



# Progress Report and indicative audit risks

**Year ending 31 March 2023**

West Midlands Pension Fund

22 March 2023



## Appendix A

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Trust or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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## Your key Grant Thornton team members are:

### Grant Patterson

Key Audit Partner  
T 0121 232 5296  
E [grant.b.patterson@uk.gt.com](mailto:grant.b.patterson@uk.gt.com)

### David Rowley

Manager  
T 0121 232 5225  
E [david.m.rowley@uk.gt.com](mailto:david.m.rowley@uk.gt.com)

### Ben Stevenson

In-Charge Auditor  
T 0121 232 5286  
E [ben.stevenson@uk.gt.com](mailto:ben.stevenson@uk.gt.com)

## Appendix A

# Introduction

This document provides an overview of the indicative planned scope and timing of the statutory audit of West Midlands Pension Fund (‘the Fund’) for those charged with governance. It sets out the risks that we anticipate will drive the focus of our audit based on our knowledge of the Fund from the prior year and discussions with management. It is important to note that our risk assessment is an iterative process and we will revisit our assessment on an ongoing basis bringing any new risks to your attention if and when they arise.

We will provide our formal Audit Plan for consideration subsequent to conclusion of planning and interim procedures and anticipate presenting this to the forthcoming Pensions Committee in early summer 2023.

## Respective responsibilities

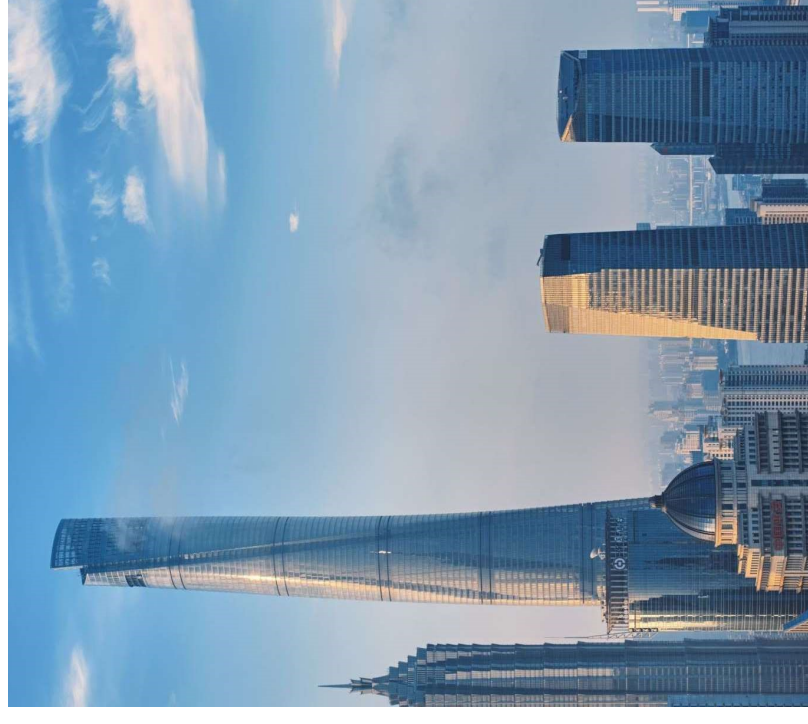
The National Audit Office (‘the NAO’) has issued a document entitled Code of Audit Practice (‘the Code’). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed engagement letter and addendum to the contract. We draw your attention to both of these documents.

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Fund’s financial statements that have been prepared by management with the oversight of those charged with governance. For West Midlands Pension Fund the Audit & Risk Committee at City of Wolverhampton Council is responsible for approving the statutory accounts and is therefore ultimately those charged with governance. However, as the Pensions Committee oversees production of the Pension Fund Annual Report which includes the Fund’s financial statements we have determined that they are the group we will communicate with.

The audit of the financial statements does not relieve management or the Pensions Committee of your responsibilities. It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Fund’s business and is risk based.



# Financial Statements Audit 2022/23

## Materiality

### The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Headline materiality is typically set as a percentage of assets. Following regulatory feedback, and with a focus on ensuring unpredictability and freshness of approach, the Firm is undergoing a process of reviewing LGPS materiality guidelines for 2022/23 audits. As such, materiality levels will be communicated as part of our audit plan.

## Informing the audit risk assessment

To inform our planning we attach with this report responses from management to a series of questions posed across the themes of fraud, laws and regulations, going concern, related parties and accounting estimates.

## Significant risks

Although we have started our planning work we are not at a stage where we can formally confirm the significant risks that we will be auditing. However, the sections below indicate likely areas that we expect our work to focus on.

### Presumed significant risks

ISA (UK) 240 includes two presumed risks as follows:

- Revenue recognition may be misstated due to the improper recognition of revenue. This is a rebuttable risk if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. We will consider the risk factors set out in ISA240 and the nature of the revenue streams at the Fund to determine whether there is a risk of fraud from revenue recognition. We are cognisant that the revenue funding for the Fund this year continues to fluctuate as a result of variable deficit and other contributions payment profiles from member employers and we will be documenting the business processes of these streams as part of our planning procedures to help inform our consideration of the revenue recognition risk.
- The risk of management over-ride of controls is present in all entities. The need to achieve a particular financial outcome could potentially place management under undue pressure in terms of how they report performance.

**Valuation of Direct Property and other Level 3 investments** – The Fund revalues its property portfolio and other investment holdings throughout the year to reflect the most up to date position. To achieve this, the Fund requests valuations from its fund managers. These valuations represent a significant estimate by management in the financial statements due to the value involved and the sensitivity of these estimates to changes in key assumptions. It is therefore expected that the valuation of these assets will be identified as a significant risk. Due to the nature of Direct Property holdings as a highly material subsection of Level 3 investments with a specific, subjective range of inputs to valuation calculations we expect to disaggregate these assets and treat them as a separate class subject to a significant risk of material misstatement.

### Other expected areas of focus

- In line with the Public Audit Forum Practice Note 10 in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition. We do not anticipate there being a significant risk in this regard, but will consider as part of our planning processes and again on receipt of the draft financial statements whether there is an increased level of risk associated with these transactions which would require additional audit effort to be made.
- Committee members will be aware of the impact of amendments to the auditing standard on estimates which have come into effect in recent years. This raises the bar in terms of what both we and management are required to do. Therefore there will be a key focus on material estimates in general, including ensuring that there is adequate dialogue between management, members and the engagement team via the Informing The Informing the Audit Risk Assessment document and ISA 540 estimates letters, which we will present to the Committee.
- Whilst not deemed a significant risk, Level 2 investment valuations, completeness of contributions and completeness of benefits payable will also be areas of focus during the audit.



## Appendix A

# Audit Deliverables

## 2022/23 Deliverables

### Expected Date\* Status

#### Audit Plan and Interim Audit Findings

July 2023 Not yet due

We are required to issue a detailed audit plan to the Pensions Committee and the City of Wolverhampton Council's Audit & Governance Committee setting out our proposed approach in order to give an opinion on the Fund's 2022/23 financial statements. Where there are findings from our interim audit to report we will incorporate those within our Audit Plan or Progress Reports.

#### Audit Findings Report

September 2023 Not yet due

The Audit Findings Report will be reported to the September Pensions Committee.

#### Auditors Report

September 2023 Not yet due

This includes the opinion on your financial statements.

#### Triennial Valuation and IAS 19 Assurance Reports to NAO Code of Audit Practice Employer Auditors

September 2023 Not yet due

We receive requests for assurances from other auditors. We respond to these on conclusion of sufficient work on the Fund's Statement of Accounts.

#### Progress on the 2022/23 Audit so far

Starting in February, the engagement team began work on its audit planning and risk assessment processes, and has now arrived at an audit strategy and an indicative set of significant risks of material misstatement. Walk through reviews of significant risk areas have been undertaken. Work on the Fund's opening balances remains ongoing pending the signing of the 21/22 opinion. Furthermore, additional work around the body's control environment in respect of the updated auditing standard ISA 315 is also being undertaken. Upon completion of these tasks and quality reviews of the audit planning work, we will issue our full audit plan for presentation at the next Pensions Committee.

#### \*Note on expected dates:

Due to local elections taking place in May 2023 and the possible reconfiguration of Council committees, dates for upcoming Pensions Committees are not yet set for 2023. We have therefore used the dates from 2022 as a guideline but these may be subject to change once the Council sets out its new calendar.

Furthermore, the statutory deadline for publication of audited accounts in the Local Government sector will be 30 September 2023. However, it should also be noted that issuance of our auditor's report on the Pension Fund is tied to completion of work on the administering authority, City of Wolverhampton Council's financial statements.

# Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:



# Delayed publication of audited local authority accounts

In December 2022 there were over 600 local audit opinions outstanding. This means that many stakeholders can't rely on audited accounts to inform decision making – a significant risk for governance and control.

Local authority accounts are becoming increasingly complex as accounting standards evolve and local authorities enter more and more innovative financing arrangements and income generation projects. A significant challenge in managing local audits is the differing needs of various stakeholders. The local government sector, central government and regulators need to agree on the purpose of local audit and find a consensus on improving efficiency in publishing accounts. Grant Thornton has produced a report that explore the reasons for delayed publication of audited local authority accounts.

## About time?

Exploring the reasons for delayed publication of audited local authority accounts

March 2023



Table 1 below illustrates the declining performance against the target date for publication of audited accounts in recent years.

**Table 1 Audited accounts published by target date over the last six years**

Financial year	Deadline for publication of unaudited accounts	Target date for publication of audited accounts	% audited accounts published by target date (all firms average)	% audited accounts published by target date (Grant Thornton audits)
2016/17	30 June 2017	30 September 2017	95	97
2017/18	31 May 2018	31 July 2018	87	91
2018/19	31 May 2019	31 July 2019	58	65
2019/20	1 September 2020	30 November 2020	45	54
2020/21	1 August 2021	30 September 2021	9	12
2021/22	1 August 2022	30 November 2022	12	20

# Delayed publication of audited local authority accounts

What more can be done?

All key stakeholders in the local audit system will need to continue their efforts to secure improvement and a return to high levels of compliance with timely publication of audited accounts. The report explores several of the causes of delay and steps which might be taken to reduce the incidence of delays.

These steps relate to systems leadership, holding both authorities and auditors to account for their performance, a continued focus on the quality of accounts preparation and audit, and the effective engagement between auditors and audited bodies.

The report makes 20 recommendations for improving timeliness in publishing audited accounts.

The report also sets out a checklist which managements and the audit committee should consider. The report recommends DLUHC, CIPFA or the FRC set out expectations for the system as a whole.

[Click here for full report](#)

## About time?

Exploring the reasons for delayed publication of audited local authority accounts

March 2023





# Local government procurement and contract management

## Background

Local authorities in England spend around £82.4 billion a year on goods and services. More than a third of all UK government spending on goods and services is spent in the local government sector. Allowing for capital spending as well, the UK public sector procures around £300 billion a year overall.

We reviewed a large number of reports, inspections and interventions issued by a number of firms, including 53 Annual Auditor Reports issued by Grant Thornton UK LLP. To help build on existing good practice, in this report we highlight some common themes for members and officers to consider:

This report considers a selection of issues we identified under each theme and makes recommendations both to local authorities and, in one case, to central government. The report presents a good practice checklist for local authority members and officers to reflect on.

The analysis sets out five key themes for ensuring good practice:

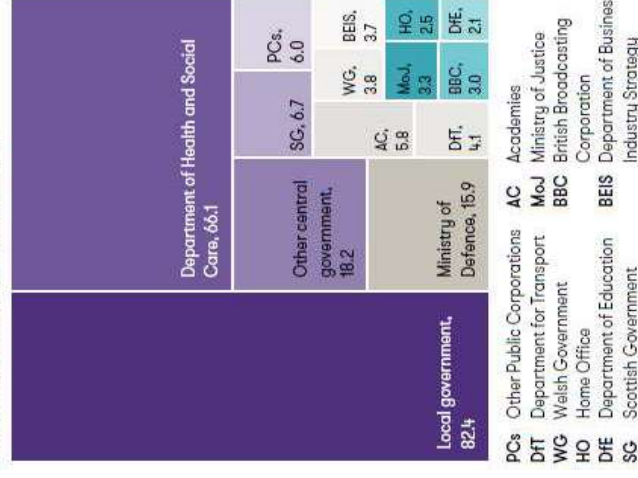
- Strategic planning
- Internal control
- Time, technical expertise, and people
- Commercial awareness
- Contract management

[full report here](#)

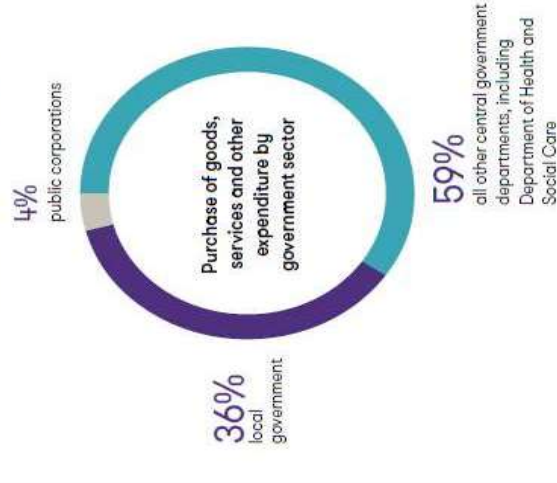
More than a third of all UK government spending on goods and services is spent by local government, so it's important councils have effective arrangements for procurement and contract management

## UK public spending

Public spending on goods and services, £ billions – analysis by segment and department<sup>1</sup>



Goods, services and other expenditure by segment<sup>2</sup>



1 HM Treasury, Whole of Government Accounts: year ended 31 March 2020, June 2022  
 2 Cabinet Office, Transforming Public Procurement: Government response to consultation, December 2021  
 3 HM Treasury, Whole of Government Accounts: year ended 31 March 2020, June 2022  
 4 HM Treasury, Whole of Government Accounts: year ended 31 March 2020, June 2022

## Appendix A

# Stonewall Gold Employer: GT's LGBTQIA+ inclusion journey

## Background

15 Feb 2023, Stonewall, Europe's largest charity for Lesbian, Gay, Bi, Trans, and Queer (LGBTQIA+) rights, launched its widely anticipated Top 100 Employers List – recognising us for our work in supporting LGBTQIA+ colleagues to be the best versions of themselves at work and awarding us Gold Employer, the highest award.

We're proud to announce that we've ranked among the UK's leading employers from the public, private, and third sectors in the Stonewall Workplace Equality Index (WEI). We've also been recognised as a Gold Employer. Overall, we've ranked 38th in the latest WEI results, and 26th in the private sector, and 9th in the financial services sector.

# Audit Market Developments

## Financial Reporting Council Report On The Quality Of Local Audit

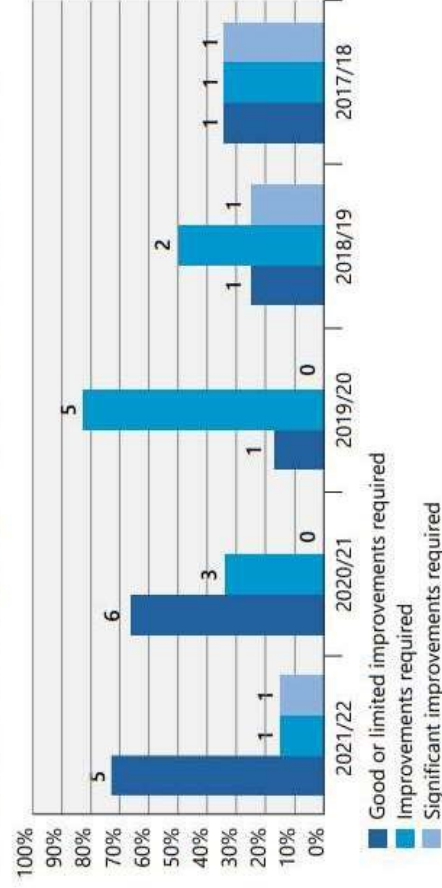
In late October 2022 the Financial Reporting Council (FRC) published its inspection findings into the quality of major local body audits in England, which includes large health and local government bodies.

The Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW) inspects a sample of local audits that do not meet the definition of a 'major' local audit and the FRC's report also includes a summary of their findings.

The FRC reported that 71% of Grant Thornton audits inspected (7 in total) were assessed as either good or limited improvements required.

This is a pleasing result and reflects on our significant investment in audit quality over recent years. The positive direction of travel over the past five years is illustrated below:

**Our assessment of the quality of financial statement audits reviewed**



The FRC also inspected our work on VfM arrangements at four bodies.

It is pleasing to note that all of these inspections were assessed as requiring no more than limited improvements (which is the same as the previous year).

As far as the ICAEW are concerned, overall, the audit work reviewed was found to be of a good standard.

Seven of the eight files reviewed (88%) were either 'good' or 'generally acceptable', but one file 'required improvement'.

The ICAEW identified one of our files as requiring 'Improvement' – but it should be noted that this was a 2019-20 file and therefore the learnings from prior years' review could not have been taken into account, an issue recognised by the ICAEW in their report to us.

The ICAEW found that our VfM work was good on each of the files reviewed, and they did not identify any issues with this aspect of the audit teams' work.

Whilst are pleased with our continuing improvement journey, we continue to invest in audit quality to ensure that the required standards are met.

The full report can be found [here](#).



Financial Reporting Council

# Audit Market Developments (continued)

## Local Government External Audit Procurement

Public Sector Audit Appointments Ltd (PSAA) has recently announced the outcome of its national procurement of audit services across the Local Government sector.

This exercise covers the audits from 2023/24 to 2027/28 and covers the 470 local government, police and fire bodies (99% of eligible local bodies) that opted into the national scheme.

We are delighted to have been reappointed as the largest supplier of local government audit. The public sector has played a significant role within the firm for over 30 years and we remain committed to the success of the sector.

Our UK Public Sector Assurance (PSA) team employs 440 people, including 29 Key Audit Partners and specialists in financial reporting, audit quality, and value for money.

The team is dedicated to public audit work in local government and the NHS, with contracts with PSAA, Audit Scotland and over 100 health bodies. The Public Sector Assurance team is a regular commentator on issues facing the sector and oversees the firm's thought leadership, such as its series of publications on grants and public interest reports.

Mark Stocks, lead Partner for PSA at Grant Thornton, said 'This is a very welcome outcome and reflects our previous delivery as well as our ongoing commitment to invest in the public sector.'

Further information can be found [here](#)





## Appendix A

# Audit Committees: Practical Guidance For Local Authorities And Police – CIPFA

In October CIPFA published this guide, stating “This fully revised and updated edition takes into account recent legislative changes and professional developments and supports the 2022 CIPFA Position Statement. It includes additional guidance and resources to support audit committee members, and those working with and supporting the committee’s development.”

CIPFA go on to state “Audit committees are a key component of governance. Their purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. They play an important role in supporting leadership teams, elected representatives, police and crime commissioners and chief constables.

This edition updates CIPFA’s 2018 publication to complement the 2022 edition of the CIPFA Position Statement on audit committees.

The suite of publications has separate guidance resources for audit committee members in authorities, members of police audit committees, and a supplement for those responsible for guiding the committee.

New aspects include legislation changes in Wales and new expectations in England following the Redmond Review. All authorities and police bodies are encouraged to use the publication to review and develop their arrangements in accordance with the Position Statement.

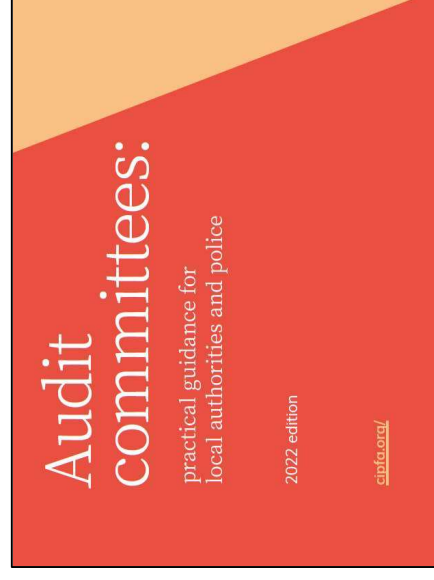
The appendices include suggested terms of reference, a knowledge and skills framework and effectiveness improvement tools.”

The guide covers a number of key areas for Audit Committees, including:

- Purpose
- Core functions:
  - Governance, Risk and Control
  - Accountability and Public Reporting
  - Assurance and Audit arrangements
  - Ensuring focus
- Independence and accountability
- Membership and effectiveness

The guide can be purchased via the CIPFA website:

[Audit Committee Guidance: 2022 update | CIPFA](#)



## Appendix A



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