The Audit Findings for West Midlands Pension Fund

Year ended 31 March 2022

West Midlands Pension Fund

19 October 2022

Contents

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1. 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 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Our audit work was mainly completed remotely alongside agreed days on site during July – October. Our findings are summarised on pages 3 to 17. We have not identified an issues within the financial statements that have resulted in a required adjustment to the Pension Fund's reported financial position. Unadjusted misstatements and disclosure related audit adjustments identified during the course of the project are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete and at the time of writing we have not identified any matters that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters:

- Completion of final internal quality reviews of significant risk areas (valuation of Level 3 investment assets, including Directly Held Property and Management Override of Controls);
- Receipt and review of audited financial statements in respect of two funds managed by LGPS Central – we have received unaudited statements but as at 19 October 2022 are still awaiting audited financial statements.
- Review of the final version of financial statements (including consideration against disclosure checklist);
- Receipt of management representation letter; and
- Review of the Pension Fund Annual Report.

As reported to the Pensions Committee on 21 September, through our sample testing, we have identified £94m of adjustable differences in the valuation of the Fund's investments disclosed in the financial statements at 31 March 2022 and the valuation statements received from the third-party investment managers. We have refined our extrapolation approach and this now extrapolates to a total uncertainty of £119m (previously reported as being £129m) - see page 21 in Appendix C for details.

We recognise the difference is primarily driven by timing differences on closing down the financial statements and receipt of final valuation statements and is not an uncommon finding at pension funds. Management are proposing not to amend the financial statements on the basis that the differences are not material quantitatively (0.6% of net investment assets) or qualitatively and the Pension's Committee and Audit & Risk Committee will be asked to confirm their agreement to this and confirm it within the Letter of Representation.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Chair and Vice Chair of the Pensions Committee.

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

Audit approach

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

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

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the receipt of the signed management representation letter.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance function and employees representing teams across the Fund.

2. Financial Statements

Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan

We detail in the table below our determination of materiality for West Midlands Pension Fund.

	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	£200m	Per the audit plan, we set materiality based on a proportion of net assets. At planning we established an initial materiality of £180m. We have continued to update our assessment of materiality at the final accounts stage, which is reflected in the revised figure which represents 0.98% of the Fund's net assets, however we determined this benchmark remains appropriate.
Performance materiality	£140m	Based on the internal control environment at the Fund we determined that 70% of headline materiality would be an appropriate benchmark.
Trivial matters	£10m	We deem matters below 5% to be sufficiently trivial not to warrant drawing attention to the committee.

2. Financial Statements - Significant risks

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

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

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable risk that management override 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. We therefore identified management override of controls, in particular journals, management estimates and transactions outside the course of normal business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness Our audit work has not identified any issues in respect of management override of controls. No changes in accounting policy, estimates or significant unusual transactions for which an appropriate business purpose could not be determined were identified during the course of our program of work.
Improper revenue recognition Under ISA (UK) 240, there is a rebuttable presumed risk that revenue may be misstated due to improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. As external auditors in the public sector, we are also required to give regard to Practise Note 10, which interprets the ISA in a public sector context and directs us to consider whether the assumptions also applies to expenditure.	Having considered the risk factors set out in ISA 240 and the nature of revenue streams at the Fund, we have determined that the risk of fraud arising from revenue and expenditure recognition can be rebutted because: • there is little incentive to manipulate expenditure and revenue recognition. • opportunities to manipulate revenue and expenditure recognition are very limited; • the nature of the Fund's revenue is in many respects relatively predictable and does not generally involve cash transactions; • revenue contributions are made by direct bank transfers from admitted / scheduled bodies and are supported by separate schedules, as well as being directly linked to gross pay rendering improper revenue recognition in this area unlikely; • transfers into the pension scheme are all supported by an independent actuarial valuation of the amount which should be transferred and which is subject to agreement between the transferring and receiving Funds; • historically the split of responsibilities between the Fund, the Depository and its Fund Managers (including those pooled with LGPS Central) provide a very strong separation of duties, reducing the risk around investment income; • the culture and ethical framework of local authorities, including the administering authority of the Fund, City of Wolverhampton Council means that all forms of fraud are seen as unacceptable. Therefore, at the planning stage, we did not consider this to be a significant risk for West Midlands Pension Fund. We have continued to update our risk assessment during the course of the audit. We have also sampled tested income as part of audit strategy. We have not identified any circumstances which would suggest an amendment to the rebuttal would be appropriate o required.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Level 3 investments The fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statement date. By their nature, level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. Under ISA315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgements to reach an appropriate valuation at year end. Management utilise the services of investment managers as valuation experts to estimate the value of these assets. We therefore identified valuation of level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have; - evaluated management's processes for valuing Level 3 investments. - reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investment to ensure the requirements of the CIPFA Code are met. - independently requested year end confirmations from investment managers;. - for a sample of investments, tested the reliability of the valuations provided by comparing audited valuations (per financial statements) to investor statements at the same date. Gained assurance over post audit movements with reference to indexation data, gaining corroboratory evidence from management for above threshold variances from expectation identified. - where we were unable to obtain audited financial statements (or unable to reconcile investor statements to audited accounts), considered the competence and capabilities of the Investment Manager and reviewed Service Auditor Reports to gain assurance over design effectiveness of internal controls. - completed sample testing of purchases and sales to prime documentation across the period to support our reconciliation of the opening and closing balances. - analysed the fund's holdings by sector, applying an additional layer of professional scepticism and challenge in relation to any assets with potential exposure to the pandemic or other significant economic risks; - engaged the Firm's internal actuary to provide assurance over the Admitted Body Separate Fund insurance buy-in valuation. Per the Fund's accounting policies, and in common with other comparable bodies in the sector, a number of the Fund's level 3 assets are valued a quarter or more in arrears and, as such, given the requirement for the Fund to produce draft accounts within a time limited window the value within the general ledger and draft financial statements at the balance sheet date is a December 2021 or earlier valuation adjusted for known cash movements. Consequently, this will inevitably lead to a variance between the balances recorded in the Net Asset Statement for these assets and the actual, up to date March investor statements which are typically received after the Fund has prepared draft accounts. This timing variance can be especially pronounced in periods of significant market uncertainty or upheaval (both the pandemic and conflict in Ukraine have led to such instability in the final quarter of prior financial years). As described above, a key element of our approach to auditing Level 3 asset valuations is to establish whether the valuations provided by fund managers are reliable. Once we have assurance over this reliability, we then attempt to quantify the timing variance by obtaining an updated schedule of Level 3 investments with as many March investor statement values included as possible. As at October 2022, we had identified a quantifiable positive timing variance of £94m (that is to say, the estimated value of these assets as at 31 March 2022 per investment management statements was £94m higher than the value recorded in the ledger and draft financial statements). Furthermore, in order to recognise the possible risk in relation to assets for which we had not received an updated March 2022 investor statement, we used our findings to extrapolate across the remaining population of assets valued in arrears. This suggested a possible further £25m estimation uncertainty (again a positive variance), totalling a possible £119m understatement of Level 3 investment assets. This value is below our performance materiality threshold and, as such, this is not above the threshold at which level our audit methodology would require us to request that the Fund post an adjusting entry prior to signing of the auditor's opinion. However, it is above our trivial threshold and therefore reportable to members. Management have opted not to amend on the grounds that the balance is not material both quantitatively and qualitatively For clarity, this is in line with experiences with other comparable bodies from within the sector owing to market conditions and, as such, we do not deem this to be indicative of a control weakness at the Fund.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Directly Held Property (Level 3 Investment) (Annual revaluation) 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 due to the size of the numbers involved (expected to be around £1bn at the balance sheet date) and the sensitivity of this estimate to changes in key assumptions. Management engage the services of a valuer to estimate the value at the balance sheet date as well as an investment manager for the portfolio. We have therefore identified valuation of directly held property assets, particularly revaluations and impairments, as a significant risk.	We have - evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; - independently requested year-end confirmations from the investment manager; - evaluated the competence, capabilities and objectivity of the valuation expert; - written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the CIPFA Code are met; - engaged our own valuer to assess the instructions to the Fund's valuer, the Fund valuer's report and the methodology and assumptions that underpin the valuation; - challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; - where available, reviewed the investment manager service auditor report on design effectiveness of relevant controls. We have no issues to report to members in relation to valuation of Directly Held Property.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – £2,939.4m (net of direct property holdings and insurance buy in, which are discussed separately) These investments are typically unquoted investments and pooled investment vehicles and are not traded on an open exchange. The valuation of these assets is typically highly subjective due to a lack of observable inputs. In order to determine the value, management rely on the valuations provided by investment managers which in turn are provided by experts employed by the private equity funds or similar vehicles in which the Fund invests.	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 typically rely on the valuations expertise of investment managers, supported by the Fund's own advisors and analysis of performance against the market and expectations. The value of the investments has increased by approximately £231m, reflective of gains of £459m (driven by a continued market recovery post pandemic) offset by net sales of assets totalling £228m.	As detailed in the previous section, we noted an estimated £119m understatement of assets in this area (comprising a quantifiable £94m and a further extrapolated £25m) stemming from the timing differences between valuation of assets and accounts production. This is not an unusual finding in relation to pension funds and the size of this is in relation to the market volatility which has occurred over last two accounting periods. However, our review of management's process for arriving at and accounting for the estimate did not suggest any control or process weaknesses and we are satisfied that the process is appropriate and assumptions not subject to undue optimism or management bias.	Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious
Direct property holdings – £1,142m As above, the Fund has investments in direct property totalling over £1.1bn in 2021/22. These assets are hard to value and are therefore held at Level 3 in the Fair Value hierarchy, representing a significant estimate for the Fund.	Management forms its estimates 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. Management acknowledges the possibility of other appropriate valuations by providing a sensitivity analysis within its financial instrument disclosures. The value of the investment has seen valuation gains of approximately £191m in year, offset by asset disposals of £62m, reflective of a continued strong performance in property markets following the post pandemic recovery.	In response to the risk of material misstatement stemming from this estimate, Grant Thornton has engaged an independent auditor's expert to assess the methodology and assumptions used by managements expert as well as performing our own review of the capabilities and competence of the expert and consideration of the results of their work against national indices to look for any unusual movements, which were then subject to further detailed audit testing, Our conclusion is that management's process for arriving at the estimate is appropriate and free from undue optimism or management bias.	Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £4,688m The Pension Fund have investments in unquoted bonds and pooled investments that cannot easily be 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.	As with Level 3 investments, management typically relies on valuation information provided by expertise proved by its fund managers, supported by assessment against the market and expectations by its advisors. This area of the accounts has experienced a significant (approximately £680m) uplift in valuation as a result of continued increases in asset valuations during the first three quarters of the 2021/22 year stemming from the continued market recovery following the impact of the Covid 19 pandemic.	Management's processes here are in line with our expectations and we are satisfied that their process for arriving at and accounting for the estimate is appropriate and not subject to undue optimism or bias. Testing in year did not note any above trivial timing variances of the kind identified within the Level 3 population and, as such, there are no unadjusted misstatement associated with this asset class.	Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious
Admitted Body Separate Fund insurance buy-in valuation - £174m 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.	This cover means that the insurer underwrites the risk of meeting the future liabilities relating to West Midlands Travel Ltd. Pensioners on the payroll at 11 August 2011 in return for a one-off premium. This buy in is valued within the financial statements at £174m. The balance is highly subjective due to a lack of observable inputs. In order to determine the value, management have engaged their Actuary, Hymans Robertson. The value of this asset has declined by £26m in 2021/22 as a result of changes in demographic and actuarial assumptions in year.	Management's process for arriving at this value is based around usage of an external expert to determine the value. Grant Thornton have performed an assessment of the competence and capabilities of the expert, as well as engaging our own expert to calculate an independent estimate of the valuation as well as review the methodology and assumptions employed by management's expert. Our auditor's expert arrived at a very similar (within all trivial aspects) position as the Fund's expert and determined that the methodology and assumptions employed were reasonable and appropriate. On that basis we are satisfied that management's processes for calculating and accounting for the estimate are appropriate and free from undue optimism or management bias.	Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the 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.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed within the final version of the financial statements.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Pension Fund. We are not requesting specific additional disclosures except for the recognition of management's rationale for not adjusting for the identified unadjusted misstatement.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Fund's investment management and banking partners This permission was granted and the requests were sent. The vast majority of these requests were returned with positive confirmation, however a small number of requests were not received. The overall value of the assets impacted is below trivial and therefore we have not had to performed additional procedures in this area.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements. A small number of less significant disclosure amendments were agreed with management to enhance readers' understanding of the accounts. These are detailed in Appendices A – C.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements

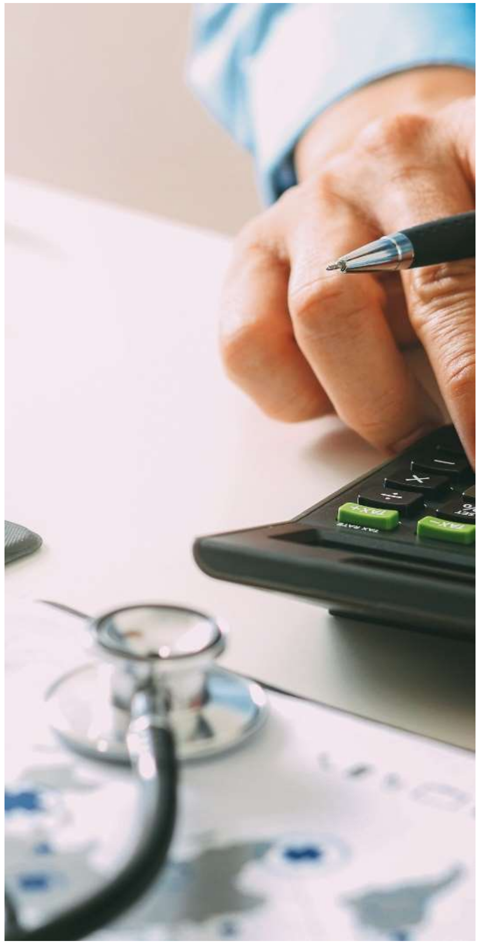
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to *Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020)*. The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Pension Fund and the environment in which it operates • the Pension Fund's financial reporting framework • the Pension Fund's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Disclosures	A small number of Inconsistencies have been identified but have been adequately rectified by management, as outlined in Appendices A - C. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. The statutory deadline for the Pension Fund Annual Report is different to that of the financial statements and it not required to be published until 1 December 2022. The Annual Report is being prepared and will be shared with us for consistency checks as soon as the audit of the financial statements has been completed and audited figures can be incorporated into the Annual Report. We have therefore not given this separate opinion at this time. Most recent discussions with management indicate that the Annual Report is in final stages of production and we anticipate being able to complete this work ahead of the statutory deadline. However, should the audit of the administering authority be delayed then we also need to delay the issuing of our consistency opinion.



3. Independence and ethics

Independence

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

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 the report date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
IAS 19 procedures for other bodies admitted to the pension fund	18,000	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 of £18,000, in comparison to the total fee for the audit and in particular to Grant Thornton UK's overall turnover. Furthermore, the work is on audit related services, which the Fund's auditor would typically be best placed to provide. It is a fixed fee with no contingent element. These factors 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 Pensions Committee. None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

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 2022/23 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Priority	Issue and risk	Recommendations
Low	For 2021/22, the GT audit team amended its approach to obtaining investment manager responses. As such a much larger number of requests were issued. During the course of this work, we identified that the Fund does not routinely reconcile its list of investment manager contacts to its assets list. Doing so would provide additional assurance to management that communications are not being missed and streamline completion of audit procedures.	Management should implement a policy of reconciling its list of investment manager contacts to its asset listing on a periodic basis. **Management response** Agreed. The Fund maintains a database of its investment managers and updates the database when it receives and validates requests for changes to information held from investment managers. Separate to this, the Fund maintains a record of the values of all investments on a consolidated investment schedule. Going forward, the Fund will include the names of investment managers on its consolidated investment schedule. This will enable ease of reconciliation between investment manager contacts and asset list.
Low	Approximately £1.5bn of the Fund's assets are managed by a particular fund manager via investment vehicles for which there is no requirement to produce audited financial statements. These assets are typically index linked pooled investment vehicles and therefore assurance over them is gained via reference to expected performance against the benchmark index. We were informed that management assures itself by: • reviewing the report produced by the investment manager which compares performance of the various investment assets against benchmark, and • regularly preparing a schedule that corroborates the quarterly indexation information within the report. The schedule referred to above was only provided to us towards the end of our audit and we had to undertake alternative audit procedures in its absence. From review of the paper provided it does appear to address the expected areas but could be refined.	Management should ensure the corroboration schedule is prepared quarterly and refined to ensure it links to underlying supporting index information as part of ongoing quarterly accounts production procedures. **Management response** Agreed. The Fund will refine the supporting schedule for reviewing asset performance against benchmarks to include references to underlying supporting information.

Controls

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

B. Follow up of prior year recommendations

We identified the following issues in the audit of West Midlands Pension Fund's 2020/21 financial statements, which resulted in two recommendations being reported in our 2020/21 Audit Findings report. We have followed up on the implementation of our recommendations and make the following report on progress to members.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Our auditor's external expert noted that there is no formal Terms of Engagement between the Fund and its external property valuer. We recommended that management seek to resolve this issue during 2021/22.	Our auditor's expert valuer commissioned as part of the audit process has confirmed that the evidence provided by the Fund demonstrates the matter has been appropriately addressed.
✓	We struggled to independently obtain direct investment confirmations from a small number of investment managers representing around 1.5% of our level 3 sample (approximately £36m in value). The Fund holds copies of the statements sent to them but auditing standards require us to independently obtain confirmations to help mitigate the potential risk of fraudulent reporting. We recommended that management look to build in conditions requiring direct response to the auditors as part of its agreements with investment managers in future years.	In response to discussions with management following last year's audit, we updated our approach by enlisting the help of an internal service function within the Firm to help us manage the high volume of direct requests. This enabled us to make requests to 100% of the Fund's investment managers as opposed to testing existence on a sample basis as in previous years. As at the report date, we were not able to obtain responses from a small number of investment managers. The total value of the assets under management in question is below trivial and therefore, in our view, does not represent a risk of material misstatement. Overall, the response rate is greatly improved. Furthermore, we understand that in some cases arrangements may be demising leading to a change in relationships and obligations with investment managers, leading to some inevitable issues when combined with the high volume of individual investment managers. In addition to the recommendation made in Appendix A in relation to reconciling the asset list to the investment manager contact list, we recommend that management continue to work proactively with its investment managers to ensure continued high response rates.

Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

There were no issues noted during the course of our audit work which required the posting of an adjusting accounting entry to the Financial Statements.

Misclassification and disclosure changes

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

Disclosure omission	Auditor recommendations	Adjusted?
A small number of disclosures within the Financial Instruments notes within the draft financial statements were not internally consistent with the core financial statements and related notes.	The engagement team recommended and agreed amendments which have been reflected in the final version of the Financial Statements.	✓
Testing of Related Party Transactions identified an omitted related party.	The engagement team recommended and agreed an updated disclosure with management, which has been reflected in the final version of the Financial Statements.	✓
Our review of Key Management Personnel disclosures identified that the draft disclosures were not Code compliant.	Management prepared alternate disclosures appropriately disclosing the year on year movement on the pension entitlement of individuals identified as Key Management Personnel within the Long Term Benefits line item of the disclosure note. This has been reflected in the final version of the Financial Statements.	✓

C. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Pensions Committee is 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
Quantifiable understatement of investment assets as detailed within the body of the report.	(94)	94	94	Not material quantitively or qualitatively.
Related estimation uncertainty based on extrapolation of residual "time lagged" assets for which updated valuation reports were not available at the report date.	(25)	25	25	Not material – extrapolation and therefore indicative only
Overall impact	£(119)m	£119m	£119m	

Impact of prior year unadjusted misstatements

A similar timing issue was identified in the prior period. Given that asset valuations are a continually updating estimate, there is no cumulative impact of prior year unadjusted misstatements in the current period as quarterly valuations are superseded by new valuation sin year. The prior period extrapolated timing variance is included below for reference purposes (please note; the engagement team's testing approach was enhanced during 2021/22 to become more focused and allow for analysis between quantifiable and extrapolated variances, hence the two line reporting format in 2021/22.

Detail	Pension Fund Account £m	Net Asset Statement £m	Impact on total net assets £m	Reason for not adjusting
Extrapolated timing variance between updated year end values and balances per Net Asset Statement.	(90)	90	90	Not material – extrapolation and therefore indicative only.
Overall impact	£(90)m	£90m	£90m	

D. Fees

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

Audit fees	**Proposed fee**	**Final fee**
Pension Fund Audit	68,486	TBC
Total audit fees (excluding VAT)	£68,486	TBC

Non-audit fees for other services	**Proposed fee**	**Final fee**
Audit Related Services (provision of IAS 19 assurance to member employer auditors)	TBC	£18,000
Total non-audit fees (excluding VAT)	TBC	**£18,000**

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