

# The Audit Findings for East Sussex Pension Fund

**Year ended 31 March 2022**

East Sussex Pension Fund

18 November 2022



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. 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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# 1. 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 2022 for those charged with governance.

## Financial Statements

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 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.

Our audit work was completed on site/remotely during June-November. Our findings are summarised on pages 4 to 15. We have not identified adjustments to the financial statements that have resulted in an adjustment to the Pension Fund's reported financial position. Audit adjustments are detailed in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix A.

Our audit work was undertaken predominantly remotely with our team spending one day a week on site at the Council offices in order to pick up testing and queries with officers face to face where possible. Largely though, our testing work has been undertaken remotely via Teams as most of the Council's officers are predominantly working from home, and therefore some of the difficulties of auditing remotely still continued to be present for the 2021/22 audit as it takes longer to complete audit testing and clear queries remotely than working with direct access to Council officers. The audit was undertaken during August to November. The start of the audit was initially planned to be from the beginning of July, but the start date and our planned staff time had to be moved back to the first week of August due to:

- Working papers to support the Pension Fund financial statements not being complete and ready for the July start date, meaning that where our audit team was planned to work across both the Pension Fund audit and County audit simultaneously it was not efficient/productive to start the audit until August.

The move in the start date has had significant knock-on effect on our staffing arrangements for the audit where dates had to be moved around, and some planned team members were not available for the full period of the audit. This has caused increased handover and complexity in completing the work.

The working papers overall are not as high quality or clear as we would expect, and we have communicated these issues to your finance team to recommend that improvements are made for next year. The working papers tend to require quite a lot of audit team time/investigation to understand them fully and sometimes the working papers do not explain issues and variances, and the clear connection to the general ledger and financial statement notes as clearly as required to allow for a fast and efficient audit. We will propose an audit fee variance for the additional time required to complete the audit related to these issues.

Our work is substantially complete, and there are no matters of which we are aware that would require modification of our audit opinion [Appendix D] or material changes to the financial statements, subject to the following outstanding matters;

- Completion of work to gain assurance over the valuation of Level 3 investments (significant risk) where we are awaiting some information from investment fund managers;
- Completion of our journals sample testing;
- Completion of testing of a sample of contributions received where supporting documentation for 5 samples are outstanding;
- Clearance of a number of audit queries relating to contributions and benefits;
- Closure of points around the technical review of the draft accounts by Grant Thornton's Financial Reporting Team and agreeing any changes to the statements;
- Completion of our work to tie in immaterial disclosure notes to working papers provided by the finance team;
- Completion of our work on the Related Parties note;
- Review of the IT General Controls work completed by our Technology Audit team around the Altair system and data transfer;
- Senior Manager and Engagement Lead review of the completed audit sections which could potentially raise further queries for the Council to respond to;
- receipt of management representation letter;
- review of the final set of amended financial statements after any agreed changes; and
- Receipt and review of the Annual report.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

## 2. Financial Statements

### 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 have been discussed with management.

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;
- 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 had to alter our audit plan, as communicated to you on 29 March 2022 where we have increased the detail of work we carried out on the other risk Altair system data transfer. On further understanding of the transfer of the system and the data, we required additional IT General Controls assurance over the system hosted at the Council (as opposed to being hosted at Surrey County Council). This work has now been completed by our Technology Audit team and is being reviewed.

### Conclusion

As detailed on page 3 there is still work to complete on this audit. Based on the work to date no material errors or issues have arisen which would require modification of our audit opinion. We will not be able to issue our audit opinion until all outstanding work on page 3 is completed and reviewed, and until the County Council audit is also completed.

#### Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

As highlighted on page 3 your finance team and our audit team faced audit challenges this year, including:

- initial delays in June in providing full sets of working papers on the Pension Fund audit;
- Some delays in responses to audit samples/queries during the audit;
- Continued remote working on the audit meaning testing/queries take longer to resolve.

These issues meant that we delayed the start of the fieldwork audit from the beginning of July to the first week of August and consequently, at the date of presenting this report, there is work ongoing to complete the audit. We will propose a fee variance for the audit related to these issues.

## 2. Financial Statements



### 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.
- We have revised the performance materiality due to the actual net assets changing significantly from that at the planning stage resulting in a review of the appropriateness of the materiality figure.
- We detail in the table below our determination of materiality for East Sussex Pension Fund.

### Pension Fund Amount (£) Qualitative factors considered

Materiality for the financial statements	46.9m	We have determined financial statement materiality based on a proportion of the net assets of the Council for the financial year.
Performance materiality	35.2m	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	2.3m	We are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance





## 2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
<b>Management override of controls</b>  Risk description unchanged from that reported in our audit plan.	We have: <ul style="list-style-type: none"> <li>• evaluated the design effectiveness of management controls over journals;</li> <li>• obtained a full listing of journal entries which was then analysed to identify and test high risk unusual journals;</li> <li>• tested unusual journals recorded during the year and post year end for appropriateness and corroboration;</li> <li>• considered the reasonableness of significant accounting estimates and critical judgements made by management; and</li> <li>• evaluated the rationale for any changes in accounting policies or significant transactions.</li> </ul> We are still completing our testing subject to outstanding items as detailed on Page 3. We have otherwise not identified any issues in the audit processes carried out to date.
<b>ISA240 fraudulent revenue recognition</b>  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: <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• 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.</li> </ul>
<b>Fraudulent expenditure recognition</b>  Risk description unchanged from that reported in our audit plan.	As documented in the Audit Plan, we considered the risk of material misstatement due to the fraudulent recognition of expenditure. We have considered each material expenditure area, and the control environment for accounting recognition. We were satisfied that this did not present a significant risk of material misstatement in the 2021/22 accounts, and the risk could be rebutted because: <ul style="list-style-type: none"> <li>• The control environment around expenditure recognition (understood through our documented risk assessment understanding of your business processes) is considered to be strong;</li> <li>• We have not found significant issues, errors or fraud in expenditure recognition in the prior 3 years audits;</li> <li>• Our view is that, similarly to revenues, there is little incentive to manipulate expenditure recognition.</li> </ul>

## 2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
<b>Valuation of Level 3 investments</b>	<p data-bbox="801 347 902 371">We have:</p> <ul data-bbox="801 387 2119 826" style="list-style-type: none"> <li data-bbox="801 387 2119 443">• gained an understanding of your process for valuing Level 3 investments and evaluating the design of the associated controls;</li> <li data-bbox="801 459 2119 515">• 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;</li> <li data-bbox="801 531 2119 587">• independently requested year-end confirmations from investment managers and custodian and carried out a triangulation test between these confirmations of valuations and the general ledger to identify any discrepancies;</li> <li data-bbox="801 603 2119 691">• 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 2022 with reference to known movements in the intervening period;</li> <li data-bbox="801 707 1671 730">• evaluated the competence, capabilities and objectivity of the valuation expert;</li> <li data-bbox="801 746 1776 770">• tested revaluations made during the year to see if they had accounted for correctly; and</li> <li data-bbox="801 786 2119 826">• where available, reviewed investment manager and custodian service auditor report on design effectiveness of internal controls.</li> </ul> <p data-bbox="801 842 2119 930">In our testing of Level 3 investments we identified some variances between the valuation in the accounts and our expectation of the valuation per Fund Manager confirmations and our own expectation as informed by our testing of the audited accounts for the funds and known cash movements.</p> <p data-bbox="801 946 2119 1082">This highlighted that the accounts and general ledger figure for Investments was understated by £12.9m. The reason for this is that the custodian valuation used to produce the accounts was from December 2021, adjusted for cash activities to the year end date for each fund manager. In most cases this results in a materially accurate value for investments, but where there is another market value movement in the interim this can lead to this method leading to an inaccurate valuation, as it has here. We have included this difference as an unadjusted misstatement on Appendix B.</p> <p data-bbox="801 1098 2119 1153">Note at this date some of the service auditor reports/audited fund statements are outstanding from the Fund Managers. We are chasing these with the Managers.</p> <p data-bbox="801 1169 1955 1193">Subject to completion of the work set out on page 3, we have not identified any further issues in this risk area.</p>

## 2. Financial Statements – other audit risks

This section provides commentary on other audit risks:

Issue	Commentary	Auditor view
<p><b>Altair system data transfer</b></p> <p>The Pensions Administration Team was brought under sovereign control at the start of the 2021/22 financial year. This involved a data migration of member data (this was between Altair databases as opposed to a change of system). Although, this meant the process was intrinsically more straightforward, there is still some risk of data loss/errors.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>- reviewed the Pension Fund's process for ensuring the Altair data migration was complete and accurate and obtained detailed documentation supporting how the Fund had reconciled opening/closing data on the system; and</li> <li>- carried out more detailed IT General Controls testing of the Altair system hosted on the Council's servers to gain assurance that this system is operating as expected and would not lead to financial statement misstatements.</li> </ul>	<p>We are still completing and reviewing the audit work on IT General Controls in this area. Subject to completion of work set out on page 3, we have not identified any issues.</p>
<p><b>IAS26 Pension Fund Disclosures</b></p> <p>The methods, assumptions and judgements made in calculating these disclosures are complex and subjective, and as such there is a risk of error.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>- updated our understanding of the processes and controls put in place by management to ensure that the IAS26 disclosures are accurate;</li> <li>- evaluated the instructions issued by management to their management expert (an actuary) for producing the disclosures of the net liability estimate and the scope of the actuary's work;</li> <li>- assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation and produce the IAS26 disclosures; and</li> <li>- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.</li> </ul>	<p>Subject to completion of work set out on page 3, we have not identified any issues.</p>



## 2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<b>Level 3 Investments – £944.3m</b>	<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 2022 at £944.3m.</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 by £209m in 2021/22, 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"> <li>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;</li> <li>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;</li> <li>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;</li> <li>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</li> <li>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.</li> </ul> <p>Note the issue related to the timing of investment valuations used in the statements on page 7, which we have concluded is not material (£12.9m understatement) and is included as in unadjusted misstatement in Appendix B. We have not identified any further issues, subject to completion of outstanding tasks on page 3.</p>	No issues arising in our work so far, but work outstanding.

### Assessment

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

## 2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £3,404m	<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 2022 at £3,404m.</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 £35m in 2021/22 due to both changes in market value but also due to movements in sales and purchases in the year.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>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);</li> <li>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;</li> <li>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</li> <li>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.</li> </ul>	

### Assessment

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

## 2. Financial Statements - matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

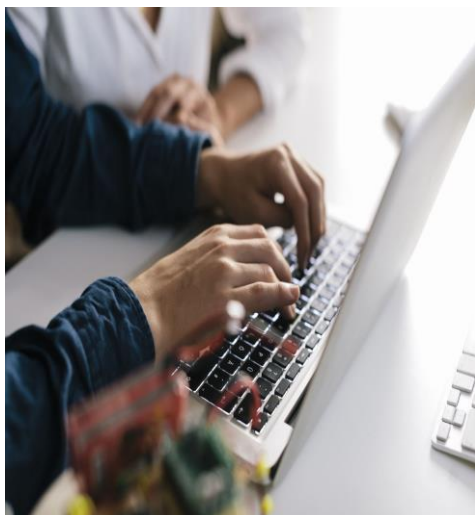
Significant matter	Commentary	Auditor view and management response
Significant events or transactions that occurred during the year – financial market fluctuations/turmoil related to war in Ukraine.	We have discussed the market fluctuations with your finance team, and particular types of investments which could be impacted by the turmoil, interest rate and inflationary impacts of the current situation to gain assurance as to whether this either gives rise to a material uncertainty related to going concern, or a non-adjusting subsequent event which would require disclosure in the statements.	Management's view is that this has not given rise to a material uncertainty related to going concern, or a non-adjusting subsequent event which would require disclosure in the statements.  We are in agreement with management on this conclusion.

## 2. Financial Statements - other communication requirements

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	Commentary
<b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
<b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed.
<b>Matters in relation to laws and regulations</b>	<p>You have made us aware of an incidence of non-compliance with relevant laws and regulations, the breach in timescale for submission of Annual Benefit Statements by August in the relevant year. And you cite this as an ongoing risk in the current period. We understand from discussions with management that compliance has been steadily improving as the pensions administration has been brought in-house, and also that it is unlikely to result in a significant fine. As stated in the risk register this represents a reputational risk for the fund.</p> <p>We have not identified any further incidences from our audit work.</p>
<b>Written representations</b>	A letter of representation has been requested from the Pension Fund.

## 2. Financial Statements - other communication requirements



Issue	Commentary
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.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/significant difficulties	<p>As set out on pages 3 and 4, there were some delays in the provision of financial statements and supporting working papers at the agreed start date for our fieldwork. This led to us agreeing to delay the start of fieldwork to allow the finance team time to prepare and upload complete working papers. There were also issues with the clarity/quality of working papers which mean these take the audit team longer to process, tie into the general ledger/financial statements and reach sample populations.</p> <p>This has led to delay in completion of the audit. A delay in completion of our work on the Pension Fund audit would delay our provision of assurance letters to other scheme employer auditors including for the County Council, and therefore could delay the signing of the opinion on those audits.</p>

## 2. Financial Statements - other communication requirements



### 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).

Issue	Commentary
Going concern	<p data-bbox="871 464 2056 608">In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p data-bbox="871 619 2016 673">Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul data-bbox="871 687 2074 930" style="list-style-type: none"> <li>• the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities</li> <li>• for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting.</li> </ul> <p data-bbox="871 941 2040 1083">Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul data-bbox="871 1098 2029 1243" style="list-style-type: none"> <li>• the nature of the Pension Fund and the environment in which it operates</li> <li>• the Pension Fund's financial reporting framework</li> <li>• the Pension Fund's system of internal control for identifying events or conditions relevant to going concern</li> <li>• management's going concern assessment.</li> </ul> <p data-bbox="871 1257 2051 1279">On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul data-bbox="871 1294 2056 1390" style="list-style-type: none"> <li>• a material uncertainty related to going concern has not been identified</li> <li>• management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul>



## 2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Disclosures	No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix D.
Matters on which we report by exception	<p>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. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until 1 December 2022 and therefore this report has not yet been provided to the audit team.</p> <p>We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.</p>



# 3. 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 C

## Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

# 3. Independence and ethics

## 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 the current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Provision of IAS 19 Assurances to Scheme Employer auditors	£14,000 (see adjacent commentary, this is the expected fee, however the fee is dependent on the number of assurance letters requested from other auditors)	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 (plus £1,000 for each assurance letter to be issued, expected to be 9 but not all requests received from other auditors yet. We are therefore reporting the maximum expected fee here; if any requests are not received the fee will be reduced for these letters not needed to be issued) in comparison to the total fee for the audit of £38,487 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.

# Appendices

# A. Follow up of prior year recommendations

We identified the following issues in the audit of [insert client name] Pension Fund's 2020/21 financial statements, which resulted in 3 recommendations being reported in our 2020/21 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<b>Internal Controls around investment valuations at year end not operating</b> We reviewed and tested the valuation of Level 3 investments via a full triangulation between the custodian confirmation, the fund manager confirmations and the general ledger balances as recognised at the year end. This highlighted that the accounts and general ledger figure for Investments was understated by £25.2m. The reason for this is that the custodian valuation used to produce the accounts was from prior to the year end, adjusted for cash activities to the year end date for each fund manager. In most cases this results in a materially accurate value for investments, but where there is another market value movement in the interim this can lead to this method leading to an inaccurate valuation. Our understanding of the Pension Fund internal controls is that an internal triangulation check should have been undertaken to pick up any such market value movements and ensure where this has happened an updated custodian valuation to the year end is requested.	<b>Recommendation</b> We recommend that management ensure that checks and controls around investment valuations (particularly Level 3 Investments where the valuation is more uncertain) to ensure the correct valuation is recognised in the financial statements.  <b>Recommendation update</b> We are satisfied that the finance team carried out their own checks of final valuations in 2021/22 to gain their own assurance that the valuations were not materially misstated.
✓	<b>Internal Controls around contributions received during the year not operating</b> In our testing of contributions we set out to review quarterly LGPS31 reconciliations which the Pension Fund should produce at each quarter to compare contributions expected from members to the actual amounts received. Where the amount received varies significantly from the expectation of the Fund this would be investigated/reconciled. In our testing we review these LGPS31 reconciliations, reconcile them to the general ledger and then review/reperform the analytics to gain assurance over the contributions received.  However for the first 3 quarters of the year this reconciliation was not prepared. This was prepared during the audit fieldwork. This is part of the Fund's own documented internal control environment.	<b>Recommendation</b> We recommend that management ensure that key internal reconciliations such as the LGPS31 reconciliations are prepared and reviewed internally in a timely way, and they are also made available as key working paper alongside the financial statements as a robust audit trail for contributions received.  <b>Recommendation update</b> We are satisfied that key internal reconciliations for contributions were prepared in the 2021/22 financial year.
✓	<b>Journals controls exception</b> In our testing of manual journal we identified one journal where the internal process for journals of value over £1m was not observed. Journals over £1m should be sent to a more senior officer in the team for review and authorization prior to posting to the general ledger. Manual journals are known to be a method by which override of controls and/or fraud can be perpetrated.	<b>Recommendation</b> We recommend that management recommunication this control to all new starters and existing staff to ensure that it is observed for all manual journals posted.  <b>Recommendation update</b> We have not identified any exceptions in our work to date. Note however our journals testing work is still subject to senior management review.

## Assessment

- ✓ Action completed
- X Not yet addressed

# B. 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.

## 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	Auditor recommendations	Adjusted?
<b>Various minor casting/disclosure amendments</b>	<p>We identified a small number of minor casting and disclosure issues.</p> <p><b>Management response</b></p> <p>Agreed and these were amended in the accounts.</p>	✓
<b>Note 17a: Net gains and losses on financial instruments</b>	<p>Net gains and losses on financial instruments in Note 17a did not agree correctly through to Note 14 a.</p> <p><b>Management response</b></p> <p>Agreed and amended in the accounts.</p>	✓



# B. Audit Adjustments



## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
<b>Level 3 Investment Valuations</b> In our triangulation and detailed sample testing of the Level 3 investments we identified a difference between the Fund Manager valuations and the accounts. See pages 7 for further information on this error.	Credit Changes in value of Investments: (£12.9m)	Debit Level 3 investments: £12.9m	(£12.9m)	The total error is not material
<b>Overall impact</b>	(£12.9m)	£12.9m	(£12.9m)	

## Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
<b>Level 3 Investment Valuations</b> In our triangulation and detailed sample testing of the Level 3 investments we identified a difference between the Fund Manager valuations and the accounts.	Credit Changes in value of Investments: (£25.2m)	Debit Level 3 investments: £25.2m	(£25.2m)	The total error is not material – and note would be corrected via subsequent in year valuation movements in 2021/22.
<b>Overall impact</b>	(£25.2m)	£25.2m	(£25.2m)	

# C. Fees

We confirm below our final fees charged for the audit and provision of non-audit services. Note that the final fee is to be confirmed – we will propose a fee variance for the issues around delays to the audit which have been highlighted in this report.

**Details of variations in final fees from the proposed fee per the audit plan**

The fees reconcile to the financial statements.

Audit fees	Proposed fee	Final fee
Pension Fund Audit	£38,487	TBC
Total audit fees (excluding VAT)	£38,487	£TBC
Non-audit fees for other services	Proposed fee	Final fee
<b>Audit Related Services</b>		
Provision of IAS 19 Assurances to Scheme Employer auditors £5,000 (plus £1,000 for each assurance letter to be issued)	5,000	TBC
Total non-audit fees (excluding VAT)	£5,000	£TBC

# Audit fees –detailed analysis

Scale fee published by PSAA	£20,487
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Raising the bar/regulatory factors	£7,000
<i>New issues for 2020/21</i>	
Impact of new auditing standards	£8,000
<i>New issues for 2021/22</i>	
Remote working – the audit has still needed to be completed mainly remotely which increases the resources needed to complete the audit.	£3,000
Fee variance for:	TBC
<ul style="list-style-type: none"> <li>- Delay in the start date of the audit due to working papers not being ready, and financial statements not being available at the date of the start of the audit with significant impact on our resource planning. This led to us starting the audit, then pausing it and restarting a month later with reallocation of audit staff</li> <li>- Minor delays in query/sample responses</li> </ul>	
<b>Total audit fees (excluding VAT)</b>	<b>£TBC</b>

# C. Draft Audit opinion

Our draft audit opinion is included below.

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 East Sussex Pension Fund

### 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 2022 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 2021/22.

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 2022 and of the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay promised retirement benefits after the end of the fund year;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22; 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, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. 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.

### Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

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 2021/22 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Chief Finance Officer with respect to going concern are described in the 'Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements' section of this report.

# C. Draft Audit opinion continued

## 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 Pension Fund Accounts Reporting Requirement, other than the Pension Fund's financial statements, our auditor's report thereon, and our auditor's report on the Authority's and group'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 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 the 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 (2020) 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 Pension Fund Accounts Reporting Requirement for the financial year for which the financial statements are prepared is consistent with the Pension Fund 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
- 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 in relation to the Pension Fund.

## 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 for the Statement of Accounts, 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 2021/22, 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 and Governance Committee is Those Charged with Governance for the Pension Fund. 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

# C. Draft Audit opinion continued

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements and those laws and regulations.
- We enquired of senior officers and the Pension Fund Committee, concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Pension Fund Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
  - Journals, in particular with regard to manual journals, posted after the year end date which have an impact on the Fund's financial position, as well as any journals made by infrequent posters or senior management personnel;
  - The appropriateness of assumptions applied by management in determining significant accounting estimates, such as the valuation of level 2 and 3 investments as well as the valuation of directly held investment properties.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Chief Finance Officer has in place to prevent and detect fraud;
  - journal entry testing, with a focus on manually posted journals which have a significant impact on the financial position, journals which were posted by infrequent or unusual users, journals posted after the year-end, and journals which are individually material, and any journals posted by senior financial reporting personnel;

- challenging assumptions and judgements made by management in its significant accounting estimates in respect of level 2 and 3 investments and directly held investment property;
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to the valuation of level 2 and 3 investments and directly held investment property.
- Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government pensions sector
  - understanding of the legal and regulatory requirements specific to the Pension Fund including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

## 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 and name and date to be added, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor, London



