



The Audit Findings for East Sussex Pension Fund

Year ended 31 March 2020

6 November 2020



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed 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.

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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 2020 for the Audit Committee as those charged with governance.

Covid-19

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Pension Fund and has impacted the Finance Team who like many other employees have had to adapt to working from home at short notice. Agile working had been established successfully at the Council for several years, and therefore teams were well prepared to adapt smoothly into working from home.

Senior pension fund officers have also had to manage additional risk to investment value due to uncertainties in global financial markets, although the impact of this will largely be felt after the year end which is currently being reported on due to when the Covid-19 pandemic impacts really started to be felt by the markets.

Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.

We reported our audit risk assessment including the impact of the pandemic on our audit in our audit plan reported to you on 30 April 2020, and to the Pension Fund Committee on the 22 June 2020. In our plan we reported an additional financial statement risk in respect of Covid-19. Further detail is set out on page 6.

Restrictions for non-essential travel and home working during the pandemic have meant both Authority and audit teams have had to perform the audit entirely remotely. This has required the audit team to use regular video calls to ensure that both teams kept in close contact as we would when carrying out fieldwork on site. The audit team have also had to consider alternative approaches to obtaining audit evidence to corroborate transactions, estimates and judgements in the financial statements. Remote working also requires our teams to carry out additional tests to corroborate the completeness and accuracy of information produced by the Council which we would otherwise have performed in person on site (for example viewing a report being run from Council systems by the officer).

The above has proved more time consuming than carrying out an audit under normal circumstances. There have been challenges for both the audit team and the Council's team to conduct the audit virtually during the pandemic with additional complexity that both teams had to face and address within a short space of time. However, we have worked together to overcome these issues to meet a tight audit timeframe.

We started the audit in July 2020. Draft financial statements were provided to the audit team on the 9th July 2020. An updated set of statements (the statements which were published for inspection) were subsequently provided on 6th August 2020. There were some key working papers that we required for our audit work to progress efficiently which were not available at the start of the audit, and some audit samples and evidence responses took some time to turn around due to internal capacity issues. These issues did delay audit progress at the start of the agreed timeframe.

Headlines (continued)

| | | |
|-----------------------------|--|---|
| Financial Statements | <p>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:</p> <ul style="list-style-type: none"> • give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the 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. | <p>Our audit work was completed remotely during July-October . Our findings are summarised on pages 6-11. We have identified one adjustment to the financial statements that resulted in an adjustment (reduction) of £0.65m to the Pension Fund's closing net assets reported financial position. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix E) or material changes to the financial statements, subject to the following outstanding matters:</p> <ul style="list-style-type: none"> • Closing minor queries coming out of our audit sample testing; • Completion of our valuations testing of Pension Fund investments, including closing some of our valuation queries with investment managers and the custodian; • Completion of our work in agreeing certain non-material disclosures and agreeing disclosures relating to Covid-19 are sufficient; • Consideration of adequacy of going concern disclosures in the accounts; • Finalising quality reviews of the audit file which could potentially raise additional audit queries; • receipt of management representation letter; • review of the Annual Report; and • review of the final set of financial statements. <p>Our anticipated audit report opinion will be unqualified but will include an 'Emphasis of Matter' paragraph highlighting the 'valuation material uncertainties' in relation to a pooled investment fund as discussed on page 6.</p> |
|-----------------------------|--|---|

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

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.

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.

We have not had to alter our audit plan, as communicated to you on 30 April 2020.

Conclusion

We have substantially completed our audit of your financial statements and subject to the outstanding matters on page 4 being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 6 November 2020, as detailed in (Appendix E).

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.

Materiality levels remain the same as reported in our audit plan.

| | Pension Fund (£) | Qualitative factors considered |
|--|------------------|--|
| Materiality for the financial statements | £36n | We have determined financial statement materiality based on a proportion of the net assets of the Council for the financial year. |
| Performance materiality | £27m | The maximum amount of misstatement the audit team could accept in an individual account or group of related accounts. This is less than materiality due to "aggregation risk". |
| Trivial matters | £1.8m | We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance |

Significant audit risks

Risks identified in our Audit Plan

Covid-19

Risk description unchanged from that reported in our audit plan.

Auditor commentary

We have:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the pension fund's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 9th July 2020;
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic. Including management's assessment of the impact of Covid-19 upon employer covenants and forecast cashflows;
- evaluated whether sufficient audit evidence could be obtained through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as the asset valuations and management's fair value hierarchy disclosure; and
- discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.

As a result of the Covid-19 pandemic, the property market remains very uncertain. As a result of this, in our testing of the valuation of investments we carried out extensive discussion and challenge of investment managers to establish if there was any significant uncertainty over the valuations at year end and whether any funds had been suspended for trading due to the overall market uncertainties. As a result of our additional inquiries, one of the investment managers for the Pension Fund, Schroders has declared a material valuation uncertainty around a pooled property fund. These investments were valued at 31 March 2020 at £325.92m. The total value of the fund assets at 31 March 2020 is £3,479.1m, so this investment type represents just over 9.4% of total assets. We discussed this with the finance team and it was agreed that this material uncertainty should be disclosed in the accounts within Note 5 Assumptions made about the future and other major sources of estimation uncertainty. This has been added to disclosure changes agreed during the audit Appendix C.

Subject to completion of the work on page 4, our work against this risk has not raised further issues.

Improper revenue recognition

Risk description unchanged from that reported in our audit plan.

As documented in the Audit Plan, we considered the risk factors set out in ISA240 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; and
- the culture and ethical frameworks of local authorities, including East Sussex County Council as the Administering Authority of East Sussex Pension Fund, mean that all forms of fraud are seen as unacceptable.

Significant audit risks (continued)

Risks identified in our Audit Plan

Management override of controls

Risk description unchanged from that reported in our audit plan.

Auditor commentary

We have:

- evaluated the design effectiveness of management controls over journals;
- obtained a full listing of journal entries which was then analysed to identify and test high risk unusual journals;
- tested unusual journals recorded during the year and post year end for appropriateness and corroboration;
- considered the reasonableness of significant accounting estimates and critical judgements made by management; and
- evaluated the rationale for any changes in accounting policies or significant transactions.

Our work against this risk has not raised and issues with respect to management override of controls.

The valuation of Level 3 investments is incorrect

Risk description unchanged from that reported in our audit plan.

Auditor commentary

We have:

- gained an understanding of your process for valuing Level 3 investments and evaluating the design of the associated controls;
- reviewed the nature and basis of estimated Level 3 valuations and considered what assurance management has over the year end valuations provided for these investments, against the requirements of the Code;
- independently requested year-end confirmations from investment managers and custodian;
- for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2020 with reference to known movements in the intervening period;
- in the absence of available audited accounts, we evaluated the competence, capabilities and objectivity of the valuation expert;
- tested revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register; and
- where available reviewed investment manager service auditor report on design effectiveness of internal controls.

Due to the additional uncertainty around investments caused by the Covid-19 pandemic we made further challenge and inquiries to the investment managers about their assumptions made in relation to movements in the intervening period between the latest audited accounts date for individual investments and the year end. In particular we established where property was the asset underlying the investment and where this was the case we challenged the investment managers to provide further explanation and corroboration as to the investment valuations given that particular types of property (retail and office for instance) would be likely to decline in value. This line of inquiry and challenge resulted in one of the investment managers disclosing a material uncertainty. See page 6 for further information.

We have made a control recommendation in relation to management's processes in challenging themselves the investment valuations at year end, see Appendix A.

We have shown our detailed analysis and review of the estimation process in the key judgement and estimates section.

Subject to completion of the work on page 4, our work against this risk has not raised any further issues.

Significant findings – going concern

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).

Going concern commentary

Management's assessment process

Management have assessed that the Fund has sufficient resources to meet its liabilities as they fall due for the foreseeable future.

The Pension Fund undertakes a valuation of the Pension Fund's assets and liabilities using management's expert actuary. The fund is fully valued on a triannual basis and interim year valuations are prepared on the roll forward assumption basis. This is used to assess the size of the Fund's current and future liabilities against the Fund's assets, and then set the employer contribution to the Fund for each participating employer for the following three year period to ensure that the Pension Fund remains funded.

Management annually prepare a business plan and budget for the Pension Fund which primarily sets out anticipated costs for pensions administration, oversight and governance and investment management.

Management, with oversight from the Pension Fund Committee, assess the level of assets and liabilities annually and also at very regular intervals during the year to monitor any significant variances.

Auditor commentary

We are satisfied regarding the appropriateness of management's process for formulating their going concern assessment.

We have considered the financial position of the Fund and undertaken a review to identify any possible indicators of any circumstances or events that could indicate that the Fund is no longer a going concern.

Given the market uncertainties, our view was that although assessment process was sufficient, given the potential impact of Covid-19 on the economy and financial markets, it would be appropriate to expand going concern disclosures to explain why this is satisfied rather than the existing disclosure in the accounts that simply stated the assumption. We are still in discussion with management about the agreed wording of this disclosure.

Conclusion

We have not identified any events or conditions in the course of the audit that we consider may cast significant doubt on the pension fund's ability to continue as a going concern. We plan to issue an unmodified audit report in respect of going concern, subject to completion of the work on page 3.

Significant findings – key estimates and judgements

| Accounting area | Summary of management's policy | Auditor commentary | Assessment |
|----------------------------|---|---|---|
| Level 3 investments | <p>The Pension Fund has investments in equities, pooled property investment and private equity that in total are valued on the balance sheet as at 31 March 2020 at £640m.</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 place reliance on the valuation provided by their fund managers. The value of the investment has increased/decreased by £22m in 2019/20, due to both changes in market value but also due to movements in sales/purchases in the year.</p> | <p>We have:</p> <ul style="list-style-type: none"> Assessed the independence, objectivity and expertise of management's experts which management use to estimate the value of the Level 3 investments. Management's experts are the investment managers; assessed the valuation method, key assumptions and the appropriateness of the underlying information used to determine the estimate. We have confirmed that the valuation method and significant assumptions are in line with those generally accepted in the field; We have obtained service auditor reports on design effectiveness of internal controls at each of the investment managers to confirm that these are effectively designed and operating effectively; agreed level 3 investments to year-end confirmations from investment managers of the valuations at the year end together with a statement of transactions for the period; and Tested a sample of investments obtaining and reviewing the audited accounts (confirming the expertise of the auditor) at latest date for individual investments and agreeing these to the investment manager reports at that date. Where there was a gap between the accounting period end for the audited accounts and the Pension Fund year end/investment valuation date, we reconciled the difference in value to known movements in the intervening period to confirm the difference was reasonable. |  |

Assessment

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

Significant findings – key estimates and judgements

| Accounting area | Summary of management's policy | Auditor commentary | Assessment |
|----------------------------|---|--|---|
| Level 2 investments | <p>The Pension Fund have investments in unquoted bonds and pooled investments that in total are valued on the balance sheet as at 31 March 2019 at £2,540m.</p> <p>The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management place reliance on the valuation provided by both their investment managers and custodian. The value of the investment has decreased by £238m in 2019/20 due to both changes in market value but also due to movements in sales/purchases in the year.</p> | <p>We have:</p> <ul style="list-style-type: none"> Assessed the independence, objectivity and expertise of management's experts which management use to estimate the value of the Level 2 investments. Management's experts are both the investment managers and the custodian (who value the investments independently of the investment managers); assessed the valuation method, key assumptions and the appropriateness of the underlying information used to determine the estimate. We have confirmed that the valuation method and significant assumptions are in line with those generally accepted in the field; We have obtained service auditor reports on design effectiveness of internal controls at each of the investment managers to confirm that these are effectively designed and operating effectively; and agreed level 2 investments to year-end confirmations from investment managers and the custodian of the valuations at the year end together with a statement of transactions for the period. |  |

Assessment

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

Other matters for communication

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 | Auditor commentary |
|---|---|
| Matters in relation to fraud | We have previously discussed the risk of fraud with the management and the Audit Committee. We have not been made aware of any significant incidents in the period and no issues have been identified during the course of our audit procedures. |
| Matters in relation to related parties | We are not aware of any related parties or related party transactions which have not been disclosed. |
| Matters in relation to laws and regulations | 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. |
| Written representations | A letter of representation has been requested from the Pension Fund. |
| Confirmation requests from third parties | We requested from management permission to send confirmation requests to your fund managers, custodians and other institutions with which you held bank or investment balances at the year end. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation, with the exception of Newton and UBS asset management. We are continuing to chase these confirmations requests with assistance from your officers and in the meanwhile will undertake alternative procedures to verify whether these balances are materially fairly stated as at 31 March 2020. |
| Disclosures | Our review found no material omissions in the financial statements. We agreed some amendments to existing disclosures which are detailed in Appendix C. |
| Audit evidence and explanations/significant difficulties | All information and explanations requested from management was provided. |
| Matters on which we report by exception | 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 subsequent to the signing and issue of our auditor's report. |

Independence and ethics

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. 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following services were identified which were charged from the beginning of the financial year to November 2020, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

| | Fees £ | Threats identified | Safeguards |
|--|--------|---|---|
| Audit related | | | |
| Provision of IAS 19 Assurances to Scheme Employer auditors | £5,000 | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £27,487 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |

These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. All services have been approved by the Council's S151 Officer. None of the services provided are subject to contingent fees.

Action plan

We have identified two recommendations for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| Assessment | Issue and risk | Recommendations |
|--|---|--|
|  Medium | <p>Material Uncertainty around Investment Valuations</p> <p>As discussed on page, in our testing of the valuation of investments we carried out extensive discussion and challenge of investment managers to establish if there was any significant uncertainty over the valuations at year end and whether any funds had been suspended for trading due to the overall market uncertainties. This led to the disclosure by the investment manager that some funds underlying the pooled investment had been suspended at 31 March 2020, and that there was a material valuation uncertainty over the full pooled investment at that date. This was not known to the Pension Fund finance team.</p> <p>We would expect that particularly around Level 3 investments, management should undertake their own independent challenge process of investment valuations by making set inquiries at the year end relating to market uncertainties. The need for this check is particularly acute in the Covid-19 climate, but would also be a reasonable control in less uncertain years.</p> | <p>We would recommend that to gain their own assurance that the investments are materially correctly stated, management undertake their own independent challenge process of investment valuations by making set inquiries at the year end relating to market uncertainties.</p> <p>Management response</p> <p>A restructure of the Pension Fund Team was approved and started over the summer. Recruitment to this new structure is underway and once in place will provide an increased capacity within the team to provide further challenge to the processes of investment valuations by making set enquiries at the year-end relating to market uncertainties.</p> |
|  Medium | <p>Investment valuation movements not posted to the accounting system during the year</p> <p>During our analytical review testing of investment movements during the year, it became apparent that although the Pension Fund receives investment manager reports quarterly, these are not posted to the general ledger until the year end.</p> <p>Our view is that to aid and evidence management oversight/control of investments, these quarterly reports of investment valuation movements/purchases/sales should be posted to the general ledger.</p> | <p>We would recommend that the quarterly investment manager report movements in investments are posted to the general ledger.</p> <p>Management response</p> <p>A restructure of the Pension Fund Team was approved and started over the summer. Recruitment to this new structure is underway and once in place will provide an increased capacity within the team to ensure the quarterly investment manager movements in investments are posted to the general ledger.</p> |

Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of East Sussex County Council's 2018/19 financial statements, which resulted in 2 recommendations being reported in our 2018/19 Audit Findings report. *We have followed up on the implementation of our recommendations and the actions taken by management are as follows:*

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|------------|---|--|
| ✓ | <p>Access to client maintenance functionalities (SCC4) (SAP access providing virtually full system rights)</p> <p>13 users with firefighter ID's have access to using SCC4. Improper execution of client administration transactions could result in a loss of entire client (SAP system), including information, data and configured functionalities.</p> | <p>We recommended that the profile should be reserved for use within an emergency and the number of firefighter type ID should be monitored with access being regularly reviewed.</p> <p>We have confirmed that users are being regularly reviewed and have been reduced to 3 at the March 2020 year end. We regard this as being a reasonable number of this type of profile.</p> |
| ✓ | <p>Journals with no descriptions</p> <p>We identified journal entries being prepared and recorded with no descriptions, increasing the potential for erroneous or fraudulent posting to go unnoticed.</p> | <p>We recommended that management should consider running exception reports to identify and review journal entries with no narrative included</p> <p>As part of our testing of journals for 2019/20 we have run an extraction report from the full listing of journals for any with no description. There were none reported, so we were satisfied that this is not an issue for the 2019/20 year.</p> |

Assessment

- ✓ Action completed
- X Not yet addressed

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

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

| Detail | Pension Fund Account £'000 | Restatement of opening Net Asset Statement £' 000 | Impact on total net assets £'000 |
|---|----------------------------|---|----------------------------------|
| Correction of the brought forward unfunded benefits and unfunded contributions. This related to a sum of income of £9,008k and expenditure of £8,358k which should have been treated accounted for as an agent/principal relationship transaction under the Code and therefore accounted for on the balance sheet only. These amounts were not income and expenditure of the Pension Fund. This brings the 2018/19 accounting treatment into line with how the Pension Fund has treated these amounts in 2019/20 for consistency. | Nil | DR 2018/19 Current liabilities £9,008 CR 2018/19 Current assets (£8,358) | Nil |
| Associated disclosures of the reason for the restatement were updated and the comparative column headings were updated to make clear the values are restated. | | | |
| Overall impact | Nil | CR (reduction)opening net assets (£650) | Nil |

Audit adjustments (continued)

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 omission | Detail | Auditor recommendations | Adjusted? |
|---|--|---|-----------|
| Pooled investment fund material valuation uncertainty | The investment manager has a material uncertainty over the pooled investment fund valuation due to uncertainties in the property market caused by the Covid-19 pandemic. | We recommended that Note 5 Assumptions made about the future and other major sources of estimation uncertainty was updated to include the disclosure of the material uncertainty declared by the investment manager, and in line with Code guidance to include some information as to the sensitivity of the estimate, so users of the accounts could further understand the level of uncertainty. Management response This was amended in the accounts. | ✓ |
| Fee payable to auditor in respect of other services | This fee omitted the fee payable for the audit related services of £5k as shown on page 12. | We recommended the fee was updated so that the fee disclosures per the accounts agree to our Audit Plan and Audit Findings report. Management response This was amended in the accounts. | ✓ |

Fees

We confirm below our final fees charged for the audit and provision of non-audit services:

| Audit fees | Proposed fee | Final fee |
|---|---------------------|------------------|
| Pension Fund | 27,487 | TBC |
| Total audit fees (excluding VAT) | £27,487 | TBC |

There is additional work which was necessary to be carried out during the audit work due to the added complexities of the impact of Covid-19. We are still completing this work and the extent of this fee will be discussed and proposed to the Chief Finance Officer.

| Non-audit fees for other services | Proposed fee | Final fee |
|--|---------------------|------------------|
| Provision of IAS 19 Assurances to Scheme Employer auditors | 5,000 | 5,000 |
| Total non- audit fees (excluding VAT) | £5,000 | £5,000 |

We have not yet completed the work for these other services. We do not expect the final fees to differ from the proposed fees based on our estimate of the amount and complexity of the work involved.

Audit opinion

We anticipate we will provide the Pension Fund with an unmodified audit report:

Independent auditor's report to the members of East Sussex County Council on the pension fund financial statements of the Pension Fund Annual Report

Opinion

We have audited the financial statements of East Sussex Pension Fund (the 'pension fund') administered by East Sussex County Council (the 'Authority') for the year ended 31 March 2020 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the pension fund financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Chief Finance Officer and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties. However, no audit should be expected to predict the unknowable factors or all possible future implications for a fund associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the pension fund's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom

2019/20 that the pension fund financial statements shall be prepared on a going concern basis, we considered the risks associated with the fund's operating model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the fund's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the fund will continue in operation.

Emphasis of Matter - effects of Covid-19 on the valuation of property investments

We draw attention to Note 5 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's property investments as at 31 March 2020. As disclosed in Note 5 to the financial statements, as a result of the coronavirus impact, the property market remains uncertain and capital and rental values may change rapidly in the short to medium term. A material valuation uncertainty was therefore disclosed in the pension fund's property valuation reports in respect of the pooled property investments. Our opinion is not modified in respect of this matter.

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, and the Annual Report, other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Statement of Accounts and the Annual Report for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

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- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund's financial statements, the Chief Finance Officer is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature

Darren Wells, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor
London

Date



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