

Report to: **Pension Board**

Date: **16 November 2020**

By: **Chief Financial Officer**

Title of report: **Independent Auditor's (Grant Thornton) Report to those charged with governance and Annual Report 2019/20**

Purpose of report: **To present the Grant Thornton report to those charged with governance, and to report on anticipated unqualified audit opinion on the 2019/20 Pension Fund Annual Report**

RECOMMENDATION

The Board is recommended to:

- 1. note the draft Independent Auditor's (Grant Thornton - GT) report to those charged with governance on Pension Fund Annual Report 2019/20;**
 - 2. comment on the draft Pension Fund Annual Report.**
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1. Background

1.1 This report summarises the key findings arising from Grant Thornton's (GT) final audit work in relation to the East Sussex Pension Fund Financial Statements for 2019/20 within the Annual Report and Accounts.

1.2 Accounting Requirements - The Pension Fund financial statements should be prepared in accordance with proper accounting practices set out in the Code of practice on local authority accounting in the UK (the Code). The Code requires authorities to account for pension funds in accordance with IAS26 Retirement benefit plans. IAS26 provides guidance on the form and content of the financial statements prepared by pension funds. It compliments IAS19 Employee Benefits, which deals with the determination of the costs of retirement benefits in the financial statement of employers.

1.3 Annual Report Requirements - Local authorities responsible for administering a pension fund (scheme manager) forming part of the Local Government Pension Scheme (LGPS) are required by the LGPS Regulations to publish a pension fund annual report. The publication of the annual report is separate from the authorities own statutory accounts and contains financials statements in respect of the pension fund. Authorities are required to publish the annual report by 1 December. The Annual report has been prepared in line with Chartered Institute of Public Finance and Accountancy's (CIPFA) Preparing the Annual Report Guidance for Local Government Pension Scheme Funds 2019.

1.4 GT is obliged to produce a report to those charged with governance on the Pension Fund Financial Statements and provide an opinion on the additional information contained within the Pension Fund Annual Report and Accounts as materially consistent with the audited statements. **Appendix 1** formally reports on the outcome of the final audit of the financial statements.

2. 2019/20 Pension Fund Audit

2.1 Subject to any issues being identified by GT between the issuance of this report and the meeting, the auditors propose to issue an unqualified "true and fair" audit opinion. As the Pension Fund Accounts form an essential part of the statement of accounts of the Administering Authority, the Pension Fund Statement of Accounts will be presented to the East Sussex County Council

(ESCC) Audit Committee on 6th November and Governance Committee on 10th November as the ESCC statement of accountant are approved. The Pension Fund Annual Report and Accounts will be taken for formal approval for publication to the Pension Committee on 30th November.

2.2 GT started the audit of the Pension Fund 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.

2.3 The audit work was completed remotely during July – October. GT findings are summarised on pages 5-11 of their report in Appendix 1. GT has 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.

2.4 GT have raised two areas considered for improvement as a result of their audit work which have been discussed and responses included on page 13 of the GT report as follows:

- *Material Uncertainty around Investment Valuations:* during the testing of the valuation of investments, GT challenged investment managers as to their approaches taken; out of this came the material uncertainty, set out in 2.4. GT would expect that with these “difficult-to-value” investments the Fund Team would undertake independent challenge of the process of investment valuation, particularly in a COVID-19 climate. In responding to this, management has reflected that the Pension Fund Team has been through a period of restructure and recruitment is underway to roles that will be able to provide the challenge recommended by GT.
- *Investment valuation movements not posted to the accounting system during the year:* during testing it was identified that movements in investments, provided by investment managers on a quarterly basis, were not reflected in the general ledger until the year end. In order, to improve management oversight, movements should be posted to the general ledger during the year. In responding to this, management has reflected that the Pension Fund Team has been through a period of restructure and recruitment is underway to roles that will be able to ensure more timely input into the general ledger of investment movements.

2.5 The revised annual report is attached at Appendix 2.

3. Conclusion and reasons for recommendation

3.1 The Annual Report sets out the activities and performance of the East Sussex Pension Fund during the 2019/20 financial year. This has been subject to the normal audit of accounts process, commencing from July 2020, the External Auditor (GT) will provide an independent assessment of the Pension Fund's financial statements, systems, procedures and performance to the Pension Committee.

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Background Documents:

None