The Audit Findings for Nottinghamshire County Council Pension Fund

Year ended 31 March 2022

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.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Nottinghamshire 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 remotely during July-November. Our findings are set out on pages 18 to 26.

We have not identified any material adjustments to the financial statements impacting the Pension Fund's reported financial position. Other 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; 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 will be unqualified.

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 Governance and Ethics Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Governance and Ethics Committee meeting on 22 March 2023. These outstanding items include:

- receipt of management representation letter;
- receipt and review of the 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 Finance 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 remain the same as reported in our audit plan on 9 June 2022. We detail in the table adjacent our determination of materiality for Nottinghamshire County Council Pension Fund.

	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	£61.2m	We determined materiality for the audit of the Pension Fund's financial statements as a whole to he £61.2m, which is approximately 1% of the Pension Fund's net assets as at 31 March 2022. 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	£42.9	We have determined £42.9m (75% of materiality) to be an appropriate level for Performance Materiality. The Pension Fund has a stable, experienced team with no history of significant accounting issues and this continues to be the case.
Trivial matters	£3.9m	Triviality is the threshold at which we will communicate misstatements to the Governance and Ethics Committee.

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 non-rebuttable presumed risk that the risk of management over-ride 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, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • 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 entry process, these pertain to senior financial reporting personnel's ability to post journals and a user's ability to both post and approve their own journal. We identified one self-approved journal, with no mitigating evidence of subsequent approvals having taken place. We conducted additional testing on this journal and no irregularities were noted. While we are satisfied that there is no evidence of management override of controls through senior officers posting journals or in regard to the segregation of duties issue, we bring this to the attention of those charged with governance as it relates to a significant risk area. No issues have been identified as a result of our testing of high risk and unusual journals. Additionally, we have not identified any indications of management bias in estimates included in the financial statements.

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 Nottinghamshire County Council as administering authority of Nottinghamshire 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 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 the audit work performed did not identify any issues in respect of expenditure recognition.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Level 3 Investments (financial investments and directly held properties) 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 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 judgment to reach an appropriate valuation at year end. Management utilise the services of an expert, Knight Frank for the valuation of directly held property and rely on valuations provided by investment managers for financial investments. We therefore identified valuation of Level 3 investments as a significant risk.	**For financial investments we have :** • evaluated management's process for 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 confirmation from investment managers and/or custodian(s) • 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 • 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 We have not treated investment managers as experts as we note that they have been engaged by the Pension Fund to provide a service of investing the Pension Fund's assets therefore not being engaged by the Pension Fund to act as an expert in financial reporting. **Conclusion** Our audit work identified that the actual value of financial investments at 31 March 2022 had risen by £33m (Level 3 - £21m) 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 has chosen not to amend the accounts for this difference. **For directly held property we have :** • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • wrote to the valuer to confirm the basis on which the valuation was carried out • tested revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register • engaged our own valuer to assess the instructions to the Pension Fund's valuer, the Pension Fund's valuer's report and the assumptions that underpin the valuation • evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end (there were none) • tested property assets for rights and obligations and for existence **Conclusion** Our audit work did not identify any significant issues in respect of directly held properties.

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 – £1,388m	The Pension Fund has financial investments (£887m) and directly held properties (£501m) that in total are valued in the net assets statement as at 31 March 2022 at £1,388m. For financial investments, management receive quarterly performance reports which are reviewed and subsequently presented to the Pension Fund Committee 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 property, infrastructure, private equity and credit funds 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. The value of investments has increased by £519m in 2021/22, largely due to transfers of investments from Level 2 to Level 3, additional investments made during the year and the general recovery of financial markets following the Covid-19 pandemic.	Management determine the value of financial investments through placing reliance on the reports provided fund managers. As such we sought and reviewed confirmations of year end valuations for all sampled fund 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 fund managers. Please see our findings on page 24 where we identified a £21m change in the final value of financial investments from the estimated value in the financial statements. For directly held properties, we are satisfied that management's expert, Knight Frank is competent, capable and objective. We agreed the underlying information used to determine the estimate by the valuer and are satisfied that this has been appropriately applied. Our auditor's expert confirmed that the valuation methodology used by management's expert was in line with their expectation. 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

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 - key judgements and estimates (continued)

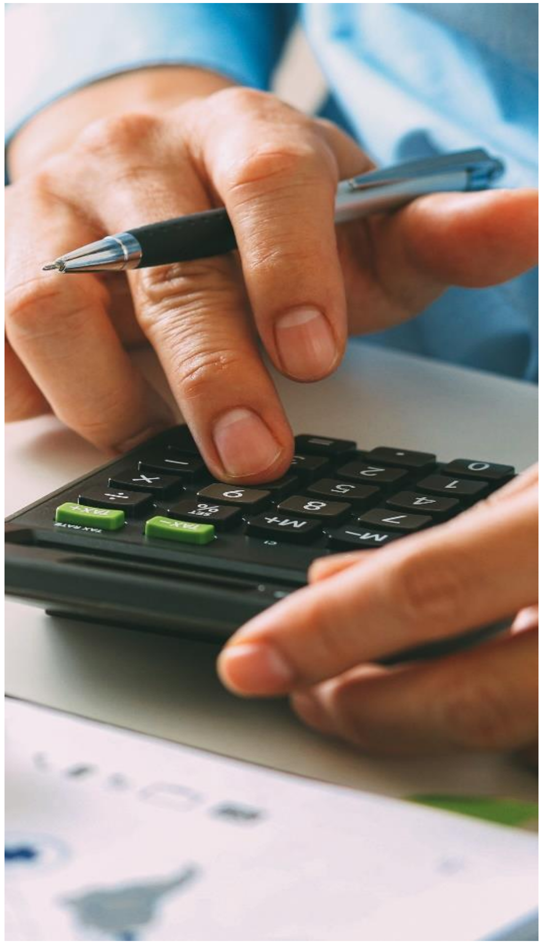
Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £1,879m	The Pension Fund has financial investments that are valued on the net assets statement as at 31 March 2022 at £1,879m. These investments are not traded on an open exchange/market and the valuation of the investment is based on the bid price or net asset value as determined by the fund manager. The value of investments has increased by £1,260m in 2021/22, largely due to transfers of investments from Level 1 to Level 2, additional investments made during the year and the general recovery of financial markets following the Covid-19 pandemic.	Management determine the value of Level 2 investments through placing reliance on the reports provided by fund managers. As such we sought and reviewed confirmations of year end valuations for all sampled fund managers. Where provided, we reviewed service organisation reports for the fund managers. Please see our findings on page 24 where we identified a £12m change in the final value of financial investments from the estimated value in the financial statements. The estimate is adequately disclosed in the financial statements.	Light Purple

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 - 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. Disclosure has been made in note 18 detailing the value of the Pension Fund's assets at 30 June 2022.

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 Governance and Ethics 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 Governance and Ethics Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Pension Fund's investment managers, custodian and bankers. This permission was granted and the requests were sent. Six requests were not received so we undertook alternative procedures, including observing management logging onto the online platforms of the third party organisations and agreeing the year-end balances as detailed on the online platforms.
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.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements

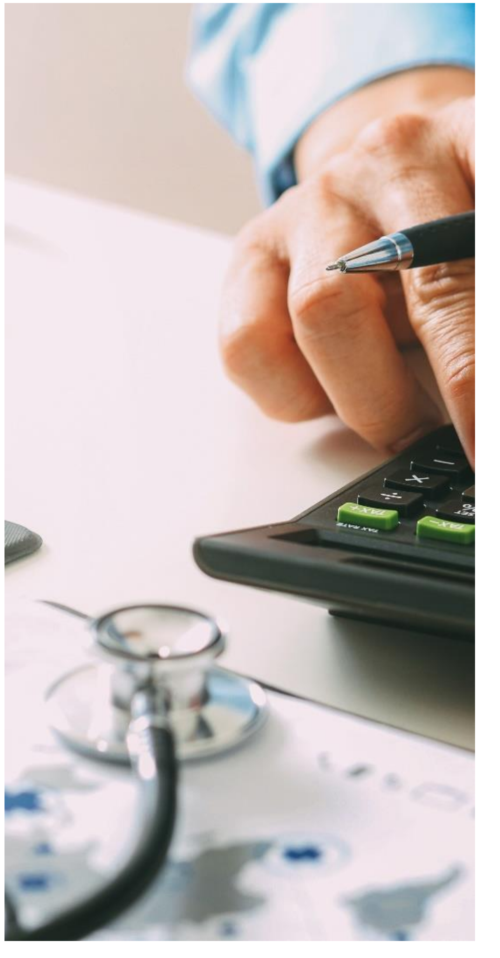
Our responsibility

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.

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: • It was stated in the Chairman's Foreword that the Authority administers the pension fund for around 280 participating employers. However, note 2a stated that the Authority administers the pension fund for around 520 participating employers. The statement of accounts has been updated stating that the Authority administers the pension fund for over 275 employees; • The Financial Performance section highlighted investment income for 2021/22 as £73m. However, the Fund Account showed investment income of £94m. This has been updated to read net investment income which makes the £73m disclosed correct; • Total pension fund investments were shown as £6,578m with note 2d disclosing total investments as £6,620m. The annual report has been appropriately updated and now shows the value of £6,620m; and • The list of the Fund's largest holdings showed the Aegon Kames Diversified Growth Fund as having a valuation of £346.6m. However, in note 11c the value of the investment was shown as £366.6m. The statement of accounts has been updated to show a value of £346.6m. Regulations require the annual report to be published on or before 1 December. However, the Pension Fund's Annual Report was published on 10 January 2023. It is our recommendation that a draft annual report is published prior to the regulated date to ensure that the Pension Fund continues to maintain its compliance with regulations.
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 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			
IAS19 procedures for other bodies admitted to the pension fund.	£16,000	Self-interest	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 £16,000 in comparison to the total fee for the audit of £38,456 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.
		Self-review	We are performing a required function of our assignment as the pension fund auditor. This is a routine piece of work completed as part of all such audit engagements. Safeguards in place are appropriate given this is for the benefit of PSAA framework bodies in order to enable them to have sufficient appropriate assurance over the net pension liability disclosures within their accounts. The engagement is a common piece of assurance from auditors of entities within the PSAA framework and is covered by standardised request and response letters. The work constitutes an audit-related service under paragraph 5.36 of the 2019 FRC Ethical Standard. As such, a third party would not perceive it to impact significantly on our independence, objectivity or integrity in respect of our Code of Audit Practice audit of the Pension Fund or the administering Authority.

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 Governance and Ethics Committee. None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

We have identified three 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)	**Journals controls – self authorization** The finance system currently allows journals to be posted and approved by the same user. Self authorisation of journals increases the risk of fraudulent financial reporting or error. The Pension Fund has a mitigating control in place, in that all such self-approved journals undergo retrospective approval, which reduces the overall control risk. During the period 1 journal was identified having been posted and approved by the same user. We were able to gain reasonable assurance per the evidence obtained and reviewed.	To strengthen journal controls, we recommend automated preventative segregation of duty controls are built in to the finance system to prevent transactions being posted and approved by the same user. **Management response** The Business Services Centre Senior Practitioner, Accounting and Income Team produces a monthly report which details any self-approved journals. If any are identified retrospective approval is sought from the manager.
● (Medium)	**Controls reports, bridging letters and audited financial statements** Consistent with the prior period we have identified a deficiency in regard to lack of controls reports at certain fund managers. The value of investments of which we were unable to obtain a controls report is £170.6m and as we understand, the Pension Fund do not perform any alternative procedures to gain assurance that controls and processes are designed effectively at these fund managers. Similarly, we were unable to obtain audited financial statements for three pooled investment vehicles.	We are satisfied that reasonable assurance has been obtained over investment values in the absence of these documents. However, given the significant risk of estimation uncertainty we would recommend that the Pension Fund introduce measures to ensure where reports are not provided, management are obtaining alternative assurance that controls and processes in place in regard to the valuation of investments are effective. **Management response** Controls reports and bridging letters are obtained for all our major investment managers. Over time as more investments are made through LGPS Central this control will be provided by them.

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
● Medium	**IT system** We identified a number of controls issues in security and access of Nottinghamshire County Council's SAP system. These weaknesses include: • SAP Support staff and vendors with DEBUG access in SAP. The 5 users that still had debug access in the production client were DL44, EW36, HB37, MW244, NN4	The matters identified relate to IT systems but not specifically the financial reporting process. However, the controls around access and segregation are intrinsic to the integrity of the system and should be addressed as users could bypass the configured transport route and change controls in place. This therefore increases the risk of inappropriate and unauthorised changes being made to the system. It should be noted that where this access is granted for an extended period or to users outside of IT, the risk is further increased. Management should ensure that DEBUG access is removed from all dialog users. In addition, we recommend that an evaluation is performed to identify and provide the relevant codes that users require for their business duties with finance. This access should be appropriately assigned to these users. Further, management should review audit security logs within SAP, using transaction SM20 and SM21 which enable the maintenance of an audit trail, to verify that no unauthorised transactions were executed by these users within the financial year. **Management response** The 5 users identified with Debug access have now had this access revoked. Upon checking through the controls we can see that none of the 5 user id's identified actually used Debug access through the period.

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 Nottinghamshire County Council Pension Fund's 2020/21 financial statements, which resulted in six recommendations being reported in our 2020/21 Audit Findings report. We have followed up on the implementation of our recommendations and note two are still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	The finance team currently allows journals to be posted and approved by the same user. This acts as an enabler for fraudulent financial misreporting and error. The Pension Fund have a mitigating control in place, in that all such self-approved journals undergo retrospective approval. The control was found not to be operating effectively during 2020/21.	No actions taken. See preceding appendix as this has been reported again as a finding for 2021/22.
✓	Senior officers have access privileges built into the finance system which allow them to be able to post journals. As senior officers, this privilege is considered to be incompatible with role and is an enabler of management override of control.	The Section 151 Officer and Deputy 151 Office do not have park or post access this was removed from the production system in 2018. During the period, there were no journals posted by senior officers.
X	Consistent with the prior period we have identified a deficiency in regard to lack of controls reports at certain managers and/or no bridging letter. The value of investments of which we were unable to obtain a controls report is £114.6m and as we understand, the Pension Fund do not perform any alternative procedures to gain assurance that controls and processes are designed and operating effectively at these funds. Similarly, we were unable to obtain audited financial statements for one fund.	No actions taken. See preceding appendix as this has been reported again as a finding for 2021/22.
✓	We note from our review of the valuation of directly held property that one property in Essex was not revalued at the period end, but rather at 31 December 2020. Management have not performed any additional procedures to consider the movement in value of this asset within the final quarter to the period end.	All directly held properties were valued at 31 March 2022.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	As a result of testing performed on starters and leavers to the fund, we identified one starter that was incorrectly set up in the system under the wrong employer. We therefore extended our testing to cover a further 10 starters and identified one issue whereby a starter was missing a membership certificate as this was due to be issued however the employee subsequently left and therefore this was deemed unnecessary.	Based on our current year review, we noted that there is no active member record on the system as during the prior year, a record had been created erroneously from the payroll system but was subsequently cancelled out as the employer is not part of the Nottinghamshire County Council Pension Fund.
✓ (partial)	We identified a number of control issues in security and access of Nottinghamshire County Council's SAP system. These weaknesses include • SAP Support staff and vendors with DEBUG access • SAP developers with access to modify the ledgers • Change developer and implementation segregation of duties conflicts • Inadequate password security for SAP • IT security policies not acknowledged by staff	Actions taken for each item identified are detailed below • Five dialogue users still have DEBUG access in the production client • Nottinghamshire County Council locked the six accounts which had access to development keys and ability to modify ledgers in SAP production environment • Developers no longer have access to migrate changes • While the majority of the SAP password policy remains unchanged, we noted that users are now mandated to adopt the SSO passwords for SAP • A new e-learning module was added to Nottinghamshire County Council's Learning Portal. All users were auto-enrolled and required to confirm that they had read the acceptable use standard. The learning is mandatory and will be issued annually

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

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

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000
• Investment management expenses • (Profits)/losses on disposal of investments & changes in value The Pension Fund had not grossed up investment management expenses deducted at source in line with the CIPFA guidance (CIPFA, 2016)	15,200 -15,200		
• Pooled investment vehicles • (Profits)/losses on disposal of investments & changes in value 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 fund managers.	-15,365	15,365	15,365
Overall impact	-£15,365	£15,365	£15,365

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 11g private equity and infrastructure funds	Undrawn commitments were previously disclosed as £380.8m which was the balance of undrawn commitments in their original local currencies. The disclosure has now been updated to show undrawn commitments of £361.1m being the GBP equivalent.	✓
Note 2d actuarial present value of promised retirement benefits	The fair value of fund assets was previously understated by £26.3m as it excluded other investment balances which are required to be incorporated in the disclosure by the Code.	✓
Note 11b reconciliation of opening and closing values of investments 2021/22	Purchases and sales were understated by £42.354m as a result of distributions from pooled investment vehicles being recorded as negative purchases.	✓

C. Audit Adjustments (continued)

Misclassification and disclosure changes (continued)

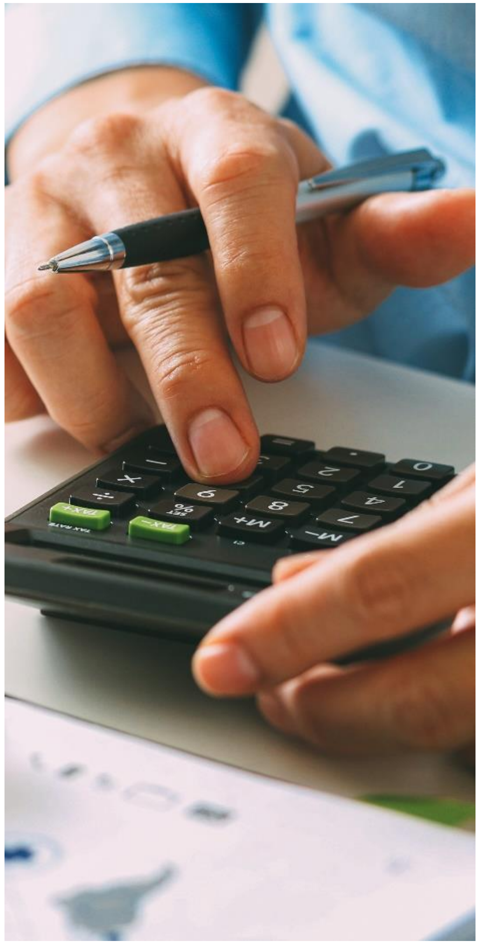
Disclosure omission	Auditor recommendations	Adjusted?
Note 1a basis of preparation	Reference was made to IAS 28 and IAS 19 being issued but not yet adopted which was not consistent with the CIPFA Closedown bulletin which lists annual improvements to IFRS 1, IAS 37, IAS 41 and amendments to IAS 16. The note has now been updated to state that there are a number of minor changes to the Code which will not have a material impact upon the financial statements of the Pension Fund.	✓
Note 2f critical judgements	Reference was made to an assessment that directly held properties are leased out under operating leases. The note has been updated to a significant accounting policy as opposed to a critical judgement.	✓
Note 15b sensitivity of assets valued at level 3	The introductory text only made reference to financial instruments even though the note also includes directly held property investments which are not financial instruments. The wording was updated to investments thus covering both types of assets.	✓
Note 15c nature and risk of financial instruments	Disclosures of risks were insufficient given the significant impact of financial instruments on the Pension Fund's financial statements. We would therefore have expected quantitative disclosures for each element of risk (market risk, interest rate risk, currency risk and credit risk). We were provided with amendments to the note where further updates were required and made on the following: - funding objectives per the Funding Strategy Statement were not consistent with the most recent Funding Strategy Statement - sensitivities were provided only for the discount rate assumption noting that minor changes in other significant assumptions that is, long term salary increase, pension increases and deferred revaluation and life expectancy could also have a material impact on the funding level - amounts had been disclosed for the Pension Fund's exposure to a 1% interest rate increase or decrease on fixed interest bonds. However, as these assets are fixed interest, interest receivable would not be impacted by any changes interest rates - there was a calculation error on the impact of a 1% interest rate increase in fixed interest bonds (£8.092m - understatement) and credit (£2.597m - understatement) - the currency risk disclosure did not include overseas cash valued at £5.3m - the currency risk disclosure included overseas fixed interest securities which the Pension Fund invests in through pooled investment vehicles. As the actual asset held by the Pension Fund is the pooled investment vehicle, the disclosure should have been limited to the investment in the pooled investment vehicle and not the pooled investment vehicle's underlying assets. The value disclosed was £149.624m - the liquidity risk disclosure required enhancement to show how the Pension Fund manages its cash flows	✓
Note 15b valuation of financial instruments and property investments carried at fair value	We identified assets which were incorrectly categorised in the fair value hierarchy. Amendments made were level 1 – £1,698m decrease (2020/21 - £1,972m decrease), level 2 – £1,566m increase (2020/21 - £1,741m increase) and level 3 – £131m increase (2020/21 - £231m increase).	✓

C. Audit Adjustments (continued)

Misclassification and disclosure changes (continued)

Disclosure omission	Auditor recommendations	Adjusted?
Note 1c investments	We identified that the definition of fair value was not in line with the code previously stated as "the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's-length transaction".	✓
Note 15b valuation of financial instruments and property investments carried at fair value	We identified that financial liabilities valued at £29.203m which are measured at amortised cost were erroneously included in the fair value hierarchy which should only include assets measured at fair value. The 2020/21 disclosure has also been amended by removing financial liabilities valued at £16.46m which are measured at amortised cost.	✓
Note 15b sensitivity of assets valued at level 3	Specific assumptions that give rise to the estimation uncertainty of level 3 investments were not disclosed.	✓
Note 16 members additional voluntary contributions	The note states that contributions are not included in the Fund's accounts in accordance with regulation 4(1)b of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The regulation was previously noted in the draft accounts as regulation 4(2)b which was incorrect.	✓
Note 17 related parties	As Nottinghamshire County Council is a related body, transactions with the Pension Fund and balances outstanding were not disclosed. The disclosure has been amended to show costs of £2.51m being incurred by the Council in administering the Pension Fund.	✓
Note 17 related parties	Disclosure had been made that the Pension Fund has guaranteed a share of the pension liability relating to employees of LGPS Central Ltd. However, this guarantee is not with the Pension Fund but with Nottinghamshire County Council.	✓
Note 17 related parties	The IAS 24 definition is incomplete. Though other elements may not be relevant to the Pension Fund, the current wording is unclear and hence should be enhanced to allow understanding by the reader of the financial statements. Management response The relevant part of the definition is included. Expanding this to mention elements which are not relevant to the Pension Fund could confuse readers.	X
Note 11h analysis of derivatives	The note states that there were no derivatives at 31 March 2022 which is consistent with our understanding of the Pension Fund's investments. However, Note 1c includes an accounting policy for derivatives which in our view is not relevant to the reader of the financial statements. Management response The policy is still in place even though current derivative holdings are nil. It is anticipated that there will be holdings during the current financial year.	X

C. Audit Adjustments (continued)

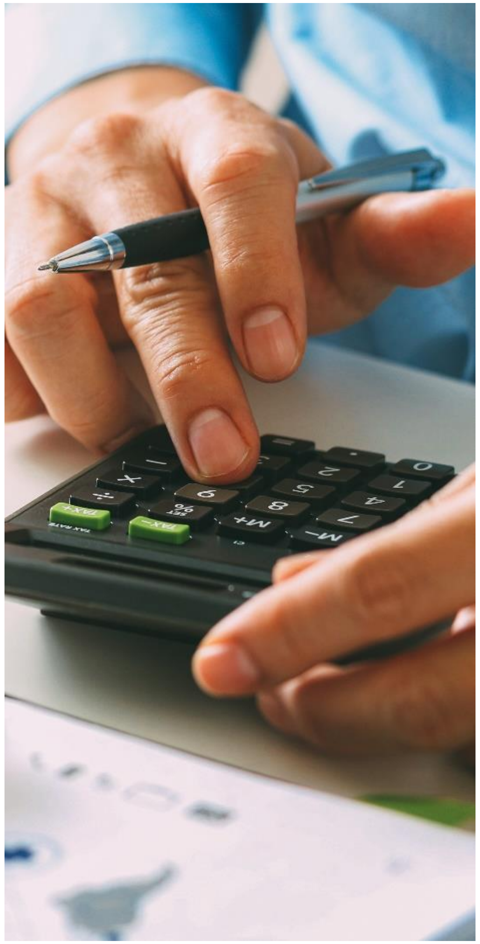


Impact of unadjusted misstatements

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 Governance and Ethics 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
• Pooled investment vehicles		6,001	6,001	Not material
• (Profits)/losses on disposal of investments & changes in value	-6,001			
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 fund managers.				
• Cash deposits		7,369		Not material
• Current assets		-7,369		
The Pension Fund's Barclays bank accounts 70568538 and 13580830 with funds amounting to £7.4m are incorrectly disclosed as current assets not cash deposits.				
Overall impact	-£6,001	£6,001	£6,001	

C. Audit Adjustments (continued)



Impact of prior year unadjusted misstatements

There were no unadjusted misstatements from the prior period.

Impact of prior year unamended disclosures

The table below provides details of disclosure misstatements identified during the audit which were not amended in the final set of financial statements.

Disclosure	Audit recommendations	Update
Financial instruments	Nature and extent of risks arising from financial instruments makes reference primarily to discount rate changes and funding levels. Standard areas of risk in relation to financial instruments such as market risk, price risk, interest rate risk, currency risk and credit risk have not been included and quantified. The pension fund have included narrative disclosure in the revised financial statements but no quantification as is expected by the Code. **Management response** The financial instruments note will be reviewed ahead of the production of next year's accounts and consideration will be given whether anything meaningful can be added to the note.	Appropriate disclosures have been made in the 2021/22 financial statements.
Key management personnel	Per the Code, key management personnel disclosure of post employment benefits within related parties should be measured on an IAS 19 basis. The current disclosure of employer pension contributions paid is not in compliance. **Management response** The issue with the key management personnel note was identified late in the audit and was not considered to be significant. The figures for next year will be calculated on an IAS 19 basis.	Our testing of key management personnel has not identified similar issues.

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	£38,456	£44,456
Total audit fees (excluding VAT)	£38,456	£44,456

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Other [IAS 19 letters to auditors in 2021/22]	£8,750	£16,000
Total non-audit fees (excluding VAT)	£8,750	£16,000

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

We have provided a reconciliation of audit fees below

- final audit fees (£44,456)
- fee variation for technical accounting issues (-£6,000)*
- fee variation for remote working (-£2,500)**
- increased FRC challenge (-£3,125)
- ISA 540 Revised (-3,600)
- additional journals testing (-£2,000)
- actuarial pension disclosure testing (-£2,000)
- pension level 3 valuations (-£2,188)
- audit scale fees (£23,043)

*Discussed and agreed with the Director of Finance

**As reported in our Audit Plan presented in June we noted a potential fee variation to reflect inefficiencies of remote working. We have delivered the audit remotely.

We have provided a reconciliation of non-audit fees below

- fees per audit plan (£8,750)
- fee variation for IAS 19 work (+£7,250)
- fees per financial statements (£16,000)

Following a review of fees for IAS 19 assurances nationally, we have determined that the core work at all Funds should be charged at £5k with each specific response charged at £1k per IAS 19 letter. We receive eleven requests and therefore the proposed final fee is £16k. We will review our final costs before confirming this.

Grant Thornton

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