

Attendance

Members of the Audit and Risk Committee

Cllr Alan Butt (Chair)
Cllr Jonathan Yardley (Vice-Chair)
Cllr Mary Bateman
Cllr Philip Bateman MBE
Cllr Craig Collingswood
Cllr Clare Simm
Mike Ager

Conservative

Cllr Andrew McNeil

Employees

Tom Davies	Assistant Director - Investment Strategy
Rachel Brothwood	Director of Pensions
Darshan Singh	Head of Finance
David Pattison	Director of Governance
Claire Nye	Director of Finance
Peter Farrow	Head of Audit
Alison Shannon	Chief Accountant
Jaswinder Kaur	Democratic Services Manager
Fabrica Hastings	Democratic Services Officer
Mark Wilkes	Audit Business Partner

In attendance

Jon Roberts	Grant Thornton
Nicola Coombe	Grant Thornton

Part 1 – items open to the press and public

Item No. *Title*

- 1 Apologies for absence**
There were no apologies for absence.
- 2 Declaration of interests**
Councillor Clare Simm and Councillor Craig Collingswood declared an interest as members of the West Midlands Pension Fund Committee.
- 3 Minutes of the previous meetings**
That the minutes of the previous meeting held on 8 March 2021 be approved as a correct record.

4 **Matters arising**

There were no matters arising.

5 **Accounting Estimates for the West Midlands Pension Fund**

Rachel Brothwood, Director of Pensions, Darshan Singh, Head of Finance and Tom Davies, Assistant Director – Investment Strategy, provided a presentation on the key accounting estimates for the West Midlands Pension Fund, that would be included within the Council's financial statements this year.

The West Midlands Pension Fund's annual Statement of Accounts for 2020-2021 are prepared and the audit arranged in conjunction with Grant Thornton. The Fund's Accounts are prepared under the same guidance applicable to the City of Wolverhampton Council, 'The Code of Practice on Local Authority Accounting in the United Kingdom for 2020-2021'.

The Committee were advised that the Fund faces complexities when valuing some of the Fund's assets and liabilities at year end and the key areas where the Fund's valuation measurements, are based on estimation techniques in the absence of independently verifiable and objective pricing sources are valuation of level 3 investments, calculation of pension liabilities and estimation of accruals.

Where applicable, the Fund employs external experts to obtain accurate estimates when independent pricing is unavailable. For example, a Royal Institute of Chartered Surveyors – specialist firm, would assess the value of direct property holdings held by the Fund and the calculation of the pension liabilities is performed by a qualified Actuary in a professional Actuarial firm.

For other 'Level 3' assets such as Private Equity holdings, the valuation at year end is often estimated from the last valuation report received during the year rolled forward to end of March based on cash flows to and from the Fund's assets.

In response to a question on the Fund's local investments within the region, the Director of Pensions confirmed these included harder to value assets such as Direct Property holdings and loans to local SME and projects, noting there was both regional focus and initiatives undertaken to enhance value within the portfolio, for example through developing enhanced environmental credentials on some assets, which would be reflected in valuations over time.

The Committee were advised that internal oversight processes include scenario stress tests to assess long-term economic circumstances, based on individual assets.

Resolved:

1. That the presentation provided by the West Midlands Pension Fund on key accounting estimates be noted

6 **Assessment of Going Concern Status**

Alison Shannon, Chief Accountant, presented the Assessment of the Going Concern Status. The Committee were advised that the Council is required to compile its statement of accounts in accordance with the CIPFA Code of Practice on Local

Authority Accounting. In accordance with this code, the Council's Statement of Accounts is prepared assuming it will continue to operate in the foreseeable future.

The Committee were advised that the main factors identified within the assessment of going concern status consisted of;

- Current financial position;
- Projected financial position;
- Governance arrangements;
- Control environment in which the Council operates.

The Council's Going Concern Assessment showed in Appendix 1 outlined the Council's current financial position, which was a positive outturn position for 2020-2021 with a net contribution to the general fund of £651,000, as presented to Cabinet on 16 June 2021. The Committee were advised that the Council were able to set a balanced budget for 2021-2022 without the need to use general fund reserves but is faced with a projected budget deficit of £25.4 million from 2022-2023 rising to £29.5 million from 2023-2024.

Claire Nye, the Director of Finance reported that for the period reported, the Council is confident that it remained a going concern but requires a longer-term funding strategy from Government in order to develop a longer-term sustainable plan.

The Chair commended the audit team on the positive work done during the pandemic to support the public and businesses.

It was agreed that Director of Finance, would provide Councillor Andrew McNeil with further details regarding the increase on the general fund and reserves.

Resolved:

1. That the Assessment of Going Concern Status be noted.
2. That it be agreed that Director of Finance, would provide Councillor Andrew McNeil with further details regarding the increase of the general funds and would provide more detail.

7

Review of Compliance with the CIPFA Financial Management Code

Claire Nye, Director of Finance, presented the report on the review of Compliance with the CIPFA Financial Management Code.

The new Financial Code 2019, introduced by CIPFA, places increasing focus on the management of the Council's finances. The Committee were advised that the Council is required to demonstrate that it is working towards this code and will be fully compliant by 2022. The Committee were presented with the first iteration of the self-assessment on the Council's performance against the Code. The Committee were advised that the new Financial Management Code is a useful tool that demonstrates good practice and assurance across the Council's financial management.

The Committee were advised that the assessment demonstrates our compliance with the code. The Council has good financial management, very clear lines of reporting, transparent decision making and good budget monitoring. Budget managers are responsible for reporting on their budget monitoring with support and challenge from Finance, therefore promoting ownership across the authority and a one Council approach.

The code however highlights a few areas which could improve our performance and where work is already underway.

One area was value for money, whilst the Council does deliver on value for money, we could be demonstrated in more detail. The Council will be looking to increase the use of benchmarking and making this more visible along with embedding the performance framework approved by Cabinet in March, around Relighting Our City, and strengthening the link between performance and finance.

Medium Term financial planning is another area which could be strengthened. The Council assesses its resilience over the medium term, and provides robust forecasts on demand and risk, however, currently we do not have a balanced budget over the medium term. Whilst this is in part due to the uncertainty around Government funding, it is also around how the Council best operates within a changing environment.

The Committee were advised the final area was around enhancing our work around options appraisals. There is good project management framework in place, but work was underway to see how this can be more agile and flexible, to ensure that responses are actioned more quickly when required.

The Committee asked if this document would be shared externally. The Director of Finance advised that was being presented to Committee so to be transparent and that the Auditors would have access to this and may use it as part of their assessment.

Further detail regarding the elements of the waterfall-based approach would be brought to a future meeting.

Resolved:

1. That the Council's Review of Compliance with the CIPFA Financial Management Code be noted.

8 **Annual Governance Statement**

David Pattison, Director of Governance, presented the report on the Annual Governance Statement.

The City of Wolverhampton Council was responsible for producing the Annual Governance statement 2020-2021, to ensure that governance arrangements, Council functions and management of risk was in line with the Local Government Act 1999.

The Committee were advised that this financial year, the Council had demonstrated that it was within budget, practiced good governance and decision making.

The Committee were advised that the Council's Constitution had been updated and presented during the Annual General Council on 19 May 2021. The Council's governance arrangements were adapted, and the emergency action powers was updated, to ensure streamlined decision making, relating to budget and other matters as a response to the pandemic.

The Committee were advised that David Pattison would provide members with a 6 - monthly update regarding the Annual Governance Statement.

Resolved:

1. That the contents of the Council's Annual Governance Statement for 2020-2021 be noted.

9

Grant Thornton 2019 - 2020 Annual Audit Letter

Jon Roberts, External Auditor – Grant Thornton, presented the report on the Grant Thornton 2019 – 2020 Annual Audit Letter.

The Annual Audit Letter provided by Grant Thornton outlined the key findings from the work carried out at the Council for the previous financial year, ending 31 March 2020.

The Committee were advised that any fee variants identified within the report resulted from more work undertaken by Grant Thornton. The Committee were advised that statutory audit fee is determined and agreed by (Public Sector Audit Appointments) PSAA, which has now been finalised.

The Governments lockdown restrictions imposed as a response to the pandemic forced the 2019-2020 audit to be completed using technology rather than face to face. The Committee were advised that remote working had had some positive advantages and future audits would probably be undertaken using a hybrid approach.

The Committee were advised that the recommendation on the Annual Governance Statement (AGS) asked for more emphasis to be included for the wider group – the committee had received this year's AGS at this meeting.

A recommendation on the Councils scrutiny and challenge of the external valuer's report was also included. The Committee were advised that the challenge and processes have been significantly enhanced for the 2020-2021 financial year.

It was agreed that Alison Shannon, Chief Accountant, would provide Councillor Andrew McNeil, with the presentation from the valuers which was presented at a previous Audit and Risk Committee.

It was agreed that David Pattison, Director of Governance, would follow up with Councillor Jonathan Yardley, outside of the meeting regarding his query on value engineering risk associated with the Civic Halls.

Resolved:

1. That the Annual Audit Letter provided by Grant Thornton, be noted.
2. That it be agreed that David Pattison, Director of Governance, would follow up with Councillor Jonathan Yardley, outside of the meeting regarding his query on value engineering risk associated with the Civic Halls.
3. That it be agreed that Alison Shannon, Chief Accountant, would provide Councillor Andrew McNeil, with the presentation from the valuers which was presented at a previous Audit and Risk Committee.

10

Grant Thornton 2020 - 2021 Audit Plan

Jon Roberts, External Auditor – Grant Thornton, presented the report on Grant Thornton 2020 - 2021 Audit Plan for noting.

The Audit Plan for the year ended 31 March 2021 within Appendix 1, outlined the planned scope of external audit work that covered areas of risk, materiality and value for money arrangements.

The new approach to value for money was reassessed with the National Audit Office, to produce a new code of audit practice. The Annual Audit Letter would be replaced with an Auditors Annual Report, which would not require the Council to qualify/unqualify. Grant Thornton would continue to report on benchmarking and best practices and would provide commentary/ observations, regarding three areas of the City of Wolverhampton Council including;

Governance;

Financial sustainability;

Arrangements for improving economy efficiency and effectiveness.

Resolved:

1. That the Audit Plan 2020 - 2021 from the Council's external auditors, Grant Thornton, be noted.



Our ref: WMPF202021

Darshan Singh,
Head of Finance,
West Midlands Pension Fund,
PO Box 3948,
Wolverhampton,
WV1 1XP

Grant Thornton UK LLP

The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

T +44 (0)121 212 4000
F +44 (0)121 212 4014

18 March 2021

Dear Sirs,

West Midlands Pension Fund Financial Statements for the year ended 31 March 2021

As part of our audit of the Fund's financial statements for the year ended 31 March 2021, we need to update our understanding of your accounting estimates, including all the key accounting estimates that will be included in the Fund's financial statements this year. We do this to maintain our understanding of the accounting estimates and to comply with International Auditing Standards (ISAs (UK)), including the revised standards that apply to our 2020/21 audit for the first time.

International Auditing Standards place obligations on auditors to document their understanding of the entity and its environment, including the entity's internal control, in identifying and assessing the risks of material misstatement in the financial statements. [ISA \(UK\) 540 \(Revised\) Auditing Accounting Estimates and Related Disclosures](#) (revised in December 2018) is effective for audits of financial statements for periods beginning on or after 15 December 2019. The revised standard requires auditors to understand a number of matters related to your key accounting estimates (as set out in section 13 of the standard).

To assist us in meeting these requirements, I would be grateful if you would consider and formally respond to the matters set out in the accompanying schedules. A separate schedule is included for each key accounting estimate that we have identified. If you are aware of any other material accounting estimates that will be included in your financial statements could you please add and complete an additional schedule for that estimate.

I would be grateful for your responses, if possible, by the 8th of March 2021 to help inform our risk assessment and planning of our 2020/21 audit of the Fund's financial statements.

Please do not hesitate to contact me if you wish to discuss anything in relation to this request.

Yours sincerely

David Rowley

Manager, Audit

Grant Thornton UK LLP

Investments (Directly Held Property) – accounting estimate

Question	Management response
<p>1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?</p>	<p>There is a risk that valuations do not accurately reflect the market and the Statement of Accounts therefore do not give a true and fair view.</p> <p>To mitigate this risk, valuations are carried out by external registered Royal Institution of Chartered Surveyors (RICS) valuers in accordance with RICS guidance and the Code of Practice on Local Authority Accounting.</p> <p>The outbreak of Covid-19 has impacted on the global financial markets and market activity. A material valuation uncertainty was disclosed in the property valuer's report in 2019-2020.</p>
<p>2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?</p> <p>Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?</p>	<p>Valued at fair value at the year-end using the investment valuation reports of Savills Plc. One third of the commercial property portfolio is valued fully in March each year, with the remaining two thirds being a 'desktop' valuation. Agricultural properties are valued by Browns at the year end.</p> <p>No changes are anticipated to these methods or models in 2020-2021</p>
<p>3. How do management select the assumptions used in respect of this accounting estimate?</p> <p>Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?</p>	<p>Assumptions are selected by the valuer in accordance with RICS guidance and the Code of Practice on Local Authority Accounting. Management review these assumptions and challenge where necessary.</p> <p>No changes are anticipated in 2020-2021.</p>
<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so what was the reason for the change?</p>	<p>The Fund's direct property portfolio is managed and administered by third party property agents. The property agents record and provide details of the portfolio and its holdings in order for the RICS valuer to prepare valuations at quarter and year ends.</p> <p>No changes were made to the source of data in 2020-2021.</p>
<p>5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?</p>	<p>The valuer advises on the accounting estimates used in the valuations.</p> <p>The valuer is sourced through a tender process.</p>
<p>6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?</p>	<p>The Fund undertakes annual assurance confirmation of the controls environment for its fund managers requiring the submission of their Internal Control Reports (AAF/ISAE/SOC1). For those managers who do not undertake such a review they are requested to complete a Pension Fund Compliance Monitoring Form. Exceptions are noted from these documents with material exceptions being investigated further and reported through to the Assistant Directors of Investments.</p>

7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes, valuations are carried out in accordance with RICS guidance and the Code of Practice on Local Authority Accounting.
8. Were any changes made to the key control activities this year? If so please provide details.	No changes were made in 2020/21.
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	In consultation with independent investment advisors, management consider the percentage range within which the valuation of property is likely to be accurate and then calculate and disclose sensitivity analysis to support the point estimate. Management also monitor the impact of COVID-19 and in 2019-2020, the valuers alerted management to the fact that valuations had been reported on the basis of material valuation uncertainty".
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	Management consults with investment advisers independent of the property valuer who use their specialised knowledge and skills to advise on the range of reasonably possible outcomes so that management can calculate and disclose sensitivity analysis to support the point estimate.

Investments (Other Level 3 and 2 assets) – accounting estimate

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	Valuations of unquoted assets could be affected by events occurring between the date of the entity's valuation statement and the Fund's own reporting date. Events include changes to expected cashflows, valuation adjustments and differences between audited and unaudited accounts. To mitigate this risk at year end the Fund: <ul style="list-style-type: none"> • reviews audited financial statements where available; • uses third party services to derive adjusted valuations and review the investment performance; and • engages with the respective fund manager to identify any issues.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	Value is based on the latest investor reports and financial statements provided by the fund managers of the underlying funds, adjusted for transactions arising after the date of such reports. No changes are anticipated to these methods or models in 2020-2021.
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	As stated above the valuations are provided by the fund managers based on audited and unaudited financial statements of the underlying funds. No changes are anticipated to these methods or models in 2020-2021.

4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	Valuations are obtained from the fund managers for all investments.
5. Were any specialised skills or knowledge used in respect of this accounting estimate, and if so how were these specialist skills procured?	Valuations are obtained from the fund managers for all investments.
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	The Fund undertakes annual assurance confirmation of the controls environment for its fund managers requiring the submission of their Internal Control Reports (AAF/ISAE/SOC1). For those managers who do not undertake such a review they are requested to complete a Pension Fund Compliance Monitoring Form. Exceptions are noted from these documents with material exceptions being investigated further and reported through to the Assistant Directors of Investments.
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Management believe there are adequate controls in place over the calculation of this accounting estimate based on the annual assurance work it undertakes as outlined in 6 above and the subsequent comparison of actual year end external valuations against this estimate to understand the reasons for variance and make improvements to the estimation process as seen appropriate.
8. Were any changes made to the key control activities this year? If so please provide details.	No changes were made for 2020/21.
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	In consultation with independent investment advisors, management consider the percentage range within which the valuations of level 3 of assets are likely to be accurate and then calculate and disclose sensitivity analysis to support the point estimate
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	Management consults with independent investment advisers who use their specialised knowledge and skills to advise on the range of reasonably possible outcomes for the different classes of level 3 assets held so that management can calculate and disclose sensitivity analysis to support the point estimates.

Investments (Insurance Buy In) – accounting estimates

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	Management recognises that the calculation of estimates for the insurance buy-in contract requires specialised knowledge, skills, techniques and judgements. The calculation of the estimate is therefore entrusted to a leading firm of UK actuarial consultants.

<p>2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?</p> <p>Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?</p>	<p>The value of the insurance contract is calculated by an actuarial expert, taking into account the membership profile, changes in retirement ages, mortality rates and discount rates.</p> <p>No changes are anticipated to this method or model in 2020-2021.</p>
<p>3. How do management select the assumptions used in respect of this accounting estimate?</p> <p>Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?</p>	<p>The actuary selects the assumptions and management reviews the reasonableness of these assumptions.</p> <p>No changes are anticipated to this method or model in 2020-2021.</p>
<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so what was the reason for the change?</p>	<p>The Pension Fund provides data on pension benefits and membership numbers, to enable the actuary to undertake their estimate.</p> <p>No changes are anticipated to this method or model in 2020-2021.</p>
<p>5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?</p>	<p>An actuary advises on the accounting estimates.</p> <p>The actuary is procured through a tender exercise</p>
<p>6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?</p>	<p>Management review the assumptions and agree these with the actuary before estimates are calculated.</p>
<p>7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?</p>	<p>Yes. As detailed in Q6, in addition to management reviewing the assumptions, officers discuss these assumptions with the actuary before agreeing the methodology for the calculations.</p>
<p>8. Were any changes made to the key control activities this year? If so please provide details.</p>	<p>No changes were made for 2020/21.</p>
<p>9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?</p>	<p>The actuary provides an analysis to show how sensitive the estimate is to changes (plus & minus) to the primary assumptions underlying the calculation i.e. the discount rate and life expectancy. Management takes this analysis into account when selecting the point estimate to use.</p>
<p>10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?</p>	<p>The actuary provides sensitivity analysis for the primary assumptions underlying the calculation i.e. the discount rate and life expectancy.</p>

LGPS liability – accounting estimates

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	Management recognises that the calculation of estimates for defined benefit net pension liability requires specialised knowledge, skills, techniques and judgements. The calculation of the liability is therefore entrusted to a leading firm of UK actuarial consultants.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	The liability estimate is calculated by an actuarial expert, taking into account the membership profile, changes in retirement ages, mortality rates and discount rates. No changes are anticipated to this method or model in 2020-2021.
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	The actuary selects the assumptions and management reviews the reasonableness of these assumptions. No changes are anticipated to this method or model in 2020-2021.
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	The Pension Fund provides data on pension benefits and membership numbers, to enable the actuary to undertake their estimate. No changes are anticipated to this method or model in 2020-2021.
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	An actuary advises on the accounting estimates. The actuary is procured through a tender exercise
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	Management review the assumptions and agree these with the actuary before estimates are calculated.
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes. As detailed in Q6, in addition to management reviewing the assumptions, officers discuss these assumptions with the actuary before agreeing the methodology for the calculations.
8. Were any changes made to the key control activities this year? If so please provide details.	No changes were made for 2020/21.
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	The actuary provides an analysis to show how sensitive the estimate is to changes (plus & minus) to the primary assumptions underlying the calculation i.e. the discount rate, the projected rate of salary increases, future pension increases and life expectancy. Management takes this analysis into account when selecting the point estimate to use.

<p>10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?</p>	<p>The actuary provides sensitivity analysis for several assumptions including discount rate and life expectancy of scheme members.</p>
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