individual with no transaction processing or monitoring role.	<p>User permissions will be reviewed as part of the move to Oracle fusion.</p> <p>The Council agrees that no user should have both administration level access and transactional level access and confirms that the permissions granted to the individual identified will be amended.</p>
Oracle & UPM IT system	<p>There has not been any proactive monitoring of the login activities performed by privileged users during 2020/21.</p> <p>There is an inherent risk that without independent monitoring, the appropriateness of system administrative activity is dependent on the motivation of the individual. There is a greater risk that unauthorised transaction activity is performed and not detected.</p>	<p>Implement audit logging that records activity performed by administrative accounts at application and database level.</p> <p>Administrator activity should be independently monitored, investigated as appropriate and formally signed off by an independent reviewer.</p>	<p>For Oracle we will need to investigate this further with the suppliers. The Council is of the view that it would be best practice to audit such activity where feasible.</p> <p>UPM - A report will be run regularly to monitor access usage for privileged users. In addition, a process will be developed with the Fund's Compliance Manager to ensure oversight arrangements.</p> <p>This has been implemented by January 2024</p>

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Opinion on financial statements

We anticipate issuing an unmodified opinion on the financial statements.

Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting or the Pension Fund's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

There are no material uncertainties in relation to going concern disclosed in the financial statements of which we are aware that we need to draw attention to in our report.

Irregularities, including fraud

Our report will contain an explain to what extent the audit was considered capable of detecting irregularities, including fraud. Irregularities in this context means non-compliance with laws or regulations.

Other information

We have not identified any material misstatements that would need to be referred to in our report.

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Under ISAs (UK) and the FRC's Ethical Standard we are required, as auditors, to confirm our independence.

Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2021.

Details of services, other than audit, provided by us to the Council during the period and up to the date of this report are set out on the following page and were provided in our Audit Planning Report. We understand that the provision of these services was approved by the Audit, Governance and Standards Committee in advance in accordance with the Council's policy on this matter.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Planning Report.

We have not identified any relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Council.

We also confirm that we have obtained confirmation of independence from external audit experts involved in the audit and that they comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

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Fees summary	2020/21	2020/21	2019/20
	Actual	Planned	Actual
	£	£	£
Fees			
Code audit fee ⁽¹⁾	£28,000	£28,000	£28,000
Additional fee for IAS19 assurance requests from scheduled bodies ⁽²⁾	£6,500	£6,500	£12,250
Additional audit fee: Covid-19 remote working ⁽³⁾	£5,000	£5,000	£0
Total fees	£39,500	£39,500	£40,250

(1) The Code fee remains the PSAA Scale plus the £3,925 added from 2019/20 reflecting the increased expectations relating to the work necessary to audit the judgemental components of the pension fund.

(2) Assurance fees

The 2019/20 audit included cyclical costs relating to the audit of the 2019 triennial actuarial data cleansing exercise. These should not be necessary again until the 2022/23 audit.

(3) Covid-related costs

This represents an estimate of the additional resource time and costs necessary when audits are undertaken remotely. The 15% is at the lowest end of the 15-20% range experienced by BDO and the other audit firms. If we are able to undertake some key work on site, the time reflected here should reduce and the fee level decrease accordingly.



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OUR RESPONSIBILITIES

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Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your financial statements. We report our opinion on the financial statements to officers of the Council.

We read and consider the ‘other information’ contained in the Statement of Accounts such as the Annual report. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

What we don’t report

Our audit is not designed to identify all matters that may be relevant to the Audit, Governance and Standards Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.



ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

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	Issue	Comments
1	Significant difficulties encountered during the audit.	No exceptions to note.
2	Written representations which we seek.	We enclose a copy of our draft representation letter.
3	Any fraud or suspected fraud issues.	No exceptions to note.
4	Any suspected non-compliance with laws or regulations.	No exceptions to note.
5	Significant matters in connection with related parties.	No exceptions to note.



COMMUNICATION WITH YOU

Those Charged with Governance (TCWG)

References in this report to Those Charged With Governance (TCWG) are to the Council as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit, Governance and Standards Committee.

Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two-way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Communication	Date (to be) communicated	To whom
Audit Planning Report	10 March 2021	Audit, Governance and Standards Committee
Audit progress report	At the Audit, Governance and Standards Committee meetings	Audit, Governance and Standards Committee
Audit Completion Report	13 December 2021/25 January 2024	Audit, Governance and Standards Committee

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We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2021. The following matters are outstanding at the date of this report and could impact our audit opinion.

- Management letter of representation to be approved and signed.
- EQCR and RI sign off once Management letter of representation received.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ESSEX PENSION FUND

Opinion on the financial statements

We have audited the pension fund financial statements of the Essex County Council ("the pension fund") for the year ended 31 March 2021 which comprise the fund account, the net asset 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 the preparation of the pension fund financial statements is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2021 and the amount and disposition of the fund's assets and liabilities as at 31 March 2021, other than the liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21

Basis for opinion on the financial statements

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), the Code of Audit Practice issued by the National Audit Office in April 2020 ("Code of Audit Practice") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the pension fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council'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

In auditing the financial statements, we have concluded that the Executive Director Corporate Services' use of the going concern basis of accounting in the preparation of the 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 Pension Fund with respect to going concern are described in the relevant sections of this report.

Other information

The Executive Director Corporate Services is responsible for the other information. The other information comprises all other information included in the Statement of Accounts, other than the pension fund financial statements and our auditor's report thereon. Our opinion on the pension fund 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 pension fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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Responsibilities of Executive Director corporate services and Essex County Council (“the Council”) as administering authority of the pension fund

As explained more fully in the Statement of Accounts - Statement of Responsibilities, the Executive Director Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the pension fund 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, and for being satisfied that the financial statements give a true and fair view and for such internal control as the Executive Director Corporate Services 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 financial statements, the Executive Director Corporate Services 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 the Council intends to wind up the scheme or has no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund 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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Our procedures included the following:

- enquiring of officers and those charged with governance, including obtaining and reviewing supporting documentation in respect of the pension fund’s policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the pension fund’s controls relating to Managing Public Money requirements;
- discussing among the engagement team and involving relevant internal and or external specialists, including an independent review partner, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: posting of unusual journals, misappropriation of assets (investments and member benefits) and pension scams (transfers out to inappropriate or unapproved arrangements);
- obtaining an understanding of the pension fund’s framework of authority as well as other legal and regulatory frameworks that the pension fund operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the pension fund. The key laws and regulations we considered in this context include:

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- Public Service Pension Act 2013
- Local Government Pension Scheme Regulations 2013 (as amended)
- Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014
- Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016
- International accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21;
- Local Audit and Accountability Act 2014;
- Accounts and Audit Regulations 2015;

In addition to the above, our procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Cabinet;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and
- Reviewing the Council's Corporate Fraud Register.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at: <https://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 Essex County Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in the Responsibilities of the Audited Body and Responsibility of the Auditor within Chapter 2 of the Code of Audit Practice. Our audit work has been undertaken so that we might state to the members of the Council 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 Council and the Council's members, as a body, for our audit work, for this report, or for the opinions we have formed.

David Eagles, Key Audit Partner

For and on behalf of BDO LLP, Appointed Auditor

Ipswich, UK

10 January 2024

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

LETTER OF REPRESENTATION

Essex Pension Fund/address
To be printed on letter headed paper

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
IP3 9SJ

Dear Sirs

Financial statements of Essex Pension Fund for the year ended
31 March 2021

We confirm that the following representations given to you in connection with your audit of the Council’s financial statements for the year ended 31 March 2021 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Executive Director, Corporate Services has fulfilled her responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Pension Fund as of 31 March 2021 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Pension Fund’s financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records of the Pension Fund have been made available to you for the purpose of your audit and all the transactions undertaken by the Pension Fund have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of management and other meetings have been made available to you.

Going concern

We have made an assessment of the Pension Fund’s ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the Pension Fund is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis. Furthermore, we confirm that the disclosures included in note 2 to the financial statements are sufficient.

In making our assessment we did not consider there to be any material uncertainty 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.

Laws and regulations

In relation to those laws and regulations which provide the legal framework within which the Pension Fund’s business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

Post balance sheet events

Other than those disclosed in the financial statements, there have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

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Fraud and error

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

Misstatements

We attach a schedule showing uncorrected misstatements that you have identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

Related party transactions

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

Other than as disclosed in note 15 to the financial statements, there were no loans, transactions or arrangements between the Pension Fund and Council members or their connected persons at any time in the year which were required to be disclosed.

Carrying value and classification of assets and liabilities

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the financial statements.

Accounting estimates

The value at which investment assets are recorded in the net assets statement is the fair value. We are responsible for the reasonableness of any significant assumptions underlying the valuations, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the scheme. Any significant changes in those values since the year end date have been disclosed to you.

None of the assets of the scheme has been assigned, pledged or mortgaged. The following key assumptions have been used to calculate the actuarial present value of future pension benefits disclosed in the financial statements:

- RPI increase 3.20%
- CPI increase 2.80%
- Salary increase 3.80%
- Pension increase 2.80%
- Discount rate 2.00%
- Mortality: Current pensioners - male 21.6 years and female 23.6 years / future pensioners - male 22.9 years and female 25.1 years
- Commutation: pre-April 2008 - 50% / post-April 2008 - 50%

We consider these assumptions to be appropriate for the purposes of estimating the pension liability in accordance with the Code and IAS 19 and IAS 26.

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Litigation and claims

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the requirements of accounting standards.

Confirmation

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director and member has taken all the steps that they ought to have taken as a director or member of the Council in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Nicole Wood
Executive Director, Corporate Services

Date:

Cllr Anthony Michael Hedley
Chair of the Audit, Governance and Standards Committee

Date:

AUDIT QUALITY

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BDO is totally committed to audit quality

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at www.bdo.co.uk



FOR MORE INFORMATION:

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the audited body and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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