

Audit Findings Report for Leicestershire County Council Pension Fund

Year ended 31 March 2023

12 February 2024



Contents



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

Name: Mark Stocks
For Grant Thornton UK LLP
Date: 12 Feb 2024

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

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1. Headlines

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

Financial Statements

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

- the Pension Fund's financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2023 and of the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay promised retirement benefits after the end of the fund year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Our audit work was completed remotely during July-November. Our findings are summarised on pages 5 to 18.

We have not identified any adjustments to the financial statements that impact upon the Pension Fund's reported financial position.

Whilst we have not identified any material differences however we have identified £3.798m of differences in the valuation of the Fund's investments disclosed in the financial statements at 31 March 2023 and the valuation statements received from the third-party investment managers. Management are proposing not to amend the financial statements on the basis that the differences are not material (0.1% of investment assets) and the Corporate Governance Committee will be asked to confirm their agreement.

Audit adjustments are detailed in Appendix D.

We have raised new recommendations for management as a result of our audit work (Appendix B). As noted below there is some work to be finalised and whilst we do not anticipate recommendations arising from this if significant matters arise we will communicate these separately. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

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

- Finalisation of Manager and Engagement Lead quality control reviews;
- Receipt of management representation letter {shared separately}; 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 opinion on the financial statements will be unmodified.

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

We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. The Pension Fund Annual Report has been published and we have reviewed it. The annual report is consistent with the audited financial statements. We have therefore issued a separate opinion and will be signed on the completion of the audit of the administering authority.

1. Headlines

National context – audit backlog

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

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see [About time? \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/about-time/)

We would like to thank everyone at the Pension Fund for their support in working with us to ensure the Pension Fund's audit has not fallen behind and to seek finalisation of our work.

Local context - triennial valuation

Triennial valuations for local government pension funds have been published. These valuations, which are as at 31 March 2022, provide updated information regarding the funding position of the Pension Fund and set employer contribution rates for the period 2023/24 – 2025/26. For the Pension Fund, the valuation was undertaken by Hymans Robertson LLP and showed that the solvency funding level is 105%. The results of the latest triennial valuation are reflected in the actuarial statement included as an appendix to the financial statements. These valuations also provide updated information for the net pension liability on employer balance sheets.

We have performed testing of the completeness and accuracy of triennial valuation source data. This was to support our work on the other information disclosures made in the Pension Fund accounts and for providing assurances to auditors of employer bodies. As part of this work, we tested a sample of 25 members drawn from the pensioners, deferred and active populations and found the source data to be complete and accurate. This additional testing is only required after each triennial review, rather than annually. See Appendix E for the impact of this work on our 2022/23 audit fee.

2. Financial Statements

Overview of the scope of our audit

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

For Leicestershire County Council Pension Fund, the Corporate Governance Committee is charged with governance and fulfils the role of those charged with governance i.e. it considers the draft financial statements and is part of the overall member oversight process and recommends adoption of the financial statements to the Corporate Governance Committee.

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 altered our audit plan, as communicated to you in September 2023, to reflect a change of the planning materiality for the financial statements. We have reduced the benchmark from 1.50% to 1.20% of net assets. See page 6 for the revised amounts.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion. We cannot issue our opinion until audit work on the Council's accounts (as Administering Authority and whose accounts the Pension Fund's accounts form part of) has been completed.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the Treasury and Pension Team staff.

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 changed from what was reported in our audit plan. We have revised the materiality percentage for financial statements from 1.5% to 1.20% for net assets.

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

	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	£69.2m	We determined materiality for the audit of the Pension Fund's financial statements as a whole to be £69.2m, which is approximately 1.20% of the Pension Fund's net assets as at 31 March 2023. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in security and value of the Pension Fund's assets.
Performance materiality	£48.50m	We have determined £48.50m (70% of materiality) to be an appropriate level for Performance Materiality. The Pension Fund has a stable, experienced team with no history of accounting issues and this continues to be the case.
Trivial matters	£3.46m	We deem matters below 5% of materiality to be sufficiently trivial not to warrant drawing to the attention of the Corporate Governance Committee.
Materiality for fund account	£25m	We determined materiality for the fund account transactions based on 10% of total expenditure as at 31 March 2023.



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 over-ride of controls is present in all entities. The Fund faces external scrutiny of its stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of controls, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Below is a summary of the work performed:</p> <ul style="list-style-type: none"> evaluated the design and implementation of management controls over journals analysed the journals listing and determined the criteria for selecting high risk unusual journals identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness. <p>No changes have been identified to the accounting policies and the estimation process for the valuation of the defined benefit schemes and plan assets.</p> <p>Our audit work has not identified any significant issues in respect of management override of controls.</p>
<p>Improper revenue recognition</p> <p>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:</p> <ul style="list-style-type: none"> there is little incentive to manipulate revenue recognition opportunities to manipulate revenue recognition are very limited the culture and ethical frameworks of local authorities, including the Leicestershire County Council (Administering Authority), mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Leicestershire Pension Fund.</p>	<p>There were no changes to our assessment reported in the audit plan and the audit work performed did not identify any issues in respect of revenue recognition.</p>
<p>Fraud in Expenditure Recognition</p> <p>Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially an entity that is required to meet financial targets. Having considered the risk factors relevant to the Pension Fund and the relevant expenditure streams, we have determined that no separate significant risk relating to expenditure recognition is necessary, as the same rebuttal factors listed above relating to revenue recognition apply.</p> <p>We therefore do not consider this to be a significant risk for the Pension Fund.</p>	<p>There were no changes to our assessment reported in the audit plan and the audit work performed did not identify any issues in respect of expenditure recognition.</p>

2. Financial Statements: Significant risks

Risks identified in our Audit Plan

Valuation of Level 3 Investments (private equity, pooled investment vehicles and unquoted equity)

The Fund revalues its investments on frequently 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 2023.

We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.

Commentary

Below is a summary of the work performed:

- evaluated management's process for valuing Level 3 investments
- reviewed the nature and basis of estimated values and considered the assurance management has over the year end valuations provided for those types of investments, to ensure that the requirements of the Code are met
- independently requested year-end confirmations from investment managers and the custodian and considered the role played by the custodian in asset valuation
- for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date, reconciling those values to the values at 31 March 2023 with reference to known movements in the intervening period where necessary.
- tested valuations made during the year to see if they had been input correctly into the Pension Fund's ledger.
- where available, reviewed investment manager service organisation reports on design effectiveness of internal controls. Identify the key valuation controls at the fund managers (and where appropriate the custodians) and consider the design effectiveness of the controls through enhanced documentation of our consideration of the relevant controls reports.

Our audit work identified that the actual value of investments as at 31 March 2023 had risen by £7.574m from that estimated in the accounts. This was largely attributed to £3.156m increase in Level 3 asset values, and an increase of £4.417m in Level 1 assets. The largest movement in Level 3 assets was related to Adams Street private equity portfolio (£4.635m) final capital statements not being available when the Pension Fund's accounts presented for audit were closed down. Timing differences such as this are not unusual within Pension Funds. The difference is 0.1% of total investment assets and less than 50% of our performance materiality. Management has not amended the Pension Fund's Statement of Accounts on the basis that the difference is not materially quantitatively or qualitatively to readers of the accounts.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan

Valuation of Level 3 Investments (Directly held property)

The Fund has investment in directly held property and has engaged an external valuer Colliers Capital their RICS qualified valuer to complete the valuation of properties as at 31st March 2023. Investment Properties must be included in the balance sheet at fair value (the price that would be received in an orderly transaction between the market participant at the measurement 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.

We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.

Commentary

Below is a summary of the work performed:

- evaluated the processes, controls and assumptions put in place by management to ensure that the valuation is not materially misstated and evaluate the design of these and whether they are sufficient to mitigate the risk of material misstatement;
- communicated with the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the reporting framework are met
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, particularly around yields and rents/market values for the properties.
- Obtained and reviewed the valuation report. Reconciling the values in the report to the values captured in the general ledger as at 31 March 2023.
- Performed an analytical review looking at the market value movements from prior year and assessed whether the movements in value are in line with our understanding when referring to available market information. Investigate any movements that are not in line with expectation.
- Select a sample of investment property to test. Reperform calculations using assumptions and information obtained from lease rentals, yield rates from external sources to assess if the valuations are appropriate.

2. Financial Statements: key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Level 3 Investments (private equity, pooled investment vehicles, property funds and unquoted equity) – £2 003.27m</p>	<p>The Pension Fund has investments in unquoted equity and pooled investments vehicles that in total are valued on the net assets statement as at 31 March 2023 at £2 003.27million.</p> <p>These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management rely on the valuation that the investment managers provides.</p> <p>The valuation of the funds is provided by the investment managers.</p> <p>Service auditor reports for investment managers and custodians were obtained and considered by management at the pension fund.</p> <p>The value of the investment has increased by £205.6m in 2022/23, this is largely due to sales (£176.2m), purchases (£358.1m), realised gains (£60.9m) and unrealised losses (£31.7m)</p>	<p>Management determine the value of level 3 investments through placing reliance on the expertise of the investment managers. We have performed an assessment of management's expert i.e. Investment manager.</p> <p>In addition to the investment manager confirmations at year end; we have obtained latest audited accounts and reviewed cash flow movements to 31 March 2023.</p> <p>We have also tested a sample of Level 3 investments to audited accounts and final capital statements to determine if the values estimated are reasonable.</p> <p>Please see our findings on page 8.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>

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Assessment

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

2. Financial Statements: key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments (Directly held property) – £101.8m	<p>The Pension Fund has investments in investment property that in total are valued on the net assets statement as at 31 March 2023 at £101.8million.</p> <p>This valuation represents 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.</p> <p>100% of the total assets were revalued during 2022/23. Investment property is revalued annually.</p> <p>The value of investment property has decreased by £18.50m in 2022/23, this is largely due to the change in the market value of the properties.</p>	<p>Management determine the value of investment property through placing reliance on the expertise of the property valuer (Colliers Capital).</p> <p>We evaluated the competence, capabilities and objectivity of the valuation expert</p> <p>We communicated with the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the reporting framework are met</p> <p>We challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, particularly around yields and rents/market values for the properties.</p> <p>Obtained and reviewed the valuation report. Reconciling the values in the report to the values captured in the general ledger as at 31 March 2023.</p> <p>Performed an analytical review looking at the market value movements from prior year and assessed whether the movements in value are in line with our understanding when referring to available market information. Investigate any movements that are not in line with expectation.</p> <p>Selected a sample of investment property to test. Reperformed calculations using assumptions and information obtained from lease rentals, yield rates from external sources to assess if the valuations are appropriate.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>

Assessment

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

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £1,069.1m	<p>The Pension Fund have investments in pooled investments that in total are valued on the net assets statement as at 31 March 2023 at £1,069.1million.</p> <p>The investments are valued using the closing bid price where bid prices and offer prices are published or where the funds are index tracked, these are based on the market quoted prices of the underlying securities. As the pooled investments fund invested in are mainly bonds, equities and fixed interest quoted prices are easily obtained in the market.</p> <p>The value of the investment has decreased by £90.9m in 2022/23 due to performance of the funds in the market.</p>	<p>Management determine the value of level 2 investments through placing reliance on the expertise of the investment managers.</p> <p>In addition to the investment manager confirmations at year end; we have independently obtained the quoted price as at year end and compared it to the investment manager's price. Where prices could not be obtained we reviewed the latest audited accounts and reviewed the unaudited valuation to determine if there was significant price movements.</p> <p>We have also tested a sample of level 2 investments to determine if the values estimated are reasonable.</p> <p>No findings have been identified in our testing</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>

222

Assessment

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

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 1 Investments – £2 446.6m	<p>The Pension Fund have investments in pooled investments, cash and other deposits that in total are valued on the net assets statement as at 31 March 2023 at £2 446.6million.</p> <p>The investments are valued using the closing bid price where bid prices and offer prices are published, these are based on the market quoted prices of the underlying securities. As the pooled investments fund invested in are mainly equities and fixed interest quoted prices are easily obtained in the market.</p> <p>The value of the investment has decreased by £57.2m in 2022/23 due to purchases, sales and performance of the funds in the market.</p>	<p>Management determine the value of level 1 investments through placing reliance on the expertise of the investment managers.</p> <p>In addition to the investment manager confirmations at year end; we have independently obtained the quoted price as at year end and compared it to the investment manager's price.</p> <p>We have also tested a sample of level 1 investments to determine if the values estimated are reasonable.</p> <p>No findings have been identified in our testing</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>

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Assessment

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

2. Financial Statements: 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 Committee papers.
Audit evidence and explanations	All information and explanations requested from management was provided.
Confirmation requests from third parties	We send confirmation requests to all investment managers. The number of requests sent were 23 and all of these requests were returned with positive confirmation. We are completing our audit procedures in respect of reviewing these confirmations but at the time of drafting this report no matters have been identified.
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.

2. Financial Statements: other communication requirements



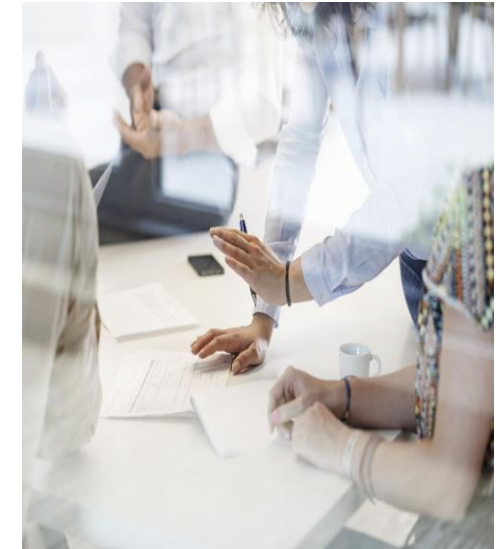
Our responsibility

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	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. We will provide the comment once we have completed our work on the Administering Authority's accounts.
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 and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

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

Audit and non-audit services

The following audit services were identified which were charged in the current financial year, as well as the threats to our independence and safeguards that have been applied to mitigate these threats. Note that fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances should be considered work undertaken under the Code of Audit Practice for 2022/23 onwards.

Service	Fees £	Threats identified	Safeguards
Audit related			
IAS 19 Assurance letters for Admitted bodies	19 200	Self-interest (because this is a recurring fee)	<p>Fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances to auditors of local government and NHS bodies should be considered work undertaken under the Code of Audit Practice for 2022/23 onwards.</p> <p>Provision of IAS 19 assurances to auditors of any other type of entity remains non-Code work. There is fixed charge of £6 000 and 12 IAS 19 letters at £1 100 per response.</p> <p>The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee proposed for this work of £19,200 in comparison to the total fee for the audit of £38,193 and in particular relative to Grant Thornton UK LLP's turnover overall is low. 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.</p>

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.

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 Corporate Governance Committee, Pensions Board, senior management or staff that would exceed the threshold set in the Ethical Standard.

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

Appendices

- A. Communication of audit matters to those charged with governance
- B. 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

We have not identified any new recommendations for the Pension Fund at this time as a result of issues identified during the course of our 2022/23 audit. We have rolled forward one recommendation from last year in respect journals below £20 000 not being authorised. 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. All journals should be approved by a separate individual regardless of journal value.

C. Follow up of prior year recommendations

We identified the following issues in the audit of Leicestershire County Council Pension Fund's 2021/22 financial statements, which resulted in five recommendations being reported in our 2021/22 Audit Findings Report. We have followed up on the implementation of our recommendations. Three recommendations have been fully addressed and one recommendation not addressed and one partially addressed. Regards our recommendation in respect of IT security covered the Administering Authority with some elements related to Oracle linked to the Pension Fund. We are still awaiting the final report from IT to complete their testing to determine if the IT recommendation has been resolved.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Journal controls-senior officers of the corporate finance team</p> <p>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.</p>	In our journal entry testing, there were no journals processed by senior officers.
X	<p>Journal controls-lack of segregation of duties</p> <p>The journal entries process does not require approval for entering journals below £20 000. Failure to have a separate prepare 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.</p>	We noted that journals below £20 000 have a combined value of £22m were not approved/ authorized. We also note that for such journals access is restricted to specific officers in the central technical accounting team only.

Assessment

- ✓ Action completed
- X Not yet addressed

C. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>No evidence of review of assumptions used in the valuation of the Pension Fund's direct property portfolio</p> <p>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.</p> <p>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 by the expert noting that the values provided will be reported by the Pension Fund in the financial statements</p>	Management have utilized internal qualified property valuer to review the valuations.
X	<p>Internal controls reports and bridging letters</p> <p>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:</p> <ul style="list-style-type: none"> -KKR & Co -Catapult Ventures <p>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.</p>	From our testing we note some investment managers have issued control reports with the exception of KKR and JP Morgan service organisation reports.

Assessment

- ✓ Action completed
- X Not yet addressed

C. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>We identified a number of controls issues in security and access of Leicestershire County Council's IT systems that is, Oracle Fusion and Active Directory:</p> <ul style="list-style-type: none"> - we noted that there was inadequate control over third party users assigned privileged access to Oracle Identify Cloud Service. - We noted weak password configuration settings for Oracle Fusion. - We noted inadequate controls over batch job management in Oracle Fusion 	No such instances were noted in our testing

Assessment

- ✓ Action completed
- X Not yet addressed

D. 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

No adjusting misstatements have been identified.

Misclassification and disclosure changes

Disclosure	Auditor's findings	Adjusted?
Investment property	The code requires that the gross rental income and gross direct operating expenses (including repairs and maintenance) arising from investment property be disclosed in the notes. Management has disclosed the net amount in note 11.	Yes
Audit fees	Agreed audit fees disclosed in the SOA were disclosed as £36,793 when the agreed fees is £57,393 Management has agreed to amend the accounts.	Yes
Key management personnel	The contribution rate used was 27.3% instead of 28.30%. Management has updated the contributions payable by the key management personnel using the correct rate	Yes

D. Audit Adjustments continued

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 audit which have not been made within the final set of financial statements. The Pensions 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
Differences identified between the value of investments disclosed in the financial statements where some of the values are estimates at 31 March 2023 and the valuation statements received from the third party investment managers.	(10,593)	10,593	10,593	Not material quantitatively or qualitatively.
Overall impact	(10,593)	10,593	10,593	

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2021/22 financial statements.

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
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 the third party investment managers. As assets are revalued at 31 March 2023 there is no impact upon the 2022/23 financial statements.	(7,951)	7,951	7,951	Not material.
Overall impact	(7,951)	7,951	7,951	

E. Fees and non-audit services

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

Audit fees	Proposed fee £
Pension Fund Audit	
Scale Fee	22,805
Investment valuation	2,188
ISA 540	3,600
Impact of ISA 315	3,000
Work on triennial valuation member data *	5,000
Derivatives and other complex investments	1,100
Payroll-change of circumstances	500
Subtotal	38,193
IAS 19 Assurance letters for Admitted bodies	19,200
Total audit fees (excluding VAT)	£57,393

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	<p>The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of:</p> <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	<p>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.</p>
Professional scepticism	<p>The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to:</p> <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	<p>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.</p> <ul style="list-style-type: none"> Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	<p>The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to:</p> <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	<p>The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.</p>

