Grant Thornton

The Audit Findings Report for Nottinghamshire County Council Pension Fund

Year ended 31 March 2023

28 February 2024

Contents

Your key Grant Thornton team members are:

Andrew Smith
Key Audit Partner
E andrew.j.smith@uk.gt.com

Keith Chaisewa
Audit Manager
E keith.chaisewa@uk.gt.com

Araminta Allen
Audit In-Charge
E araminta.j.allen@uk.gt.com

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.

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 have been discussed with management.

Andrew Smith

For Grant Thornton UK LLP

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 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 to December. Our findings are summarised on pages 5 to 30. Audit adjustments are detailed in Appendix D. We have also raised recommendations for management as a result of our audit work. These are set out in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

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;

- finalisation of quality reviews of the audit file;
- receipt and review of the final Annual Report;
- receipt of the signed 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 opinion on the financial statements will be unqualified.

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

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. This will be completed once the Administering Authority's audit is complete.

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)**

We would like to thank everyone at the Pension Fund for their support in working with us to resolve any delays.

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 Barnett Waddingham, and showed that the Pension Fund was fully funded. These valuations also provide updated information for the net pension liability/asset on employer balance sheets.

We have performed testing of the completeness and accuracy of triennial valuation source data. This was to support our work providing **a**ssurances to auditors of employer bodies. As part of this work, we tested a sample 50 members 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 have been discussed with management.

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 Nottinghamshire County Council Pension Fund, the Governance and Ethics Committee fulfil the role of those charged with governance.

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 10 January 2023. These outstanding items include:

- finalisation of quality reviews of the audit file;
- receipt and review of the final Annual Report;
- receipt of the signed management representation letter; 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 team and other 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.

We have revised materiality for the financial statements from 1% to 0.94% of the Pension Fund's gross investment assets (less investment liabilities) to ensure that the materiality used for the Pension Fund audit is sufficient for work to be performed by employer bodies audited by Grant Thornton UK LLP.

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	60,450,000	Gross investment assets (less investment liabilities) is considered the most appropriate benchmark for the Pension Fund because we consider the users of the financial statements to be most interested in the Pension Fund's ability to pay pension liabilities as they fall due. Materiality is determined at 0.94% of the Pension Fund's gross investment assets (less investment liabilities).
Performance materiality	42,315,000	We have determined £42.315m (70% 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	3,022,500	Triviality is the threshold at which we will communicate misstatements to the Governance and Ethics Committee.
Materiality for fund account	28,400,000	We have determined transactions within the Fund Account as items requiring greater precision and where we will apply a lower materiality level, as these are considered a key area of focus for users of the financial statements which is not directly derived from the investment portfolio. We have set materiality equivalent to 10% of gross expenditure.
Materiality for senior officer remuneration	20,000	We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures.

2. Financial Statements: Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management 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 • 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 with regards to the journal entry process. These relate 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, which was approved prospectively. 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 regarding 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 Pension 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 County Council Pension Fund, means that all forms of fraud are seen as unacceptable Therefore, we do not consider this to be a significant risk.	There were no changes to our assessment reported in the audit plan and the audit work performed did not identify any issues in respect of revenue recognition except for an £8m bulk transfer in which was erroneously recorded in 22/23 though relating to 21/22.
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 the actuarial present value of promised retirement benefits – *specifically with regard to the appropriateness of assumptions used to determine the valuation* The Pension Fund's actuarial present value of promised retirement benefits, as reflected in the Pension Fund's notes to the accounts, represents a significant estimate in the financial statements. We do not believe there is a significant risk of material misstatement in the IAS 26 estimate due to the methods and models used in the calculation or due to the source data used in the calculation. However, we have concluded that there is a significant risk of material misstatement in the IAS 26 estimate due to the assumptions used in the calculation. The actuarial assumptions used are the responsibility of the Pension Fund but should be set on the advice given by the actuary. The appropriateness of the assumptions proposed by the actuary is covered by the TAS actuarial standards. However, the Pension Fund may choose to use different assumptions than those proposed by their actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 26 disclosures.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the disclosure is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the promised retirement benefits valuation; • assessed the accuracy and completeness of the information provided by the Pension Fund to the actuary to estimate the liability; • tested the consistency of the promised retirement benefits and disclosures in the notes to the accounts with the actuarial report from the actuary; and • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed additional procedures suggested within the report. **Conclusion** Pages 13 to 14 provide a detailed assessment of the estimation process for the valuation of the actuarial present value of promised retirement benefits. Our procedures to review assumptions using the work of an auditor's expert found that the assumptions used by the management expert were reasonable and in line with expectations. Overall, we have completed our work on the valuation of the actuarial present value of promised retirement benefits having not identified any material issues.

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 investment managers (Financial investments) and valuation experts (directly held properties) to estimate the fair value as at 31 March 2023. 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 confirmations from investment managers • 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 2023 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 **Conclusion** Our audit work identified that the actual value of financial investments at 31 March 2023 had fallen by £12.5m (Level 3 - £10.9m) from that disclosed in the financial statements. This was largely attributed to 31 March 2023 investment manager reports not being available when the Pension Fund's financial statements presented for audit were closed down. Management have chosen not to amend the accounts for this difference. **For directly held properties 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 in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – £1,262m **(after adjustments, Level 3 investments were £1,396m)**	The Pension Fund has financial investments (£867m) and directly held properties (£395m) that in total are valued in the net assets statement at 31 March 2023 at £1,262m. 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 investments is highly subjective due to a lack of observable inputs. In order to determine the value, management rely on the valuations provided by fund 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 decreased by £10.7m in 2022/23, additional investments made during the year and unfavourable changes in valuations resulting from market movements.	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 10 where we identified a £10.9m 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 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.	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: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £1,873m	The Pension Fund has financial investments that are valued on the net assets statement at 31 March 2023 at £1,873m. 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 decreased by £2.8m in 2022/23, largely due to unfavourable changes in valuations resulting from market movements.	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. No misstatements were identified that require reporting to those charged with governance. 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: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Valuation of the actuarial present value of promised retirement benefits – *specifically with regard to the appropriateness of assumptions used to determine the valuation* **£6,973m**	The Pension Fund's actuarial present value of promised retirement benefits at 31 March 2022 was £6,973m. The Pension Fund uses Barnett Waddingham for the provision of IAS 26 disclosures. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2022. For 2022/23 reporting, reliance has been placed on the 2022 full actuarial valuation. Given the significant value of the actuarial present value of promised retirement benefits, small changes in assumptions can result in significant valuation movements. The sensitivity of the valuation is disclosed in Note 15c Nature and risks arising from financial instruments. There has been a £4,377m net actuarial gain during 2022/23.	We have: • assessed the competence, capability and objectivity of management's expert • assessed the competence, capability and objectivity of our auditor's expert • deepened our risk assessment procedures performed including understanding management's processes and controls for the determination of the estimate. This included an understanding of the methods, assumptions and data used, as well as instructions issued to management's expert and the scope of their work • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed additional procedures as suggested in the report • tested the completeness and accuracy of the underlying information used to determine the estimate • assessed the actuarial method applied in valuing assets and liabilities We are satisfied that management's process for producing this estimate is robust. Overall, the estimate is adequately disclosed in the financial statements.	With reference to the ranges provided by PwC, assumptions used in valuing the actuarial present value of promised retirement benefits are on the optimistic end of the range

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 significant assumptions
Valuation of the actuarial present value of promised retirement benefits – *specifically with regard to the appropriateness of assumptions used to determine the valuation* **£6,973m**	

Assumption	Actuary Value	PwC range	Assessment
Discount rate	4.80%	4.80% - 4.85%	●
Pension increase rate	2.90%	2.65% - 2.95%	●
Salary growth	3.90%	3.15% - 5.45%	●
Life expectancy – Males currently aged 45 / 65	22.0yrs 20.7yrs	20.9yrs – 23.4yrs 19.5yrs – 22.1yrs	●
Life expectancy – Females currently aged 45 / 65	25.0yrs 23.5yrs	24.3yrs – 25.9yrs 22.9yrs – 24.5yrs	●

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

			ITGC control area rating				
IT application	**Level of assessment performed**	**Overall ITGC rating**	**Security management**	**Technology acquisition, development and maintenance**	**Technology infrastructure**	**Related significant risks/other risks**	**Additional procedures carried out to address risks arising from our findings**
SAP	ITGC assessment (design and implementation effectiveness only)	●	●	●	●	No specific risks identified.	N/A
UPM by Civica (Pension Administration System)	ITGC assessment (design and implementation effectiveness only)	●	●	●	●	No specific risks identified.	N/A

Assessment

- ● Significant deficiencies identified in IT controls relevant to the audit of financial statements
- ● Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- ● IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ● Not in scope for testing

2. Financial Statements: 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
31 March 2022 Actuarial Valuation	The 31 March 2022 Actuarial Valuation was completed in March 2023 by Barnett Waddingham being the starting point for the actuary in preparing the 31 March 2023 IAS 26 disclosures for the Pension Fund and IAS 19 disclosures for employer bodies. As part of the Actuarial Valuation exercise, the Pension Fund undertook a data cleanse exercise, submitting member data extracts to the actuary in August 2022. We received copies of the member data extracts and from our testing performed over a sample of members, concluded that the data used in the 31 March 2022 Actuarial Valuation was complete and accurate.

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.
Audit evidence and explanations	All information and explanations requested from management was provided.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Pension Fund’s bankers and fund managers. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
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	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
Other information	The Pension Fund is administered by Nottinghamshire County Council (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements. We are required to read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. This will be completed once the Administering Authority's audit is complete. We are required to report if we have applied any of our statutory powers or duties as outlined in the Code. We have nothing to report on these matters.

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

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

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

Details of fees charged are detailed in Appendix E.

Transparency

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

3. Independence and ethics

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. No non-audit services were identified which were charged from the beginning of the financial year to current date. 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.

3. Independence and ethics

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

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Pension Fund that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Pension Fund held by individuals
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Pension Fund as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Pension Fund
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Pension Fund's board, senior management or staff

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person and network firms 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

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 identified 2 recommendations for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management. 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	**Lack of processes in place to ensure the Pensions Administration Team communicate any outstanding actions to the Finance Team that might have an impact on the financial statements** As a result of our audit procedures, we identified that there was a bulk transfer in of £8m in 21/22 which was recognised in 22/23. Further, there was an exit deficit of £1m relating to 21/22 which was recognised in 22/23. These transactions were missed due to them not being communicated to the Finance Team as part of the year-end closedown process.	To ensure completeness of information recorded in the financial statements, we recommend for management to establish processes that allow the Pensions Administration Team to provide details of all outstanding actions that would have an impact on the financial statements from an accruals perspective. **Management response** As part of our year-end process, we will request a list of ceased employers during the year from the Pensions Administration team and how any exit deficits / credits were / are to be settled so we can check any related payments or receipts which are due are included in the year and ensure we do not omit similar transactions in the future.

Controls

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

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
● (Medium)	**IT system** We identified a few control weaknesses in Nottinghamshire County Council's general IT controls environment. These weaknesses include: • Users with inappropriate access to ABAP debugger in production. The users that had inappropriate access were DL44, MS103, MW244, SEA15, SM32 and SP99 • Inadequate controls over generic database user accounts • Users with inappropriate access to maintain all SAP standard or customised tables in production. The users that had inappropriate access were AB111, AG130, BB17, BH232, CEB3, DL44, DR64, EW36, HB37, HD28, KQ2, LAP17, MS305, MW244, NC2, NJC1, NN4, SN14, SP99 and VLW1 • Segregation of duty conflicts within SAP batch control. Users who had authorisations to access, schedule and monitor any batch job within SAP that may not have been commensurate with their job roles were AG130, DL44, HD28, KQ2, LJM13, MS103, NN4, SEA15, SM32, SN14 and SP99 • Weak password configuration settings for Active Directory and SAP It should be noted that we were unable to obtain any assurance over the following control: • Users with ability to perform Central User Administration (CUA) activities such as distribution of users and roles into the SAP clients - We were unable to obtain the details of users with ability to perform Central User Administration(CUA) activities such as distribution of users and roles into the SAP clients due to system limitation in extracting the user listing of these users, because of which we could not verify whether this access is restricted to appropriate individuals.	The following recommendations have been made: • It is recommended that the management remove ABAP debugger access permanently from production. It is best practise to use Firefighter accounts with an approved business case and set validity period. • Management should change the default password set for generic accounts and configure them in line with the council's password policy. It is also recommended that unused accounts be disabled until when needed. • Management should segregate a user's ability to maintain all the standard or customised SAP tables within production. We recommend that for all the users identified, management should consider assigning access to relevant table groups or individuals tables via S_TABU_DIS and S_TABU_NAM authorisation objects, rather than assigning the '*' authorisation value to restrict the level of access granted to users. • Management should adopt a risk-based approach by creating a segregation of duty matrix. Management should consider assigning SM37 access to business users without S_BTCH_ADM and S_BTCH_NAM authorisation objects. We recommend that for the users identified, management should consider limiting access to the batch jobs management via the authorisation object S_BTCH_JOB and JOBACTION to 'LIST', 'PROT' and 'SHOW'. If incompatible business functions are granted to users due to organisational size constraints, management should ensure that there are review procedures in place to monitor activities, e.g. reviewing reconciliations of account balances. • SAP Password length should be in line with the standard industry practice of a minimum of 8 characters. SAP and Active Directory passwords should be changed at least every 90 days. Management should change the default password set for SAP standard user SAPCPIC within Support client (i.e.,001) and TMSADM in Client 400. **Management response** Management responses to individual recommendations are included in The Audit Findings for Nottinghamshire County Council (28 February 2024).

Controls

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

C. Follow up of prior year recommendations

We identified the following issues in the audit of Nottinghamshire County Council Pension Fund's 2021/22 financial statements, which resulted in 5 recommendations being reported in our 2021/22 Audit Findings Report. We have followed up on the implementation of our recommendations and note 3 are still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**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.	No actions taken. During the period 1 journal with a value of £6k was identified having been posted and approved by the same user. We were provided with email correspondence prospectively approving the journal.
X	**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.	No actions taken. The value of investments of which we were unable to obtain a controls report is £651m 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 one pooled fund with a year-end value of £20m.
X	**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	Six SAP Support staff and vendors were identified as having debug access. See preceding appendix as this has been reported again as a finding for 2022/23.
✓	**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.	No updates made to the IAS 24 definition within the financial statements. However, we acknowledge management's response from the prior year being, "The relevant part of the definition is included. Expanding this to mention elements which are not relevant to the Pension Fund could confuse readers."
✓	**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.	The accounting policy for derivatives was removed noting that the Pension Fund did not have any derivative investments in 2022/23.

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

There were no adjusted misstatements for the year ending 31 March 2023.

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/issue/Omission	Auditor recommendations	Adjusted?
Note 2d Actuarial Present Value of Promised Retirement Benefits	The estimated return on assets was incorrectly disclosed as 2.51% instead of 2.06% as stated in the actuary's IAS 26 disclosures report.	✓
Note 11g Private Equity and Infrastructure Funds	Undrawn commitments were understated by £109.9m. Prior to amendments being made, undrawn commitments were stated as £252.5m. In addition to the above, original commitments for the following funds were incorrectly disclosed: • Wilton Private Equity Fund – USD13m instead of USD14m • East Midlands Regional Venture Capital Fund – GBP4m instead of GBP5m • LGPS Central Infrastructure Fund (Core Plus) – GBP115m instead of GBP125m • LGPS Central Infrastructure Fund (Value Added) – GBP45m instead of GBP50m • Langar Lane Solar Farm (Direct Loan) – Nil instead of GBP1.5m	✓
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 – £134m decrease and level 3 – £134m increase.	✓
Note 15c Nature and extent of risks arising from financial instruments	Included in the interest rate risk disclosures was a credit fund valued at £203m. This should not have been included as there is no direct impact on the Pension Fund of changes in interest rates. The fixed interest bonds line item in the interest rate risk disclosures included pooled funds valued at £296m. These should not have been included for the same reasons as above noting that the disclosure did not match the fixed interest securities line item in the net assets statement. In addition, the methodology for calculating the disclosure was also updated with information on the sensitivity of interest rates on year-end valuations being provided by the respective fund managers. The disclosure for overseas currency pooled funds was understated by £381m.	✓
Note 17 Related Party Transactions	The Pension Fund's portion of the Service Director's (Finance, Infrastructure & Improvement) salary was overstated by £1,250.	X
Pension fund annual report	We identified a few inconsistencies between information contained in the Pension Fund's Annual Report and the Pension Fund's financial statements in the administering authority's statement of accounts. Amendments were agreed which are now reflected in the final Pension Fund Annual Report.	✓

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 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 • (Profits)/losses on disposal of investments & changes in value Differences identified between the value of investments disclosed in the financial statements at 31 March 2023 and the valuation statements received from third party fund managers.	 12,512	-12,512	-12,512	Not material
• Transfers in from other pension funds • Opening net assets of the fund Bulk transfer recorded erroneously in 22/23 instead of 21/22.	8,009 -8,009	-	-	Not material
Overall impact	**£12,512**	**-£12,512**	**-£12,512**	

D. Audit Adjustments (continued)

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
• Pooled investment vehicles • (Profits)/losses on disposal of investments & changes in value Differences identified between the value of investments disclosed in the financial statements at 31 March 2022 and the valuation statements received from third party fund managers. As pension assets are revalued at 31 March 2023 there is no impact upon the 2022/23 financial statements.	-6,001	6,001	6,001	Not material
• Cash deposits • Current assets 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. The balance at 31 March 2023 was £2.4m hence trivial for reporting to those charged with governance.		7,369 -7,369		Not material
Overall impact	**-£6,001**	**£6,001**	**£6,001**	

E. Fees and non-audit services

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non-audit services.

Audit fees	Proposed fee	**Final fee**
Scale Fee	**26,168**	**26,168**
Reduced materiality	-	1,500
Valuation of Level 3 Investments	2,188	2,188
Impact of ISA 540	3,600	3,600
Impact of ISA 315	-	3,000
Journals testing	2,000	2,000
Other - errors in valuation and review of changes to accounts	375	2,875
Actuarial pension disclosure testing	2,000	2,000
IAS 19 letters for employer body auditors, including testing of 31 March 2022 triennial review *	19,200	19,200
Work on triennial valuation member data *	-	5,000
Additional FRC challenge	3,125	3,125
Total audit fees (excluding VAT)	**£58,656**	**£70,656**

* Note that fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances to auditors of local government and NHS bodies should be considered work undertaken under the Code of Audit Practice for 2022/23 onwards. Provision of IAS 19 assurances to auditors of any other type of entity remains non-Code work.

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'

This impacts audits of financial statement for periods commencing on or after 15 December 2021.

ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'

ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

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