

[NOT PROTECTIVELY MARKED]

CITY OF  
WOLVERHAMPTON  
COUNCIL

# Pensions Committee Meeting

Wednesday, 14 September 2016

Dear Councillor

## **PENSIONS COMMITTEE - WEDNESDAY, 14TH SEPTEMBER, 2016**

I am now able to enclose, for consideration at next Wednesday, 14th September, 2016 meeting of the Pensions Committee, an appendix to the following report that was unavailable when the agenda was printed.

<b>Agenda No</b>	<b>Item</b>
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- |    |   |
|----|---|
| 11 | <b>Annual Report and Accounts 2015/16 (Pages 3 - 32)</b><br>[To approve the Annual Report and its publication on the Fund's website following completion of the external audit] |
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If you have any queries about this meeting, please contact the democratic support team:

**Contact** Dereck Francis  
**Tel** 01902 555835  
**Email** [dereck.francis@wolverhampton.gov.uk](mailto:dereck.francis@wolverhampton.gov.uk)  
**Address** Democratic Support, Civic Centre, 1<sup>st</sup> floor, St Peter's Square,  
Wolverhampton WV1 1RL

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# The Audit Findings for West Midlands Pension Fund

Year ended 31 March 2016

8 September 2016

**John Gregory**

Director

T 0121 232 5333

E [john.Gregory@uk.gt.com](mailto:john.Gregory@uk.gt.com)

**Ashley Wilson**

Audit Manager

T 0121 232 5430

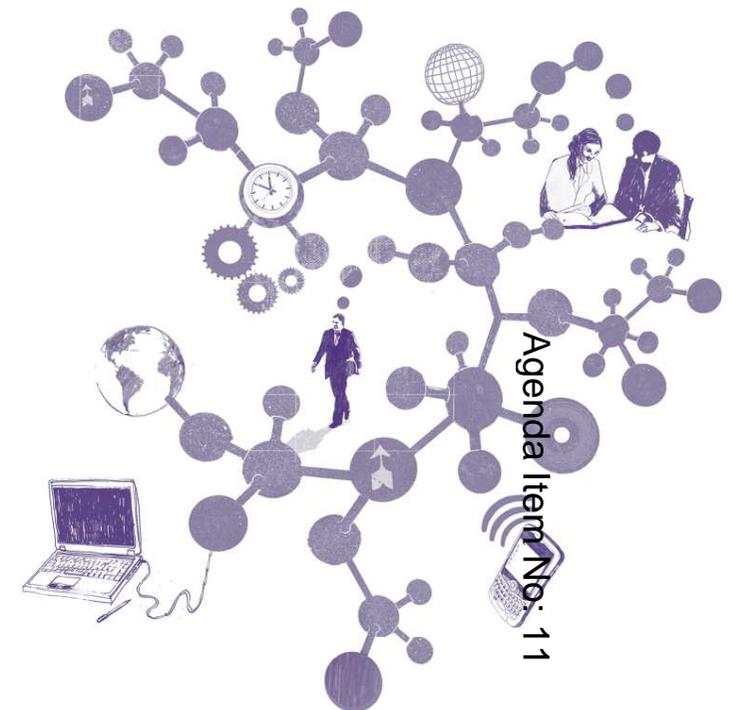
E [ashley.l.Wilson@uk.gt.com](mailto:ashley.l.Wilson@uk.gt.com)

**Naomi Povey**

Audit Executive

T 0121 232 5294

E [naomi.j.povey@uk.gt.com](mailto:naomi.j.povey@uk.gt.com)



West Midlands Pension Fund  
Mander House  
Wolverhampton  
WV1 3NB

Grant Thornton UK LLP  
The Colmore Building  
20 Colmore Circus  
BIRMINGHAM  
B4 6AT

T +44 (01) 212 4000  
[www.grant-thornton.co.uk](http://www.grant-thornton.co.uk)

Sept 2016

Dear Members of the Pensions Committee

**Audit Findings for West Midlands Pension Fund for the year ending 31 March 2016**

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of West Midlands Pension Fund, the Pensions Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), 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.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

John Gregory

Engagement lead

**Chartered Accountants**

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- B Audit opinion

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# Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

We anticipate providing a unqualified audit opinion in respect of the financial statements

## Purpose of this report

This report highlights the key issues affecting the results of West Midlands Pension Fund ('the Fund') and the preparation of the Fund's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Fund's financial statements give a true and fair view of the financial position of the fund and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required consider other information published together with the audited financial statements: whether it is consistent with the financial statements and in line with required guidance. This includes the Pension Fund Annual Report.

## Introduction

This was our first audit of the Fund, having been appointed as your external auditors with effect from 1 April 2015.

In carrying out our audit, we have not had to significantly alter our audit approach, which we communicated to you in our Audit Plan dated 22 June 2016, although we comment below on a specific change in approach in relation to assurance on investments.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation and
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

## Key audit and financial reporting issues

### Financial statements opinion

We have identified no adjustments affecting the Fund's reported financial position, although there were some misclassification amendments - details are recorded in section two of this report. The draft and final financial statements for the year ended 31 March 2016 both recorded net assets available for benefits during the year of £11,660.7m. We have recommended a small number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the Fund's financial statements are:

- We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).
- We had planned to triangulate investment values with the Fund's custodian, but this was altered to sample testing of investments as the custodian arrangements do not cover externally held investments. This has enabled us to gain sufficient audit evidence for opinion purposes.
- there is one non-material misclassification amendment to the financial statements of £21.1m. This was a level 1 investment included within level 3 investments under the Financial Instrument disclosures. This has no impact on the overall value of investments held.
- Overall the working papers supplied were of good quality and helped the audit process work efficiently.

We anticipate providing an unqualified opinion in respect of the Fund's financial statements. Further details are set out in section two of this report.

## Controls

### Roles and responsibilities

The Fund's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Fund.

## Findings

We draw your attention in particular to control issues identified in relation to:

- Weaknesses in the controls in relation to Bank Reconciliation processes. We identified that these were not evidenced as performed on a timely basis during 2015/16, but noted alternative mitigating controls were operated.
- The ability for Senior Officers to self authorise their own journals without review prior to posting to the General Ledger. There are mitigating controls in place.

Further details are provided within section two of this report.

## The way forward

Matters arising from the financial statements audit have been discussed with the Head of Finance. We have made a number of recommendations, which are set out in the action plan at Appendix A. They have been discussed and agreed with the Head of Finance and the finance team.

## Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our first audit.

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## Section 2: Audit findings

01. Executive summary

02. **Audit findings**

03. Fees, non audit services and independence

04. Communication of audit matters

This section summarises the findings of the audit, we report on the final level of materiality used and the work undertaken against the risks we identified in our initial audit plan. We also conclude on the accounting policies, estimates and judgements used and highlight any weaknesses found as part of the audit in internal controls. As required by auditing standards we detail both adjusted and unadjusted misstatements to the accounts (if any) and their impact on the financial statements.

# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £85,980k (being 0.75% of net assets). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £4,300k. This remains the same as reported in our audit plan

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

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Balance/transaction/disclosure	Explanation	Materiality level
Management Expenses	Due to public interest in these disclosures and the statutory requirement for them to be made.	£1,000,000
Related party transaction	Due to public interest in these disclosures and the statutory requirement for them to be made.	£50,000

# Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at West Midland Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Wolverhampton City Council as the administering authority, mean that all forms of fraud are seen as unacceptable.</li> </ul>	<p>Our audit work has not identified any significant issues in respect of revenue recognition.</p>
2.	<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have performed the following work.</p> <ul style="list-style-type: none"> <li>• review of entity controls</li> <li>• testing of journal entries</li> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any evidence of management over-ride of controls. However we did identify the ability for Senior Officers to self authorise their own journals.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

# Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p><b>Level 3 Investments – Valuation is incorrect</b></p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• Gained an understanding of the transaction including a review of supporting documentation.</li> <li>• Carried out walkthrough tests of the controls identified in the cycle.</li> <li>• Tested a sample of investments by obtaining and reviewing the audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31s March with reference to known movements in the intervening period.</li> <li>• Reviewed the qualifications of fund managers as experts to value the level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached.</li> <li>• Reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments.</li> <li>• Reviewed the competence, expertise and objectivity of any management experts used.</li> </ul>	<p>Our audit work has not identified any material issues in relation to the risk identified.</p> <p>One investment in Pantheon International for £21.1m is actively traded as at the 31 March, which means it is a level 1 investment, not a level 3. Further work confirmed this was an isolated misclassification.</p>

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# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Investment Income</b>	Investment activity not valid. (Occurrence)  Investment income not accurate. (Accuracy)	<b>We have undertaken the following work in relation to this risk:</b> <ul style="list-style-type: none"> <li>performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding.</li> <li>tested a sample of investment income to ensure it is appropriate</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified
<b>Investment purchases and sales</b>	Investment activity not valid. (Occurrence)  Investment valuation not correct. (Valuation gross or net)	<b>We have undertaken the following work in relation to this risk:</b> <ul style="list-style-type: none"> <li>performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding.</li> <li>tested a sample of purchases and sales to ensure they are appropriate.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified
<b>Investment values – Level 2 investments</b>	Valuation is incorrect. (Valuation net)	<b>We have undertaken the following work in relation to this risk:</b> <ul style="list-style-type: none"> <li>performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding.</li> <li>tested a sample of level 2 investments to independent information from custodian/manager on units and on unit prices.</li> <li>for direct property investments agreed values in total to valuer's report and undertaken steps to gain reliance on the valuer as an expert.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified

# Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Contributions</b>	Recorded contributions not correct (Occurrence)	<p><b>We have undertaken the following work in relation to this risk:</b></p> <ul style="list-style-type: none"> <li>performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding.</li> <li>Undertaken controls testing over occurrence, completeness and accuracy of contributions,</li> <li>Tested a sample of contributions to source data to gain assurance over their accuracy and occurrence.</li> <li>Rationalised contributions received with reference to changes in member body payrolls and numbers of contributing pensioners and ensured that any unexpected trends were satisfactorily explained.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified
<b>Benefits payable</b>	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	<p><b>We have undertaken the following work in relation to this risk:</b></p> <ul style="list-style-type: none"> <li>We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding.</li> <li>Undertaken controls testing over, completeness, accuracy and occurrence of benefit payments,</li> <li>Tested a sample of individual pensions in payment by reference to member files.</li> <li>Rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year and ensured that any unusual trends were satisfactorily explained.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified

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## Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Member Data</b>	Member data not correct. (Rights and Obligations)	<p><b>We have undertaken the following work in relation to this risk:</b></p> <ul style="list-style-type: none"> <li>performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding.</li> <li>Undertaken controls testing over annual/monthly reconciliations and verifications with individual members.</li> <li>Sample tested changes to member data made during the year to source documentation.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified
<b>Opening Balances</b>  Page 15	As the incoming auditor, we need to have sufficient assurance that balances at 1 April 2015 are not materially misstated	<p><b>We have undertaken the following work in relation to this risk:</b></p> <ul style="list-style-type: none"> <li>Checked the trial balance to the previous period's financial statements and established that figures have been brought forward correctly.</li> <li>Determined that the applicable of appropriate accounting policies have been reflected correctly in the opening balances.</li> <li>Determined that accounting policies have been applied consistently between the prior and current year periods with no changes in the accounting policies and are properly accounted for and disclosed in the financial statements.</li> <li>Reviewed year-end journal adjustments posted in the previous period with no indication of risks.</li> <li>Reviewed the previous auditor's files with no issues arising.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified

# Significant matters discussed with management

	Significant matter	Commentary
Page 16	<p>1. Discussions or correspondence with management regarding accounting practices, the application of auditing standards, or fees for audit or other services.</p>	<p>The Financial Statements at Note 16 covering Investment Market Movement Analysis includes information on movements on investments in the year. One of these movements is sales. The Pension Fund have chosen to use sales at book value which gives a market movement of £429.4m and give a narrative explanation underneath the note of realised profit of £552.1. This method of disclosure is unusual and inconsistent with the same note for West Midlands ITA pension fund contained in the joint Annual Report, which uses sale proceeds as opposed to book value of sales. The CIPFA Code refers to sales proceeds as opposed to book value, but more detail can be given than the minimum required by this guidance. As the two pension funds share the same Annual Report it is considered that having differing approaches could potentially be misconstrued by a user of the accounts. A common methodology for this note should be considered for future financial periods</p> <p><b>Management response</b></p> <p>The Pension Fund believe that the treatment is code compliant and that it states that inclusion of the amount of sales, if there have been sales, does not preclude the measurement of that amount being based on book cost. Reporting the value of sales in the way the Fund has done allows for distinction between realised and unrealised gains, which the Fund believes is useful information to a reader of the accounts</p>

# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<p><b>Revenue recognition</b></p>	<p>A) Contribution Income</p> <ul style="list-style-type: none"> <li>Contributions receivable are accounted for on the accruals basis at the rates recommended by the Fund's actuary for basic contributions.</li> <li>Past service deficit contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary.</li> <li>Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid is classed as current financial asset, which amounts due after the following year classed as long-term financial assets.</li> </ul> <p>B) Investment Income</p> <ul style="list-style-type: none"> <li>Interest Income is recognised as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.</li> <li>Dividend income is recognised on the date the shares are quoted ex-dividend. Any amounts not received by the end of the reporting period, where known to be due have been accrued for in the accounts</li> </ul>	<p>Consider the following:</p> <ul style="list-style-type: none"> <li>The revenue recognition policies are appropriate for the accounting framework used by the Pension Fund</li> <li>The accounting policy choices have been complied within the preparation of the accounts</li> <li>We have no concerns in relation to the adequacy of the disclosure of accounting policies in place</li> </ul>	<p style="text-align: center;">   <b>(Green)</b> </p>

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**Assessment**

# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<p><b>Revenue recognition – continued</b></p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 18</p>	<ul style="list-style-type: none"> <li>• Distribution from Pooled Funds are recognised at the date of issue.</li> <li>• Property-Related Income (consisting primarily of rental income from operating leases) is recognised on a straight-line basis over the term of the lease.</li> <li>• Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year</li> </ul>		
<p><b>Judgements and estimates</b></p>	<ul style="list-style-type: none"> <li>• Key estimates and judgements include:                             <ul style="list-style-type: none"> <li>– Valuation of level 3 investments</li> <li>– Pension Fund liability relating to the discount rate, salary projected increases, changes in retirement ages, mortality rates and expected returns of assets.</li> </ul> </li> </ul>	<p>The results from our review and testing of the valuation of investments is covered on page 10 of this report above.</p> <p>The pension liability is based on your actuary's Barnett Waddingham valuation. We have been provided with assurance that Barnett Waddingham can be relied on for the purpose of valuing the liability and have reviewed the assumptions. The Pension Fund has reflected the valuation as given to them by the Actuary in their accounts. The accounts have disclosed the nature of the valuation and the fact that the estimate is subject to significant variances based on changes to the underlying assumptions.</p>	<p style="text-align: center;">● <b>(Green)</b></p>

**Assessment**

# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Going concern</b>	Officers have a reasonable expectation that the services provided by the Fund will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed officer's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	 <b>(Green)</b>

**Assessment**

# Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Other accounting policies		We have reviewed the Fund's policies against the requirements of the CIPFA Code of Practice. The Fund's accounting policies are appropriate and consistent with previous years.	 (Green)

**Assessment**

# 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
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Pensions 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</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>From the work we carried out, we have not identified any related party transactions which have not been disclosed</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Fund.</li> </ul>
5.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send confirmation requests to Investment Fund Manager Institutions for the material holdings and additional samples selected for testing. This permission was granted and the requests were sent. of these requests were returned with positive confirmation, however 30 such requests were not received so we undertook alternative procedures, including sample testing to internal documents held and checks with audited accounts where available.</li> </ul>
6.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements</li> </ul>
7.	<b>Matters on which we report by exception</b>	<ul style="list-style-type: none"> <li>We are required to report by exception where the Pension Fund Annual Report is inconsistent with the financial statements. We have not identified any issues we wish to report,</li> </ul>

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# Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Investment Income, Contributions, Benefits Payable, and Member Data as set out on pages 11-13 above.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1. Page 22	 (Amber)	<ul style="list-style-type: none"> <li>Bank reconciliations were not formally documented and evidenced as reviewed at regular intervals during the year. Whilst no issues were identified in the year end bank reconciliation, but lack of evidence of in-year review does represent a weakness in the internal controls. In mitigation, the Pension fund do use the bank reconciliation module in the Agresso system which is meant to maintain a live bank reconciliation at all times.</li> </ul>	<ul style="list-style-type: none"> <li>Bank reconciliations should be formally completed and documented on a timely basis throughout the year and the evidence of review retained.</li> </ul>
2.	 (Amber)	<ul style="list-style-type: none"> <li>Journals prepared by the Head of Finance are not authorised at the time of posting to the General Ledger. This does represent a weakness in the internal controls. There are mitigating controls such as segregation of duties and reviews of budget that compensate for this weakness.</li> </ul>	<ul style="list-style-type: none"> <li>Journals prepared by the Head of Finance are reviewed prior to posting to the General Ledger.</li> </ul>

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**
-  Significant deficiency – risk of significant misstatement (Red)
  -  Deficiency – risk of inconsequential misstatement (Amber)

## Adjusted misstatements

The table below provides details of adjustments identified during the audit which have been made within the final set of financial statements.

Detail	Pension Fund Account £'000	Net Asset Statement £'000
1 18) Financial Instruments Misclassification of Level 1 investments as Level 3.		
• Level 3		-21.1m
• Level 1		21.1m
<b>Overall impact</b>	<b>£0</b>	<b>£0</b>

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## Unadjusted misstatements

There are no unadjusted misstatements that we require to bring to your attention. All items above a clearly trivial level have been amended for in the final version of the financial statements.

## Misclassifications and disclosure changes

A small number of disclosure changes were identified during the audit which have been made in the final set of financial statements, none of which are considered significant enough to bring to the attention of the Pension Fund Committee.

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## Section 3: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

**03. Fees, non audit services and independence**

04. Communication of audit matters

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

## Fees

	Proposed fee per Audit Plan £	Actual fees £
Pension fund scale fee	48,618	48,618
<b>Total audit fees (excluding VAT)</b>	<b>48,618</b>	<b>48,618</b>

The no fee variation for IAS 19 has been charged for 2015/16 account of the work we are required to undertake for admitted bodies with the PSAA regime.

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

## Fees for other services

Service	Fees £
<b>Audit related services:</b>	<b>Nil</b>

## 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 Auditing Practices Board's Ethical Standards and therefore we confirm that we 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 Auditing Practices Board's Ethical Standards.

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## Section 4: Communication of audit matters

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

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# Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these responsibilities.

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	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
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	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

# Appendices

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# Appendix A: Action plan

## Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1 Page 30	<ul style="list-style-type: none"> <li>Bank reconciliations should be formally completed and documented on a timely basis through out the year and the evidence of review retained.</li> </ul>	M	Agreed, actions already taken to ensure periodic reconciliations are reviewed as prepared. Alternative controls operated throughout the period to ensure there was no risk to cash balances held. The Pension fund do use the bank reconciliation module in the Agresso system that maintains a live bank reconciliation at all times. Evidence of review and preparation will be retained in future.	Action already taken.
2	<ul style="list-style-type: none"> <li>Journals prepared by the Head of Finance are reviewed prior to posting to the General Ledger.</li> </ul>	M	Consideration will be given to this recommendation, and there are other mitigating controls, including mitigating controls, such as segregation of duties, review of the balance sheet and trial balance, reconciliation to UPM system and reviews of budget that compensate for this weakness.	December 2016.

# Appendix B: Audit opinion

**We anticipate we will provide the Fund with an unmodified audit report**

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WOLVERHAMPTON CITY COUNCIL

We have audited the pension fund financial statements of the West Midlands Pension Fund for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Pension Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Wolverhampton City Council in respect of the West Midlands Pension Fund, as a body, in accordance with Part 5 of the Act and as set out in paragraph 6 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of West Midlands Combined Authority, in respect of West Midlands Pension Fund, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than West Midlands Pension Fund and the members of West Midlands Combined Authority, in respect of West Midlands Pension Fund, as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Director of Finance is responsible for the preparation of the West Midland Pension Fund's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information in the West Midland Pension Fund's Statement of Accounts 2015/16 to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on the pension fund financial statements

In our opinion the pension fund financial statements:

- present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and of the amount and disposition at that date of the fund's assets and liabilities; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

### Opinion on other matters

In our opinion, the other information published together with the audited pension fund financial statements in the West Midland Pension Fund's Statement of Accounts is consistent with the audited pension fund financial statements.

John Gregory  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

The Colmore Building  
20 Colmore Circus  
Birmingham  
B4 6AT  
xx September 2016



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