APPENDIX C

The Audit Findings for Leicestershire County Council Pension Fund

Year ended 31 March 2022

March 2023

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 Leicestershire County Council Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

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

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

Our audit work was completed both on site and remotely during July-November. Our findings are summarised on pages 17 to 23. We have identified 1 uncorrected adjustment to the financial statements that would have resulted in a £7.95m adjustment to the Pension Fund's reported financial position. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

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

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

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

Our anticipated audit report opinion at this stage will be unmodified.

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2. Financial Statements

Overview of the scope of our audit

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

We have not had to alter our audit plan as communicated to you in September 2022.

Conclusion

We have substantially completed our audit of your financial statements and subject to review of outstanding items, we anticipate issuing an unqualified audit opinion. We cannot issue our opinion until audit work on the County Council's accounts (as Administering Authority and whose accounts the Pension Fund's accounts form part of) has been completed and therefore we anticipate this being in March 2023. These outstanding items include:

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

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the Treasury and Pension Team staff. The impact of the pandemic has meant that meant that both teams have had to operate remotely on occasion.

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2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan in September 2022.

We detail in the table adjacent our determination of materiality for Leicestershire County Council Pension Fund.

	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	£40.53m	We determined materiality for the audit of the Pension Fund's financial statements as a whole to be £40.53m, which is approximately 0.7% of the Pension Fund's net assets as at 31 March 2021. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in the Pension Fund's ability to pay pension liabilities as they fall due.
Performance materiality	£28m	We have determined £28m (70% of materiality) to be an appropriate level for Performance Materiality. There are no significant changes in the activities of the Pension Fund nor have we identified indications of higher fraud risk. We are also not aware of a history of significant deficiencies and there has not been a large number of significant misstatements arising as a result of the financial statements audit.
Trivial matters	£2m	We deem matters below 5% of materiality to be sufficiently trivial not to warrant drawing to the attention of the Corporate Governance Committee.

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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 stewardship of funds and 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, this 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 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 judgements applied by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions **Conclusion** We have noted two control deficiencies in regard of the journal entries process, these pertain to senior officers of the corporate finance team's ability to enter journals and a lack of segregation of duties regarding the authorisation of journals below £20,000. We identified 4 journals entered by these senior officers and we conducted additional testing on these journals. No irregularities were noted. We tested a sample of high risk and unusual journals (both authorised and unauthorised). No issues have been identified as a result of our testing of these journals. While we are satisfied that there is no evidence of management override of controls through senior officers of the corporate finance team entering journals or in regard to the lack segregation of duties issue, we bring this to the attention of those charged with governance as it relates to a significant risk area. We have included a recommendation that senior officers' ability to enter journals is removed and that all journals, including those under £20,000, are subject to review and authorisation. We have also reviewed the significant estimates in the financial statements. We have not identified any indications of management bias in estimates included in the financial statements.

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2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Fraud in revenue recognition (rebutted) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. 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 ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical framework of Leicestershire County Council as administering authority of Leicestershire County Council Pension Fund, means that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk.	There were no changes to our assessment reported in the audit plan and do not consider this to be a significant risk. The audit work performed did not identify any issues in respect of revenue recognition.
Fraud in expenditure recognition – Practice Note 10 (rebutted) In line with the Public Audit Forum Practice Note 10 in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). We have considered this risk for the Pension Fund and have determined it to be appropriate to rebut this risk based on limited incentive and opportunity to manipulate expenditure.	There were no changes to our assessment reported in the audit plan and do not consider this to be a significant risk. The audit work performed did not identify any issues in respect of expenditure recognition.

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2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of level 3 investments The Pension Fund revalues 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 valuations lack observable measurable 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. 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 2022. We therefore identified valuation of level 3 investments as a significant, which was one of the most significant assessed risks of material misstatement.	We have : • evaluated management's process for valuing level 3 investments • reviewed the nature and basis of estimated values and considered the assurance management have 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 custodians • for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2022 with reference to known movements in the intervening period • in the absence of available audited accounts, we have evaluated the competence, capabilities and objectivity of the valuation expert • tested revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register • where available reviewed investment manager service auditor reports on design effectiveness of internal controls **Conclusion** Our audit work identified that the actual value of financial investments at 31 March 2022 had risen by £7.95m from that estimated in the financial statements. This was largely attributed to 31 March 2022 fund manager reports not being available when the Pension Fund's financial statements presented for audit were closed down. Management have chosen not to amend the accounts for this difference.

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2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – £1,918.2m	The Pension Fund has pooled investment vehicles (£1,797.9m) and properties (£120.3m) that in total are valued in the net assets statement as at 31 March 2022 at £1,918.2m. For pooled investment vehicles, management receive quarterly performance reports which are reviewed and subsequently presented to the Local Pensions Board in order to provide scrutiny of estimates and consider any uncertainty. Key fund managers will periodically attend committee meetings which provides an opportunity for officers and members to challenge any unusual movements or assumptions. 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 valuations provided by investment managers for the pooled investment vehicles which the Pension Fund invests in. For directly held properties, the Pension Fund engages an expert valuer who determines the fair value of investment properties with reference to rent and market yields for similar properties for 97.7% of the portfolio. The remaining 2.3% is valued internally by Operational Property Services. The value of investments has increased by £167.8m in 2021/22, largely due to additional investments made during the year and the general recovery of financial markets following the Covid-19 pandemic.	Management determine the value of pooled investment vehicles through placing reliance on the reports provided investment managers. As such we sought and reviewed confirmations of year end valuations for all sampled investment managers. We reviewed the audited accounts and unaudited valuations at the audited accounts date to determine if values estimated are reasonable. Where provided, we further reviewed service organisation reports for the investment managers. Please see our findings on page 8 where we identified a £7.95m change in the final value of pooled investment vehicles from the estimated value in the financial statements. For properties, we are satisfied that the Pension Fund's expert, Colliers Capital is competent, capable and objective. An assessment was only performed for Colliers Capital noting that the sample of properties tested were those valued by Colliers Capital. We agreed the underlying information used to determine the estimate by the valuer and are satisfied that this has been appropriately applied. Sensitivities disclosed in the notes to the accounts are reasonable and in line with the Code. The estimate is adequately disclosed in the financial statements.	Grey

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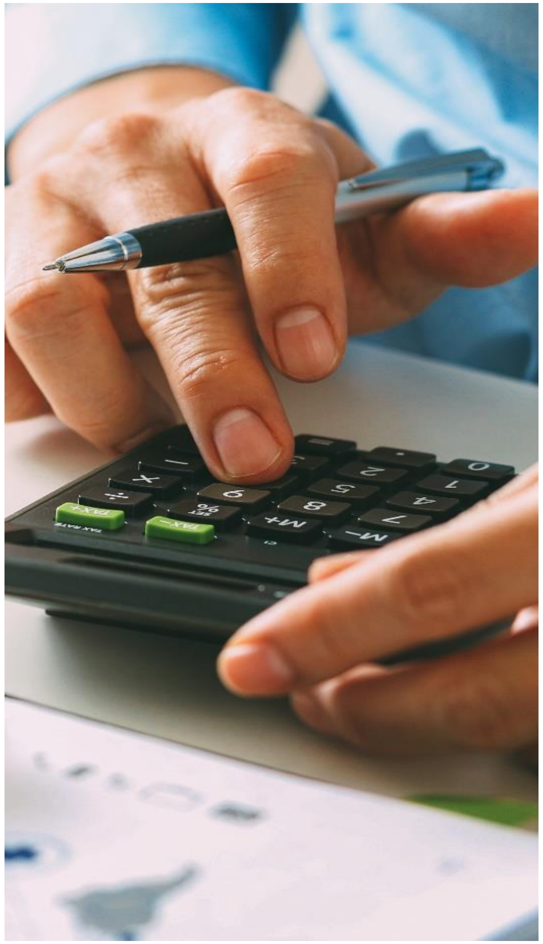
Assessment

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

2. Financial Statements - matters discussed with management

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



Significant matter	Commentary	Auditor view and management response
Effect of market movements on the Pension Fund's investments following the government's mini budget	Rising interest rates during the period following the announcement of the mini budget impacted pension funds that had significant investments in liability driven investments (LDIs). LDIs reduce funding level volatility caused by changes in interest rates and future liabilities. This is therefore an investment strategy that focuses on matching assets with current and future liabilities.	Officers at the Pension Fund confirmed that there were no investments in LDIs at 31 March 2022. This is consistent with our understanding.

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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 Corporate Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
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 included in the Corporate Governance Committee papers.
Confirmation requests from third parties	We requested direct confirmations from the custodian and all fund managers which were all received.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements which were left uncorrected.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

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	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: • 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. 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: • 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. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • 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.

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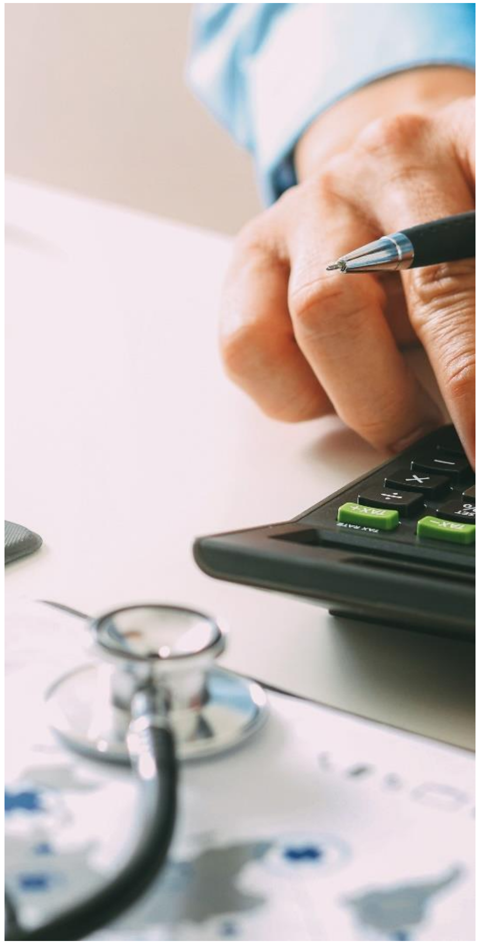
2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Disclosures	The following inconsistencies were identified following our review of the Pension Fund Annual Report: • Page 8 of the annual report included a disclosure that fund assets were £5billion which is different to the £6billion (rounded) disclosed in the Pension Fund Net Asset Statement. • Page 10 of the annual report disclosed the closing cash balance as £181m instead of £187m as disclosed in note 12 of the statement of accounts. At the time of signing this report, we had not received the amended annual report to verify that matters identified above are appropriately corrected.
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 propose to issue our 'consistency' opinion on the Pension Funds Annual Report once we have completed our work on the Administering Authority's accounts.



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)

3. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following non-audit services were identified which were charged from the beginning of the financial year to the current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Non-audit Related			
IAS 19 Assurances	17,000	Self-interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £17,000 in comparison to the total fee for the audit of £33,193 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

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These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. All services have been approved by the Corporate Governance Committee. None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 5 recommendations for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2022/23 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
● (Medium)	**No evidence of review of assumptions used in the valuation of the Pension Fund's direct property portfolio** Colliers Capital is engaged by the Pension Fund as an expert to value the Pension Fund's direct property portfolio. As part of this valuation exercise, Colliers provides the Pension Fund with assumptions to be used in valuing the portfolio. However, as part of the audit we were not provided with evidence of review by the Pension Fund of the assumptions used in the valuation process. Lack of review of these assumptions could result in errors going undetected. Further, lack of review does not evidence that the Pension Fund is taking ownership of the services being provided by the expert noting that the values provided will be reported by the Pension Fund in the financial statements.	Assumptions used by the expert should be reviewed by Fund Officers ensuring that where any concerns arise or issues identified, these are communicated to the expert. **Management response** Agreed. Colliers is an independent valuation expert. A review by internal qualified Property Valuers will be undertaken.
● (High)	**Journal controls – lack of segregation of duties** The journal entries process does not require approval for entering journals below £20,000. Failure to have a separate preparer and approver for journals could promote fraudulent financial reporting though we note this would require the entering of multiple journal entries below £20,000 for the impact to be material. We note that journal entries entered during the year which were below £20,000 had a combined value which was below £1m hence having a low risk of material misstatement.	We recommend automated preventative segregation of duty controls are built into the finance system to prevent transactions being entered and approved by the same user. We recommend in the meantime that the journals process be amended to make it mandatory for all journals to be approved by a separate individual regardless of journal value. **Management response** Agreed. We will review how additional controls can be added to the process.

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Controls

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

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

Assessment	Issue and risk	Recommendations
●	**Journal controls – senior officers of the corporate finance team** Senior officers have access privileges built into the financial system which allow them to be able to enter journals. As senior officers, this privilege is deemed incompatible with the role, and is an enabler of management override of control. There were 4 journals entered by senior officers during the year. Following our review of these journals we concluded that they were reasonable with reference to the Pension Fund's operations.	We recommend journal posting privileges are removed for senior officers. **Management response** Agreed. Journal entry access will be removed.
●	**Internal control reports and bridging letters** Fund Officers regularly review services provided by Investment Managers and other service providers. As part of this monitoring exercise, management are delegated the task of reviewing investment manager control reports. As part of the audit, we were not provided with the below service organization reports: • KKR & Co • Catapult Ventures Matters that could potentially contradict the accuracy of services provided with specific regard to the valuation of investments could go unnoticed where these reports are not reviewed.	We recommend that fund officers ensure that they obtain these internal control reports or seek to understand what alternative testing the investment manager organization perform to ensure that their internal controls around valuation are operating as intended. **Management response** Agreed. We will review the process for documenting how assurance is received.
●	**Bodies joining the Pension Fund not accounted for** Following our testing of changes to admitted or scheduled bodies, the below organisations were new admissions during the year. However, no contributions were received during the year and thus no accrual made in the general ledger noting that the agreement documents were only signed between and June and July 2022. • MCS Cleaning and Maintenance Ltd (2 employees transferring into the Pension Fund from 1 September 2021) • Cater Link Ltd (3 employees transferring into the Pension Fund from 1 January 2022) Where significant, contributions not recorded could have an impact on the amounts disclosed in the financial statements.	The Pension Fund's accounting policy is that contributions are recognized on an accruals basis. Hence, all outstanding contributions at year should be recorded in the general ledger. **Management response** Agreed. These were known cases but they cannot be accrued for until the admission documents are signed, which was received too late to include in the draft accounts at the end of June. They totalled less than £5k and given the low value it was not necessary to amend the 2021/22 accounts for these. They will be included in the 2022/23 accounts.

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Controls

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

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

Assessment	Issue and risk	Recommendations
●	**IT System** We identified a number of issues in security and access of Leicestershire County Council's Oracle Fusion and Active Directory. These weaknesses include : • inadequate control over third-party users assigned privileged access to Oracle Identity Cloud Service (*without adequate oversight over the third party users of system administration accounts, there is an inherent risk of unauthorised or inappropriate changes to the underlying data*) • weak password configuration settings for Oracle Fusion (*a lack of robust password setting may allow financial information to be compromised by unauthorised users. In particular short passwords can be easily guessed, passwords tend to become known by other users if they are in continued use over a long period of time, if password complexity is not configured, users will tend to choose simple guessable words as their passwords and if password history is not maintained, a user may recycle the same password over a long period*) • inadequate controls over batch job management in Oracle Fusion (*IT operational processes and control requirements may not be communicated to or understood by those within the organisation responsible for observing and/or implementing them. A lack of consistent application of IT operational processes and controls could lead to a loss of data integrity, processing integrity and/or system down-time*)	We recommend the following: • management should review the Evosys users with privileged access to Oracle Identity Cloud Service (IDCS). Any users that do not require these functions should have this level of access removed. For those users that do not require this access, especially those outside IT, consideration should be given to the risk created and whether additional compensatory controls (i.e., high-risk activity monitoring) are required. • management should ensure that password settings configured on the Oracle Fusion applications are in line with the organisation's password policy. Password parameters for Oracle Fusion should be configured to meet best practice guidelines which are minimum password length of 10 characters or above and storing 8 recent passwords. Where configuration settings cannot be strengthened due to system limitations, management should undertake risk assessment and implement additional compensating controls. • management should ensure that comprehensive IT operations and governance policies and procedures are documented and approved at the appropriate level. Management should implement a formal process for monitoring and corrective action taken in case of errors recorded for the batch job. **Management response** • During this period the Council were still implementing the system and Evosys consultants required access for development and hypercare. This access is now restricted with the exception of managing PAAS integrations and incident support. The Council closely monitors access to all production systems and only grant Evosys developers access as they need it. They currently have access as part of implementing ORC. Once this work is complete this access will be revoked. As stated, before they do need access to IDCS to manage PAAS elements, some of this can be eliminated through configuration changes which will be identified and implemented. • As access to the Fusion production environment is via Active Directory there is no password required however the passwords required for non-production environments, which a limited number of people have access to, will be changed to reflect LCC's policy. • Batch jobs are monitored and managed by the users who have initiated them. The users get notification on job failure. The formal process is the same as any other incident, the user submits a Freshdesk ticket and Sys Admin investigate. Fusion is a lot less overnight batch process focused. Evosys have monitoring ETLs between fusion and PAAS on their side which are nearer to batch processes. We are investigating whether we can automate the generation of support tickets for when those generic batches fail to aid early detection.

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Controls

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

B. Follow up of prior year recommendations

We identified the following issues in the audit of Leicestershire County Council Pension Fund's 2020/21 financial statements, which resulted in 2 recommendations being reported in our 2020/21 Audit Findings report. We have followed up on the implementation of our recommendations and note 1 is still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Inappropriate segregation of duties as developers have access to the production environment** The combination of access to develop and implement those changes in the production environment creates a risk that inappropriate or unauthorised changes are made to data and/or programs.	Evosys users now only use their accounts on a read-only access capacity. Therefore, these users are not assigned with ability to implement changes within production.
✓	**Pension Fund Annual Report** We identified some "must do" requirements as set out in the CIPFA guidance – "Preparing the annual report – Guidance for Local Government Pension Scheme Fund (2019 Edition) which had not been included in the 2020/21 Pension Fund Annual Report.	All "must do" requirements have been included in the 2021/22 annual report.

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Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments

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

Impact of adjusted misstatements

There were adjustments made that we are required to report.

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?
Note 12 investments	We noted that "Ruffer Protection Strategies International - Derivatives - Options" pooled investment vehicle was incorrectly classified as derivatives. The value of the fund at year end was £8.46m. **Management response** We discussed this a couple of years ago with GT and the advise was to leave as an equity based derivative rather than pooled fund due to the underlying nature of assets in the fund. We are happy to review this again for 22/23 statements but we are not intending to change the statements this year.	X
Note 3 critical judgments in applying accounting policies	Previously disclosed critical judgments on the pension fund liability and investments in the LGPS Central asset pool were removed noting that these were not deemed critical judgments. Further the critical judgement on directly held property was moved to note 2 due to it being an accounting policy rather than a critical judgement.	✓
Note 20 valuation of financial instruments carried at fair value	The description for level 1 assets was updated to specify that it includes quoted pooled investment vehicles. Previously reference was made to the underlying assets within said pooled investment vehicles noting that the Pension Fund should look at asset which it invests in and not the asset's underlying assets.	✓
Note 20 valuation of financial instruments carried at fair value	For assets which are recognised at fair value at year-end, the basis of valuation, observable and unobservable inputs and key sensitivities affecting the valuations provided were not disclosed as required by the Code.	✓

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C. Audit Adjustments

Disclosure omission	Auditor recommendations	Adjusted?
Note 20 valuation of financial instruments carried at fair value	As required by the Code, a reconciliation of movements within level 3 assets between the opening and closing balance was not disclosed.	✓
Note 20 valuation of financial instruments carried at fair value	As required by the Code, sensitivity of assets valued at level 3 was not disclosed. The specific assumptions that give rise to the estimation uncertainty were also not disclosed.	✓
Note 20 valuation of financial instruments carried at fair value	The Pension Fund's accounting policy on cash and cash equivalents states that "cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers. Cash equivalents are short term, highly liquid investments that are readily convertible to know amounts of cash and that are subject to minimal risk of changes in value". We note that the Pension Fund's cash of £187.1m which is recognised at amortised cost was erroneously included in the fair value hierarchy as a level 1 asset.	✓
Note 23 nature and extent of risks arising from financial instruments (interest rate risk)	The Pension Fund's exposure to interest rate risk on interest receivable during the financial year was not disclosed.	✓
Note 23 nature and extent of risks arising from financial instruments (currency risk)	The disclosure was previously based on the underlying assets of the Pension Fund's directly held assets. The purpose of the disclosure is to reflect the potential movement in investment asset valuations from foreign exchange fluctuations which losses and gains would be recognised in the Fund Account.	✓
Note 24 related party transactions	As Leicestershire County Council is a related body, the disclosure of transactions with the Pension Fund and balances outstanding was not included in the financial statements.	✓
Note 25A key management personnel	The note did not include members' allowances and officers' remuneration reflecting the cost associated with key management personnel carrying on their mandated responsibilities for the Pension Fund.	✓
Actuarial disclosures	IAS 26 requires the actuarial present value of promised retirement benefits to be disclosed. It gives 3 options noting that the Pension Fund selected option C which follows that the Pension Fund should make reference to this information in an accompanying actuarial report which should not form part of the statement of accounts. Prior to correction, the actuarial report had been reported as forming part of the statement of accounts thus suggesting option B (where the present value of promised benefits is disclosed in the notes to the accounts). As the actuarial report obtained was consistent with option C it meant that disclosures were inadequate.	✓
Note 6 contributions	The Code requires disclosure of a breakdown of contributions by the administering authority, scheduled bodies and admitted bodies. As parties of our audit procedures we identified that the totals per the detailed listing of contributions for Leicestershire County Council and Schedules bodies was misstated by £10.4m which amount was subsequently corrected by management. • Leicestershire County Council (previously understated by £10.4m) • Scheduled bodies (previously overstated by £10.4m)	✓

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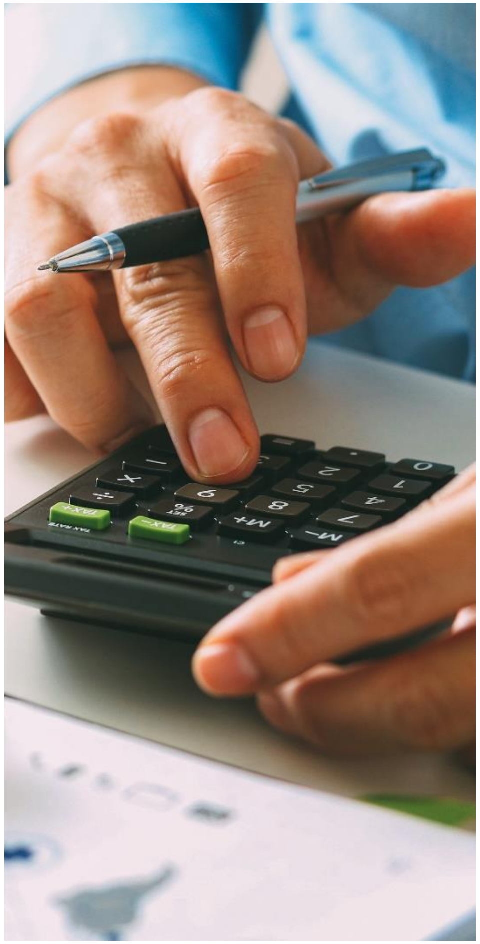
C. Audit Adjustments



Impact of unadjusted misstatements

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

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
• Investment assets		7,951	7,951	Not material
• (Profit) and losses on disposal of investments and changes in value of investments	-7,951			
Differences identified between the value of investments disclosed in the financial statements where some of the values are estimates at 31 March 2022 and the valuation statements received from third party investment managers.				
Overall impact	-£7,951	£7,951	£7,951	

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Impact of prior year unadjusted misstatements

There were no unadjusted misstatements.

D. Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee	Final fee
Pension Fund Audit	33,193	33,193
Total audit fees (excluding VAT)	£33,193	£33,193

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Other [IAS 19 Assurances]	17,000	17,000
Total non-audit fees (excluding VAT)	**£17,000**	**£17,000**

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

The fees reconcile to the financial statements.

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D. Fee breakdown

Audit fees	Estimated fee
Scale fee	21,280
Raising the bar/Additional regulation	3,125
Pension level 3 valuations	2,188
ISA 540	3,600
Additional journals testing	2000
Derivatives, errors and misclassification reviews	1,000
Estimated fee	**33,193**

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