

# The Audit Findings for East Sussex Pension Fund

**Year ended 31 March 2021**

East Sussex Pension Fund

17 September 2021



# Contents



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## Section

1. Headlines
2. Financial statements
3. Independence and ethics

## Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees
- E. Audit Opinion

## Page

- |       |
|-------|
| 3     |
| 4-14  |
| 15-16 |
| 18-19 |
| 20    |
| 21-22 |
| 23-24 |
| 25-26 |

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 2021 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 July to September. Our findings are summarised on pages 4 to 14. We have not identified any 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 C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

At the time of drafting this report, in the first week of September, there is reasonable progress with the audit but work is ongoing. We are endeavouring to achieve completion by the end of September subject to the satisfactory clearance of all audit queries and completion/review of the audit file.

However it should be noted that due to significant delays in the provision of working papers and populations at the start of fieldwork in July, achieving this deadline is at significant risk. Requested working papers agreed in March 2021, were not provided at the start of the audit in July. Similarly, key populations from which we sample test, were not provided with the draft accounts. This led to a significant amount of time spent by the audit team simply requesting and chasing items which had already been requested in March. This effectively delayed a lot of the substantive testing work we carry out until the start of August. In one instance, the population for our testing of member data was only provided in the week commencing 23 August 2021. A delay in completion of our work on the Pension Fund audit would delay our provision of assurance letters to the auditors of other scheme employers including the County Council, and therefore could delay the signing of the opinions on those audits.

There are currently no matters of which we are aware that would require modification of our audit opinion [Appendix E] or material changes to the financial statements, subject to the clearance of the following work and outstanding matters:

- Completion of testing of the sample of member data changes;
- Clearance of audit queries relating to manual journals;
- Clearance of audit queries outstanding relating to Investment classifications and the cash balances;
- A small number of service auditor reports from investment Fund Managers are outstanding at this date; we are chasing these to obtain these as soon as possible;
- Completion of our work to tie in the information provided to the actuary into the general ledger information on which we have completed our substantive testing, and subsequent to completion of this item and those above, issue of letters of assurance to the scheme employer auditors;
- 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;
- Completion of our work around Contingent liabilities and contractual commitments where we have not been provided with supporting working papers;
- Manager and Engagement Lead final review of completed audit work which could raise additional audit queries and challenge;
- receipt of management representation letter; and
- receipt and review of the Annual report;
- review of the final set of financial statements.

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.

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 2021 and therefore this report has not yet been provided to the audit team. We will not issue this separate opinion with the pension fund statement of accounts and are unable to certify completion of the audit of the administering authority until this work has been completed.

# 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 not had to alter our audit plan, as communicated to you on 26 March 2021.

## Conclusion

As stated on page 3 we are making progress on completion of the audit and subject to outstanding work and audit queries being resolved, we anticipate issuing an unqualified audit opinion by the 30 September 2021, as detailed in [Appendix E]. There is however a risk of not completing the work due to the difficulties encountered. The outstanding items are set out on page 3.

### Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As in the previous year, the pandemic has impacted on the audit insofar as the audit team delivered the audit entirely remotely without any on site working at the Council. This way of working makes delivering an audit much more challenging and time consuming. We had to use alternative methods such as video calling and screen sharing to review audit evidence and resolve audit queries and it requires additional processes to verify the completeness and accuracy of information provided by the Council.

## 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 in the draft accounts changing significantly from that at the planning stage resulting in a review of the appropriateness of the materiality figure.

We detail in the table adjacent our determination of materiality the Pension Fund.

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

|  |        |  |
|--|--------|--|
| Materiality for the financial statements | £42.4m | We have determined financial statement materiality based on a proportion of the net assets of the Council for the financial year.  |
| Performance materiality                  | £31.8m | 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                          | £2.1m  | 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   |
|---|--|
| <p><b>Management override of controls</b></p> <p>Risk description unchanged from that reported in our audit plan.</p> | <p>We have:</p> <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> <p>We are still completing our testing subject to outstanding items as detailed on Page 3. In the work completed to date we identified one journal where the internal process for journals of value over £1m was not observed and as a result we have made a control recommendation which is detailed on page 18. We have otherwise not identified any issues in the audit processes carried out to date.</p> |



# 2. Financial Statements - Significant risks

## Risks identified in our Audit Plan

## Commentary

### Improper revenue recognition

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:

- there is little incentive to manipulate revenue recognition;
- opportunities to manipulate revenue recognition are very limited; and
- 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.

### Valuation of Level 3 investments

Risk description unchanged from that reported in our audit plan.

We have:

- gained an understanding of your process for valuing Level 3 investments and evaluating the design of the associated controls;
- 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;
- 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;
- 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 2021 with reference to known movements in the intervening period;
- We evaluated the competence, capabilities and objectivity of the valuation expert;
- Tested revaluations made during the year to see if they had accounted for correctly; and
- where available reviewed investment manager and custodian service auditor report on design effectiveness of internal controls.

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.

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 September 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. The Fund Managers provide valuations as at 31 March 2021, and 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.

Note at this date some of the service auditor reports are outstanding from the Fund Managers. We are chasing these with the Managers.

## 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   |
|-----------------------------------|--|---|--|
| Level 3 Investments – £734.5m     | <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 2021 at £734.5m.</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 £116.2m in 2020/21, 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>We have 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>As noted above, there are some service auditor reports which are outstanding from the investment Fund Managers, so this work is ongoing.</p> | <p>No issues arising in our work so far, but work outstanding.</p> |

### 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 – £3,438.7m   | <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 2021 at £3,439m.</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 increased by £1,137m in 20120/21 due to both changes in market value but also due to movements in sales/purchases in the year (also note page 10 below, there was a £366.5 reclassification from Level 1 to Level 2 which has also led to this increase).</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>We have 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  |
|---|---|---|
| <p>Reclassification of Investments between Level 1 and 2 in the Fair Value Hierarchy</p> <p><i>In the 20/21 year the Fund has reassessed the Funds UK Passive Fund with UBS (£366.5m in 20/21, £221.9m in 19/20).</i></p> | <p><i>This was a material reclassification between fair value hierarchy classes and as such we discussed and challenged this with management in order to conclude on whether this was reasonable. The explanation given by management was that the Pension Fund views investments into funds that are priced daily to unit price to be level 2 investments and have therefore reclassified.</i></p> <p><i>Northern Trust the custodian have however classified this as a Level 1 investment. As such we have sent an additional query to Northern Trust to obtain an explanation as to what the reasoning is for their classification of this fund. We are awaiting a response to this inquiry.</i></p> | <p>We are awaiting a response to our further inquiry to the custodian which we will consider on receipt to conclude on whether the reclassification is reasonable.</p> <p><b>Management response</b></p> <p>The fund has reassessed this classification to level 2 based on further guidance from CIPFA that pooled funds should be level 2. The custodian will have these as level one as they are daily traded equities, however the East Sussex Fund access these through a pooled unit price and classified as such aligns with Pension Fund Accounting for LGPS funds.</p> |

## 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  |
|---|---|
| Matters in relation to fraud                | 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.   |
| Matters in relation to related parties      | We are not aware of any related parties or related party transactions which have not been disclosed.  |
| Matters in relation to laws and regulations | You have made us aware of an incidence of non-compliance with relevant laws and regulations, the failure in previous years to submit ABS by August in the relevant year. And you cite this as a risk in the current period. We understand from discussions with management that measures have been put in place to improve the compliance in this area, 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. We are discussing the current status of measures in this area for August 2021.<br>We have not identified any further incidences from our audit work. |
| Written representations                     | 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/<br>significant difficulties | Overall progress on the audit has been subject to significant delay due to the finance team not providing the requested working papers at the start of the audit, and key populations which we required to carry out our testing were not provided with the draft accounts at the start of fieldwork. This led to a significant amount of time being spend by the audit team simply requesting and chasing items which had already been requested in our working paper listing which was communicated in March 2021. This effectively delayed a lot of the substantive testing work we carry out until August. A key population for our testing of member data for instance was only provided to the team in the week commencing 23 August 2021 where we started fieldwork on the 1 July 2021. 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. |

## 2. Financial Statements - other communication requirements



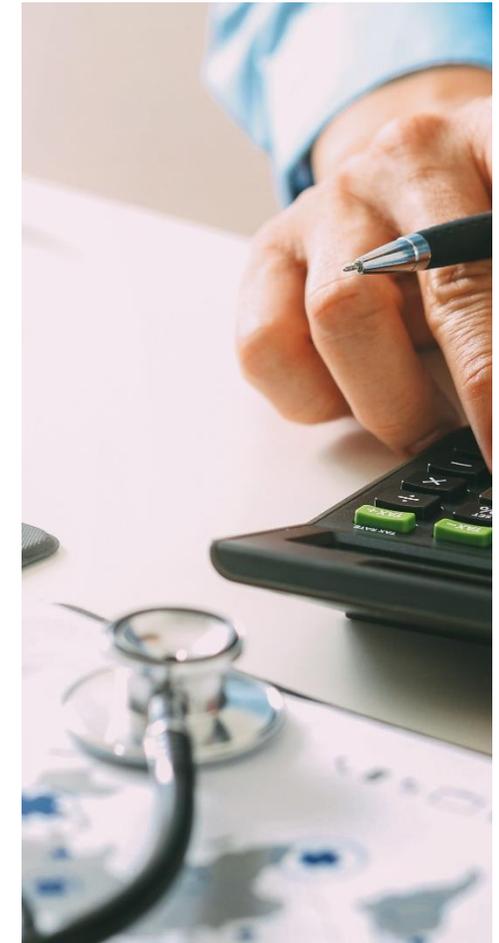
### Our responsibility

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>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>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul 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>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 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>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul 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 E.  |
| 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 2021 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 D

## 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 | £5,000 | 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 in comparison to the total fee for the audit of £35,487 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. Action plan – Audit of Financial Statements

We have identified 3 recommendations for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| Assessment | Issue and risk   | Recommendations  |
|------------|--|--|
|            | <p><b>Internal Controls around investment valuations at year end not operating</b></p> <p>As described on page 7, 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 September 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. The Fund Managers provide valuations as at 31 March 2021, and 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.</p> <p>In this case the variance was not material. However, this could easily have resulted in a material error where the control has not operated effectively.</p> | <p>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.</p> <p><b>Management response</b></p> <p>This is a common issue when investing in illiquid assets and outside of the Funds control. Illiquid assets have a very delayed valuation process and the Fund would never have access to the final NAV position for these funds at the time of producing the accounts. The fund uses the most accurate information available to it at the time of producing the accounts based on the last audited NAV for the product plus any cash flow changes since that date. Information will always come out after the statutory date of producing the accounts and will always be updated during the audit process if the newly released valuation data is materially different.</p> |
|            | <p><b>Internal Controls around contributions received during the year not operating</b></p> <p>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.</p> <p>However for the first 3 quarters of the year this reconciliation was not prepared. This was prepared during the audit fieldwork. Our view is that this is an important process for the fund to assure itself over the completeness of contributions received during the year and at the year end. This is part of the Fund's own documented internal control environment.</p>   | <p>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.</p> <p><b>Management response</b></p> <p>The Pension Fund identified an issue around contributions reconciliations part way through the year and reported this in full to Pension Board and Committee. In addition fundamental changes were made during the latter part of the year that implemented a robust reconciliation process. Although this robust process was not retrospectively applied the Fund are confident that the different reconciliations that had been enacted to ensure all contributions due were collected.</p>  |

## Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

# A. Action plan – Audit of Financial Statements (continued)

| Assessment | Issue and risk  | Recommendations   |
|------------|---|---|
|            | <p><b>Journal controls exception</b></p> <p>As described on page 6, 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.</p> | <p>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.</p> <p><b>Management response</b></p> <p>Management will reiterate that journals over £1m require senior sign off and will implement a review to ensure that these are saved in a journal sign off folder to evidence compliance. It is possible a future accounting system will have inbuilt workflow functionality to better build in controls which management would be supportive of.</p> |

## Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

## B. Follow up of prior year recommendations

We identified the following issues in the audit of the Pension Fund's 2019/20 financial statements, which resulted in 2 recommendations being reported in our 2019/20 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   |
|------------|---|--|
| ✓          | <p><b>Material Uncertainty around Investment Valuations</b></p> <p>In our 2019/20 testing of the valuation of investments we carried out extensive discussion and challenge of investment managers to establish if there was any significant uncertainty over the valuations at year end and whether any funds had been suspended for trading due to the overall market uncertainties. This led to the disclosure by the investment manager that some funds underlying the pooled investment had been suspended at 31 March 2020, and that there was a material valuation uncertainty over the full pooled investment at that date. This was not known to the Pension Fund finance team.</p> <p>We would expect that particularly around Level 3 investments, management should undertake their own independent challenge process of investment valuations by making set inquiries at the year end relating to market uncertainties. The need for this check is particularly acute in the Covid-19 climate, but would also be a reasonable control in less uncertain years. We recommended that to gain their own assurance that the investments are materially correctly stated, management undertake their own independent challenge process of investment valuations by making set inquiries at the year end relating to market uncertainties.</p> | <p>The Pension Fund accounting team took this recommendation on, and ensured that questions were raised of the property manager specifically in 2020/21 following on from this recommendation that there were no impacts on the valuation due to covid in this year end position. The Fund does however acknowledge that illiquid assets will have a historic valuation at the time of accounts production so there could continue to be changes in these values during the audit process when new valuations are signed off and reported to the Fund.</p> |
| ✓          | <p><b>Investment valuation movements not posted to the accounting system during the year</b></p> <p>During our analytical review testing of investment movements during the year, it became apparent that although the Pension Fund receives investment manager reports quarterly, these are not posted to the general ledger until the year end.</p> <p>Our view is that to aid and evidence management oversight/control of investments, these quarterly reports of investment valuation movements/purchases/sales should be posted to the general ledger. We recommended that the quarterly investment manager report movements in investments are posted to the general ledger.</p>   | <p>The fund has implemented a quarterly investment accounting process to map valuation moves into the accounts.</p>  |

### Assessment

- ✓ Action completed
- X Not yet addressed

# C. 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.

## Impact of adjusted misstatements

We have not identified any adjusted misstatements in the work carried out to date.

## 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? |
|----------------------------------|--|-----------|
| Various minor casting amendments | We identified a small number of minor casting and disclosure issues.<br><b>Management response</b><br>Agreed and these were amended in the accounts. | ✓         |

# C. Audit Adjustments



## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 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<br>£'000                     | Net Asset Statement<br>£' 000      | Impact on total net<br>assets £'000 | Reason for<br>not adjusting     |
|--|---|------------------------------------|-------------------------------------|---------------------------------|
| <b>Level 3 Investment Valuations</b><br>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 and 18 for further information on this error. | Credit Changes in value of Investments: (£25,198) | Debit Level 3 investments: £25,198 | £25,198                             | The total error is not material |
| <b>Overall impact</b>  | <b>(£25,198)</b>                                  | <b>£25,198</b>                     | <b>£25,198</b>                      |                                 |

## Impact of prior year unadjusted misstatements

There were no unadjusted prior year misstatements.

# D. Fees

We confirm below our fees charged for the audit and provision of non-audit services. Note that due to the issues and delays detailed on page 3 we have had to increase our team resources to complete the audit including additional management time in monitoring progress and attending catch ups to ensure sufficient progress was made to ensure completion of the audit and issue of the IAS19 assurances to other scheme employer auditors in sufficient time to allow for September sign offs which were planned. We will propose an additional fee for these increased inputs into the audit. This amount is still to be confirmed given that audit work is still in progress in September 2021, but once we complete the audit we will assess the proposed additional fee and discuss this with the Chief Finance Officer.

See the next slide for an analysis of the audit fee.

The fees reconcile to the financial statements.

| <b>Audit fees</b>                       | <b>Proposed fee</b> | <b>Final fee</b> |
|---|---------------------|------------------|
| Pension Fund Audit                      | 35,487              | TBC              |
| <b>Total audit fees (excluding VAT)</b> | <b>£35,487</b>      | <b>£TBC</b>      |

| <b>Non-audit fees for other services</b>                   | <b>Proposed fee</b> | <b>Final fee</b> |
|--|---------------------|------------------|
| <b>Audit Related Services</b>                              |                     |                  |
| Provision of IAS 19 Assurances to Scheme Employer auditors | 5,000               | TBC              |
| <b>Total non-audit fees (excluding VAT)</b>                | <b>£5,000</b>       | <b>£TBC</b>      |

# 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         |
| <b>Total audit fees (excluding VAT)</b>                           | <b>£35,487</b> |

# E. 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 2021 which comprise the Fund Account, the Net Assets Statement and Notes to the Pension Fund Accounts, 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 2020/21.

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 2021 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; 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 2020/21 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.

### Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Pension Fund's financial statements, our auditor's report thereon, and our auditor's report on the Authority'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, 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, 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 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Chief

# E. Audit opinion (continued)

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 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).

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 2020/21, 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.
- We enquired of senior officers and the Audit 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 Audit 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 and the risk of management bias in accounting estimates. We determined that the principal risks were in relation to:
  - Large and unusual manual journal entries

- Material accounting estimates which were subject to significant management judgement, a high level of estimation uncertainty and high sensitivity to small changes in assumptions.
- 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 with a focus on large and unusual manual journal entries;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of level 3 investments and IAS 26 pensions liability valuations;
  - 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. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from 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.
- 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]

Darren Wells, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor

