

<b>Report to:</b>	<b>Pension Committee</b>
<b>Date:</b>	<b>28 September 2021</b>
<b>By:</b>	<b>Chief Financial Officer</b>
<b>Title of report:</b>	<b>Independent Auditor's (Grant Thornton) Report to those charged with governance and Annual Report 2020/21</b>
<b>Purpose of report:</b>	<b>To present the Grant Thornton report to those charged with governance, and to report on anticipated unqualified audit opinion on the 2020/21 Pension Fund Accounts</b>

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**RECOMMENDATION – The Committee is recommended to:**

- 1) Note the draft Independent Auditor's (Grant Thornton) report to those charged with governance on Pension Fund Accounts 2020/21 (Appendix 1);**
  - 2) Approve the Pension Fund Accounts for inclusion in the authorities Accounts (Appendix 2).**
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## **1. Background**

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

1.2 The accounts for the Fund are incorporated within the Council's Statement of Accounts, 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**

### **Accounting Requirements**

2.1 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 complements IAS19 Employee Benefits, which deals with the determination of the costs of retirement benefits in the financial statement of employers.

2.2 The deadlines for the production and audit of the accounts for 2020/21 and 2021/22 have been confirmed as 30 September in line with the Independent Review for Local Authority Financial Reporting and Audit (the Redmond Review).

### **Annual Report Requirements**

2.3 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 financial statements in respect of pension fund. Authorities are required to publish the annual report by 1

December. The Annual report will be presented to Committee for approval at its meeting in November 2021.

2.4 Under its terms of reference, it is the role of Audit Committee to “Review the annual statement of accounts and the external auditor’s report to those charged with governance.” These accounts have been considered by the Audit Committee on 17 September 2021.

2.5 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.

2.6 The GT report to those charged with governance is attached at **Appendix 1**.

2.7 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.

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

2.9 3 areas considered for improvement were:

- *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.

*This issue has arisen as the Fund manager valuation of their position at the 31<sup>st</sup> March is not available at the time of production of accounts due to the illiquid nature of these assets. The Accounts are produced based on the December valuation which is the latest audited valuation for this asset class with adjustments made for cashflows. These valuation differences will happen every year in illiquid asset classes and cannot be avoided and will result in changes during the audit period if the figures are material when the approved valuation are releases for these assets. This is not a control issue, but a known timing issue.*

- *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.

*This issue has arisen due to the lack of resources in the Pension Fund during the early part of 2020, as identified in the good governance review which lead to a restructure to the team and significantly more resource approved. The Fund recognised this issue during the year and put in new processes to ensure the reconciliation was robust from the later part of the year. Reconciliation had been completed during the full year, but was not documented sufficiently or clearly due to process changes and temporary staff.*

*The process was significantly overhauled in December 2020 and has been working well since, with reports to Board and Committee during this period.*

- *Journal controls exception.* It was identified during audit testing that a journal, with a value over £1m, had not be 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.

*This issue has arisen as there is no workflow in the accounting system, so this approval is reliant on a manual process to recognise the journal amount is over £1m and then request approval before posting. Officers have been reminded to always check the value of journals, to ensure appropriate senior sign off has been received and will implement a review to ensure that these are saved in a journal sign off folder to evidence compliance.*

2.10 A copy of the Pension Fund accounts is in **Appendix 2** for approval.

### **3. Conclusion and reasons for recommendation**

3.1 The Pension Fund Accounts set out the financial activities as asset values of the ESPF during the 2020/21 financial year. The Pension Committee is recommended to note the Independent Auditors (GT) report to those charged with governance and approve the Pension Fund accounts for inclusion in the ESCC authorities accounts.

**IAN GUTSELL**  
**Chief Finance Officer**

Contact Officer: Sian Kunert, Head of Pensions

Email: [Sian.kunert@eastsussex.gov.uk](mailto:Sian.kunert@eastsussex.gov.uk)

#### Background Documents

None