

# Agenda Item 7

**Report to:** Audit Committee

**Date of meeting:** 20 September 2024

**By:** Chief Finance Officer

**Title:** East Sussex Pension Fund External Audit – East Sussex Pension Fund Audit Findings Report

**Purpose:** To update the Audit Committee on progress on the delivery of Grant Thornton’s responsibilities as the East Sussex Pension Fund’s external auditor.

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## RECOMMENDATION:

The Audit Committee is recommended to:

- 1) note the East Sussex Pension Fund Audit Findings Report provided by Grant Thornton; and
  - 2) consider whether the responses in the audit risk assessment of the Pension Fund are consistent with the Committee’s understanding and whether there are any further comments the Committee wishes to make.
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### 1. East Sussex Pension Fund External Audit Progress Update

1.1 The East Sussex Pension Fund Statement of Accounts for 2023/24 was published as part of the East Sussex Statement of Accounts by the 31 May 2024 deadline ([Statement of Accounts | East Sussex County Council](#)). Grant Thornton (GT), as the Council’s external auditors, are nearing completion of their audit and subject to outstanding queries being resolved it is anticipated the Fund will be issued an unqualified audit opinion. GT have provided the East Sussex Pension Fund Audit Findings Report to the Audit Committee at Appendix A.

### 2. Informing the Audit Risk Assessment

2.1 GT are required to report to the Audit Committee informing the Committee of the audit risk assessment of the Pension Fund, including management responses and Pension Fund oversight over key areas. The report is set out in Appendix B.

### 3. Conclusion and Recommendation

3.1 The Audit Committee is recommended to note the note the East Sussex Pension Fund Audit Findings Report provided by GT.

3.2 The Audit Committee is recommended to consider whether the responses in the audit risk assessment of the Pension Fund are consistent with its understanding and whether there are any further comments it wishes to make.

**IAN GUTSELL**

**Chief Finance Officer**

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Local Member(s): All  
Background Documents  
None

# The Interim Audit Findings for Report for East Sussex Pension Fund

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Year ended 31 March 2024  
20<sup>th</sup> September 2024 -UPDATE FOR COMMITTEE  
AS AT 13<sup>th</sup> SEPTEMBER 2024





East Sussex Pension Fund  
County Hall, St Anne's Crescent, Lewes, East Sussex, BN7 1UE

September 2024

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Grant Thornton UK LLP

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Dear Members of the Audit Committee and Pension Committee,

## Audit Findings for East Sussex Pension Fund for the 31 March 2024

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process and confirmation of auditor independence, as required by International Standard on Auditing (UK) 260. Its contents will be discussed with management, Audit Committee and the Pension Committee.

The outstanding work will be completed by the Audit team throughout September and a final Audit findings Report issued on conclusion of our audit, in signing the financial statements.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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 for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We encourage you to read our transparency report which sets out how the firm complies with the requirements of the Audit Firm Governance Code and the steps we have taken to drive audit quality by reference to the Audit Quality Framework. The report includes information on the firm's processes and practices for quality control, for ensuring independence and objectivity, for partner remuneration, our governance, our international network arrangements and our core values, amongst other things. This report is available at [transparency-report-2023.pdf \(grantthornton.co.uk\)](#).

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

**Parris Williams**

**Director  
For Grant Thornton UK LLP**

### Chartered Accountants

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This Audit Findings Report (AFR) presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents will be discussed with management, Audit Committee and the Pension Committee.

### **Parris Williams**

Parris Williams

For Grant Thornton UK LLP

Date: 20 September 2024

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# 1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of East Sussex Pension Fund (‘the Pension Fund’) and the preparation of the Pension Fund’s financial statements for the year ended 31 March 2024 for the attention of those charged with governance.

## Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice (‘the Code’), we are required to report whether, in our opinion:

- the Pension Fund’s financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2024 and of the amount and disposition at that date of the fund’s assets and liabilities, other than liabilities to pay promised retirement benefits after the end of the fund year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Our audit work was completed remotely during July-September. Our findings are summarised on pages 5 to 18.

We have identified a few disclosure amendments which have been detailed in Appendix B, of this report.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters outlined on page 6.

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

Our anticipated opinion on the financial statements will be unmodified.

Whilst our work on the Pension Fund financial statements is substantially complete, we will be unable to issue our final audit opinion on the Pension Fund financial statements until the audit of the East Sussex County Council is complete.

We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our ‘consistency’ opinion on the Pension Funds Annual Report along with the audit opinion on the financial statements.

## 2. Financial Statements

### Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will be discussed with management and the Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

For East Sussex Pension Fund, the Audit Committee fulfil the role of those charged with governance. We note that there is a separate Pension Committee which considers the draft financial statements and is part of the overall member oversight process.

### Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

### Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 20th September 2024 and finalization of the administering authority audit.

**Outstanding items are set out on the page overleaf.**

## 2. Financial Statements – audit areas in progress and outstanding items.

Our work is nearing completion and based on work completed to date, there are no matters of which we are aware that would require modification of our audit opinion. See below for details of areas of the audit still in progress or where we are waiting on information from management

### Matters outstanding with management or other stakeholders:

- Response to 1 follow-up query we have raised to the fund manager BlueBay regarding a Level 2 investment
- Response to 1 follow up query we have raised to the fund manager M&G regarding a Level 3 Investment
- Response to 2 samples on Lump Sum Benefits

### Audit areas in progress where there are no outstanding issues with management:

- P&L on disposal and changes in values of investments
- Other non-material disclosures to review, including disclosure checklist.
- Completion of our work on litigation and claims
- Responding to IAS 19 request letters
- Member's Data Processing
- Derivative Testing

### Audit procedures which necessarily take place within the concluding stages of the audit:

- Completion of procedures regarding subsequent events
- Senior engagement team quality review
- Receipt of management representation letter
- Review of the final set of financial statements

**Subject to the receipt of the outstanding items and satisfactory completion of the above points, we anticipate issuing an unqualified opinion on the pension fund financial statements and an unqualified consistency opinion for the Annual Report.**



## 2. Financial Statements



### Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

We have revised the performance materiality at year end based on the updated Gross Investment Figures as at 31 March 2024.

We set out in this table our determination of materiality for the Pension Fund.

	Pension Fund Amount (final)	Pension Fund Amount (Planning as communicated in the Audit Plan)	Qualitative factors considered
Materiality for the financial statements	£59,000,000	£54,700,000	This benchmark is determined as a percentage of the Gross investment assets which has been set at approximately 1.2%.
Performance materiality	£44,250,000	£41,025,000	Performance Materiality is based on a percentage (75%) of the overall materiality.
Trivial matters	£2,950,000	£2,735,900	Triviality is based on a percentage (5%) of the overall materiality.
Specific materiality for fund account	£19,580,000	£17,750,000	This benchmark is determined as a percentage of the fund expenditure which has been determined as 10%
Specific performance materiality for fund account	£14,685,000	£13,312,000	Performance Materiality is based on a percentage (75%) of the overall materiality of the fund account.

## 2. Financial Statements: Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

### Risks identified in our Audit Plan

### Commentary

#### ISA240 fraudulent revenue recognition

##### - Rebutted

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states that the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition for public sector bodies.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition;
- opportunities to manipulate revenue recognition are very limited;
- the culture and ethical frameworks of local authorities, including the Pension Fund, mean that all forms of fraud are seen as unacceptable.

We have additionally assessed the risk as per Practice Note 10: around the risk of material misstatement due to fraud related to expenditure and based on our assessment, we did not consider this to be a significant risk for the Pension Fund when producing our audit plan.

We have reconsidered our original assessment as part of our audit work on the Pension Fund's financial statements and are satisfied that this rebuttal remains appropriate.

#### Management over-ride of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

In response to this risk, we have:

- evaluated the design and implementation of management controls over journals
- analysed the journals listing and determined the criteria for selecting high risk unusual journals
- identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgments applied by management and considered their reasonableness.
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

We have not identified changes to the accounting policies or the estimation process for 23/24

**Subject to the satisfactory completion of the outstanding matters set on page 6, there are no matters to bring to your attention in relation to this risk**

## 2. Financial Statements: Significant risks

### Risks identified in our Audit Plan

### Commentary

#### Valuation of Level 3 investments

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

By their nature level 3 investment valuation lack observable inputs. These valuation therefore represents a significant estimates by management in the financial statement due to the size of the numbers involved and the sensitivity of this estimates to changes in key assumptions.

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

Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2024

In response to this risk, we have:

- Obtained an understanding of the management processes for valuing Level 3 investments;
- reviewed the nature and basis of estimated values and considered what assurance management has over the year-end valuations provided for these types of investments; to ensure that the requirements of the Code are met;
- independently requested year-end confirmations from investment managers and the custodian for all investments held;
- for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2024 with reference to known movements in the intervening period;
- where available reviewed the investment manager service auditor report on the design and operating effectiveness of internal controls;
- evaluated the competence, capabilities, and objectivity of the valuation expert
- reviewed investment manager service auditor report on the design and operating effectiveness of internal controls; and
- where appropriate, written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met

**We note that our work around this area is in progress, subject to the satisfactory completion of the outstanding matters set on page 6, there are no matters to bring to your attention in relation to this risk.**

## 2. Financial Statements: Other risks

### Risks identified

### Commentary

#### Valuation of Level 2 investments

While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly.

We therefore identified the valuation of the Fund's Level 2 investments as a risk of material misstatement.

In response to this risk, we have:

- Gained an understanding of the Fund's process for valuing Level 2 investments;
- Reviewed the nature and basis of estimated values and considered the assurance management has over the year-end valuations provided for these types of investments;
- Independently requested year-end confirmations from investment managers and custodian;
- Reviewed the reconciliation of information provided by the individual fund manager's custodian and the Pension Scheme's own records. No variances noted;
- Tested a sample of the underlying investments to quoted prices. For Samples where we were not able to obtain the quoted price, we have used the Level 3 testing approach to review the valuation figures as at 31 March 2024 ; and
- Reviewed the investment manager service auditor report on the design effectiveness of internal controls.

**Subject to the satisfactory completion of the outstanding matters set on page 6, there are no matters to bring to your attention in relation to this risk.**

#### Contributions

Contributions from employers and employees represents a significant percentage of the Fund's revenue.

We therefore identified the completeness and accuracy of the transfer of contributions as a risk of material misstatement.

In response to this risk, we have:

- Evaluated the Fund's accounting policy for recognition of contributions for appropriateness;
- Gained an understanding of the Fund's system for accounting for contribution income;
- Tested a sample of contributions to source data to gain assurance over their accuracy and occurrence and
- Tested relevant member data to gain assurance over management information to support a predictive analytical review with reference to changes in member body payrolls and the number of contributing employees to ensure that any unusual trends are satisfactorily explained.

**Subject to the satisfactory completion of the outstanding matters set on page 6, there are no matters to bring to your attention in relation to this risk.**

## 2. Financial Statements: Other risks

Risks identified	Commentary
<p><b>Benefits Payable</b></p> <p>Pension benefits payable represents a significant percentage of the Fund's expenditure.</p> <p>We therefore identified the completeness, accuracy and occurrence of the transfer of pension benefits payable as a risk of material misstatement.</p>	<p>In response to this risk, we have:</p> <ul style="list-style-type: none"> <li>• Evaluated the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness;</li> <li>• Gained an understanding of the Fund's system for accounting for pension benefits expenditure;</li> <li>• Tested a sample of lump sums and associated individual pensions in payment by reference to member files; and</li> <li>• Tested relevant member data to gain assurance over management information to support our predictive analytical review. Including reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained.</li> </ul> <p><b>Subject to the satisfactory completion of the outstanding matters set on page 6, there are no matters to bring to your attention in relation to this risk.</b></p>
<p><b>Actuarial Present Value of Promised Retirement Benefits</b></p> <p>The Fund discloses the Actuarial Present Value of Promised Retirement Benefits within its Notes to the Accounts. This represents a significant estimate in the financial statements.</p> <p>The Actuarial Present Value of Promised Retirement Benefits is considered a significant estimate due to the size of the numbers involved (£3,974m) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified the valuation of the Fund's Actuarial Present Value of Promised Retirement Benefits as a risk of material misstatement.</p>	<p>In response to this risk, we have:</p> <ul style="list-style-type: none"> <li>• Documented our understanding of the processes and controls put in place by management to ensure that the Fund's Actuarial Present Value of Promised Retirement Benefits is not materially misstated and evaluate the design of the associated controls;</li> <li>• Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• Assessed the competence, capabilities and objectivity of the actuary who carried out the Fund's valuation;</li> <li>• Assessed the accuracy and completeness of the information provided by the Fund to the actuary to estimate the liability;</li> <li>• Tested the consistency of disclosures with the actuarial report from the actuary; and</li> <li>• Undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.</li> </ul> <p><b>Subject to the satisfactory completion of the outstanding matters set on page 6, there are no matters to bring to your attention in relation to this risk.</b></p>

## 2. Financial Statements: key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p><b>Level 3 Investments – £1,145 m</b></p>	<ul style="list-style-type: none"> <li>The Pension Fund has investments in the following:</li> <li>Private Equity/Infrastructure funds that in total are valued on the balance sheet as at 31 March 2024 at £788m;</li> <li>Pooled property investments that in total are valued on the balance sheet as at 31 March 2024 at £321m;</li> <li>Pooled Investments in total are valued on the balance sheet as at 31 March 2024 at £35m</li> </ul> <p>The Fund revalues its investments on a quarterly basis to ensure that the carrying value is not materially different from the fair value at the financial statement date.</p> <p>These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management rely on the valuation provided by the Fund Manager, which is usually based on an audited value of the fund as at 31 December 2023, with the valuation rolled forward to 31 March 2024.</p>	<p>Our work is still in progress around this area. However, Based on our work completed to date on the Valuation of Level 3 Investments, We consider management's process is appropriate, and key assumptions are neither optimistic or cautious, based on all evidence obtained during the audit, including both corroborative and contradictory audit evidence, when evaluating the appropriateness of these accounting estimates.</p>	TBC
<p><b>Level 2 Investments £3,302m</b></p> <p>While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly.</p>	<p>The Pension Fund has investments in Bonds and Pooled Investment Vehicles that in total are valued on the Net Asset Statement as at 31 March 2024.</p> <p>Whilst these investments themselves are not actively traded on an open market, the underlying investments are and the valuations of these investments are based on the value of these underlying investments at 31 March 2024, or the closest trade date to year-end.</p>	<p>Based on our work completed to date on the Valuation of Level 2 Investments, we consider management's process is appropriate, and key assumptions are neither optimistic or cautious, as we have validated the sources of information used by management, management's point estimate and disclosures relating to this accounting estimate.</p>	TBC

### Assessment

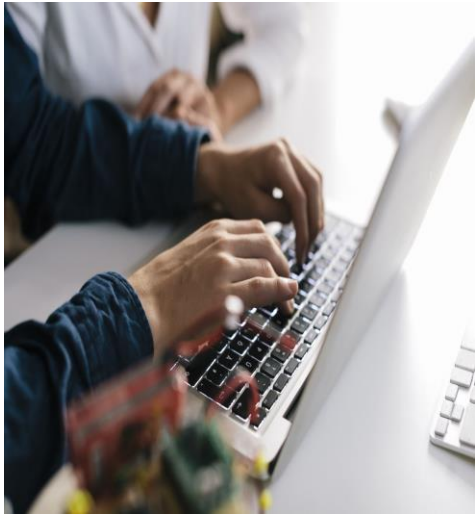
- [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- {Amber} We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Green] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

## 2. Financial Statements: other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
<b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
<b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed.
<b>Matters in relation to laws and regulations</b>	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
<b>Written representations</b>	A letter of representation has been requested from the Pension Fund , which is appended within this document. This will be signed alongside the final draft of the financial statements in advance of the conclusion of the audit.
<b>Audit evidence and explanations</b>	All information and explanations requested from management was provided.

## 2. Financial Statements: other communication requirements



Issue	Commentary
<b>Confirmation requests from third parties</b>	We requested from management permission to send (a) confirmation request(s) to your custodian, fund managers, and banks. This permission was granted, and the requests were sent. These requests were returned with positive confirmation, subject to outstanding confirmation on Page 6 of this report
<b>Accounting practices</b>	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates, and financial statement disclosures. We have identified a small number of disclosure issues, none of which are considered significant, and these are reported to you in Appendix B. We plan to issue an unmodified opinion in this respect.



## 2. Financial Statements: other communication requirements



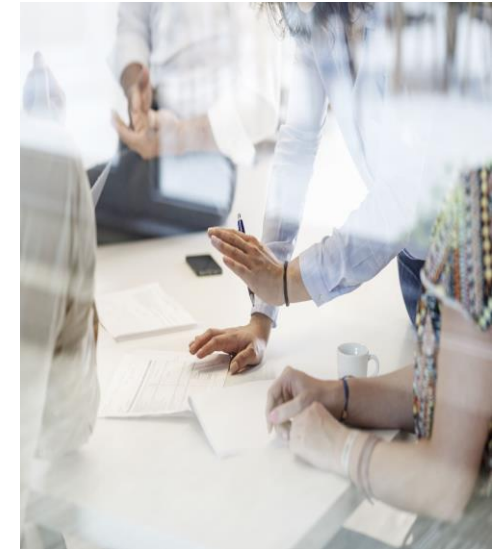
### Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> <li>the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities</li> <li>for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting.</li> </ul> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> <li>the nature of the Pension Fund and the environment in which it operates</li> <li>the Pension Fund's financial reporting framework</li> <li>the Pension Fund's system of internal control for identifying events or conditions relevant to going concern</li> <li>management's going concern assessment.</li> </ul> <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> <li>a material uncertainty related to going concern has not been identified</li> <li>management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul>

## 2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	<p>The Pension Fund is administered by East Sussex (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements. We are required to read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.</p>
Matters on which we report by exception	<p>We are required to give a separate consistency opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines, the Pension Fund Annual Report is not required to be published until 01 12 2024 and therefore this report has not yet been produced. We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.</p> <p>We are required to report if we have applied any of our statutory powers or duties as outlined in the Code. We have nothing to report on these matters.</p>



# 3. Independence considerations

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers and network firms). In this context, we confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in 7 September 2022 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

## Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Grant Thornton International Transparency report 2023](#).

# 3. Independence and ethics

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

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person [and network firms] have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements.

# Appendices

- A. Communication of audit matters to those charged with governance
- B. Audit Adjustments
- C. Fees and non-audit services
- D. National context

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

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

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

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

## Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

## Distribution of this Audit Findings report

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

# B. Audit Adjustments

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

We have not identified any adjusted misstatement for the year ending 31 March 2024, at this stage.

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure/issue/Omission	Auditor recommendations	Adjusted?
<p>Additional voluntary contributions –Note 23</p> <p>The amount disclosed for disinvested from the AVC provider in 2023/24 was £2,050 instead of £2.050m.</p>	<p><b>Management response</b></p> <p>This was a typo error, Agreed to be amended</p>	<p>To be checked with the updated version of Accounts.</p>
<p>Related party transactions-Note 35</p> <p>Auditor conducted a completeness check and detected a senior officer who should have been include in the note and was omitted. Management confirmed that the Council has started to provide the Chair of the pension committee with a special allowance which is recharged to the Pension Fund, when this started the fund did not review the makeup of this note and now considers that this should be included.</p>	<p><b>Management response</b></p> <p>Agreed to be amended</p>	<p>To be checked with the updated version of Accounts.</p>
<p>Actuarial present value of promised retirement benefits- Note 20</p> <p>Net (Liability)/Assets totals (Page 45) in the statement of financial position – A calculation error was noted for the total of “ Net Liability/Assets in Balance sheet” amount, this should be £990,864k however this was showing as (£981,864k). Management confirmed this was a mistyping and has agreed to update this.</p>	<p><b>Management response</b></p> <p>Agreed to be amended</p>	<p>To be checked with the updated version of Accounts.</p>

## C. Fees and non-audit services

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non-audit services.

	Proposed fee 2023/24	Final Fees 2023/24
East Sussex Pension Fund Audit	£90,337	£90,337
IAS 19 letters*	£0	£0
ISA 315**	£7,530	£7,530
<b>Total audit fees (excluding VAT)</b>	<b>£97,867</b>	<b>£97,867</b>

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

\*\*ISA 315 is not included within the published 2023/24 scale fees. The £7,530 is therefore a fee variation that is subject to PSAA approval



# D. National context

## National context – audit backlog

### Consultation

The Ministry for Housing, Communities and Local Government (MHCLG), working with the FRC, as incoming shadow system leader, and other system partners, has put forward proposals to address the delay in local audit. The proposals consist of three phases:

Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 30 September 2024.

Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.

Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

The consultation ran until 7 March 2024. Full details of the consultation can be seen on the following pages:

- [Consultations on measures to address local audit delays \(frc.org.uk\)](https://www.frc.org.uk/consultations/consultations-on-measures-to-address-local-audit-delays)
- [Addressing the local audit backlog in England: Consultation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/addressing-the-local-audit-backlog-in-england)
- [Code of Audit Practice Consultation - National Audit Office \(NAO\)](https://www.nao.org.uk/consultations/code-of-audit-practice-consultation)

### Our response to the consultation

Grant Thornton responded to the consultation on 5 March 2024. In summary, we recognise the need for change, and support the proposals for the introduction of a backstop date of 30 September 2024. The proposals are necessarily complex and involved. We believe that all stakeholders would benefit from guidance from system leaders in respect of:

- the appropriate form of reporting for a backstopped opinion
- the level of audit work required to support a disclaimer of opinion
- how to rebuild assurance in terms of opening balances when previous years have been disclaimed.

We believe that both auditor and local authority efforts will be best served by focusing on rebuilding assurance from 2023/24 onwards. This means looking forwards as far as possible, and not spending 2023/24 undertaking audit work which was not carried out in previous years. We look for guidance from systems leaders to this effect. The timing of the general election has delayed the implementation of these proposals. Once we have a further understanding of the new government's intentions, and its priorities across the sector we will discuss this with you.

### Impact on Pension Funds

Pension fund accounts fall within the scope of the outlined backstop legislation. Where an Administering Authority accounts may be required to be backstopped this would not automatically apply to the Pension Fund accounts. We expect to be able to issue a separate opinion on the Fund accounts where the Pension Fund audit can be completed.

### Update

Following the general election the Minister of State for Housing, Communities and Local Government has proposed backstop legislation which will revise the date of the first backstop for financial years up to and including 2022-23 to December 13 2024.

## National context – Triennial Valuation

Triennial valuations for local government pension funds have been published. These valuations, which are as at 31 March 2022, provide updated information regarding the funding position of the Pension Fund and set employer contribution rates for the period 2023/24 – 2025/26. For the Pension Fund, the valuation was undertaken by Barnett Waddingham LLP, and showed that the Pension Fund's funding position had improved to 98% (from 90% as at 31 March 2019). The results of the latest triennial valuation are reflected in note 17 to the financial statements. These valuations also provide updated information for the calculation of the net pension liability on employer balance sheets.



# Informing the audit risk assessment for East Sussex Pension Fund 2023/24



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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## Purpose

The purpose of this report is to contribute towards the effective two-way communication between East Sussex Pension Fund's external auditors and the Pension Fund's Audit 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 Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit 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 Committee and supports the Audit 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 Pension Fund's oversight of the following areas:

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

## Purpose

This report includes a series of questions on each of these areas and the response we have received from East Sussex Pension Fund's management. The Audit 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
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2023/24?</p>	<p>There has been no major events this year. There have been some smaller asset allocation changes that have taken place we have been increasing our index linked exposure with a set agreed trigger mechanism so this has increased by 3% with a corresponding reduction in our equity exposure. We have rebalanced our passive equity managers so a movement of £97m was made from Storebrand to the UBS Osmosis fund.</p> <p>The East Sussex County Council Pension Bulk Transfer was completed, and payment of £961K was made in October 2023</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by East Sussex Pension Fund? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>Our accounting policies are looked at when preparing the accounts to ensure we are in line with the CIPFA guidance on these costs.</p> <p>No</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>Derivatives are permitted within the Fund for the purpose of efficient portfolio management or to hedge specific risks</p> <p>We have one investment where we directly hold derivatives, this is our UBS Osmosis passive segregated mandate</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>No</p>



## 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? If so, what are they?	No, we have not come across any circumstance that has lead to and impairment of an non-current assets the investments in the Fund are reported at fair value.
6. Are you aware of any guarantee contracts? If so, please provide further details	<p>The Pension Fund has not entered into any financial guarantee contracts where it would be required to make specific payments to reimburse the holder for a loss it incurs with regards to the terms of a debt instrument.</p> <p>The Fund is in receipt of 12 guarantees by local authorities participating in the Fund,            3 Parent company guarantees,            1 deposit held by East Sussex County Council,            2 guarantees by Academies participating in the Fund            3 Parent company guarantee.</p> <p>These are in place to cover the possibility of the employers not paying their contributions to the Fund</p>
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	No there is no existence of loss contingencies and/or un-asserted claims that may affect the financial statements.
8. Other than in house solicitors, can you provide details of those solicitors utilised by East Sussex Pension Fund during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>For pension law matters, the Fund instructs Eversheds to provide advice.</p> <p>For matters relating to ACCESS advice is taken from Squires Patton Boggs</p>

## General Enquiries of Management

Question	Management response
9. Have any of the East Sussex Pension Fund's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	<p>Isio, Investment advice</p> <p>William Bourne, Investment advice,</p> <p>Barnett Waddingham, Scheme Actuary</p> <p>Mercer, GMP</p> <p>ITM, Address tracing</p> <p>Northern Trust - Custodian</p> <p>Minerva – Carbon footprinting</p>
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	We have not identified assets which are expected to have a credit loss provision

# Fraud

## 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 Committee and management. Management, with the oversight of the Audit 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 Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As East Sussex Pension 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 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 Committee oversees the above processes. We are also required to make inquiries of both management and the Audit 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 East Sussex Pension Fund's management.

# Fraud risk assessment

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Question	Management response
<p>1. Has East Sussex Pension 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 Pension Fund's risk management processes link to financial reporting?</p>	<p>The internal audit team from East Sussex County Council have not identified any risks relating to fraud therefore there is considered to be a low risk that there would be a material misstatement in the financial statements.</p> <p>There is segregation of duties between those generating the transactions and those authorising and those physically actioning transactions. Fraud is also an area that the internal audit team of the council consider during their audits of the Fund.</p> <p>The Fund maintains a risk register which is reported to both Pension Board and Committee and they are informed if there is a change in the risk rating of the items on the risk register.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The classes of accounts most at risk of fraud would be those that are dealing with cash payments into and out of the Fund.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within East Sussex Pension Fund as a whole, or within specific departments since 1 April 2023? If so, please provide details</p>	<p>No</p>

## Fraud risk assessment

Question	Management response
4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	The Pension Committee and Board receive reports from the internal audit team to look at the controls in place within the Fund. There is also a risk register that goes to each committee and board to update the committee and board of any changes to the risks to the fund. The committee and board also receive reports on the breaches within the Fund so that they are aware of these.
5. Have you identified any specific fraud risks? If so, please provide details  Do you have any concerns there are areas that are at risk of fraud?  Are there particular locations within East Sussex Pension Fund where fraud is more likely to occur?	Pension transfers are a specific fraud risk and the fund has self certified in the TPS scam pledge and has undertaken training on this type of fraud.  The Fund believes it has appropriate controls in place to mitigate the risk of fraud such as segregation of duties, authorised signatory and call back lists and procedures to follow.  The Fund does not consider that fraud is more likely to occur anywhere in particular within the Fund and maintains vigilance on all aspects of the financial affairs of the Fund.
6. What processes do East Sussex Pension Fund have in place to identify and respond to risks of fraud?	The Fund have a Risk Management policy (which is published on the website). We have procedures in place to mitigate the risk of fraud by segregation of duties. Any payments made require payment team to process this which then has to be approved by one of our managers in our accounting system. We also have a call back system in place with Northern Trust our custodians. If we need to transfer money from the investment fund to our cash fund. Once the transfer paperwork has been completed and a request has been made NT will contact a different senior member of the team to approve this request to ensure this request is genuine. We have a hierarchy of approvers for payments that need to be made, where we have multiple senior manager signoff for financial transactions.  Plus, the higher the value of the transaction the value the more senior member of the staff needs to sign and authorise the transaction.

# Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for East Sussex Pension Fund, including:</p> <ul style="list-style-type: none"> <li>the existence of internal controls, including segregation of duties; and</li> <li>the process for reviewing the effectiveness the system of internal control?</li> </ul> <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)? If so, please provide details</p>	<p>The internal audit function of East Sussex County Council monitor the control environment of the East Sussex Pension Fund and report its findings to the pension board and committee.</p> <p>The internal audit reports will highlight any areas that could be improved, and management actions are provided against these. These are then followed up by the internal audit team.</p> <p>Internal controls have been assessed against the requirements laid out by TPR to ensure best practice is achieved.</p> <p>Other controls in place are:</p> <ul style="list-style-type: none"> <li>segregation of duties</li> <li>Multiple senior manager signoff for investments</li> <li>Checks required by law and/or recommended by TPR for transfers out</li> <li>Training to be identified and offered to staff to build understanding of risk and appropriate mitigations</li> <li>Monthly mortality checks</li> <li>Regular member tracing exercises</li> <li>Quarterly Budget monitoring reports</li> <li>Custodian to hold investments</li> </ul> <p>The Pension Fund does not perceive there to be the potential for any management override of the controls in place or an inappropriate influence over the financial reporting process.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>No</p>

## Fraud risk assessment

Question	Management response
<p>9. How does East Sussex Pension 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? Have any significant issues been reported? If so, please provide details</p>	<p>Staff are given training online when we all start our roles about if we suspect fraud we need to report There is an ESCC Fraud Awareness training module that employees can take online which explains:- what fraud is and the importance of tackling it; encourage you to think about the fraud risks in your service; discuss your role in preventing, detecting and reporting fraud; tell you how suspected fraud can be reported</p> <p>The Council also has an Anti-Fraud and Corruption Strategy this forms part of the Council's counter fraud framework, a collection of interrelated policies and procedures including the Code of Conduct, Financial Regulations and Whistle Blowing Policy. It also includes policies and procedures that are specifically targeted at countering fraud and corruption. such as anti-Money Laundering Policy and Whistleblowing Policy.</p> <p>Known scams targeted at the council are also shared by the accounts payable team when they occur.</p> <p>The transfer out process has been updated and staff have been trained to assess for amber and red flags to identify and protect from fraud in these cases.</p>
<p>10. 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>The Fund's conflicts of interests policy sets out in conjunction with the code of conduct how these should be mitigated and specifically sets these out for the following roles: all members of the Pension Committee and the Pension Board, including scheme member and employer representatives, whether voting members or not; officers of the Fund; the Chief Finance Officer (Section 151 Officer), the Chief Operating Officer and all advisers and suppliers to the Fund</p>

## Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit 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>The Council has an Anti-Fraud and Corruption Strategy this forms part of the Council's counter fraud framework, a collection of interrelated policies and procedures including the Code of Conduct, Financial Regulations and Whistle Blowing Policy. It also includes policies and procedures that are specifically targeted at countering fraud and corruption. such as anti-Money Laundering Policy and Whistleblowing Policy.</p> <p>A dedicated Counter Fraud team was established within Internal Audit. This team are now responsible for the investigation of all allegations of fraud or financial irregularity across the East Sussex County Council.</p> <p>An annual report is provided to the Audit committee by the counter fraud team.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>No</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>No</p>



# Law and regulations

## 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 Committee, is responsible for ensuring that East Sussex Pension 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 Committee as to whether the body is in compliance with laws and regulations. Where we become aware 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 East Sussex Pension Fund have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Pension Fund's regulatory environment that may have a significant impact on the Pension Fund's financial statements?</p>	<p>We have Governance and Compliance team in place which ensures we are in compliance with the relevant laws</p> <p>There is a breaches policy in place that sets out the expectations around identify and recording any breaches of law and how these are considered and reported to pension board and committee</p> <p>This team will regularly review consultations to identify forthcoming changes in the law so preparations can be made</p> <p>We also have an internal audit team who audit this compliance team</p> <p>We have put notes in our financial statements about the impact of the environment on our investments</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The compliance team will report each quarter to the Pensions Board and Pensions Committee on any issues.</p> <p>We also have internal audit team that ensures that this team is being audited</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2023 with an on-going impact on the 2023/24 financial statements? If so, please provide details</p>	<p>Breaches of law are reported to the pension board and committee at their quarterly meetings. There have not been any breaches that would affect our financial statements. The main breach we have is around employers not providing or late provision of accurate data which means we have not been able to produce annual benefit statements to all their active members by the deadlines.</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p>	<p>There has been no litigation against the Fund nor do we consider there to be any potential litigation.</p>

## Impact of laws and regulations

Question	Management response
5. What arrangements does East Sussex Pension Fund have in place to identify, evaluate and account for litigation or claims?	We have an IDR process where we look at complaints where people have not had their complaints quickly resolved. Officers also meet with Eversheds each month to discuss ongoing work and any emerging scenarios allowing for early identification where there is a risk of legal action.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	No

# Related Parties

## Matters in relation to Related Parties

East Sussex Pension Fund are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by East Sussex Pension Fund;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Pension Fund;
- 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 Pension Fund, or of any body that is a related party of the Pension Fund.

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 Pension Fund 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 including those disclosed in East Sussex Pension Fund's 2023/24 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> <li>the nature of the relationship between these related parties and East Sussex Pension Fund's</li> <li>whether East Sussex Pension Fund's has entered into or plans to enter into any transactions with these related parties</li> <li>the type and purpose of these transactions</li> </ul>	No Change
<p>2. What controls does East Sussex Pension Fund's have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>The East Sussex Pension Fund is administered by East Sussex County Council. Therefore there is a relationship between the council and the fund Each member of the Pension Committee is required to declare their interests at each meeting. There is a conflicts of interest policy for the Fund</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>The Pension Fund team is separate from the County Council and approval must be received from both the Fund Team and any respective team from the council before transactions can be processed.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>The Head of Pensions and section 151 officer would have to approve any significant transactions outside of the normal course of business this would be reported to the Pension Board and Committee at the next available opportunity.</p>

# Going Concern

## Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

## Going Concern

Question	Management response
1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by East Sussex Pension Fund will no longer continue?	<p>We regularly check our cash balances and do cash forecasts to ensure that we can pay our pensioners each month</p> <p>We also ensure that our employers pay their contributions on time and chase any late payments and penalise and report any repeat late offenders</p>
2. Are management aware of any factors which may mean for East Sussex Pension Fund that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?	There are currently no factors
3. With regard to the statutory services currently provided by East Sussex Pension Fund, does East Sussex Pension Fund expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for East Sussex Pension Fund to cease to exist?	East Sussex Pension fund should continue to deliver for the foreseeable future there are no plans for the fund to cease
4. Are management satisfied that the financial reporting framework permits East Sussex Pension Fund to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?	Yes

# Accounting estimates

## Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body'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 body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body'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 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 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 valuation of the of the Fund's investments are material to the financial statements especially the level 3 investments which are not based on active markets. The promised retirement benefit liability valuations these are based on assumptions around the life and level of benefits which will be paid out in the future discounted to present day values.</p>
2. How does the Pension Fund's risk management process identify and address risks relating to accounting estimates?	<p>The Fund uses the values held by its custodian to account for its investments these are monitored against the fund managers valuation reports to the Fund. The value of these over the period of the creation of the account is monitored to identify if there is a material misstatement of the investment values as at the 31 march.</p> <p>To identify level 3 investments the custodian will provide the Fund with a list of the assets and classified these either against the automated generated level or the level the Fund has determined the investment to be if different. This is reviewed by the Fund and any amendments are highlighted to the custodian and there records are updated.</p> <p>The Fund appoints an appropriate Actuarial firm to undertake the valuation of the Funds liabilities the fund provides the data to the actuary to provide the calculation and a full valuation is undertaken every 3 years.</p>
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	<p>The Fund has independent/investment consultants, investment managers and custodian to inform the fund on the investment characteristics of the Funds assets. Understanding of the valuation process of the managers and custodian will inform the assumptions and methods that the fund employs.</p> <p>For the pension liabilities at the valuation the fund uses club vita to help with its mortality assumptions and the pension committee is provided with training to help understand and agree the assumptions used.</p>
4. How do management review the outcomes of previous accounting estimates?	<p>Investments are reviewed quarterly in depth by the investment consultants and the pension committee checks are performed monthly/quarterly based on the availability of information on the assets to ensure that the valuations are the same.</p> <p>The Valuation is undertaken every three years as part of this it compares the assumptions made against the</p>

# Accounting Estimates - General Enquiries of Management

Question	Management response
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	The Fund utilises multiple sources to help it identify areas that it requires specialised skills from the regulations to its accounting body CIPFA it attends relevant conferences and shares knowledge with other Funds through the ACCESS pool and wider networks of LGPS funds.
7. How does the Pension Fund determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	The Fund discusses with its custodian on a regular basis to understand the control activities are being undertaken by them. We also receive the external control reports and review these from the custodian, and investment managers and any qualified reports are reported to the pension committee.
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	<p>We would check valuation policy has not changed and confirm they are valuing their investments inline with their policy.</p> <p>Send email to managers to get the valuation policy and confirmation to confirm there are no material accuracy issues that they are unable to calculate and we keep a copy of it</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> <li>- Management's process for making significant accounting estimates</li> <li>- The methods and models used</li> <li>- The resultant accounting estimates included in the financial statements.</li> </ul>	<p>The Pension Fund accounts are created by the investment and accounting team these are peer reviewed internally by the Head of Pensions and the Chief Finance Officer. Challenge is provided around the figures and assumptions set out in the accounts.</p> <p>If it was identified that a new significant accounting estimate was required it would be discussed between the Pension Fund Accountant and a proposal put forward to the Head of pension to agree or modify before it was used.</p>

## Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any 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)? If so, what are they?	No
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	<p>The valuation of investments are based on industry standards and there is a high level of monitoring of all the investments held by the Fund which are reported to the pension committee. Training is also provided to the committee and officers are up to date with the latest guidance on how to account for these.</p> <p>Promised retirement values are based on the valuation data which goes through multiple checks for accuracy and the assumptions are set out clearly with training provided to committee to understand and agree these.</p>
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	We report our accounts to the Pensions Committee where we discuss these items we are also planning to provide training to the committee and board on the accounts and this will be part of the training

## 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?
Valuation of defined benefit net pension fund liabilities	The Actuary undertakes				
Level 2 investments	Custodian takes the unit price from market place and agrees this with Fund manager information	Custodian figures are audited monthly	Yes, Custodian and investment managers	These are priced either daily, weekly or monthly so the information is not as accurate as continually priced assets so there is an increased level of uncertainty but this is still low	No
Level 3 investments	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines	Valuation policies of managers.	Yes, Investment Fund Managers provide valuations which get audited and custodian supplements with cashflow information	There is a high level of uncertainty over these assets as they are not publicly listed and valuations are determined using different factors any of which could materially change the valuation of the assets. The Fund believes the Fund manager is best placed to determine the value of the underlying assets it would not be possible for the Fund to individually calculate a value of these as they are private companies.	No



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