

The Audit Findings for London borough of Southwark Pension Fund

Year ended 31 March 2022

Southwark Council

October 2023

Southwark Council

This is an update to the Interim report previously presented to the Audit, Governance and Standards Committee in November. Updates to the Interim report have been made in red text.

January 2024



Contents



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of London Borough of Southwark Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Our work on the Pension Fund took place concurrently with the audit of the Council. Our work was scheduled to be completed from October 2022 to January 2023. The team continued working on the audit in February and March 2023 due to some delays on the Pension Fund and Council audit.

Our work is nearing completion, and we are working towards completing our audit work by the end of the 2023 calendar year. Due to the passage of time, there have been internal changes to the staff meaning the Key Audit Partner and Senior Manager have changed. Due to the changes in team members, there is a requirement for us to rereview work and areas requiring further work to bring them to completion. To enable us to complete the work as effectively as possible we will be sharing a log of what remains left to complete the audit.

Due to us having to work on Health audit clients and other Local authorities audits due to the overall audit backlog the team began work on the Council in mid-October. Since that point there have been changes to the audit team and we have not yet started the closure of the Pension Fund 2021-22 audit. This was to allow the Pension Fund team time to prioritise updating the financial statements in relation to adjustments identified from September valuations to the 2022-23 financial statements. We therefore need to pick up with the Pension Fund team about the status of the above queries and appreciate the above list may not be fully updated

The team have now completed their review of the remaining work. From this one significant adjustment has been agreed with management in relation to the Investments held. This was due to more up to date valuation becoming available after the accounts were prepared. This led to the accounts requiring the Investments to be increased by £18.4m. This has also resulted in a number of other related notes requiring adjustment in the financial statements. Our work is now near completion, with the following work left noted below:

- Completion of final file reviews.
- receipt of management representation letter and
- review of the final set of financial statements – we are currently performing our final quality checks on this.
- Receipt of final information required to complete Member data testing for LGPS members on school payroll systems.

Our anticipated audit report opinion will be unmodified.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Audit, Governance and Standards 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.

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

Our work is nearing completion following the conclusion of the outstanding matters noted on page 3 of this report.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. We note the overall audit backlog in the sector is frustrating for both parties and we thank the team for their patience as we have worked through the audit process.

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 have been updated since the audit plan to reflect the increased net assets position at the Pension Fund. We have continued to apply 1% to the net asset base in determining the materiality levels.

Pension Fund Amount (£) Qualitative factors considered

	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	21 million	This represents 1% of the Net Assets reported at 31 March 2022.
Performance materiality	14.7 million	This represents 70% of the Materiality threshold above.
Trivial matters	1.1 million	This represents 5% of the overall materiality.



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

Management override of controls

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 Pension Fund faces external scrutiny of its spending and its stewardship of its funds, this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for the Pension Fund, which was one of the most significant assessed risks of material misstatement.

We have:

- Evaluated the design effectiveness of management controls over journals.
- Analysed the journals listing and determine the criteria for selecting high risk unusual journals.
- Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration.
- Gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence.
- Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our work is now complete, and no issues were identified in relation to Management override of Controls.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of Level 3 investments (including Private Equity, Pooled properties and Infrastructure)

You value your investments on an annual basis with the aim of ensuring that the carrying value of these investments is not materially different from their fair value at the balance sheet date.

By their nature, Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

We therefore have identified Valuation of Level 3 Investments as a significant risk for Private Equity and Infrastructure investments.

We have:

- evaluated management's processes for valuing Level 3 investments and gain an understanding over the role of the custodian in the valuation process;
- reviewed the nature and basis of estimated values and consider 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 the private equity (£28.12m) and infrastructure funds (£75.98m), obtained audited financial statements for the investments as at 31 December 2021 and we have reconciled any cash movements between the intervening period to 31 March 2022.
- performed additional testing for the full pooled property investments (£92.88m) by using indices obtained externally to benchmark against those used by the Fund Manager.
- evaluated the competence, capabilities and objectivity of the valuation expert; and
- review investment manager service auditor report on design and operating effectiveness of internal controls.

Following our work performed on 3 level 3 investments held there were variances identified totalling £18.4m, which indicated the Investments at the Year-end were understated. The reason for this difference was at the date the accounts were prepared these more up to date valuations were not available. In our assessment of IAS 10 we deem this an adjusting post balance sheet event and it has been agreed with management that this will be updated in the final accounts.

Our work is substantially complete, with the final quality checks being undertaken.

The valuation of Direct Property is incorrect (Level 3)

The Fund revalues its directly held property on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£230.6 million) and the sensitivity of this estimate to changes in key assumptions.

Management have engaged the services of a valuer to estimate the current value as at 31 March 2022.

We therefore identified valuation of directly held property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.

During the audit, we have undertaken the following work:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work
- independently request year-end confirmations from investment managers and custodian and assessed their responses as part of our work.
- evaluated the competence, capabilities and objectivity of the valuation expert
- written to the valuer to confirm the basis on which the valuations were carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. We have also engaged our own valuer to assess the instructions to the Fund's valuer, the Fund's valuer's report and the assumptions that underpin the valuation.
- tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Fund's asset register/financial records
- where available, we have reviewed investment manager service auditor report on design effectiveness of internal controls.

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, Governance and Standards 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 will be requested from the Pension Fund to be signed alongside the final draft of the financial statements in advance of the conclusion of the audit.

2. Financial Statements - other communication requirements



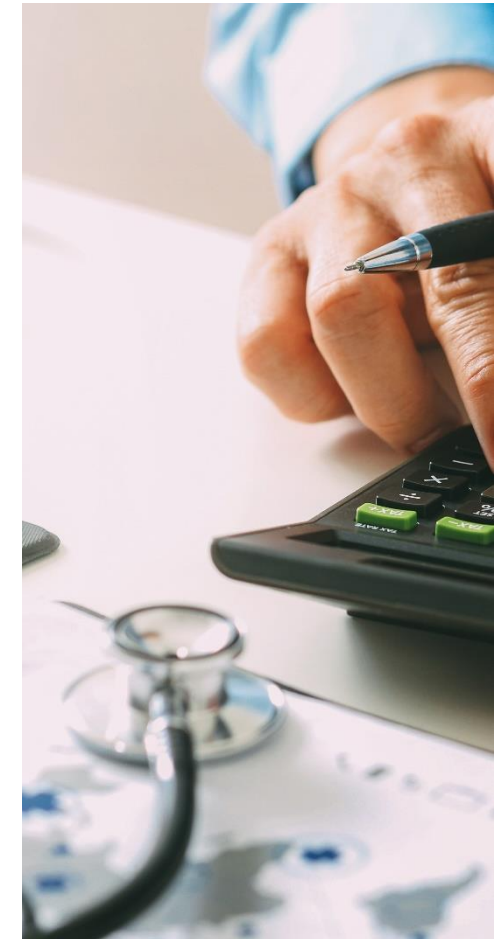
Our responsibility

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. 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
Disclosures	No inconsistencies have been identified have been identified but have been adequately rectified by management. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	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 have completed our review of the Pension Fund Annual Report and expect to issue our Consistency statement at the same date we issue the opinion to the financial statements.



3. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Transparency

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

Appendices

A. Follow up of prior year recommendations

We identified the following issues in the audit of Southwark Pension Fund's 2020/21 financial statements, which resulted in 1 recommendations being reported in our 2020/21 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
TBC	<p>Issues over Member Data</p> <p>In 2016/17 we identified errors during our testing of the client's Member Data, which thus could have a potential impact on the accuracy of the data provided to the Actuary. This could then have a potential impact on the valuation provided by the Actuary to the Fund, although the risk of this is low.</p> <p>The Council has undertaken extensive data cleansing during 2017-18 and 2018-19 as part of the production of the annual benefit statements and also through the implementation of i-Connect software in all admitted bodies, scheduled bodies and schools which has significantly improved the quality of data held. The enhanced Member Self Service portal which facilitates member updates of data is now live and members will be made aware of this through newsletters. These will include activation keys which it is hoped will encourage them to log in.</p>	<p>The Pension Fund has procured new pensions administrations software to replace its current system. This is a phased project and as part of the implementation process a full data quality check will be undertaken. The new system provides for much improved Member and Employer Self-Service Portals, allowing members to log in securely and check/update basic member data.</p> <p>Employers will be able to submit monthly returns though the secure portal and see any outstanding tasks, such as outstanding leaver forms or requests for data. Forms will be able to be completed 'online' rather than paper-based which is hoped will further improve employer compliance via increased convenience.</p> <p>The fund is aware of the increased scrutiny on LGPS data by The Pension Regulator has taken measures to ensure member data is as accurate as it can be.</p> <p>We have performed testing on Member data as part of our final Accounts audit visit. The review and conclusion of this work is yet to be completed and we will provide an update on our findings and this control point in the final Audit Findings report.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

B. Audit Adjustments – Main Statements

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	Fund Account £m	Net Asset Statement £m
<p>Variances identified in level 3 Investments</p> <p>Due to the timing of when the accounts were prepared and the audit period more up to date valuation information came available for 3 Investments held. This indicated Investments were understated by £18.4m. Per our consideration of IAS 10 we deem this to be an adjusting Event after the reporting period and therefore have agreed with management this will be adjusted in the final Pension Fund accounts.</p>	<p>Profit and losses on disposal of investments and changes in market value of investments CR 18.4m</p>	<p>Investment Assets</p> <p>DR – 18.4m</p>
Overall impact	CR £18.4m	DR £18.4m

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 misstatements

We are still in discussion with management regarding audit queries relating to Investments balances held at the year end. To date we have not finalised our work regarding any misstatements to the Fund Account or Net Asset Statement.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
Fund Account	The Prior period figures in the Fund Account were changed for Investment Income and Management expenses in the draft accounts. Following discussions with officers it was determined this was not required and the figures have changed back to the previously audited balances.	✓
Accounting policies and Other notes –minor presentational adjustments	In our work a number of minor presentational amendments were identified and agreed with management.	✓
Note 6 Contributions receivable	The AVC balance which is significantly below materiality disclosed as a narrative has not been updated in 21-22 with the prior year figure being used of £3.6m.	X
Audit fees- Note 10	Per note 10 the audit fees were stated at £21k which is £16k different to the fee communicated per the Audit plan.	TBC
Note 12 Investments	Note 12 Investments required updates to reflect the adjustments noted on the previous page. In addition a prior period adjustment that was not deemed as required had been put through on the prior year figures and this also required updating in the final version of the accounts.	✓
Note 12 Investments	Note 12 Investments discloses £73m of other Investments. Per IAS 1 requirements the category other should not be used for material classes of transactions. From our work we have established £43m of the Investments relate to money market Investments and £30m relate to natural resource funds in this category.	✓
Note 19 –Funding Arrangements	The information in this note required updating with the more up to date information resulting from the triennial Pension Valuation.	✓
Note 20 – Actuarial Present Value of Promised Retirement Benefits	As noted earlier the Pension Fund had to consider the more up to date triggered by the triennial Pension Valuation, leading to material adjustments in the note.	✓

C. Fees

We confirm below our final fees charged for the audit and.

Audit fees	2020-21 Final Fee	2021-22 Fee
Per Audit Plan	£36,770	£36,770
Additional work relating to Triennial Pension Fund valuation	Nil	£6,000
Additional work required on Investment Valuations	Nil	3,500
Total audit fees (excluding VAT)	£36,770	£46,270

We have not identified any non-audit fees for the Pension Fund.

Status of the audit and opinion

Appendix D - Audit opinion

Our anticipated audit report opinion will be unmodified dependent on the satisfactory resolution of the matters noted in this report and no matters coming to our attention that would materially impact the Financial Statements.



The Audit Findings for London borough of Southwark Pension Fund

Year ended 31 March 2023

31 March 2023 [DRAFT FOR DISCUSSION AND
SUBJECT TO COMPLETION OF OUR AUDIT
PROCEDURES]



Contents



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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of London Borough of Southwark Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2023 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Pension Fund's financial statements give a true and fair view of the financial 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 fieldwork was undertaken from January 2024 to March 2024. Our findings are summarised on pages 4 to 14. We have identified 4 adjustments to the financial statements that have resulted in a £39m upward adjustment to the Pension Fund's reported financial position. Audit adjustments are detailed in Appendix D. We have also raised recommendations for management as a result of our audit work. These are set out in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

From the work performed it was identified that from the draft accounts prepared on the 30th June that the Net assets had increased by £43m. Our work is nearing completion complete and there are no matters of which we are aware that would require modification of our audit opinion, subject to the following outstanding matters;

- Completion of final file reviews.
- receipt of management representation letter and
- review of the final set of financial statements –which has appropriately accounted for the adjustments set out in Appendix D.
- Receipt of updated response from Actuary in relation to actuarial disclosures

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.

Our anticipated audit report opinion will be unmodified.

We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Funds Annual Report on the same date we issue our audit opinion.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Audit, Governance and Standards 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.

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

Our work is nearing completion following the conclusion of the outstanding matters noted on page 3 of this report.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. We note the overall audit backlog in the sector is frustrating for both parties and we thank the team for their patience as we have worked through the audit process.

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.

Note for the Main statements materiality we have applied a performance materiality of £14.2m. And for our Fund Account audit a Performance materiality of £4.9m.

Pension Fund Amount (£) Qualitative factors considered

Materiality for the financial statements	20.3m	Based on a percentage of the Assets held.
Trivial matters	1.15m	This is our reporting threshold for the audit.
Materiality for fund account	7m	This is set as a percentage of the total expenditure of the Fund which is largely made up of Benefits Payable. This is applied to Benefits Payable and Contributions in the Fund Account. And a lower materiality is set to ensure sufficient procedures are undertaken on 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>Management override of controls</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 Pension Fund faces external scrutiny of its spending and its stewardship of its funds, 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 for the Pension Fund, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> • Evaluated the design effectiveness of management controls over journals. • Analysed the journals listing and determine the criteria for selecting high risk unusual journals. • Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • Gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence. • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>Our work is now complete, and no issues were identified in relation to Management override of Controls.</p>

2. Financial Statements: Significant risks

Risks identified in our Audit Plan

Valuation of Level 3 investments (including Private Equity, Pooled properties and Infrastructure)

You value your investments on an annual basis with the aim of ensuring that the carrying value of these investments is not materially different from their fair value at the balance sheet date.

By their nature, Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

We therefore have identified Valuation of Level 3 Investments as a significant risk for Private Equity and Infrastructure investments.

Commentary

We have:

- evaluated management's processes for valuing Level 3 investments and gain an understanding over the role of the custodian in the valuation process;
- reviewed the nature and basis of estimated values and consider 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 the private equity (£50.4m) and infrastructure funds (£190.4m), obtained audited financial statements for the investments as at 31 December 2021 and we have reconciled any cash movements between the intervening period to 31 March 2023.
- performed additional testing for the full pooled property investments (£92.7m) by using indices obtained externally to benchmark against those used by the Fund Manager.
- evaluated the competence, capabilities and objectivity of the valuation expert; and
- review investment manager service auditor report on design and operating effectiveness of internal controls.

Compared to the draft Financial statements we identified adjustments totalling 26.3m which indicated the investments in the year end draft accounts were understated. The reason for this difference was at the date the accounts were prepared these more up to date valuations were not available. In our assessment of IAS 10 we deem this an adjusting post balance sheet-event and it has been agreed with management that this will be updated in the final accounts.

In addition, when reviewing the most recent valuation date of the Funds two variances were identified both below our materiality levels and netted of too 1.4m. This is not a factual error, but an uncertainty identified in the balance.

Our work is now complete with no further issues identified.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan

The valuation of Direct Property is incorrect [Level 3]

The Fund revalues its directly held property on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£194,3 million) and the sensitivity of this estimate to changes in key assumptions.

Management have engaged the services of a valuer to estimate the current value as at 31 March 2023.

We therefore identified valuation of directly held property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.

Commentary

During the audit, we have undertaken the following work:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work
- independently request year-end confirmations from investment managers and custodian and assessed their responses as part of our work.
- evaluated the competence, capabilities and objectivity of the valuation expert
- written to the valuer to confirm the basis on which the valuations were carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. We have also engaged our own valuer to assess the instructions to the Fund's valuer, the Fund's valuer's report and the assumptions that underpin the valuation.
- tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Fund's asset register/financial records
- where available, we have reviewed investment manager service auditor report on design effectiveness of internal controls.

In the directly held property the assets showed a reduction in their valuation by £22.3m compared to the prior year. From our work there are no matters we are required to report to those charged with Governance and our work is now complete on this area.

2. Financial Statements: Information Technology

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.

This review focuses on the design of controls in place around each system and not their operating effectiveness.

ITGC control area rating

IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Additional work performed	Findings
SAP	ITGC assessment (design and implementation effectiveness only)	●	●	●	●	Additional work was required when reviewing Journal users to consider the risks identified around users within the system. Note it was identified the users with these super user access rights were not significantly involved in the financial accounts closedown process upon our review.	See Appendix C for findings.
NEC	ITGC assessment (design, implementation and operating effectiveness)	●	●	●	●	Additional work was required when reviewing Journal users to consider the risks identified around users within the system. Note it was identified the users with these super user access rights were not significantly involved in the financial accounts closedown process upon our review.	See Appendix C for findings.





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: Information Technology

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This review focuses on the design of controls in place around each system and not their operating effectiveness.

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating			Additional work performed	Findings
			Security management	Technology acquisition, development and maintenance	Technology infrastructure		
UPM	Detailed ITGC assessment (design and implementation)					No additional work identified from ITGC work findings.	Although we did not identify any significant control deficiencies around the UPM system, there were specific challenges in obtaining data from the new system. This review relates to the controls design and did not review the operation of the new system.

We also performed specific procedures in relation to the significant changes during the audit period, specifically the new system. We observed the following results:

IT system	Event	Result	Related significant risks / risk / observations
UPM	New System Implementation		N/A

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: Information Technology

This section provides details of additional work undertaken around the IT system change.

Work Undertaken

Transfer of Member Data between Systems

On the 1st May 2022 the Pension Fund transferred its data from Altair to Oracle UPM. This required the transfer of all member held records on the outgoing system onto the new system, this information is key to the calculation of a number of key Pension tasks such as the Pensions due to members upon retirement. Thus in our work we had to consider the risk that the data transfer was not accurate and that members could be paid incorrect balances. Therefore, this was a new risk for this year's audit.

As noted on the previous slide our IT team performed a review of the controls in place regarding this. In doing so they noted they were appropriate and therefore we identified this as an Other risk and not a significant risk.

Commentary

In respect of this area, we have performed the following work:

- Reviewed the processes and controls which have been put in place by the Pension Fund to ensure the effective transfer of data between the two systems.
- Reviewed internal reconciliations performed regarding the internal transfer.
- Engaged our IT specialists to undertake a detailed review of the controls around the systems change to ensure their appropriateness.
- Undertaken detailed upstream and downstream testing of the transfer of data. This involved testing information from the old system to the new system and vice versa.

From our work although we identified no issues around the data transfer. We did identify that there were challenges around the usage of the new system and running reports of the system to support the audit. These issues are noted on the next slide.

No further issues were identified from our work.

2. Financial Statements: matters discussed with management

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

Significant matter	Commentary
UPM system- Obtaining Key reports	<p>We encountered challenges obtaining data from the new UPM system, in relation to Benefits Payable and Membership data. These two aspects are key parts of the audit requests, and this impacted the timeliness of the audit.</p> <p>Although we are satisfied sufficient data was provided to support the member data held at the year end and the Benefits payable listing it did mean we were not able to substantively test benefits paid in April 2022. Given the amounts spent were in line with our analytical procedures and the monthly spend itself was not material we were able to gain comfort over this balance, regarding the risk of material misstatement. But note this did limit our audit procedures on this month's spend, which totalled £5m.</p>
Valuation Of Investments and changes in disposals and purchase figures	<p>As in the previous year our audit identified material changes in the Pension Investment valuations. This was also the case for purchase and sales data. This issue arose due to the fact more up to date information had been provided on these figures after the accounts were prepared. We had agreed with management that we would delay the start of the audit so these amendments could be made prior to our audit. However, due to changes in key staff personal this did not take place and material adjustments were identified following our audit process.</p>
Key Changes in staff personnel	<p>The Pension Fund had employed a contractor to prepare the draft Pension Fund accounts. Due to this staff member leaving the team a newly hired team member had to respond to the audit queries as the primary point of contact. This did create some inefficiencies in the audit process due to them having to familiarise themselves with the Pension Fund and the fact they had not prepared the accounts we were auditing.</p> <p>In addition, since the draft accounts prepared on the 30th June 2023 which was approved an updated version was prepared for the audit on the 29th November. We had requested management for a list of the changes made between versions and the reasons for the changes, this was not provided or available. With key staff then leaving we have been unable to receive detailed explanations for the movements between the versions. We have undertaken our audit on the updated accounts in November but for transparency in Appendix D we have identified the lines that have been amended in the Main statements between versions.</p> <p>We appreciate the support the team have offered us in undertaking the audit in what were challenging circumstances. However, the factors noted above did elongate the time spent concluding our audit procedures.</p>
Actuarial disclosure	<p>In the CIPFA code there are three options set out for Pension Funds to consider within the Actuarial note. The Pension Fund has elected to follow option B which states the latest annual valuation should be presented in the note. Our interpretation and that of management differs, in that our view this means that on an annual basis the Pension Fund should obtain from the actuary the gross liability of the Pension fund. We consider this key information for the Pension Fund and to the readers of the accounts as this effectively shows the overall surplus/deficit the Fund is on an annual basis.</p> <p>We have requested management obtain confirmation from the actuary what the Year end value is relating to this and add this to the financial statements. Management have agreed to restate this note with the latest information and have requested this from the actuary.</p>

2. Financial Statements: other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit, Governance and Standards 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 will be requested from the Pension Fund to be signed alongside the final draft of the financial statements in advance of the conclusion of the audit.

2. Financial Statements: other communication requirements



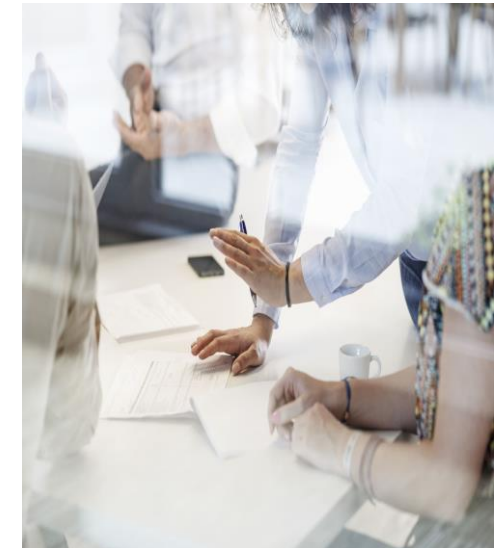
Our responsibility

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 Southwark 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 although a number of audit adjustments noted in Appendix D have required amending.</p>
Matters on which we report by exception	<p>We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Fund's Annual Report on the same day we issue our 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 and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

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:

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 we have not identified any non audit fees related to the Pension Fund. Given this 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
- B. Action plan – Audit of Financial Statements
- C. Follow up of prior year recommendations
- D. Audit Adjustments
- E. Fees and non-audit services
- F. Auditing developments

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. Action plan – audit of financial statements

Assessment	Issue and risk	Recommendations
● High	<p>Key reports being run of the UPM system</p> <p>We encountered challenges obtaining Benefits payable and member data listing from the UPM system. We understood from discussions there had been challenges on the new system having reports written to enable this to take place. This meant that instead a more manual and time-consuming process was required to provide the information we required to audit these balances.</p> <p>It also meant that we were unable to obtain these listings for the April period the month prior to the transfer to the UPM system.</p>	<p>Management should review the UPM system and ensure that key reports to support the audit are available to be run.</p> <p>Management response</p> <p>xxx</p>
● High	<p>Management should obtain from the Actuary on an annual basis the latest Actuarial liability position on an annual basis to comply with the Code requirements</p> <p>In the CIPFA code there are three options set out for Pension Funds to consider within the Actuarial note. The Pension Fund has elected to follow option B which states the latest annual valuation should be presented in the note. Our interpretation and that of management differs, in that our view this means that on an annual basis the Pension Fund should obtain from the actuary the gross liability of the Pension fund. We consider this key information for the Pension Fund and to the readers of the accounts as this effectively shows the overall surplus/deficit the Fund is on an annual basis.</p> <p>We consider this key information to the Accounts and to inform the Pension fund on how it is performing in meeting the future needs of the Fund.</p>	<p>We recommend that management obtain a formal IAS 26 report to state the year end actuarial liability on an annual basis.</p> <p>Management response</p>
● Medium	<p>Management should perform an Analytical review and understand unusual movements in the Pension Fund Accounts</p> <p>In our review of the Fund Accounts, we identified an unusual increase in Other Current liabilities, which had significantly increased year on year. Typically, at a Pension Fund the overall Non current liability balance would not be high. However, at the year-end there had been a significant increase, which was largely explained by an £11.5m Journal posting that had been misallocated.</p> <p>We note we would of expected this type of error to have been identified in managements review of the Pension Fund accounts.</p>	<p>We recommend that management performs Analytical reviews of the key notes in the accounts and ensures all significant movements are understood to avoid the risk of errors in the Financial statements.</p> <p>Management response</p> <p>xxxx</p>

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

C. Follow up of prior year recommendations

We identified the following issues in the audit of Southwark Pension Fund's 2021/22 financial statements, which resulted in 1 recommendations being reported in our 2021/22 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>Issues over Member Data</p> <p>In 2016/17 we identified errors during our testing of the client's Member Data, which thus could have a potential impact on the accuracy of the data provided to the Actuary. This could then have a potential impact on the valuation provided by the Actuary to the Fund, although the risk of this is low.</p> <p>The Council has undertaken extensive data cleansing during 2017-18 and 2018-19 as part of the production of the annual benefit statements and also through the implementation of i-Connect software in all admitted bodies, scheduled bodies and schools which has significantly improved the quality of data held. The enhanced Member Self Service portal which facilitates member updates of data is now live and members will be made aware of this through newsletters. These will include activation keys which it is hoped will encourage them to log in.</p>	<p>The Pension Fund has procured new pensions administrations software to replace its current system.</p> <p>Following this implementation, we encountered challenges obtaining information from this new system to audit both the membership data and benefits Payable. Following the receipt of this information we found similar issues as in previous years in relation to obtaining data that sits outside the Councils payroll system and for older cases.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

D. Audit/Management Adjustments – Main Statements

Impact of adjusted misstatements

As noted in our significant matters section the Pension Fund produced draft accounts on the 30th June 2023. This version of the accounts was superseded prior to the audit commencing with an updated version being provided for audit on the 29th November 2023. Below are the changes above our reporting threshold in the Main statements.

Detail	Fund Account £	Net Asset Statement £m
Adjustments between draft accounts June 30 th and version submitted for audit as of 29 th November	CR Contributions 830k	DR Current Assets £23,986k
Due to turnover of key staff, we have not had a detailed explanation provided for the movements between the versions of the Accounts. In completing our audit, the trial balance and workings provided supported the accounts submitted as of November 29 th .	CR transfers in from other Pension Funds 28k	CR Current Liabilities £8,352k
The next slide summarises our audit adjustments to this version.	CR Management expenses 1,098k	
	CR Investment Income £15,058	
	DR Benefits paid £2,114k	
	DR Profit and Loss on changes in market value £6,028k	
	DR Taxes paid £519k	
Overall impact	CR £8,353k	DR £8,353k

D. Audit Adjustments – Main Statements

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2023.

Detail	Fund Account £m	Net Asset Statement £m
<p>Variances identified in level 3 Investments</p> <p>Due to the timing of when the accounts were prepared and the audit period more up to date valuation information came available for 3 Investments held. This indicated Investments were understated by £26,300k. Per our consideration of IAS 10 we deem this to be an adjusting Event after the reporting period and therefore have agreed with management this will be adjusted in the final Pension Fund accounts.</p>	Profit and losses on disposal of investments and changes in market value of investments CR 26,318k	Investment Assets DR – £26,318k
<p>Adjustment to Current liabilities and Fund Account</p> <p>From our review of the Pension Fund accounts Current liabilities significantly increased year on year, due to other liabilities increasing from £72k to £12,143k. Given most Pension Funds do not have significant current liabilities this was an unusual movement which we queried with management on first review of the Accounts.</p> <p>From review this was due to a Journal mis posting of £11,500k that lead to current liabilities being overstated and reduced the Profit and Loss on changes in market value by the same value.</p>	Profit and losses on disposal of investments and changes in market value of investments CR £11,500k	Current liabilities DR £11,500
<p>Adjustment to Current assets held by Fund Manager</p> <p>From our work it was identified that there was a variance between the draft accounts deferred debtors and that held by JP Morgan of £3,374k . This led to the Current assets balance being overstated by £3,374k.</p>	Profit and losses on disposal of investments and changes in market value of investments DR £3,374k	Current Assets CR 3,374k
<p>Adjustment to Current assets held by Fund Manager</p> <p>From our Investment income testing it was identified that accrued debtors were overstated by £3,962k and investment income was also overstated by this value.</p>	Investment Income DR £3,962k	Current Assets CR 3,962k
<p>Changes to Opening Balance of Fund</p> <p>Adjustments to Investments identified in the 2021-22 audit had to be made to the accounts. This resulted in the Opening Net assets increasing by £18,400k. This has not impact on the Net Asset statement but does mean the Fund account movement in Investments valuations are impacted.</p>	Opening Net asset statement £18,400k Increase Profit and losses on disposal of investments and changes in market value of investments DR 18,400k <i>*Note this change has been made in the 2021-22 accounts</i>	
Overall impact to audited November Accounts	CR £30,492k	DR £30,492k
Overall impact to draft Accounts (including adjustments on previous page)	CR £38,835k	DR £38,835k

D. Audit Adjustments- Disclosure changes

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
Accounting policies and Other notes –minor presentational adjustments	In our work a number of minor presentational amendments were identified and agreed with management. This included the removal of a critical judgement made by the Pension fund which per IAS 1 did not meet the requirements of a critical judgement. The Critical judgement did not express a judgement but the fact the Fund was applying the standards appropriately for property assets.	✓
Audit fees- Note 10	The audit fees note required adjusting to the final figure.	✓
Note 14A- reconciliation of movements in Investments	For the purchases and sales in the accounts the Fund Manager had provided more up to date information to the accounts.. This resulted in the Purchases data increasing across four asset types by £163,488k. The Sales information also contained material adjustments totalling 194,078k increases to the sales.	✓
Note 17 Financial instruments	The financial instruments note was misstated to include statutory liabilities which do not meet the definition of being financial instruments under IFRS 9. This lead to a £4,173k adjustment to this note.	✓
Note 19 and 20 – Actuarial Present Value of Promised Retirement Benefits	The Pension Fund in the preparation of this note had not included the latest valuation data as of the 31 st March 2023. This was based on their interpretation of the Code requirements that the latest full triennial data should be used. This is not in line with our understanding of the CODE which requires the Pension Fund to state the total Pension Fund liabilities for each reporting year. Given the significance of this information to the readers of the accounts we considered this as requiring adjustment.	✓
Note 26 Unfunded Commitments	The Draft statement of accounts had the value at £105.8m however upon review this was overstated and has been restated to 89.9m following the audit adjustments identified.	✓
Other Information including Pension Fund Annual report	The other information noted in the Pension Fund Annual report and other parts of the Accounts required updating to reflect the material changes in the prior and current year Financial statements.	✓

E. 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 per PSAA for 2022-23	24,920
New System Implementation (this reflects the UPM system and the cost of our additional work the estimated fee captures the cost of this review of the data transfer and controls regarding the implementation)	12,500
ISA 540	3,600
ISA 315	6,000
Journals testing	2,000
Fee Per Audit plan	49,020
Additional work on Investment Valuations and challenges obtaining data from Fund Managers	3,400
Challenges obtaining information from UPM system and other key reports	2,800
Quality and preparation of accounts issues resulting in key staff turnover during the preparation and audit period	5,750
Total audit fees (excluding VAT)	£60,970

F. 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"> the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures the identification and extent of work effort needed for indirect and direct controls in the system of internal control the controls for which design and implementation needs to be assess and how that impacts sampling the considerations for using automated tools and techniques.
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"> increased emphasis on the exercise of professional judgement and professional scepticism an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence increased guidance on management and auditor bias additional focus on the authenticity of information used as audit evidence a focus on response to inquiries that appear implausible
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"> Consideration is also being given to the potential impacts on confidentiality and independence.
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"> clarification of the requirements relating to understanding fraud risk factors additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

G. Audit opinion

We anticipate that we will provide the Authority with an unmodified audit report.



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