

Report to: **Audit Committee**

Date: **17 September 2021**

By: **Chief Finance Officer**

Title of report: **Review of the Grant Thornton (GT) report to those charged with governance and Pension Fund annual report for 2020/21**

Purpose of report: **For the Committee to note the Independent Auditor's (GT) report to those charged with governance.**

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**RECOMMENDATIONS:** The Committee is asked to:

- (i) note the report and appendix.
  - (ii) note management actions detailed on pages 18 and 19 of the Independent Auditor's report to those charged with governance.
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**1. Background**

1.1 This report summarises the key findings arising from the audit work of Grant Thornton (GT) in relation to the East Sussex Pension Fund, in compliance with the requirement for administering authorities to deliver an audit of the pension fund separate from the Council's accounts.

1.2 The accounts for the Pension Fund are incorporated within the authority's Statement of Accounts from page 105, included elsewhere on the agenda, with the East Sussex Pension Fund Annual Report 2020/21 due to be presented to the Pension Board and Pension Committee in November 2021.

**2. Supporting Information**

2.1 Under its terms of reference, it is the role of this Committee to "Review the annual statement of accounts and the external auditor's report to those charged with governance."

2.2 It is the role of the Pension Committee to approve the Pension Fund annual report/accounts having considered whether appropriate accounting policies have been followed and any issues raised by GT from the audit.

2.3 The GT report to those charged with governance is attached at Appendix A.

2.4 The audit of the 2020/21 Pension Fund accounts is nearing completion. Whilst there remain a few outstanding items to finalise the audit, I am pleased to be able to report that GT anticipating being able to issue an unqualified audit opinion.

2.5 A small number of presentational adjustments arising from normal audit work have been noted, discussed, and resolved as stated in the report to those charged with governance, and GT has made recommendations, which have been discussed with management, on pages 18 and 19 of the GT report.

2.6 Three areas considered for improvement were identified:

- *Internal Controls around investment valuations at year end not operating.* In testing the valuation of Level 3 investments, GT triangulate between the custodian confirmation, the fund manager confirmations and the general ledger balances at year end. Due to the timing of when valuation statements were received it was noted that there was an understatement of £25.2m between a custodian and fund manager valuation. GT recommend that management ensures that checks and controls around investment valuations are in place to ensure correct valuations are in place. In responding to this, management has reflected that this is a common issue when investing in illiquid assets and outside of the Fund's control. Illiquid assets have a very delayed valuation process and the Fund will never have access to the final valuation of these funds when producing the accounts. The Fund will always use the most up to date information available and will update the accounts should a material difference arise.
- *Internal Controls around contributions received during the year not operating.* In the first 3 quarters of 2020/21 it was noted that the LGPS31 reconciliation between expected member contributions and actual contributions to the Pension Fund could not be evidenced as having been undertaken and had to be constructed as part of the audit. GT recommend that key internal reconciliations are prepared and reviewed in a timely way and are made available as part of the audit working papers alongside the financial statement. In responding to this, management has reflected the Fund identified an issue around contributions reconciliation's part way through the year and reported this in full to the Pension Board and Pension Committee. Fundamental changes were made during the latter part of the year implementing a robust reconciliation process to ensure all contributions due were collected.
- *Journal controls exception.* It was identified during audit testing that a journal, with a value over £1m, had not been reviewed and authorised by a more senior officer to the officer processing the journal, in line with best practice. GT recommend that all new and existing staff ensure that any journal over £1m is appropriately reviewed and authorised. In responding to this, management has reflected that it will reiterate that journals over £1m require senior officer sign off and will implement a review to ensure that these are saved in a journal sign off folder to evidence compliance.

### 3. Conclusion and reasons for recommendations

3.1 In carrying out their responsibility for review, Members should consider:

- The findings made by the external auditors as a result of audit of the 2020/21 accounts

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Local Member(s): All