

# The Audit Findings Report for East Sussex Pension Fund

**Year ended 31 March 2023**

October 2023



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## Your key Grant Thornton team members are:

### Darren Wells

Key Audit Partner

T: (0)1293 554130

E: Darren.Wells@uk.gt.com

### Justine Thorpe

Audit Manager

T: 020 7728 2280

E: Justine.Thorpe@uk.gt.com

### Sabih Khalid

Audit In-Charge

T: 020 7728 3076

E: Sabih.Kahlid@uk.gt.com

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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. Its contents will be discussed with management and the Audit Committee.

*Darren Wells*

Name: Darren Wells

For Grant Thornton UK LLP

Date: 24 November 2023

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 2023 for the attention of 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 transactions of the Pension Fund during the year ended 31 March 2023 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; 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 undertaken on site and remotely during August to September. Our findings are summarised on pages 3 to 15. We have identified no adjustments to the financial statements and therefore the Pension Fund's reported financial position remains unchanged from the published draft financial statements for audit. There are a few minor disclosure amendments detailed in Appendix B, which commendably reflects the comprehensive set of financial statements produced for audit.

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

- final quality review;
- receipt of management representation letter; and
- review of the final set of financial statements with disclosures adjustments.

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 opinion on the financial statements will be unqualified.

Whilst our work on the Pension Fund financial statements is complete, we will be unable to issue our final audit opinion on the Pension Fund financial statements until the audit of the Administering Authority is complete.

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. We propose to issue our 'consistency' opinion on the Pension Funds Annual Report along with the audit opinion on the financial statements.

# 1. Headlines

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## National context – audit backlog

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Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see [About time? \[grantthornton.co.uk\]](#) We would like to thank everyone at the Pension Fund for their support in working with us. The audit and client teams have worked constructively together to resolve any audit queries to progress the audit. The 2021/22 audits of East Sussex County Council and East Sussex Pension Fund are currently ongoing. These audits will need to be finalised and the auditor's report signed before the 2022/23 audit can be finalised. The main issue delaying completion of the 2021/22 Pension Fund audit is the new evidence provided by the triennial valuation carried out for March 2022 and therefore providing more accurate net pension liability valuation estimate for the Authority and the Pension Fund as a whole based on updated membership data. As this is a material post balance sheet adjusting event the Authority and Pension Fund statements have been adjusted, and therefore further audit work is required to gain assurance over the revised estimate. This work is substantially completed and is being reviewed by senior management currently.”

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## Local context - triennial valuation

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Triennial valuations for local government pension funds have been published. These valuations, which are as at 31 March 2022, provide updated information regarding the funding position of the Pension Fund and set employer contribution rates for the period 2023/24 – 2025/26. For the Pension Fund, the valuation was undertaken by Barnett Waddingham, and showed that the Pension Fund is 123% funded at 31 March 2022. The results of the latest triennial valuation are reflected in Note 19 – Funding Arrangements to the financial statements. These valuations also provide updated information for the net pension asset on employer balance sheets.

We have performed testing of the completeness and accuracy of triennial valuation source data. This was to support our work providing assurances to auditors of employer bodies. As part of this work, we tested a sample and found the source data to be complete and accurate. This additional testing is only required after each triennial review, rather than annually. See Appendix C for the impact of this work on our 2022/23 audit fee.

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## 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 will be discussed with management on 11 October, and at the Audit Committee on 22 November 2023.

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.

For the Pension Fund, the Audit Committee fulfil the role of those charged with governance. There is a separate Pension Committee and Pensions Board which consider the draft financial statements and is part of the overall member oversight process.

### 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.
- Significant risks - those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:
  - a. The revenue cycle includes fraudulent transactions (rebutted)
  - b. Management over-ride of controls
  - c. Valuation of level 3 investments (Quarterly revaluation)

We have not had to amend our audit plan, as communicated to you on in June 2023 at the Audit Committee meeting.

Further to this, we cannot give our opinion on the accounts until we have completed the audit of East Sussex Council. We are proposing to report both Audit Findings Report to 22 November Audit Committee.

### Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the 24 November Audit Committee, as detailed in Appendix F. These outstanding items include:

- receipt of management representation letter; and
- review of the final set of financial statements.

Our anticipated audit report will be unmodified.

### Acknowledgements

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

As highlighted in Appendix C – Audit Fees we had to carry out additional audit procedures to gain sufficient audit assurance in respect of our auditor's opinion on the financial statements.

## 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.

Materiality levels remain the same as reported in our audit plan of April 2023 but we have set specific materiality levels for the Pension Fund Statement.

We set out our determination of materiality for the Pension Fund in this table.

|   | Pension Fund Amount (£) | Qualitative factors considered   |
|---|-------------------------|--|
| Overall materiality for the Financial Statements, including the Net Asset Statement | 42,800,000              | Our headline materiality is based on the Net Assets of the Fund.                             |
| Performance materiality   | 32,100,000              | Performance materiality is based on 75% of the overall materiality.                          |
| Trivial matters   | 2,140,000               | Triviality is based on 5% of the overall materiality.  |
| Materiality for the Pension Fund Account  | 17,750,000              | Fund account materiality is based on 8% of the employee benefits paid in the financial year. |



# 2. Financial Statements: Significant risks Draft

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>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Fund faces external scrutiny of its stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.</p> | <p>During the audit, we undertook the following work:</p> <ul style="list-style-type: none"> <li>▪ evaluated the design effectiveness of management controls over journals;</li> <li>▪ analysed the journals listing and determine the criteria for selecting high risk unusual journals;</li> <li>▪ identified and tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;</li> <li>▪ gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence;</li> <li>▪ evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul> <p>Our audit work has not identified any issues in respect of management override of controls.</p>   |
| <p><b>Improper revenue recognition (rebutted)</b></p> <p>Under ISA(UK)240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p>  | <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA 240 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:</p> <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;</li> <li>▪ the culture and ethical frameworks of local authorities, including the Pension Fund, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>We, therefore, did not consider this to be a significant risk for the Pension Fund when producing our audit plan.</p> <p>We have reconsidered our original assessment as part of our audit work on the Pension Fund's financial statements and are satisfied that this rebuttal remains appropriate.</p> |

## 2. Financial Statements: Significant risks

Draft

### Risks identified in our Audit Plan

### Commentary

#### Valuation of Level 3 Investments (Quarterly revaluation) of £1.15 billion

By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements. Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2023.

During the audit, we undertook the following work:

- reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments to ensure that the requirements of the Code are met;
- independently requested year-end confirmations from investment managers and the custodian and considered the role played by the custodian in asset valuation;
- tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments; then agreeing these to the fund manager reports at that date. We then reconciled those values to the values at 31 March 2023 with reference to known movements in the intervening period;
- where available, reviewed the investment manager service auditor report on design effectiveness of internal controls;
- as part of our assessment of key controls over hard to value investments, we identified the key valuation controls at the fund managers (and where appropriate the custodians) and considered the design effectiveness of the controls through enhanced documentation of our consideration of the relevant control reports.

Our audit work identified a non-material difference of £8 million across the whole population of £1.15 billion of Level 3 investments. This difference is due to timing differences between the estimates in the 31 December 2022 audited accounts of these Level 3 investments and their total estimated valuation at 31 March 2023. This difference is below our materiality of £48 million and therefore does not impact on our audit opinion.

# 2. Financial Statements: key judgements and estimates

Draft

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

| Significant judgement or estimate   | Summary of management's approach   | Audit Comments  | Assessment              |
|---|--|---|-------------------------|
| <p><b>Level 3 Investments (£1,150 million)</b></p> <p>By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements.</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> | <p>The Pension Fund has investments in Private Equity and Infrastructure Funds that in total are valued on the net assets statement as at 31 March 2023. The Fund revalues its investments on a quarterly basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.</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 rely on the valuation provided by the Fund Manager, which is usually based on an audited value of the fund as at 31 December 2022, with the valuation rolled forward to 31 March 2023.</p> | <p>The valuation of the Level 3 Investments is reasonable.</p> <p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious, as we have considered all evidence obtained during the audit, including both corroborative and contradictory audit evidence, when evaluating the appropriateness of these accounting estimates.</p> | <p>● [Light Purple]</p> |
| <p><b>Level 2 Investments (£3,118 million)</b></p> <p>While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly.</p>   | <p>The Pension Fund have investments in Bonds and Pooled Investment Vehicles that in total are valued on the Net Asset Statement as at 31 March 2023.</p> <p>Whilst these investments themselves are not actively traded on an open market, the underlying investments are and the valuations of these investments are based on the value of these underlying investments at 31 March 2023, or the closest trade date to year end.</p>   | <p>The valuation of the Level 2 Investments is reasonable.</p> <p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious, as we have validated the sources of information used by management, management's point estimate and disclosures relating to this accounting estimate.</p>   | <p>● [Light Purple]</p> |

#### 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: Information Technology

Draft

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

| IT application                             | Level of assessment performed                                  | ITGC control area rating  |   |   |   | Related significant risks/other risks |
|--|--|---|---|---|---|---------------------------------------|
|  |  | Overall ITGC rating   | Security management   | Technology acquisition, development and maintenance                                   | Technology infrastructure   |                                       |
| SAP ERP Central Component (General Ledger) | ITGC assessment (design and implementation effectiveness only) |    |    |    |    | None identified                       |
| Pension Administration System - Altair     | ITGC assessment (design and implementation effectiveness only) |  |  |  |  | None identified                       |

### Assessment

-  Significant deficiencies identified in IT controls relevant to the audit of financial statements
-  Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
-  IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
-  Not in scope for testing

## 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 other incidents in the period and no other issues have been identified during the course of our audit procedures. We will need up to date assurance from the Committee before we issue our opinion.   |
| <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> | You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.  |
| <b>Written representations</b>                     | A letter of representation has been requested from the Pension Fund, which is appended to this Report.  |
| <b>Audit evidence and explanations</b>             | The client provided a comprehensive set of Pension Fund Financial Statements and were responsive to audit queries raised. All information and explanations requested from management was provided.  |
| <b>Confirmation requests from third parties</b>    | We requested from management permission to send confirmation requests to all of the Pension Fund Investment Managers. This permission was granted and all of these requests were returned with positive confirmation.<br>We requested management to send letters to those solicitors who worked with the Pension Fund during the year.  |
| <b>Accounting practices</b>                        | 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.<br>A handful of minor inconsistencies were identified but these have been adequately reflected by management. We plan to issue an unmodified opinion in this respect – please refer to Appendix F. |

## 2. Financial Statements: other communication requirements



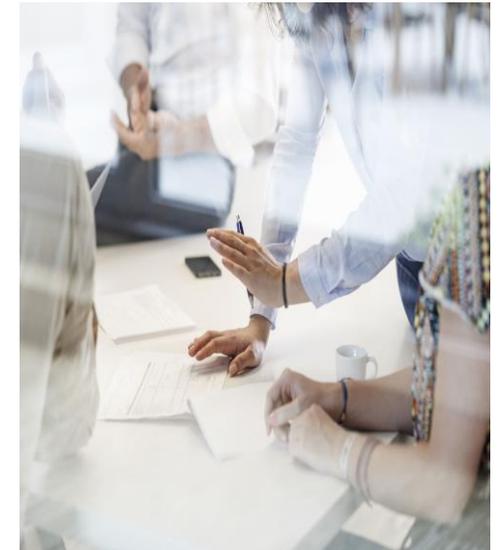
### Our responsibility

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  |
|----------------------|---|
| <p>Going concern</p> | <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  |
|--|---|
| <b>Other information</b>                       | <p>The Pension Fund is administered by East Sussex Council (the ‘Council’), and the Pension Fund’s accounts form part of the Council’s financial statements. We are required to read any other information published alongside the Council’s financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.</p> |
| <b>Matters on which we report by exception</b> | <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.</p> <p>We propose to issue our ‘consistency’ opinion on the Pension Fund’s Annual Report following the issue of the audit opinion.</p> <p>We are required to report if we have applied any of our statutory powers or duties as outlined in the Code. We have nothing to report on these matters.</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 and consider that an objective reasonable and informed third party would take the same view. 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

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers).

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 E.

### 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 [Grant Thornton International Transparency report 2023](#).

### 3. Independence and ethics

As part of our assessment of our independence we note the following matters:

| <b>Matter</b>                                     | <b>Conclusion</b>  |
|---|--|
| Relationships with Grant Thornton                 | We are not aware of any relationships between Grant Thornton and the Pension Fund that may reasonably be thought to bear on our integrity, independence and objectivity  |
| Relationships and Investments held by individuals | We have not identified any potential issues in respect of personal relationships with the Pension Fund held by individuals   |
| Employment of Grant Thornton staff                | We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Pension Fund as a director or in a senior management role covering financial, accounting or control related areas. |
| Business relationships                            | We have not identified any business relationships between Grant Thornton and the Pension Fund  |
| Contingent fees in relation to non-audit services | No contingent fee arrangements are in place for non-audit services provided  |
| Gifts and hospitality                             | We have not identified any gifts or hospitality provided to, or received from, a member of the Pension Fund's board, senior management or staff that would exceed the threshold set in the Ethical Standard.   |

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person [and network firms] have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements.

Following this consideration we can confirm that we are independent and are able to express an objective opinion on the financial statements. In making the above judgement, we have also been mindful of the quantum of non-audit fees compared to audit fees disclosed in the financial statements and estimated for the current year.

# Appendices

- A. Communication of audit matters to those charged with governance
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- E. Management Letter of Representation
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# A. Communication of audit matters to those charged with governance

Draft

| Our communication plan  | Audit Plan | Audit Findings Report |
|---|------------|-----------------------|
| Respective responsibilities of auditor and management/those charged with governance   | •          |                       |
| Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks  | •          |                       |
| Confirmation of independence and objectivity  | •          | •                     |
| A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence | •          | •                     |
| Significant findings from the audit   |            | •                     |
| Significant matters and issue arising during the audit and written representations that have been sought  |            | •                     |
| Significant difficulties encountered during the audit   |            | •                     |
| Significant deficiencies in internal control identified during the audit  |            | •                     |
| Significant matters arising in connection with related parties  |            | •                     |
| Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements   |            | •                     |
| Non-compliance with laws and regulations  |            | •                     |
| Unadjusted misstatements and material disclosure omissions  |            | •                     |
| Expected modifications to the auditor's report, or emphasis of matter   |            | •                     |

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

## Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

## Distribution of this Audit Findings Report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

## 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.

### Impact of adjusted misstatements

There are no adjusted nor non-adjusted misstatements.

### 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/issue/Omission   | Auditor recommendations | Adjusted?                                   |
|---|-------------------------|---|
| There were a few minor disclosure issues that management adjusted for following our review of the draft statement of accounts. This reflected the comprehensive set of accounts that management produced for audit.   | None                    | ✓   |
| Our audit work identified a non-material difference of £8 million across the whole population of £1.15 billion of Level 3 investments. This difference is due to timing differences between the estimates in the 31 December 2022 audited accounts of these Level 3 investments and their total estimated valuation at 31 March 2023. This difference is below our materiality of £48 million and therefore does not impact on our audit opinion. | None                    | No adjustment required as below materiality |

## C. Fees and non-audit services

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

| Audit fees   | Proposed fee   |
|--|----------------|
| Scale fee published by PSAA  | £24,237        |
| <i>Ongoing increases to scale fee first identified in 2019/20:</i><br>Raising the bar/regulatory factors | £5,534         |
| <u>New issues for 2020/21:</u><br>Impact of new auditing standards                                       | £13,600        |
| <u>New issues for 2022/23</u><br>Payroll – Change of circumstances                                       | £500           |
| Impact of ISA 315  | £3,000         |
| <b>Total audit fees (excluding VAT) in 22/23 Audit Plan</b>  | <b>£46,871</b> |
| Investment valuation   | £3,500         |
| ISA 540  | £3,600         |
| Reduced materiality  | £600           |
| <b>Pension Fund Audit</b>  |                |
| IAS 19 letters for employer body auditors, including testing of 31 March 2022 triennial review *         | £8,000         |
| <b>Total audit fees (excluding VAT)</b>  | <b>£62,571</b> |

\*Note that fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances to auditors of local government and NHS bodies should be considered work undertaken under the Code of Audit Practice for 2022/23 onwards. Provision of IAS 19 assurances to auditors of any other type of entity remains non-Code work.

# E. Auditing developments

## Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'

This impacts audits of financial statement for periods commencing on or after 15 December 2021.

ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'

ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements'

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

| Area of change                                      | Impact of changes  |
|---|--|
| Risk assessment                                     | The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: <ul style="list-style-type: none"> <li>the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures</li> <li>the identification and extent of work effort needed for indirect and direct controls in the system of internal control</li> <li>the controls for which design and implementation needs to be assess and how that impacts sampling</li> <li>the considerations for using automated tools and techniques.</li> </ul> |
| Direction, supervision and review of the engagement | Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.  |
| Professional scepticism                             | The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> <li>increased emphasis on the exercise of professional judgement and professional scepticism</li> <li>an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence</li> <li>increased guidance on management and auditor bias</li> <li>additional focus on the authenticity of information used as audit evidence</li> <li>a focus on response to inquiries that appear implausible</li> </ul>  |
| Definition of engagement team                       | The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. <ul style="list-style-type: none"> <li>Consideration is also being given to the potential impacts on confidentiality and independence.</li> </ul>                              |
| Fraud   | The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> <li>clarification of the requirements relating to understanding fraud risk factors</li> <li>additional communications with management or those charged with governance</li> </ul>   |
| Documentation                                       | The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.  |

# F. Management Letter of Representation

# Draft

Grant Thornton UK LLP

30 Finsbury Square

London

EC2A 1AG

**[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION}**

Dear Sirs

## **East Sussex Pension Fund - Financial Statements for the year ended 31 March 2023**

This representation letter is provided in connection with the audit of the financial statements of East Sussex Pension Fund for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### **Financial Statements**

- i. We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include [...]. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.
- vi. Except as disclosed in the financial statements:
  - a. there are no unrecorded liabilities, actual or contingent
  - b. none of the assets of the Fund has been assigned, pledged or mortgaged

c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

- i. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- iii. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- iv. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- v. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- vi. We have updated our going concern assessment. We continue to believe that the Fund's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that that :
  - a. the nature of the Fund means that, notwithstanding any intention to liquidate the Fund or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
  - b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
  - c. the Fund's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

### **Information Provided**

- i. We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. access to persons within the Fund via remote arrangements from whom you determined it necessary to obtain audit evidence.
- ii. We have communicated to you all deficiencies in internal control of which management is aware.
- iii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- iv. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Draft

# F. Management Letter of Representation

- i. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- ii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- iii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund, and involves:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.
- iv. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- v. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- vi. There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.
- vii. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.
- viii. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.
- ix. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

**Approval**

The approval of this letter of representation was minuted by the Audit Committee at its meeting on 24 November 2023.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

**Signed on behalf of the Fund**

# G. Audit opinion

## Independent auditor's report to the members of East Sussex Council on the pension fund financial statements of East Sussex Pension Fund

### Opinion on financial statements

We have audited the financial statements of East Sussex Pension Fund (the 'Pension Fund') administered by East Sussex Council (the 'Authority') for the year ended 31 March 2023, 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 2022/23.

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 2023 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 2022/23; 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 2022/23 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 2022) 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. 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.

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.

Our responsibilities and the responsibilities of the Chief Finance Officer's with respect to going concern are described in the relevant sections of this report.

### Other information

The other information comprises the information included in the Statement of Accounts, other than the Pension Fund's financial statements and our auditor's report thereon, and our auditor's report on the Authority's and group's financial statements. The Chief Finance Officer is responsible for the other information. Our opinion on the 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.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Pension Fund financial statements or our knowledge 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 financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Opinion on other matters 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, 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.

# G. Audit opinion

## Responsibilities of the Authority and the Chief Finance Officer

As explained more fully in the Statement of Responsibilities set out on page 18, 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 Director of Finance. 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 2022/23, 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 they have been informed by the relevant national body of the intention to dissolve the Pension Fund without the transfer of its services to another public sector entity.

## 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. Irregularities, including fraud, are instances of non-compliance with laws and regulations. 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 (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003).

We enquired of management 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 management 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 management's incentives and opportunities for

manipulation of the financial statements. This included the evaluation of the risk of management override of controls and any other fraud risks identified for the audit. We determined that the principal risks were in relation to the valuation of Level 2 and 3 Investments. Our audit procedures involved:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud,
- journal entry testing, with a focus on year-end journals,
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of Level 2 and 3 Investments,
- 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.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including [add details of risks]. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

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.

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.

# G. Audit opinion

## 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 44 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.

Darren Wells,

Key Audit Partner

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

London

Date: 24 November 2023

# Draft



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