

Report to: **Pension Committee**

Date: **30 November 2020**

By: **Chief Financial Officer**

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

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

RECOMMENDATIONS

The Committee 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 (Appendix 1); and**
 - 2. approve the draft Pension Fund Annual Report for publication (Appendix 2).**
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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 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 pension fund. Authorities are required to publish the annual report by 1 December 2020. The Annual report has been prepared in line with CIPFA's Preparing the Annual Report Guidance for Local Government Pension Scheme (LGPS) 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. Supporting information

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 Accounts were presented to the East Sussex County Council (ESCC) Audit Committee on 6 November 2020 and Governance Committee on 10 November 2020 where the ESCC Statement of Accounts were approved.

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 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.

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. The Pension Committee is recommended to

note the Independent Auditors (GT) report to those charged with governance; and approve the 2019/20 Pension Fund Annual Report for publication.

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