Grant Thornton

# The Audit Findings for West Midlands Pension Fund

**Year ended 31 March 2020**

**30 September 2020**

# Contents

**Your key Grant Thornton team members are:**


**Grant Patterson**
Director
T: 0121 232 5296
E: grant.b.patterson@uk.gt.com

**David Rowley**
Manager
T: 0121 232 5225
E: david.m.Rowley@uk.gt.com

**Kiran Hussain**
In-Charge
T: 0121 232 5107
E: kiran.Hussain@uk.gt.com

# Headlines

This table summarises the key findings and other matters arising from the statutory audit of West Midlands Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2020 for the Pensions Committee (a sub-group whom we have determined we are required to communicate with) and the Audit & Risk Committee of the City of Wolverhampton Council who we have determined are those charged with governance.

| | | |
|---|---|---|
| **Covid-19** | As for many organisations, the outbreak of the Covid-19 coronavirus pandemic has presented new challenges to the normal operations of the Pension Fund.<br><br>The Fund have had to contend with risks in relation to the possibility of delayed contributions, volatile returns on investments, disruptions to administration of the Fund and prioritising the health and safety of staff and members.<br><br>Administering authorities were still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020. | We issued our original Audit Plan in March 2020 which, as a result of the pandemic, was considered by the Pensions Committee under the Urgent Decision protocols on 25 March 2020. We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 29 April 2020. In that addendum we reported an additional financial statement risk in respect of Covid-19. Further detail is set out on page 5.<br><br>Restrictions for non-essential travel has meant both Pension Fund and audit staff have had to adapt to new remote access working arrangements. This has been driven primarily by the use of technology and regular communication between the teams. We have both utilised video calling, screen sharing and other means to the fullest of our ability in order to carry out audit procedures and verify the completeness and accuracy of information.<br><br>The draft financial statements were published and provided to the audit team on 15 June 2020. The audit has been conducted on a remote basis and is substantially complete at the time of writing. Fortunately, both the audit team and Council finance team have avoided any significant challenges through staff illness and lack of availability. |
| **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:<br><br>• give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and<br>• 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 has been performed remotely during July-September. Our findings are summarised on pages 5 to 7. We have identified no adjustments to the financial statements that have resulted in a change to the Pension Fund's reported financial position in the draft financial statements.<br><br>We have identified an extrapolated, non-trivial, £33m possible overstatement of Net Asset Values in relation to Level 3 investments. In addition, a small number of minor disclosure and classification issues have been notified for amendment to the Finance team. Other audit adjustments are detailed in Appendix C.<br><br>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion in Appendix E or material changes to the financial statements, subject to resolution of the following outstanding matters:<br><br>• Completion of procedures on Level 3 investments;<br>• Receipt and review of information in relation to completeness of management fees;<br>• Completion of internal procedures on derivatives and FX instruments;<br>• Receipt and review of the Annual Report;<br>• Review of the final set of financial statements, and<br>• receipt of management representation letter – appended separately.<br><br>Our anticipated audit report opinion will be unqualified but we are proposing the inclusion of an Emphasis of Matter paragraph highlighting the valuation material uncertainty disclosures associated with the Fund's directly held property holdings as a result of Covid-19. This would not affect our opinion that the statements give a true and fair view of the Fund's financial position and its income and expenditure for the year. Such a paragraph is added to indicate a matter which is disclosed appropriately in the Fund's financial statements but which we consider is fundamental to a readers' understanding of the financial statements. |

# Audit approach

## Overview of the scope of our audit

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

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

### Audit approach

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

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls;
- Controls testing of the Pension Fund's valuations of Level 3 investments; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have had to alter our audit plan, as communicated to you in March 2020, to reflect our response to the Covid-19 pandemic. This is described in detail from page 5 onwards but included obtaining an understanding of the impact of the pandemic on the organisation and considering how this manifests in the financial statements for the period. In particular, we have increased focus on asset valuations, use of the going concern assumption, classification of assets in the fair value hierarchy and narrative disclosure.

### Conclusion

As at the time of writing, our audit work is substantially complete. However, some key audit procedures remain outstanding. These are detailed at the significant risk areas within the report and summarised on page 4. As previously stated, subject to resolution of the remaining outstanding queries, we anticipate issuing an unqualified audit opinion following the upcoming Pensions Committee and Audit & Risk Committee meetings.

### Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan.

| | Pension Fund Amount (£) | Factors considered |
|---|---|---|
| Materiality for the financial statements | £140m | We determined materiality for the audit to be £140m (0.9% of prior year net assets). This benchmark is considered the most appropriate based on the nature of the Pension Fund. |
| Performance materiality | £91m | Performance materiality drives the extent of our testing and this was set at approximately 65% of financial statement materiality. Our consideration of performance materiality is based upon a number of factors:<br>• In prior years we have identified some deficiencies in the control environment. The Fund has strengthened arrangements in 2019/20 but we need to complete our audit work to confirm this before considering increasing for future audits.<br>• There has not historically been a large number or significant misstatements arising; and<br>• Senior management and key reporting personnel has remained stable from the prior year audit |
| Trivial matters | £7m | Triviality is the threshold at which we will communicate misstatements to the Pensions Committee and Audit & Risk Committee. |

# Significant audit risks

| Risks identified in our Audit Plan | Auditor commentary |
|---|---|
| **Covid–19**<br>**General**<br>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:<br>• Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation<br>• Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation, and the reliability of evidence we can obtain to corroborate management estimates<br>• For instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification of the instruments if trading may have reduced to such an extent that, quoted prices are not readily and regularly available and therefore do not represent actual and regularly occurring market transactions.<br>• Whilst the nature of the Fund and its funding position (i.e. not in a winding up position or no cessation event) means the going concern basis of preparation remains appropriate management may need to consider whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and<br>• Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. | We worked with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations which ultimately remained the same.<br>We liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose<br>We have:<br>• Evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic.<br>• Evaluated whether sufficient audit evidence could be obtained in the absence of physical verification of assets through remote technology<br>• Evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations<br>• Evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;<br>• Engaged the use of auditor experts for high risk estimates such as the Directly Held Property and complex Insurance assets.<br>As detailed against the other affected significant risk areas, we extended and enhanced audit procedures in areas considered to be particularly at risk, such as Level 3 asset valuations and Directly Held Property as a sub sector of the same. We also enhanced our procedures around Information Produced by the Entity (IPE) to ensure that technology such as screen sharing and video calls were utilised to gain additional assurances over reports produced by the entity where lockdown restrictions meant we could not be physically present or in relation to prime documents where there may have been considered a risk of manipulation.<br>We have no concerns to report at this time in relation to the impact of Covid-19 on the Fund's ability to operate remotely or around IPE. However, as noted on pages 7 and  we are proposing the inclusion of an Emphasis of Matter paragraph highlighting the valuation material uncertainty disclosures associated with the Fund's direct property holdings as a result of Covid-19. Our opinion is not modified in this respect.<br>Further information on findings in relation to the higher risk estimates is detailed further on in the report. |
| **Disputes between oil producing countries causes a further significant deterioration in the value of global equities**<br>As at March 2020, loss of investor confidence following the spread of the Covid-19 virus and the fall in global oil prices had caused a significant decrease in the value of global equities. Following our plan issued in March 2020, we subsequently upgraded the risks associated with Covid-19 and wider economic instability to a significant risk. | |

# Significant audit risks (continued)

| Risks identified in our Audit Plan | Auditor commentary |
|---|---|
| **Management override of controls**<br><br>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ide of controls is present in all entities. The Pension Fund faces external scrutiny of its spending and stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance.<br><br>We therefore identified management override of controls, in particular journals, management estimates and transactions outside of the course of normal business as a significant risk, which was one of the most significant assessed risks of material misstatement. | We:<br><br>- Evaluated the design effectiveness of management controls over journals<br>- Analysed the journals listing and determined the criteria for selecting high risk unusual journals<br>- Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration<br>- Gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence;<br>- Evaluated the rationale for any changes in accounting policies, estimates of significant unusual transactions.<br><br>As a result of the pandemic and remote working arrangements, additional scrutiny was applied to IPE (as previously described) and we ensured that journals designed to affect financial performance at year end were included in our sample. We do not have any concerns to report in this area. |
| **The revenue cycle contains fraudulent transactions (rebutted)**<br><br>Under ISA 240 there is a rebuttable presumed risk that revenue may be misstated due to improper recognition of revenue.<br><br>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. | As outlined in our audit plan. Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Pension Fund, the risk of fraud arising from revenue recognition can be rebutted, because;<br><br>- There is little incentive to manipulate revenue recognition<br>- Opportunities to manipulate revenue recognition are very limited<br>- The culture and ethical frameworks of the Pension Fund and local authorities, including City of Wolverhampton Council as the Administering Authority of West Midlands Pension Fund, mean that all forms of fraud are seen as unacceptable.<br><br>Our assessment in this area has not changed during the course of audit work performed on the 2019/20 draft financial statements. Therefore we do not consider this to be a significant risk for West Midlands Pension Fund. Whilst not a significant risk, as part of our audit work we did undertake work on material revenue items. Our work did not identify any matters that would indicate our rebuttal was incorrect. |

# Significant audit risks (continued)

| Risks identified in our Audit Plan | Auditor commentary |
|---|---|
| **The valuation of Level 3 investments is incorrect**<br><br>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.<br><br>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.<br><br>Management utilise the services of investment managers as valuation experts to estimate the fair values of these assets.<br><br>We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter. | In line with our audit plan we have:<br><br>- Evaluated management's processes for valuing Level 3 investments;<br><br>- 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 and ensure that the requirements of the Code are met;<br><br>- Independently requested year-end confirmations from investment managers;<br><br>- For a sample of investments, tested the valuation by comparing the value per the General Ledger (typically based on an investor statement as at the reporting date or, in the case of harder to value assets, the latest capital statement available adjusted for known cash movements in the final quarter of the year) to direct confirmation of capital balances from Investment Managers and, where available, latest audited financial statements.<br><br>- Completed sample testing of purchases and sales to prime documentation across the period to support our reconciliation of opening and closing balances; and<br><br>In addition to the above procedures, identified in our audit plan, as a result of the impact of the Covid-19 pandemic we varied and enhanced our approach as follows:<br><br>- In addition to reviewing control reports and audited financial statements where available, we also requested responses from fund managers around their use of the most appropriate International Private Equity and Venture Capital Valuation (IPEV )[or equivalent] methodology in their valuation books, specifically updated in the light of the most recent guidance available in relation to Covid-19.<br><br>- We also performed an analysis by market sector of the Fund's holdings, with a particular focus on hard to value assets, with a view to identifying any particular asset classes or sectors which we viewed as a particular risk as a result of the economic impact of the pandemic and provided further challenge to the Fund around the valuations of those assets.<br><br>Owing to the increased level of risk and scrutiny in this area, our work remains ongoing at the time of writing. We have substantially completed our initial program of work barring receipt of a handful of manager confirmations and four sets of audited financial statements to enable us to complete our procedures in this area.<br><br>On our work completed at this time we have identified an extrapolated £33m possible overstatement of Net Asset Values in relation to Level 3 investments. This is principally a function of the timing of the production of financial statements and the particular challenges faced in the markets in March 2020; per the Fund's accounting policies, year end values for hard to value assets frequently contain 31 December values adjusted for cash which are then assessed by the auditor to ensure that the carrying value per the financial statements is not materially different from the fair value as at the audit date. We would typically expect to see a number of small variances as a result of this, usually netting out to a below trivial (and therefore non reportable) variance. The higher than usual variance is indicative of the wider uncertainty in the markets at the balance sheet date, but is not a material difference and does not indicate any weakness in management's arrangements for estimating investment values at year end. As the figure is an extrapolation it is not possible to adjust for it and management have determined not to undertake additional work to quantify exact differences on the basis that the difference is not material. |

# Significant audit risks (continued)

| Risks identified in our Audit Plan | Auditor commentary |
|---|---|
| **Valuation of Directly Held Property (Level 3 Investment) (Annual revaluation)**<br><br>The Fund revalues its directly held property on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements die to the size of the numbers involved (£981 million as at 31 March 2019) and the sensitivity of this estimate to changes in key assumptions.<br><br>Management have engaged the services of a valuer to estimate the current value as at 31 March 2020.<br><br>We therefore identified valuation of directly held property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter. | We have:<br><br>- Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work;<br><br>- Independently requested year end confirmations from the valuer and supporting documents as relevant from the Fund's property managers;<br><br>- Evaluated the competence, capabilities and objectivity of the valuation expert;<br><br>- Written to the valuer to confirm the basis on which the valuations were carried out;<br><br>- Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Fund's valuer's report and the assumptions that underpinned the valuation; and<br><br>- In addition to the stated procedures per our audit plan, in response to wider market uncertainty relating to property valuations, we have engaged an auditor's expert (in this case, a firm of RICS qualified surveyors) to perform a detailed review of the methodology and assumptions employed by the valuer. To compliment this we also undertook additional audit procedures to evaluate possible impairment by assessing cash collection rates and ongoing covenant strength.<br><br>Our audit work has not identified any issues in relation to the Fund's valuation of its Direct Property holdings. However, the valuer has included a material uncertainty clause in relation to some of the Fund's direct property holdings to reflect market conditions at the reporting date. We are therefore proposing the inclusion of an Emphasis of Matter paragraph highlighting the valuation material uncertainty disclosures within the Fund's financial statements associated with the Fund's direct property as a result of Covid-19. Our opinion is not modified in this respect. |

# Other risks

| Risks identified in our Audit Plan | Auditor commentary |
|---|---|
| **The merger with West Midlands ITA Pension Fund is not appropriately accounted for**<br><br>As of 1 April 2019, the assets and liabilities relating to the West Midlands ITA Pension Fund are consolidated into the West Midlands Pension Fund and brought under the responsibility of City of Wolverhampton Council as administering authority.<br><br>There is a risk that opening balances are not brought forward correctly, that the consolidation is not appropriately performed and that appropriate legislation is not complied with. | As outlined in our audit plan we have:<br>- Tested opening balances brought forward from the ITA and confirm consistency with audited financial statements;<br>- Considered the appropriateness of the Fund's proposed consolidation process and any ringfencing arrangements;<br>- Engaged our own internal Actuary to perform valuation processes on the ITA insurance buy-in.<br><br>We are satisfied that ITA balances have been correctly brought forward into the Fund's financial statements and that the consolidation and ring-fencing arrangements are appropriate.<br><br>The insurance buy-in was valued by the Fund's actuary (Barnett Waddingham). We:<br>• gained an understanding of the Fund's process for valuing level 3 investments and evaluated the design of the associated controls<br>• reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided by these types of investments. We used our in-house experts, the Grant Thornton valuation team, to assist us in doing this. We reviewed the assumptions and calculations to provide assurance that the valuation was reasonable.<br>• reviewed the qualifications of the expert Barnett Waddingham to value Level 3 investments at year end.<br><br>We have independently estimated the value of the insurance buy-in to be £231,596k compared to your actuarial valuation of £229,363k. The valuation of this estimate is complex and the difference is within approximately 1% of the actuary's result and within the expected range we set. From this we have concluded that the valuation is reasonable and not materially misstated. |

# Significant findings – other matters and issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

| Issue | Commentary | Auditor view |
|---|---|---|
| **McCloud**<br>In July 2020, The Ministry of Housing, Communities & Local Government (MHCLG) published its consultation on reforms to public sector pension schemes, this included the proposed remedy to address the discrimination caused by previous protections offered for those closer to retirement age. | We have discussed the potential impact of the McCloud remedy with management in consultation with management's expert, Barnett Waddingham LLP and determined that the allowance for McCloud included in the IAS 26 valuation as at 31 March 2020 is broadly similar to the proposed remedy and therefore we do not believe that there is any risk of material misstatement of the liability in this respect..<br>Management have proposed therefore that no adjustment is made to the financial statements however disclosure will be included to highlight the matter to readers of the accounts. | We are comfortable with the approach management have adopted and agree that additional disclosure will aid transparency.<br>The consultation is expected to close in October 2020 and the outcome of this will be confirmed subsequent, as such based on our understanding and the evidence provided, we are satisfied that the impact of this will not be material to the financial statements. |
| **Goodwin**<br>In addition to the above, the Goodwin case also examines alleged discrimination in the Teachers' Pension Scheme and we are aware that the Government Actuary Department (GAD) have been commissioned to prepare a report which considers this at a national level. The NAO are seeking clearance from MHCLG for this report to be shared. | As above, management are satisfied that the potential impact of Goodwin is immaterial to the valuation of the Fund as at 31 March 2020 as it is expected to be 0.025% of total liabilities (approximately £6m) however it is too early to understand the remedy. This has been supported by the actuary who concur with this view.<br>Management have proposed therefore that no adjustment is made to the financial statements however disclosure will be included to highlight the matter to readers of the accounts. | The Tribunal decision was on 30 June and Chief Secretary to the Secretary's Statement was on 20 July (link). As these clarify the legal position our view is that the event is potentially an adjusting post balance sheet event.<br>Management are not proposing to amend the accounts further. We are satisfied that additional disclosure will aid transparency and through our audit work we have obtained sufficient assurance that the increased liability will not be material to the financial statements. |
| **Contributions**<br>Our testing of scheme contributions determined that, in some instances, member employers used an incorrect rate to pay in to the scheme and there were issues around third party confirmations of the cash value of contributions paid in year from member employers. | **Employer contribution rates:** we noted a number of cases of employers using the wrong rate to pay employer's contributions into the scheme. As referred to at Appendix A, the net impact of this was highly trivial. However, there is a risk that a larger employer may make the same mistake.<br>**Employer contribution statements:** a key control for the Fund in preparing financial statements is ensuring that they recognise the correct value of contributions for each employer by checking their General Ledger balance against an independent confirmation from that employer. Owing to prepayments of contributions, there is a difference between the amount that is recognised in each respective party's financial statements which has led to some confusion in the reconciliation process. | We have made recommendations in respect of each of these identified issues within our Action Plan at Appendix A. |

# Significant findings – other issues (continued)

| Issue | Commentary | Auditor view |
|---|---|---|
| **Third party cash balances**<br>Audit procedures performed in relation to cash balances identified a small cash balance being held in a Fund bank account (and accounted for using the Fund's General Ledger system) which does not form part of the Fund's financial structure. | From discussions with the finance team we understand that this balance is held on behalf of a third party by the Fund. Whilst the balance is highly trivial to the Fund, it has a potentially higher significance to the third party and is large enough in nominal terms to warrant a separate bank account. | We have made a recommendation in this respect as part of our action plan at Appendix A. |

# Significant findings – going concern

### 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).

| Going concern commentary | Auditor commentary |
|---|---|
| **Management's assessment process** | **Auditor commentary** |
| Management has prepared accounts on a going concern basis and provided cash flow forecasts for a period beyond one year following the proposed sign off date of the accounts. | • Whilst the Fund's financial statements are prepared in accordance with CIPFA's Code of Local Authority Accounting the PRAG Pension SORP provides helpful additional guidance for defined benefit schemes in noting that even where a scheme is significantly underfunded it should continue to be treated as a going concern for accounting purposes unless a decision has been made to wind up the scheme. As noted the Scheme is currently 94% funded based upon the latest triennial valuation and has sufficient funds to continue meeting benefit payments for the medium to long term (see below). In respect of any such decision for wind up the LGPS is a statutory scheme that can only be wound up by Government and there are currently no intentions to wind up the West Midlands Pension Fund.<br>• We are satisfied that management's assessment that the going concern basis is appropriate for the 2019/20 financial statements. |
| **Work performed** | **Auditor commentary** |
| Our audit work includes:<br>• Reperformance and stress testing of the Fund's cash flow forecasting;<br>• Scrutiny and challenge of the underlying assumptions | • The Fund operates in a cash negative environment; contributions receivable in 2019/20 totalled £353.2m against benefits payable of £637.8m. However, Net Assets of the scheme at 31 March 2020 totalled £15,288m. Our view is that this level of assets suggests the Fund is well placed to meet obligations for the foreseeable future.<br>• The Fund has more than £6.7bn of Level 1 investment assets. These assets are liquid and can be accessed quickly for cashflow purposes if required.<br>• The Local Government Pension Scheme is a statutory scheme and there are no events or conditions that would indicate the winding up of the scheme.<br>• No issues have been identified from the work performed |
| **Concluding comments** | **Auditor commentary** |
| | • Overall, we are satisfied that the preparation of the financial statements using the going concern principal is reasonable and sufficient disclosure has been made in the financial statements of this, no additional disclosures have been required as a result of Covid-19<br>• Based on the above comments, we anticipate being able to issue an unmodified opinion. |

# Significant findings – key judgements and estimates

| Accounting area | Summary of management's policy | Audit Comments | Assessment |
|---|---|---|---|
| **Level 3 investments** | The Pension Fund has investments in unquoted investments and pooled investments that in total are valued on the Net Asset Statement as at 31 March 2020 at £2,841m (net of £965.1m Direct Property Holdings which are discussed separately). These investments are not traded on an open exchange and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management rely on the valuations provided by experts employed by the private equity funds or similar vehicles in which the Fund invests. | Management determine the value of Level 3 Investments through placing reliance on the expertise of the investment managers. As such we have:<br>• sought confirmations of year end valuations from a sample of main mandate managers.<br>• tested a sample of level 3 investments to audited accounts to determine if the values estimated are reasonable and, in response to the additional uncertainty in the markets as a result of the impact of the Covid-19 pandemic,<br>• raised additional queries with the find managers to ensure compliance with the most up to date guidance from International Private Equity and Venture Capital Valuation or equivalent (including in relation to updates for Covid-19 impact), and<br>• reviewed service auditor reports for all material holdings.<br>• Assessed management's expert, reviewing their competence, expertise and objectivity where appropriate,<br>• Reviewed the adequacy of disclosure of estimate in the financial statements and consider it adequate<br>As a result of the time delay between production of the financial statements and receipt of the 31 March 2020 investor statements (due to the often lengthy valuation process for these assets) it is not unusual to observe a variance between the value per the Fund at year end and the actual per capital statements. In this instance, due to the market volatility which occurred in March, this variance is slightly larger than usual; based on an extrapolation of the results of our sample testing, we estimate that the variance amounts to a possible overstatement of £33m in the disclosures relating to Level 3 investments. This is not a material issue but is above trivial and therefore reportable. As discussed in our Appendix on unadjusted misstatements our view is that this is a function of timing and the increased volatility of financial markets as opposed to a control weakness at the Fund. Our assessment is that management's process for producing the estimate remains sound. Further details on our work on L3 investments can be found on page 7. | Green |

**Assessment**

- Red We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Amber We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Yellow We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Green We consider management's process and key assumptions to be reasonable

# Significant findings – key estimates and judgements

| Accounting area | Summary of management's policy | Auditor commentary | Assessment |
|---|---|---|---|
| **Level 2 investments** | The Pension Fund have investments in unquoted bonds and pooled investments that in total are valued on the balance sheet as at 31 March 2020 at £3,527m. The investments cannot be easily reconciled to valuations recorded on an open exchange as the valuation of the investments involves some subjectivity. In order to determine the value, management rely on the information which they are given from the various fund managers. | The fund has a material balance of investments with some observable inputs. The valuation of these investments is subject to varying degrees of estimation uncertainty. The Fund discloses the differing methods of valuation for these funds within the accounts. In each case the Fund choses to rely on the valuation provided by the fund manager.<br>Similar to our approach for level 3 investments, we have;<br>• Assessed management's expert, reviewing their competence, expertise and objectivity where appropriate,<br>• Considered the valuation techniques used against industry practice – concluding the methodology applied in calculating these estimates is consistent with peers and industry practice<br>• Satisfied ourselves in respect of the appropriateness of the underlying information used to determine the estimate is reasonable and based on the best information available to management<br>• Reviewed the adequacy of disclosure of estimate in the financial statements and consider it adequate<br>We were satisfied that our audit procedures did not suggest that there are any extrapolated errors, control issues or material uncertainties relating to this balance. | ● **Green** |

**Assessment**

- ● Red We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● Amber We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● Yellow We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● Green We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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# Significant findings – key judgements and estimates (continued)

| | Summary of management's policy | Audit Comments | Assessment |
|---|---|---|---|
| **Level 3 investments-bulk annuity buy-in** | A bulk annuity insurance buy-in was put in place in 2012/13 as part of the ITA Pension Fund's risk strategy. This has now transferred to the West Midlands Pension Fund following the merger.<br><br>This cover means that the insurer underwrites the risk of meeting the future liabilities relating to West Midlands Travel Limited pensioners on the pension payroll at 11 August 2011 in return for a one-off premium. This buy-in valued within the Net Asset Statement as at 31 March 2020 at £229,363k. The valuation of the this buy-in insurance is highly subjective due to a lack of observable inputs. In order to determine the value, management have engaged their Actuary Barnett Waddingham. The value of this buy-in has increased by £4.9m in 2019/20 compared to 2018/19, largely due to pension payments of £15.8m in year offset by a net £20.7m gain relating to actuarial gains in respect of changes in demographic and actuarial assumptions. | The results from our review and testing of the valuation of investments is covered on page 6 of this report above. The fair value of the insurance buy-in has been reviewed and is considered a reasonable estimate.<br><br>The pension liability is based on your actuary's Barnett Waddingham valuation. We have been provided with assurance that Barnett Waddingham can be relied upon 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.<br><br>The bulk annuity insurance buy-in is ultimately derived by the actuary's valuation. We have had our own valuation experts review the information and assumptions used by the actuary and based on this work consider the estimates and judgements used to be reasonable. | ● Green |

**Assessment**

- ● Red We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● Amber We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● Yellow We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● Green We consider management's process and key assumptions to be reasonable

# Significant findings – key estimates and judgements (continued)

| Accounting area | Summary of management's policy | Auditor commentary | Assessment |
|---|---|---|---|
| **Valuation of Direct Property** | The Pension Fund has investments in Direct Property holdings that in total are valued on the Net Assets Statement as at 31 March 2020 at £965.1m.<br><br>Management forms its estimate of the valuation by placing reliance on the valuations expertise of its external valuer. The valuer provides quarterly investor statements which provide a valuation of the full portfolio held by the Fund. The valuer has acknowledged the estimation uncertainty arising as a result of the Covid-19 pandemic by including a material uncertainty clause in the valuations report for March and a more targeted comment on material uncertainty relating to specific assets in the June 2020 update.<br><br>Management acknowledges the possibility of other appropriate valuations by providing a sensitivity analysis within its financial instrument disclosures. The value of the investment has decreased by £15m in 2019/20, largely due to the retail focus of the portfolio, the future outlook of which had been impacted by the Covid-19 pandemic at the balance sheet date. | To respond to the risks associated with this, the audit team looked at the following key areas;<br>• We engaged our own auditor's expert (an appropriately qualified firm of valuers) to review the methodology and assumptions used by the Fund's expert;<br>• We performed substantive testing on the underlying information supplied to management's expert as well as post balance sheet date cash collection data in order to ensure completeness and accuracy of the underlying data, and gain some assurance over future covenant strength of leases with tenants at the Fund's retail and industrial sites;<br><br>Our findings were that the experts used in the process were appropriately qualified and the Fund's overall process for the estimation was in line with our expectations based on peer review and sector knowledge. Year on year movement was in line with expectations based on our understanding of the Fund's portfolio and the wider sectors in which it exists. Disclosures, including those in relation to sensitivity analyses, were deemed to be complete and appropriate. | ● Green |

**Assessment**

- ● Red We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● Amber We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● Yellow We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● Green We consider management's process and key assumptions to be reasonable

# 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 | **Matters in relation to fraud** | • 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. |
| 2 | **Matters in relation to related parties** | • We are not aware of any related parties or related party transactions which have not been disclosed. |
| 3 | **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. |
| 4 | **Written representations** | • A letter of representation has been requested from the Pension Fund, which is appended. We have requested specific representations in respect of the 'material valuation uncertainty' disclosures (referred to on pages 7, 8 and 13) and management's proposals not to make adjustments for the matters reported on pages 7 and 10. |
| 5 | **Confirmation requests from third parties** | • We requested direct confirmations from the custodian and all main mandate fund managers, plus a sample of managers for alternative investments for investment balances. We have received confirmations from managers. |
| 6 | **Disclosures** | • Our review found no material omissions in the financial statements. |
| 7 | **Audit evidence and explanations/significant difficulties** | • All information and explanations requested from management was provided. |
| 8 | **Matters on which we report by exception** | • We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Funds Annual Report along with our opinion on the accounts. |

**Acknowledgements**
We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

# Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Pension Fund'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 Pension Fund’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.

# Independence and ethics

### Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following non-audit services were identified which were charged from the beginning of the financial year to current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

| | Fees £ | Threats identified | Safeguards |
|---|---|---|---|
| **Audit related** | | | |
| Provision of IAS 19 Assurances to Scheme Employer auditors | 9,250 | Self Interest | This is a recurring fee and therefore poses a potential self-interest threat. However, the level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work of £9,250, in comparison to the total fee for the audit of £46,636 and in particular to GTUK's turnover overall. Further, the work is on audit related services.<br><br>It is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |

These services are consistent with the Pension Fund’s policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Standards Committee. None of the services provided are subject to contingent fees.

# Action plan

We have identified two recommendations for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| Medium | **Contributions – use of incorrect employer contributions rate by scheme employers**<br>During the audit we noted a number of cases where employers used an incorrect Future Service Rate to calculate employer's contributions. In total, employers had applied a lower FSR rate which amounted to a net £150k overpayment of contributions. | Although the impact identified this year was clearly trivial to the financial statements, we feel that this is a control issue which could have a material impact on smaller employers and has the possibility of larger impacts if issues are encountered at one of the Fund's key employers.<br>We recommend that the Fund look into ways of building in controls into UPM which will notify employers of the error at the point of remittance.<br>**Management response**<br>The Fund has controls in place to identify and highlight all instances where employers may not have applied the Future Service contribution rate as expected. In many cases, the differences are small and not necessarily as result of applying incorrect rates but due to timing differences or payroll adjustments made by employers. Each instance has to be investigated with tolerances applied to assist in resolution and this can lead to a rolling programme of ongoing work. |
| Medium | **Contributions – reconciliation between notional and cash value of contributions**<br>As a result of the option to pre-pay Future and Past Service Contributions, this now results in frequent, substantial year on year variances on contributions receivable which present a challenge to the auditor in assessing completeness of the population. | We recommend that the Fund enhance procedures around reconciling notional contribution values (based on expected values in real time per actual pensionable pay) to actual cash received.<br>Furthermore, 3rd party confirmations from employers should be enhanced to include cash values as well as expected balances per pensionable pay.<br>**Management response**<br>Where employers have pre paid Future Service contributions in advance, the Fund accounts for the receipts in full in the month in which they were received. As part of its contributions monitoring process, the Fund calculates contributions due for every employer each subsequent month based on expected employer contribution rate multiplied by actual pensionable salary. For employers who have prepaid, this is a notional value and is not included in the reconciliation of contributions due or in the annual accounts. Monthly cash receipts from such employers are in respect of employee contributions only and are reconciled to the member data submitted by employers.<br>The 3rd party request to employers does require confirmation of cash values and expected balances per pensionable pay. The Fund will liaise with employers who have pre paid contributions to ensure correct completion of the confirmations. |

**Controls**

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

# Action plan (continued)

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| ● Best practice | **Third party cash balances**<br>Audit procedures performed in relation to cash balances identified a small cash balance being held in a Fund bank account (and accounted for using the Fund's General Ledger system) which does not form part of the Fund's financial structure. | We recommend that the Fund sets up a separate bank account and sub ledger accounting system to monitor the cash balance in question.<br>**Management response**<br>The Fund and City of Wolverhampton Council have completed the application forms required to set up a separate bank account to monitor this balance. The account is expected to be operational from October 2020. Within the Fund's General Ledger system, transactions relating to this balance are allocated to a specific cost centre code to enable monitoring and segregation from Fund transactions. The volume of these transactions is small enough that this structure is a reasonable way to monitor and account for movements on this balance. |

**Controls**

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

# Follow up of prior year recommendations

We identified the following issues in the audit of West Midlands Pension Fund's 2018/19 financial statements, which resulted in one recommendation being reported in our 2019/20 Audit Findings report.

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| ✓ | In our 2018/19 AFR, we recommended that the Fund looked to introduce an additional level of analysis in respect of scheme contributions within its chart of accounts to enable finance staff and auditors to identify sub-types of contributions more easily and therefore improve reconciliations, accounts preparation and audit procedures. | We are please to report that this recommendation was acted upon during the 2019/20 year and we experienced considerably less difficulty in this area during the 2019/20 audit. |

**Assessment**

✓ Action completed

X Not yet addressed

# 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 required adjusting entries which would impact the reported net expenditure for the year ending 31 March 2020 identified.

### Misclassification and disclosure changes

The table below provides details of key misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

| Disclosure issue | Detail | Auditor comment | Adjusted? |
|---|---|---|---|
| **Misclassification of investment assets within Fair Value hierarchy** | We have identified assets totaling £107m classified as Level 1 within the Fair Value hierarchy which we have agreed with management should be Level 3. | Non-material issue which does not impact overall financial performance. In order to enhance readers of the accounts understanding of the disclosures, the Fund should ensure a robust review of Fair Value hierarchy disclosures is in place.<br>**Management response**<br>The Fair Value hierarchy disclosure was amended to show this single investment in relation to one manager as Level 3 in the finalized Statement of Accounts. | ✓ |
| **Covid-19 disclosures** | Following our initial review of the draft financial statements and related disclosures, we identified a requirement for the Fund to include additional disclosures in respect of the impact of Covid-19 and associated uncertainties. | Following discussions with management, additional disclosures were included, in particular within the Post Balance Sheet Events and Estimation Uncertainty notes.<br>**Management response**<br>The Fund consulted with its investment advisers after initial drafting of the accounts when more experience was available to disclose how uncertainties arising from Covid-19 may impact across different classes of assets in the portfolio. | ✓ |
| **Key management personnel disclosures** | Disclosures in respect of Key Management Personnel should be enhanced to include total increase in Cash Equivalent Transfer Value (CETV) of Key Management Personnel's pension entitlement as opposed to contributions received only. | This is a non-material issue, but the Fund should look to obtain and include this information in coming year financial statements to ensure full compliance with the Code and enhance users' understanding of the financial statements<br>**Management response**<br>The Fund agrees that this additional disclosure is informative and will include it in future Statement of Accounts commencing with the year ending 31 March 2021. | ✓ |

# Audit adjustments

### Impact of unadjusted misstatements

As a result of audit procedures performed, we have not identified any material adjusted misstatements in the accounts. As noted on page 10 management have considered the impact of the proposed McCloud restitution and Goodwin judgment upon the Fund's pension liability, the differences in asset valuations as the result of more recent updated information being available and capital commitments and have determined not to adjust for these matters as they are immaterial to the results of the Fund's financial position at the year-end.

The table below provides details of uncertainties identified during the 2019/20 audit which have not been adjusted within the final set of financial statements. The Pensions Committee and Audit & Risk Committee are required to approve management's proposed treatment of all items recorded within the table below:

| Detail | Pension Fund Account £m | Net Asset Statement £m | Impact on total net assets £m | Reason for not adjusting |
|---|---|---|---|---|
| **Extrapolated overstatement of Level 3 assets** | 33 | (33) | (33) | • As detailed earlier in the report, this is an extrapolation based on sample testing of Level 3 assets intended as an indicative value to aid members' understanding of the financial statements as opposed to a precise proposed adjustment. Overall, out assessment is that the financial statements are not materially misstated and therefore no adjusting entry is required. |
| **Overall impact** | **£33m** | **£(33m)** | **£(33m)** | |

### Impact of prior year unadjusted misstatements

There were no unadjusted misstatements identified during our 2018/19 external audit.

# Fees

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

| Audit fees | Proposed fee | Final fee |
|---|---|---|
| Pension Fund | £48,636 | £49,886 |
| **Total audit fees (excluding VAT)** | **£48,636** | **£49,886** |

The fees reconcile to the financial statements as follows:

- fees per financial statements: £72,930
- less fee variations and non-audit fees billed in respect of 2018/19's audit: (£14,574)
- net of PSAA rebate: £4,530
- less non-audit fees in respect of 2019/20 (detailed below and within our Audit Plan): (£14,250)
- plus additional fee arising in respect of engagement of GT valuations expert: £1,250 (NB: not included in financial statements)
- total audit fee (per above) £49,886

| Non-audit fees for other services | Proposed fee | Final fee |
|---|---|---|
| Audit Related Services (provision of IAS 19 to auditors of member employers) | £9,250 | £9,250 |
| Non- Audit Related Services (review of the unitisation of ITA fund) | £5,000 | £5,000 |
| **Total non- audit fees (excluding VAT)** | **£14,250** | **£14,250** |

# Audit opinion

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

### Independent auditor's report to the members of City of Wolverhampton Council on the pension fund financial statements of West Midlands Pension Fund

### Opinion

We have audited the financial statements of West Midlands Pension Fund (the 'pension fund') administered by City of Wolverhampton Council (the 'Authority') for the year ended 31 March 2020 which comprise the Fund Account, the Net Assets Statement and Notes to the Pension Fund Statements for the year ended 31 March 2020, including a summary of significant accounting policies. 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 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and of the amount and disposition at that date of the fund's assets and liabilities.
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### The impact of macro-economic uncertainties on our audit

Our audit of the pension fund financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Strategic Director for Resources and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties. However, no audit should be expected to predict the unknowable factors or all possible future implications for a fund associated with these particular events.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance's use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Director of Finance has not disclosed in the pension fund's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

# Audit opinion

In our evaluation of the Strategic Director for Resources conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the pension fund financial statements shall be prepared on a going concern basis, we considered the risks associated with the fund's operating model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the fund's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the fund will continue in operation.

### Emphasis of Matter – effects of Covid-19 on the valuation of directly held property [TBC]

We draw attention to *Note P5: Assumptions made about the future and other major sources of estimation uncertainty* of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Fund's directly held property funds as at 31 March 2020. The property funds' valuers have stated that there is a material uncertainty about the valuations as a result of Covid-19. The Fund has decided to use the valuer's estimates as the best available estimates of the values of the Fund's assets as at 31 March 2020, but these estimates are subject to greater uncertainty than in previous years. Our opinion is not modified in respect of this matter.

### Other information

The Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement, other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

### Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

### Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page x, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance.

# Audit opinion

The Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the pension fund's 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 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Strategic Director for Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund's financial statements, the Director of Finance is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

The Audit & Risk Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

### Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 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 Authority's members 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 the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Grant Patterson, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

XX October 2020