

Informing the audit risk assessment for Worcestershire County Council Pension Fund 2020/21

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Purpose

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

Background

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

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

Communication

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

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

Purpose

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

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?	Issues and events that will have a significant impact on the 2020/21 financial statements will be: COVID-19 (the accounting treatment and disclosure of transactions in year and at the balance sheet date). Whilst we are still awaiting the formal remedy for the McCloud case an allowance has already been made in the pension valuation and is significantly in line with the final salary scheme underpin.
2. Have you considered the appropriateness of the accounting policies adopted by the Fund? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Accounting policies are reviewed and updated on an annual basis to ensure that any new policies are incorporated and that existing policies are correct. The proposed 2020/21 accounting policies have been subject to review by Management and there have been no changes required.
3. Is there any use of financial instruments, including derivatives?	The Pension Funds financial instruments comprise: Investments, derivatives, Cash Equivalents, Debtors, and financial liabilities. Financial instruments are accounted for as per the requirements of IFRS9. The Pension Fund uses derivatives to manage its exposure to specific risks relating to its passive market cap investments arising from its investment activities.
4. Are you aware of any significant transaction outside the normal course of business?	None in 2020/21.

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	None in 2020/21.
6. Are you aware of any guarantee contracts?	None in 2020/21.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	None in 2020/21.
8. Other than in house solicitors, can you provide details of those solicitors utilised by the Fund during the year. Please indicate where they are working on open litigation or contingencies from prior years?	The Fund uses Gowling WLG to undertake work on new Pension Investment mandates and associated documents and if there are any changes proposed to the investment mandates where the fund would need support on its interpretation and impact.

General Enquiries of Management

Question	Management response
9. Have any of the Funds service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	None noted in 2020/21.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	No other advisors have been consulted in 2020/21.

Fraud

Issue

Matters in relation to fraud

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

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

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

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

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

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

Fraud risk assessment

Question	Management response
<p>1. Have the Fund assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Funds risk management processes link to financial reporting?</p>	<p>Yes. As with the Council, the Pension Fund has a robust financial control framework, supported by financial regulations, standing orders, scheme of delegation and an independent and objective Internal Audit function. Responsibility for ensuring that fraud and corruption risks are addressed sits with the Chief Finance Officer of the Council. The results of reports prepared by Internal Audit are regularly reviewed and the implementation of recommendations made to management, to address highlighted risks and weakness in controls, is monitored. The Pensions Finance Team comprises skilled, qualified, accounting professionals responsible for the preparation of regular account information which monitor the actual income and expenditure and Balance Sheet This monthly process includes the reconciliation of holding and suspense accounts, bank reconciliation, journal input etc. and reviews of variances and activity to highlight instances of fraud and error. The Funds investments cash and book value is also reconciled on a quarterly basis. IA participate in NFI activity. The Fund also updates the Pensions risk register which is reported to Committee on a quarterly basis.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>We have determined the classes of accounts, transactions and disclosures most at risk to fraud to be those which comprise low value, manual entries. High value and automated transactions, for example to pension investments and banking transfers, have additional controls in place.</p>

Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Fund as a whole or within specific departments since 1 April 2020? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>No material instances of fraud have been identified in 2020/21. Risk and fraud issues are communicated to those charged with governance via quarterly Internal Audit and risk management reports presented to the Audit & Governance Committee. Routine monthly monitoring reports are undertaken, and the Pensions Administration monitoring is reported to Pensions Committee. The Pensions Risk Register, Administration and Investment update are reported quarterly to the Pensions Committee and policy documents relating to governance and risk are regularly maintained and reported to the Committee.</p>
<p>4. Have you identified any specific fraud risks? Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within the Fund where fraud is more likely to occur?</p>	<p>We have not identified any specific fraud risks in 2020/21 where fraud is more likely to occur. We are aware of the risks common to Pension Funds (benefits and investments fraud) and these underpin our approach to fraud identification and detection. The Internal Audit Plan follows a risk-based approach to consider areas of potential fraud risk and whether the controls in place are designed and operating effectively to mitigate the identified risks. In addition, management is expected to identify and record fraud risks on the Pensions Risk Register.</p>
<p>5. What processes does the Fund have in place to identify and respond to risks of fraud?</p>	<p>The Fund is administered by the Council and as such complies with the Council and Fund's Anti-Fraud and Corruption Strategy, revised and relaunched in 2020/21, outlines our approach to identify and respond to risks of fraud and this is consistent with the Local Government Fraud Strategy: 'Fighting Fraud Locally'. The 3 key themes of our approach are Acknowledge, Prevent and Pursue. The approach sits alongside an established framework of policies, procedures and controls to provide the major elements of our fraud and corruption prevention governance arrangements which include: Council Constitution including Financial Regulations, Code of Conduct for Councillors and Employees, Registers of Interest, Procurement Rules and Guidance, Whistle Blowing Policy, HR Policies and Procedure for managing recruitment, Standards Committee, Codes of Practice on Planning Matters and Local Authority Publicity, Anti-Money Laundering Policy and Procedures, HR policies and procedures of managing performance including disciplinary matters, IT Security Policy. The Strategy identifies the key stakeholders in deterring and preventing fraud and corruption and details their specific responsibilities. The Council's (and Funds) core policies and procedures are currently under review to ensure they continue to support our financial regulations.</p>

Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment the Fund, including:</p> <ul style="list-style-type: none"> • the existence of internal controls, including segregation of duties; and • the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>The Pension Fund is covered under the Council's internal control framework, supported by the Risk Management Strategy and Anti-Fraud & Corruption Strategy to provide a strong financial framework. The effectiveness of the control environment is considered throughout the year by the Corporate Risk Management Group (CRMG) which maintains and reviews the Council's risk register with Officers and Members on a regular basis. The Pension Fund Risk Register is also looked at monthly and reported to the Pension Committee quarterly. The risk based Internal Audit Plan tests the operating effectiveness of the control framework and reports to management and the Audit & Governance Committee where weaknesses are identified. Policies and procedures which govern our business process are designed to provide separation of duties to reduce the risk of fraud and collusion and exception reporting, control account reconciliations and analytical review processes are used to identify fraudulent transactions and activity.</p> <p>The Council (including the Fund) supports and submits data for the National Fraud Initiative (NFI) and assesses all matches for review and, where appropriate, mitigation. The Chief Financial Officer is responsible for ensuring this strategy is applied and that the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption is followed.</p> <p>We do not consider there is potential for override of controls or inappropriate influence over financial reporting.</p>
7. Are there any areas where there is potential for misreporting?	<p>The internal financial reporting process is subject to regular review and challenge through the finance team reporting structure to reduce the potential for misreporting. A quality review of the Pension Fund Statement of Accounts is undertaken by the Chief Finance Officer as well as an independent review by Internal Audit to identify instances of misreporting.</p>

Fraud risk assessment

Question	Management response
<p>8. How does the Fund communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>The Pension Fund is administered by the Council which has a robust financial control framework, supported by the Council's financial regulations and policies and procedures which are designed to detect and prevent instances of fraud and error. Where a fraud risk is suspected, the Council has a Whistleblowing and Anti-Fraud & Corruption policy, made available to employees and residents via the Council intranet and internet respectively which outlines the relevant procedure to follow. In addition, a dedicated fraud hotline (01905 843222) is available to report instances of suspected fraud and there is an opportunity to report fraud via the Registrars. The Council uses 'Yammer' (a social networking tool) to communicate and raise awareness of potential fraud and the forms it may take within the Council and there is an internal fraud e-learning module for all staff. No significant issues have been reported in 2020/21.</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>There are no posts which have been determined as high-risk from a fraud and corruption perspective.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Related party transactions are identified and monitored through routine reporting procedures. No instances of fraud in respect of related party transactions have been identified in 2020/21. Risks associated with fraud due to related party transactions are mitigated through Member/Officer requirements to disclose all relevant relationships and transactions at Council and Committee meetings and via the Council's Registers of Gifts/Interests.</p>

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit and Governance Committee?</p> <p>How does the Audit and Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>Fraud and risk issues are reported on a quarterly basis to Audit & Governance Committee through the Internal Audit Progress Report and Corporate Risk Report. The Audit & Governance Committee exercises oversight over management processes for identifying and responding to risks of fraud and breaches of internal control through challenge of internal audit reports, monitoring the implementation of recommendations and seeking additional assurances from operational management.</p> <p>The Pension Fund also maintains its own risk register which is reviewed monthly and reported to Pension Committee quarterly</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>We are not aware of any complaints in 2020/21.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>We are not aware of any reports made under the Bribery Act in 2020/21.</p>

Law and regulations

Issue

Matters in relation to laws and regulations

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

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

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

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

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does the Fund have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Fund's regulatory environment that may have a significant impact on the Fund's financial statements?</p>	<p>The Council's Constitution identifies the Monitoring Officer as the individual responsible for reporting the actual or potential breach of a legal requirement to the Council meeting or Cabinet. The Monitoring Officer is supported by a team of Legal and Democratic Services Officers to communicate issues and matters of concern. The Monitoring Officer has sight of all reports presented to the Chief Officer Management Board and all reports presented to Members. All reports to Members are required to include a 'Legal Implications' and 'Risk' section to inform of relevant issues. The section 151 Officer is responsible for preparing the Council's and Pension Fund's annual Statement of Accounts in accordance with relevant legal and regulatory requirements.</p>
<p>2. How is the Audit and Governance Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Monitoring Officer (or representative) may attend Audit & Governance Committee meetings to advise and inform Committee members on legal issues as they arise.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p>	<p>None in 2020/21.</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>None in 2020/21.</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does the Fund have in place to identify, evaluate and account for litigation or claims?	The Council has an internal Insurance Team, under the line management of the s151 Officer, which advises and monitors any instances of litigation and claims. This is in addition to the services undertaken by the Legal and Democratic Services Team. All issues are brought to the attention of the Monitoring Officer and/or s151 Officer as they arise.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	None in 2020/21.

Related Parties

Issue

Matters in relation to Related Parties

The Authority are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

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

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

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

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties disclosed in the Fund's 2019/20 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> • the nature of the relationship between these related parties and the Fund whether the Fund has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions 	<p>There have been no changes in 2020/21</p>
<p>2. What controls does the Fund have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Related party transactions are identified as part of an ongoing process throughout the year by Finance and Legal Services staff. Potential related parties are identified through a regular review of Committee papers, verification from Management, review of registers maintained by WCC (will have Pension Fund reps as well) (Councillors' declaration of interests, Members/Officers registers of gifts/interests) and transactions recorded in our financial accounting system. As part of the final accounts process, a particular challenge exercise is carried out to identify related parties and relevant transactions; the results of this exercise are disclosed in the Statement of Accounts.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Transactions with related parties are subject to the controls as determined by the Council's financial control framework (which the Fund is part of), supported by financial regulations, standing orders and scheme of delegation.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>No significant transactions outside the normal course of business have taken place in 2020/21.</p>

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

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

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

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

Specifically do Audit and Governance Committee members:

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

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

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	<p>The following transactions/events/conditions are significant in the financial statements and give rise to the need for accounting estimates and related disclosures:</p> <ul style="list-style-type: none"> • Valuation of pension fund liability disclosures • Valuation of L3 investments • Valuation of L2 investments • Measurement of financial instruments
2. How does the Fund's risk management process identify and addresses risks relating to accounting estimates?	<p>The Pension Fund maintain a risk register which is reviewed regularly. The risk register does not contain any risks in relation to accounting estimates. Management consider this to be appropriate as the risk is mitigated as the Pensions finance team led by the section 151 officer have a thorough understanding of the requirements of the Code. In addition, there are no significant changes to the Code that impact on accounting estimates. As management, we do not consider the accounting estimates made to be new, unusual or specialised in nature. In addition, management consider that the skills and experience of the Pensions Finance team are sufficient to provide accounting estimates for accruals. For the valuation of Pension Fund liability disclosures, level 2 and 3 investments and measurement of financial instruments an actuary and custodian respectively is employed to provide the necessary skills and experience for these estimates.</p>
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	<p>For our material accounting estimates (Pension Fund liability disclosures, Financial Instruments and Valuation of Level 2 and 3 investments), source data and assumptions are provided by management experts and advisors and this information is supported by the in-year knowledge of the Pension Finance team and specialist staff in the Pensions Administrative Team.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
4. How do management review the outcomes of previous accounting estimates?	<p>The material accounting estimates noted above are determined as at the balance sheet date and any subsequent changes in the valuation methods or assumptions would not result in a change in the values disclosed in the statutory accounts. For Level 3 investments are reviewed using the latest available valuations adjusted for any capital and investment activity which is completed by our custodian. For the Pension Fund liability employer quarterly cashflow and expenditure data is provided to the actuary based requirements discussed with the actuary as part of the year end review who then provide detailed assumptions and relevant considerations which are taken on board as part of year end procedures. For non-material estimates, (e.g. accruals), the outcome of the estimation methods are reviewed and adjusted once actual values are available and this information is considered to ensure that future estimates are based upon the most relevant source data and assumptions.</p>
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	<p>No changes have been made in 2020/21.</p>
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	<p>We have identified the need for external experts in respect of the accounting estimates which require specialist skills/knowledge: valuation of level 3 investments (Custodian in liaison with the investment Fund managers, valuation of the Pension Fund Liability (Actuaries) and measurement of Financial Instruments (Investment Fund Managers).</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
7. How does the Fund determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	<p>The skills and experience of experts are considered on appointment as part of routine procurement procedures and the Council's requirements are communicated to and agreed with experts via an annual work instruction or terms of engagement. Information provided by experts which informs our estimates is subject to management review and challenge.</p> <p>Control checks are performed as part of year end closedown procedures to review transactions which are informed by estimates: manual entries to process changes in values of Level 2 and 3 investments, Fin Instruments and PF Liability are subject to management review, accruals are subject to quality assurance and control checks as determined by their value and degree of estimation uncertainty</p>
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	<p>Control activities in respect of information provided by management experts are considered as part of our work instruction/terms of engagement and are monitored at key points in the year through regular meetings and communication with appointed service providers/management experts. In particular regular quarterly meetings are held with our level 3 investment managers to understand the performance, valuations etc.</p> <p>For other control activities, these are subject to review and challenge as part of our closedown activity and these checks are built into our detailed final accounts closedown timetable.</p>
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>Accounting estimates and the basis for their calculation and consideration of exposure of the estimate to risk are assessed by management and this assessment is presented to Audit & Governance Committee for consideration and challenge.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	No
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	The assumptions which underpin the figures reported in the Statement of Accounts are reviewed in advance of preparation and estimates and assumptions are disclosed in the Notes to the accounts for transparency. Accounting estimates and the basis for their calculation and consideration of exposure of the estimate to risk are assessed by management and this assessment is presented to Audit & Governance Committee for consideration and challenge.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension Fund Liability disclosures	<p>The valuation of assets and liabilities in respect of defined benefit obligations are calculated by the independent firm of actuaries. Liabilities are assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates and salary levels. The LGPS has been assessed by Mercer Ltd and estimated for the Fund is based on the latest full valuation of the scheme as at 31 March 2019.</p>	<p>The Council's Pension & Investments Manager communicates with externally appointed actuaries throughout the year and the year-end report is considered by management prior to inclusion in the financial statements.</p>	Y	<p>The principal assumptions used by the actuary are in respect of mortality (longevity at 65 for current and future pensioners) and financial assumptions: rate of CPI inflation, rate of increase in salaries, rate of increase in pensions and rate for discounting scheme liabilities.</p> <p>We consider the sensitivity of the estimate based on reasonably possible changes in the assumptions occurring at the end of the reporting period.</p>	<p>There are no changes to the method/models used in 2020/21</p>

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of Level 3 investments	The Funds directly held investment properties are valued at fair value by independent valuers in accordance with RICS valuation professional standards, whilst infrastructure investments are valued at fair value by independent experts. From 2019-20 there has been additional uncertainty regarding the property valuations due to the time that it will take to fully realise the impact of COVID-19 upon illiquid assets such as property. The valuations have been updated based on the information available as at 31 March 2021 and may be subject to variations as further market information becomes available	The Council's Pension & Investments Manager communicates with the Fund Managers concerned during the year. The Fund employs the services of an independent advisor (Portfolio evaluation Limited) who assess the likely extent of variability in the values of the underlying assets. Also, the Fund may engage its Actuary to quantify any changes in value, if considered appropriate.	Y	<p>The total value of such Investments in the 2019/20 accounts was £486.9m. The range of possible values was £440.8m to £532.8m</p> <p>Alternative estimates from the Actuary may be used, if considered appropriate.</p>	There are no changes to the method/models used in 2020/21

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of Level 2 Investments	Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.	As above	Y	The total value of such Investments in the 2019/20 accounts was £1,147.4m. The Fund assesses different risk sensitivities around these valuations based on market risk, equity risk, currency etc but are normally based on the closing bid price where bid and offer prices are published or the single price as applicable	There are no changes to the method/models used in 2020/21

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Measurement of Financial Instruments	The Fund values its financial instruments at fair value, as informed by the advice of external and independent Management advisors and Investment Fund Managers.	Fair values are estimated by calculating the present value of cash flows that take place over the remaining term of the instruments, as provided by management experts.	Y	<p>Management consider the exposure of each of its categories of financial instruments to credit, liquidity and market risks and, as per previous financial year, we will consider any additional credit risks arising as a result of the COVID-19 pandemic.</p> <p>Risks to accounting estimates used in our measurement of financial instruments are managed through our Pensions Investment Strategy Statement and the Funds overall risk management procedures which focus on the unpredictability of financial markets to minimise potential adverse effects on the resources available to fund sources.</p>	There are no changes to the method/models used in 2020/21



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