

The Audit Findings (ISA260) Report for East Sussex Pension Fund

Year ended 31 March 2024

22 November 2024





East Sussex Pension Fund
County Hall, St Anne's Crescent, Lewes, East Sussex, BN7 1UE

September 2024

**Private and
Confidential**

Grant Thornton UK LLP

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Dear Members of the Audit Committee,

Audit Findings for East Sussex Pension Fund for the 31 March 2024

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process and confirmation of auditor independence, as required by International Standard on Auditing (UK) 260. Its contents will be discussed with management and the Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (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 for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

We encourage you to read our transparency report which sets out how the firm complies with the requirements of the Audit Firm Governance Code and the steps we have taken to drive audit quality by reference to the Audit Quality Framework. The report includes information on the firm's processes and practices for quality control, for ensuring independence and objectivity, for partner remuneration, our governance, our international network arrangements and our core values, amongst other things. This report is available at [transparency-report-2023.pdf \[grantthornton.co.uk\]](#).

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

Parris Williams

**Director
For Grant Thornton UK LLP**

Chartered Accountants

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This Audit Findings Report (AFR) 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 have been discussed with management and will be presented to the Audit Committee on 22 November 2024.

Parris Williams

Parris Williams

For Grant Thornton UK LLP

Date: 22 November 2024

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 2024 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 2024 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 has been largely completed remotely during July-October. Our findings are summarised on pages 5 to 19. We acknowledge that the accounts were provided timely for our review and would like to extend our gratitude to the management for their efforts and cooperation during the audit.

Summary of findings

Our work has not identified any misstatements which have resulted in adjustment to the Fund Account or Net Assets Statement. We have however identified two non-material misstatements which management have not adjusted in relation to the valuation of your level 3 investments. Both misstatements arise because of a timing difference between custodian valuations and valuations from your investment managers. Misstatements of this nature are typical for pension funds and are not indicative of an underlying weakness in control arrangements. The aggregate size of both of these misstatements is £13,253k which is well below our materiality threshold. Details on these unadjusted misstatements are set out in Appendix B.

Our work has also identified a small number of disclosure misstatements. These are also set out in Appendix B where they are deemed to be non-trivial.

Audit opinions

Our work is now substantively 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. This is subject to the completion of procedures set out on page 6 which must happen after final approval of your accounts. For clarity, our anticipated opinion on the financial statements will be unmodified. 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 East Sussex County Council is complete.

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

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 and the Audit Committee.

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 East Sussex Pension Fund, the Audit Committee fulfil the role of those charged with governance. We note that there is a separate Pension Committee which considers 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; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantively completed our audit of your financial statements and subject to the completion of closing procedures, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 22 November 2024 and finalization of the administering authority audit.

Closing procedures are set out on the page overleaf.

2. Financial Statements – closing audit procedures

Our work is substantively complete and there are no matters of which we are aware that would require modification of our audit opinion. See below for details of closing audit procedures.

Audit procedures which necessarily take place within the concluding stages of the audit:

- completion of procedures regarding subsequent events
- consistency procedures of the annual report to the financial statements
- senior engagement team quality review
- receipt of management representation letter; and
- review of the final set of 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.

We have revised the performance materiality at year end based on the updated Gross Investment Figures as at 31 March 2024.

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

	Pension Fund Amount (final)	Pension Fund Amount (Planning as communicated in the Audit Plan)	Qualitative factors considered
Materiality for the financial statements	£59,000,000	£54,700,000	This benchmark is determined as a percentage of the Gross investment assets which has been set at approximately 1.2%.
Performance materiality	£44,250,000	£41,025,000	Performance Materiality is based on a percentage (75%) of the overall materiality.
Trivial matters	£2,950,000	£2,735,900	Triviality is based on a percentage (5%) of the overall materiality.
Specific materiality for fund account	£19,580,000	£17,750,000	This benchmark is determined as a percentage of the fund expenditure which has been determined as 10%
Specific performance materiality for fund account	£14,685,000	£13,312,000	Performance Materiality is based on a percentage (75%) of the overall materiality of the fund account.

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>ISA240 fraudulent revenue recognition - Rebutted</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>Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states that the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition for public sector bodies.</p>	<p>Risk of fraud within 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"> ▪ there is little incentive to manipulate revenue recognition; ▪ opportunities to manipulate revenue recognition are very limited; ▪ the culture and ethical frameworks of local authorities, including the Pension Fund, mean that all forms of fraud are seen as unacceptable. <p>Practice Note 10 – fraud within expenditure:</p> <p>We have also assessed the risk as per Practice Note 10 around the risk of material misstatement due to fraud related to expenditure. In our Audit Plan we communicated to you that based on our risk assessment, we did not consider there to be a significant fraud risk within expenditure. We have continued to keep this judgement under review and based on the work we have performed around expenditure, we have not identified any concerns that would mean that we would need to revise this judgement. We therefore confirm to you that we have not considered fraud within expenditure to be a significant risk.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</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, which was one of the most significant assessed risks of material misstatement.</p>	<p>In response to this risk, we have:</p> <ul style="list-style-type: none"> • evaluated the design and implementation of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals ; • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgments applied by management and considered their reasonableness; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>We have not identified changes to the accounting policies or the estimation process for 23/24</p> <p>Conclusion:</p> <p>There are no matters to bring to your attention in relation to this risk</p>

2. Financial Statements: Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of Level 3 investments

The Pension Fund values its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.

By their nature level 3 investment valuation lack observable inputs. These valuation therefore represents a significant estimates by management in the financial statement due to the size of the numbers involved and the sensitivity of this estimates to changes in key assumptions.

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.

Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2024

In response to this risk, we have:

- obtained an understanding of the management processes for valuing Level 3 investments;
- 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 for all investments held;
- for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2024 with reference to known movements in the intervening period;
- where available reviewed the investment manager service auditor report on the design and operating effectiveness of internal controls;
- evaluated the competence, capabilities, and objectivity of the valuation expert;
- reviewed investment manager service auditor report on the design and operating effectiveness of internal controls; and
- where appropriate, written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met.

Findings:

We have however identified two non-material misstatements which management have not adjusted in relation to the valuation of your level 3 investments. Both misstatements arise because of a timing difference between custodian valuations and valuations from your investment managers. Misstatements of this nature are typical for pension funds and are not indicative of an underlying weakness in control arrangements. The aggregate size of both of these misstatements is £13,253k which is well below our materiality threshold. Details on these unadjusted misstatements are set out in Appendix B.

Conclusion:

Aside from the findings set out above, there are no other matters to bring to your attention in relation to this risk.

2. Financial Statements: Other risks

Risks identified

Commentary

Valuation of Level 2 investments

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.

We therefore identified the valuation of the Fund's Level 2 investments as a risk of material misstatement.

In response to this risk, we have:

- gained an understanding of the Fund's process for valuing Level 2 investments;
- reviewed the nature and basis of estimated values and considered the assurance management has over the year-end valuations provided for these types of investments;
- independently requested year-end confirmations from investment managers and custodian;
- reviewed the reconciliation of information provided by the individual fund manager's custodian and the Pension Scheme's own records. No variances noted;
- tested a sample of the underlying investments to quoted prices. For Samples where we were not able to obtain the quoted price, we have used the Level 3 testing approach to review the valuation figures as at 31 March 2024 ; and
- reviewed the investment manager service auditor report on the design effectiveness of internal controls.

Conclusion:

There are no matters to bring to your attention in relation to this risk

Contributions

Contributions from employers and employees represents a significant percentage of the Fund's revenue.

We therefore identified the completeness and accuracy of the transfer of contributions as a risk of material misstatement.

In response to this risk, we have:

- evaluated the Fund's accounting policy for recognition of contributions for appropriateness;
- gained an understanding of the Fund's system for accounting for contribution income;
- tested a sample of contributions to source data to gain assurance over their accuracy and occurrence and
- tested relevant member data to gain assurance over management information to support a predictive analytical review with reference to changes in member body payrolls and the number of contributing employees to ensure that any unusual trends are satisfactorily explained.

Conclusion:

There are no matters to bring to your attention in relation to this risk

2. Financial Statements: Other risks

Risks identified

Benefits Payable

Pension benefits payable represents a significant percentage of the Fund's expenditure.

We therefore identified the completeness, accuracy and occurrence of the transfer of pension benefits payable as a risk of material misstatement.

Commentary

In response to this risk, we have:

- evaluated the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness;
- gained an understanding of the Fund's system for accounting for pension benefits expenditure;
- tested a sample of lump sums and associated individual pensions in payment by reference to member files; and
- tested relevant member data to gain assurance over management information to support our predictive analytical review. Including reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained.

Conclusion:

There are no matters to bring to your attention in relation to this risk

Actuarial Present Value of Promised Retirement Benefits

The Fund discloses the Actuarial Present Value of Promised Retirement Benefits within its Notes to the Accounts. This represents a significant estimate in the financial statements.

The Actuarial Present Value of Promised Retirement Benefits is considered a significant estimate due to the size of the numbers involved (£3,974m) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified the valuation of the Fund's Actuarial Present Value of Promised Retirement Benefits as a risk of material misstatement.

In response to this risk, we have:

- documented our understanding of the processes and controls put in place by management to ensure that the Fund's Actuarial Present Value of Promised Retirement Benefits is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Fund's valuation;
- assessed the accuracy and completeness of the information provided by the Fund to the actuary to estimate the liability;
- tested the consistency of disclosures with the actuarial report from the actuary; and
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.

Conclusion:

There are no matters to bring to your attention in relation to this risk

2. Financial Statements: key judgements and estimates

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>Level 3 Investments – £1,145m</p>	<ul style="list-style-type: none"> The Pension Fund has investments in the following: Private Equity/Infrastructure funds that in total are valued on the balance sheet as at 31 March 2024 at £788m; Pooled property investments that in total are valued on the balance sheet as at 31 March 2024 at £321m; Pooled Investments in total are valued on the balance sheet as at 31 March 2024 at £35m <p>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 statement 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 2023, with the valuation rolled forward to 31 March 2024.</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>Note, we did identify two unadjusted misstatements in relation to the valuation of level 3 investments. The aggregate misstatement is £13,253k. This is set out in Appendix B. These misstatements arise because of a timing difference between the Custodian valuation and the Investment Manager valuation. They are not considered to be indicative of an underlying weakness in processes and controls.</p>	Green
<p>Level 2 Investments £3,302m</p> <p><i>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.</i></p>	<p>The Pension Fund has investments in Bonds and Pooled Investment Vehicles that in total are valued on the Net Asset Statement as at 31 March 2024.</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 2024, 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>	Green

Assessment

- [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Amber] 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
- [Green] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: Information Technology

This page has been redacted – please see separate agenda item (part B).

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 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.
Written representations	A letter of representation has been requested from the Pension Fund , which is appended within this document. This will be signed alongside the final draft of the financial statements in advance of the conclusion of the audit.
Audit evidence and explanations	All information and explanations requested from management was provided.

2. Financial Statements: other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send (a) confirmation request(s) to your custodian, fund managers, and banks. This permission was granted, and the requests were sent. We have received positive confirmations from all third parties.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates, and financial statement disclosures. A handful of minor/typo inconsistencies were identified but these have been adequately reflected by management. We plan to issue an unmodified opinion in this respect.

2. Financial Statements: other communication requirements



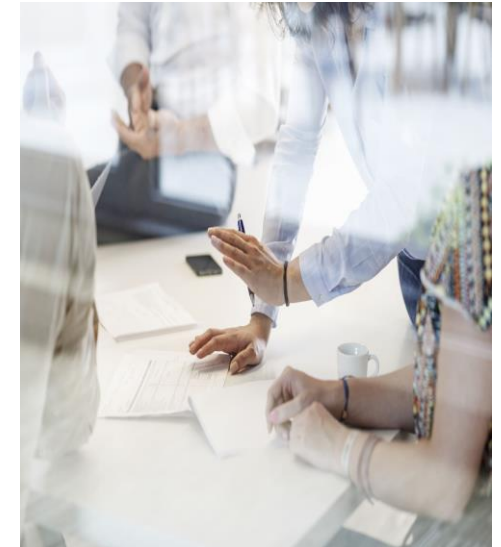
Our responsibility

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"> 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 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. <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"> the nature of the Pension Fund and the environment in which it operates the Pension Fund's financial reporting framework the Pension Fund's system of internal control for identifying events or conditions relevant to going concern management's going concern assessment. <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"> a material uncertainty related to going concern has not been identified management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	<p>The Pension Fund is administered by East Sussex (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>
Matters on which we report by exception	<p>We are required to give a separate consistency 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 01 12 2024 and therefore this report has not yet been produced.</p> <p>We plan to complete our consistency check as part of our concluding procedures and expect to be able to issue our consistency opinion alongside the financial statements 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 considerations

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 and network firms). In this context, 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

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 7 September 2022 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Grant Thornton International Transparency report 2023](#).

3. Independence and ethics

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

Matter	Conclusion
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.

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 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.

Appendices

- A. Communication of audit matters to those charged with governance
- B. Audit Adjustments
- C. Fees and non-audit services
- D. National context

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
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

We have not identified any adjusted misstatement for the year ending 31 March 2024.

Unadjusted misstatements

The table below provides details of misstatements identified during the audit which management have not adjusted for

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
Level 3 misstatement – Key value items As part of our testing of Level 3 investments, we selected for testing all investments which exceeded our performance materiality level. The aggregate value of these key value items was £731,825k.	Gains/Losses on valuation of investments (7,649)	Level 3 investments 7,649	7,649	The financial statements have not been adjusted because the misstatement is not material

As part of our testing of these key value items, we identified variations between the amount recorded in the draft financial statements and the amount confirmed by investment managers. The reason for the difference was one of timing.

The net difference across all key value items was £7,648k. The difference means that the value of investments in the financial statements is **understated**. The difference is not material but because it exceeds our threshold for reporting, we are communicating this difference to you.

B. Audit Adjustments – unadjusted misstatements

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
<p>Level 3 misstatement – Extrapolation</p> <p>As part of our testing of Level 3 investments, we disaggregated the balance into two sub-populations. The first population were all those investments where the individual value exceeded our performance materiality. This population is defined as key value items. The second population is therefore the totality of all other investments. This population is referred to as the residual population. The value of our residual population was £413,288k.</p> <p>From the residual population, we selected at random a sample of items for testing. As part of our testing of these items, we identified variations between the amount recorded in the draft financial statements and the amount confirmed by investment managers. The reason for the difference was one of timing.</p> <p>The net difference identified in the sample was £3,313k. In line with our audit approach, we are required to project this misstatement across the entire residual population. Our extrapolated misstatement on the residual population is £5,604k.</p> <p>The projected difference is an indication of the total understatement in the value of your level 3 investments. The difference is not material but because it exceeds our threshold for reporting, we are communicating this difference to you.</p>	<p>Gains/Losses on valuation of investments</p> <p>(5,604)</p>	<p>Level 3 investments</p> <p>5,604</p>	<p>5,604</p>	<p>The financial statements have not been adjusted because the misstatement is not material and is an extrapolation</p>
Overall impact	(13,253)	13,253	13,253	

B. Audit Adjustments – impact of prior year unadjusted misstatements

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2022/23 financial statements

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
<p>Finding from the prior year:</p> <p>During our audit of 2022/23, we identified a difference amounting to £18,000k during the triangulation of fund manager, custodian and client valuation of L3 Investments. The valuation of your investments as at 31 March 2023 are understated by this amount. Management did not adjust the accounts in the prior year because the amount was not material.</p>	Gains/Losses on valuation of investments 18,000	Net assets statement as at 31 March 2023 18,000	Nil impact on net assets statement as at 31 March 2024	Not material
<p>Impact on the 2023/24 financial statements:</p> <p>The unadjusted misstatement in the prior year has two impacts on your 2023/24 financial statements.</p> <ol style="list-style-type: none"> Your opening balances for Investments is understated by £18m. As this misstatement is not material, it has no impact on our audit report but we are required to report it to you as it exceeds our triviality threshold. Gains/Losses on valuation of investments in your fund account is overstated by £18m. 				
<p>It is important to recognise that this misstatement has no net impact on your net asset statement as at 31 March 2024.</p>				
<p>Overall impact of unadjusted misstatements identified in the 2022/23 audit and the 2023/24 audit</p>	Gains/Losses on valuation of investments 4,747	Net assets statement as at 31 March 2023 18,000	Net assets statement as at 31 March 2023 18,000	Not material – no single line in your financial statements is materially misstated when unadjusted misstatements in the prior year are considered against unadjusted misstatements in the current year
<p><i>*Note, when assessing materiality for gains/losses on valuation of investment, net asset statement materiality is used instead of fund account materiality.</i></p>		Net assets statement as at 31 March 2024 13,253	Net assets statement as at 31 March 2024 13,253	

B. Audit Adjustments – disclosure misstatements

Disclosure/issue/Omission	Auditor recommendations	Adjusted?
<p>Additional voluntary contributions – Note 23</p> <p>The amount disclosed for disinvested from the AVC provider in 2023/24 was £2,050 instead of £2.050m.</p>	<p>Management response</p> <p>This was a typo error, Agreed to be amended</p>	<p>Yes, this has been adjusted.</p>
<p>Related party transactions- Note 25</p> <p>Auditor conducted a completeness check and detected a senior officer who should have been include in the note and was omitted. Management confirmed that the Council has started to provide the Chair of the pension committee with a special allowance which is recharged to the Pension Fund, when this started the fund did not review the makeup of this note and now considers that this should be included.</p>	<p>Management response</p> <p>Agreed to be amended</p>	<p>Yes, this has been adjusted.</p>
<p>Actuarial present value of promised retirement benefits- Note 20</p> <p>Net (Liability)/Assets totals (Page 45) in the statement of financial position – A typo error was noted for the 31 March 22 amount for “Fair value of Fund Assets (bid value), This should be £4,687,667k however this was showing as (£4,678,667k) (i.e. the 7 and 8 need to be switched). Management confirmed this was a mistyping and has agreed to update this.</p>	<p>Management response</p> <p>Agreed to be amended</p>	<p>Yes, this has been adjusted.</p>
<p>Note 6. Events after the balance sheet date</p> <p>In light of the recent Virgin Media case, management should, with their advisors, be able to determine whether there is an impact, whether there isn’t an impact or whether there is a potential impact on their pension scheme. As there is a potential for the outcome of the case to have an impact on UK pension schemes such as East Sussex Pension Fund, an appropriate disclosure should be made. Management have agreed to include this within Note 6.</p> <p>We have reviewed the updated disclosure and we are satisfied that is reasonable.</p>	<p>Management response</p> <p>Agreed to be amended</p>	<p>Yes, this has been adjusted.</p>

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.

	Proposed fee 2023/24	Final Fees 2023/204
East Sussex Pension Fund Audit	£90,337	£90,337
IAS 19 letters*	£0	£0
ISA 315**	£7,530	£7,530
Total audit fees (excluding VAT)	£97,867	£97,867

*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.

**IAS 315 is not included within the published 2023/24 PSAA scale fees. The £7,530 is therefore a fee variation subject to PSAA approval.

D. National context

National context – audit backlog

Consultation

The Ministry for Housing, Communities and Local Government (MHCLG), working with the FRC, as incoming shadow system leader, and other system partners, has put forward proposals to address the delay in local audit. The proposals consist of three phases:

Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 30 September 2024.

Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.

Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

The consultation ran until 7 March 2024. Full details of the consultation can be seen on the following pages:

- [Consultations on measures to address local audit delays \(frc.org.uk\)](https://www.frc.org.uk/consultations/consultations-on-measures-to-address-local-audit-delays)
- [Addressing the local audit backlog in England: Consultation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/addressing-the-local-audit-backlog-in-england)
- [Code of Audit Practice Consultation - National Audit Office \(NAO\)](https://www.nao.org.uk/consultations/code-of-audit-practice-consultation)

Our response to the consultation

Grant Thornton responded to the consultation on 5 March 2024. In summary, we recognise the need for change, and support the proposals for the introduction of a backstop date of 30 September 2024. The proposals are necessarily complex and involved. We believe that all stakeholders would benefit from guidance from system leaders in respect of:

- the appropriate form of reporting for a backstopped opinion
- the level of audit work required to support a disclaimer of opinion
- how to rebuild assurance in terms of opening balances when previous years have been disclaimed.

We believe that both auditor and local authority efforts will be best served by focusing on rebuilding assurance from 2023/24 onwards. This means looking forwards as far as possible, and not spending 2023/24 undertaking audit work which was not carried out in previous years. We look for guidance from systems leaders to this effect. The timing of the general election has delayed the implementation of these proposals. Once we have a further understanding of the new government's intentions, and its priorities across the sector we will discuss this with you.

Impact on Pension Funds

Pension fund accounts fall within the scope of the outlined backstop legislation. Where an Administering Authority accounts may be required to be backstopped this would not automatically apply to the Pension Fund accounts. We expect to be able to issue a separate opinion on the Fund accounts where the Pension Fund audit can be completed.

Update

Following the general election the Minister of State for Housing, Communities and Local Government has proposed backstop legislation which will revise the date of the first backstop for financial years up to and including 2022-23 to December 13 2024.

National context – Triennial Valuation

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 LLP, and showed that the Pension Fund's funding position had improved to 98% (from 90% as at 31 March 2019). The results of the latest triennial valuation are reflected in note 17 to the financial statements. These valuations also provide updated information for the calculation of the net pension liability on employer balance sheets.

