



Informing the audit risk assessment for West Midlands Pension Fund 2022/23

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Appendix B

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 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 your business or any 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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Purpose

The purpose of this report is to contribute towards the effective two-way communication between West Midlands Pension Fund's (the Fund's) external auditors and City of Wolverhampton Council's Pensions Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Pensions Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Pensions Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Pensions Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Pensions Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Pensions Committee and supports the Pensions Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Fund's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

This report includes a series of questions on each of these areas and the response we have received from West Midlands Pension Fund's management. The Pensions Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

| Question | Management response |
|---|--|
| <p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2022/23?</p> | <p>With the timing of the triennial cycle contribution levels are expected to be in-line with the previous year as a consequence of several larger employers paying their contributions in advance in April 2020. A new valuation cycle will begin in April 2023 which will lead to a change in contributions from 2023/24. As in previous years, market values drive performance based investment management costs.</p> |
| <p>2. Have you considered the appropriateness of the accounting policies adopted by the Fund? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p> | <p>The policies are currently under review in readiness for presentation to Pensions Committee for approval in March 2023.</p> |
| <p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p> | <p>The Fund makes use of derivatives within the admitted body sub-fund (the ITA fund). Derivatives held in the main fund closed out in September 2022.</p> |
| <p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p> | <p>Management are not aware of any significant transactions outside of the normal course of business.</p> |

General Enquiries of Management

| Question | Management response |
|---|---|
| 5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they? | Management are not aware of any changes in circumstances that would lead to impairment of non-current assets. |
| 6. Are you aware of any guarantee contracts? If so, please provide further details | No, the Fund does not provide guarantees to third party contracts. |
| 7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details | Management are not aware of any. |
| 8. Other than in house solicitors, can you provide details of those solicitors utilised by West Midlands Pension Fund during the year. Please indicate where they are working on open litigation or contingencies from prior years? | Eversheds, Squire Patton Bogs, Trowers & Hamlin. Not working on any open litigation or contingencies from prior years. |

General Enquiries of Management

| Question | Management response |
|---|---|
| 9. Have any of the Fund's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details | None have been reported. The Fund requests AAF reporting from its Fund Managers, there have been no instances reported. |
| 10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted? | The Fund's appointed advisers are listed in its Annual Report along with a description of the nature of their relationship to the Fund. |
| 11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details | Review of debtor balances underway to identify any potential losses. Having reviewed the standard no other areas are expected to be affected. |

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Pensions Committee and management. Management, with the oversight of the Pensions Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Pensions Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As West Midlands Pension Fund's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Pensions Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Pensions Committee oversees the above processes. We are also required to make inquiries of both management and the Pensions Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from West Midlands Pension Fund's management.

Fraud risk assessment

| Question | Management response |
|---|---|
| <p>1. Has the Fund assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Fund's risk management processes link to financial reporting?</p> | <p>The process for accounts close and budget monitoring takes into account the potential risk of fraud. The Fund has adopted a Fraud Risk policy (taking into account the new Cyber Strategy adopted by the Pensions Committee in the year), which requires individual ownership for the reporting of potential fraud. Quarterly finance reports are presented to the Fund's Senior Management Team, and Pensions Committee, the papers of which are available to the Internal Audit team.</p> <p>The Fund has effected its risk management framework through the introduction of operational risk maps owned individually by each service area and reviewed by the Governance and Risk team. The finance team undertake monthly review of their risk map reporting quarterly to Governance. Risks are collated into the organisational risk presented to Committee and Board on a quarterly basis.</p> |
| <p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p> | <p>The Fund has determined that potential fraud by or against pension fund members to be the areas most at risk both in terms of identity and pension scams encouraging members to transfer out to scam schemes. The Fund is a signatory of the Pensions Regulatory Scam pledge.</p> |
| <p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within West Midlands Pension Fund as a whole, or within specific departments since 1 April 2022? If so, please provide details</p> | <p>There is the potential for fraudulent claims for monies paid from or due to the Fund in relation to suppliers and investment transactions. However, this is considered low risk in consideration of the operational controls in place.</p> <p>No.</p> |

Fraud risk assessment

| Question | Management response |
|--|--|
| <p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p> | <p>The Fund reports on a quarterly basis its risk management to the Pensions Committee and Local Pensions Board noting movements in risks together with horizon scanning potential future events which could impact service delivery. Training was provided in October 2021 to the Fund's Governing Bodies on the Fund's approach to reporting and monitoring risks presented in the strategic risk register (the training was provided for the members of the Pensions Committee and Local Pensions Board). The Fund has an induction plan in place for any new Committee members following elections and this will include audit progress and plans.</p> |
| <p>5. Have you identified any specific fraud risks? If so, please provide details</p> | <p>On a quarterly basis the Fund reports to Committee and Board its compliance monitoring and includes by exception any instances of fraud. No instance of fraud have been reported this year.</p> |
| <p>Do you have any concerns there are areas that are at risk of fraud?</p> | <p>The Fund continues to enhance its processes for monitoring fraud risk on transfer out and grant payments. The Fund has signed up to the Pension Regulator's pledge on scams to support this work together with launching it's Cyber Risk Strategy in 2021. In line with these adopted strategies, the Fund is undertaking a review of duties and processes to enhance payment authorisation processes including those for investment transactions.</p> |
| <p>Are there particular locations within the Fund where fraud is more likely to occur?</p> | <p>The Fund is aware of potential scam transfer out schemes seeking to scam members of their pension, additional controls have been put in place in response to the requirements of the pensions act 2020.</p> |
| <p>6. What processes does the Fund have in place to identify and respond to risks of fraud?</p> | <p>The Fund's Governance Team monitor instances of potential fraud through it's monitoring of safeguarding, data protection and transfer out requests (where individuals are seeking recourse due to lost pension). All employees have been provided with training on data protection, safeguarding, and cyber security and are alert to potential instances of fraud. The Fund has implemented a reporting line to Governance who undertake formal investigation of instances and report them as appropriate to relevant bodies. In addition to the above outlined actions on transfer outs, and in relation to pensioner payroll, the Fund undertakes monthly mortality screening with a third party provider and also participates in the biennial National Fraud Initiative scheme. Any queries identified are investigated and resolved. Together with increase controls on transfer out noted above.</p> |

Fraud risk assessment

| Question | Management response |
|--|---|
| <p>7. How do you assess the overall control environment for the Fund including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p> | <p>The Fund has an outline internal controls framework noting the 3 lines of defence model and how it applies to the Fund. The above references to enhancements in the protection of fraud risk, outline the enhancements made to line 1 processes, the Fund works with internal audit (as line 3) to review changes to processes or service developments seeking additional assurance on the changes and improvements made.</p> <p>The Fund has reviewed it's internal delegations to senior officers with limits and controls on level of authority and sign off to provide separation of responsibilities from decision makers to consultees.</p> <p>The Fund has adopted a conflicts of interest policy for its Governing Body members and is awaiting response from the Scheme Advisory Board (SAB) for the LGPS, to the requirements of the policy arising from the SAB's good governance review, has implemented an officer conflicts of interest and inside information policy.</p> <p>The Fund's risk management process identifies actions and controls in the mitigation of risk.</p> <p>No areas are identified as having inappropriate influence over financial reporting processes or override of controls.</p> |
| <p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p> | <p>As outlined above, the Fund has a controlled process for the reporting and preparation of financial statements.</p> |

Fraud risk assessment

| Question | Management response |
|---|--|
| <p>9. How does the Fund communicate and encourage ethical behaviours and business processes of its staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p> | <p>The Pension Fund follows the Council's Whistle Blowing policy and guidelines. The Whistle Blowing policy is available to the public and all contractors. The terms and conditions within Pension Fund contracts also include ethical considerations for contractors and suppliers. The vision and values for the Pension Fund identify the need for staff to act with integrity in all undertakings and presented to all employees as part of their induction into the Fund. The Fund is in the process of implementing a local framework which seeks to enhance the CWC policies in response to the Scheme Advisory Board recommendation to have a conflicts of interest policy for officers of the Fund.</p> <p>Employees are encouraged to report their concerns about fraud as set out in the speaking up about wrongdoing (Whistle Blowing) policy and the Council's Counter Fraud, Bribery and Anti-Corruption Strategy. The Fund has also provided bespoke training to front line officers regarding financial vulnerability and financial abuse to support awareness of potential fraud against members.</p> <p>As part of annual compliance training and new employee inductions, all employees are provided with information regarding their duties as an employee, including their responsibilities on data protection and safeguarding and to highlight any concerns.</p> <p>None have been reported this year.</p> |

Fraud risk assessment

| Question | Management response |
|---|---|
| <p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p> | <p>High risk posts are identified as those with access to financial systems and with responsibility for authorising payments. A staff structure chart can be provided on request. The holders of high risk posts (responsible for authorising payments) are Chris Manning (Head of Finance), Ramesh Bailey (Finance Manager) and Julie Gibson (Finance Manager).</p> <p>In addition the Council identifies roles which have the potential to influence or shape decisions, those posts are designated politically restricted, in addition, all roles above heads of service are required to complete an annual declaration of interest.</p> |
| <p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p> | <p>The Fund adheres to procurement rules and procedures in relation to the award of contracts and payments. The process requires suppliers to identify relationships with Council employees or Councillors. In addition, employee contracts require individuals to notify of any conflicts of interest which may arise in procurement. The Council's monitoring officer keeps a record of personal interests of employees.</p> <p>All suppliers are named in the Fund's annual accounts</p> |

Fraud risk assessment

| Question | Management response |
|---|---|
| <p>12. What arrangements are in place to report fraud issues and risks to the Pensions Committee?</p> <p>How does the Pensions Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p> | <p>The Fund partakes in the National Fraud Initiative. The mortality screening of members is an element of this initiative as are its overseas members existence checks. The Fund links in with other LGPS Authorities through the national database to ensure there is no duplication of benefit payments.</p> <p>The Fund is in the process of updating and reviewing its fraud risk policies in light of the above stated enhancements and following the adoption of the cyber risk strategy.</p> <p>The Fund's Governing Bodies receive annual training on the Fund's risk management approach (the latest in October 2021). They receive a report each quarter on the risk activity and management together with quarterly compliance reporting on statutory compliance. The Fund reports to Governing Bodies on a quarterly basis its compliance monitoring activity.</p> <p>The Fund's Governing Bodies have raised no concern on the process for managing risk.</p> |
| <p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p> | <p>Management are not aware of any whistle blowing complaints in relation to the Pension Fund.</p> |
| <p>14. Have any reports been made under the Bribery Act? If so, please provide details</p> | <p>None.</p> |

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Pensions Committee, is responsible for ensuring that West Midlands Pension Fund's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Pensions Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

| Question | Management response |
|---|---|
| <p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does the Fund have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Fund's regulatory environment that may have a significant impact on the Fund's financial statements?</p> | <p>The Fund's Governance team support service areas through relevant internal committees in the monitoring and assessment of change management and regulatory implementation.</p> <p>Regular training is delivered to the Fund's governing bodies (training hours are recorded in the annual report) hosted by external experts on relevant topics.</p> <p>The Internal Audit support in assessing at the 3rd line the Fund's compliance both with statutory requirements and best practice, compliance report by exception to senior management and committee on any breaches (including non compliance with statutory deadlines such as FOI).</p> <p>None.</p> |
| <p>2. How is the Pensions Committee provided with assurance that all relevant laws and regulations have been complied with?</p> | <p>The Pensions Committee receives reports of compliance from officers who are suitably qualified. Any non compliance would be reported to management and the Pensions Committee via Internal Audit reports.</p> |
| <p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2022 with an on-going impact on the 2022/23 financial statements? If so, please provide details</p> | <p>There has been no known instance of non-compliance or suspected non-compliance with laws and regulations.</p> |

Impact of laws and regulations

| Question | Management response |
|--|---|
| 4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details | None known. |
| 5. What arrangements does the Fund have in place to identify, evaluate and account for litigation or claims? | All litigation claims are presented to the Fund's Head of Governance (Solicitor) for review and consideration, where required external advice may be sought or the issue may be discussed with the Council's insurance advisors. The Head of Governance, has regular 1-2-1 sessions with the Council's Monitoring Officer to inform of any claims and the action taken. |
| 6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details | None |

Related Parties

Matters in relation to Related Parties

West Midlands Pension Fund are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by the Fund;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Fund;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Fund or of any body that is a related party of the Fund.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Fund's perspective but material from a related party viewpoint then the Fund must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

| Question | Management response |
|---|--|
| <p>1. Have there been any changes in the related parties including those disclosed in the Fund's 2022/23 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and West Midlands Pension Fund whether West Midlands Pension Fund has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions | <p>The Fund requires all pension committee members (including trade union observers) together with local pension board members to undertake an annual declaration of interest including the requirement to inform where an interest arises during the year.</p> <p>For governing body members, membership of the pension fund is not considered to be a disclosable interest.</p> |
| <p>2. What controls does the Fund have in place to identify, account for and disclose related party transactions and relationships?</p> | <p>The Fund adheres to procurement rules and procedures in relation to the award of contracts and payments. The process requires suppliers to identify relationships with Council employees or Councillors.</p> <p>In addition, employee contracts require individuals to notify of any conflicts of interest which may arise in procurement. As outlined above, the Council's monitoring officer keeps a record of personal interests of relevant employees in line with the Fund's adopted conflicts of interest policy.</p> |

Related Parties

| Question | Management response |
|--|--|
| <p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p> | <p>The Fund has adopted contract procedure rules which require 2 signatories on supplier contracts over a set limit. Where contracts are in place an annual audit has been undertaken to monitor spend against approved amounts.</p> <p>The Fund has adopted authorisation processes including those to commit payments, these are kept under review.</p> |
| <p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p> | <p>The Fund has adopted financial limits and contract procedure rules which require 2 signatories on contracts relating to significant transactions, preventing the approval of payments by one individual. Where contracts are in place an annual audit has been undertaken to monitor spend against approved amounts.</p> <p>Formal authorisation processes are in place to approve large payments and these are typically recorded through decision notices and/or minutes at senior management or sub committee meetings. Approvals required outside of this process are confirmed by email exchange between authorised persons.</p> |

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, 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 body'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.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

| Question | Management response |
|---|--|
| <p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by the Fund will no longer continue?</p> | <p>Ongoing engagement by Senior Management with scheme bodies e.g. DLUHC would identify any changes to the provision of LGPS. Similarly engagement with sector partners e.g. LGPS Central and scheme actuaries will support the Fund in identifying any potential changes to the scheme.</p> |
| <p>2. Are management aware of any factors which may mean for the Fund that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p> | <p>Management are not aware of any factors affecting service continuity.</p> |
| <p>3. With regard to the statutory services currently provided by West Midlands Pension Fund does the Fund expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for the Fund to cease to exist?</p> | <p>Yes. There is no uncertainty over the continuation of the LGPS (Local Government Pension Scheme) at a national level, with the majority of bodies within the Scheme having a statutory responsibility to be enrolled within the scheme.</p> |
| <p>4. Are management satisfied that the financial reporting framework permits the Fund to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p> | <p>Yes.</p> |

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Pension Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Pension Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

| Question | Management response |
|---|---|
| <p>1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?</p> | <p>Private Equity and Infrastructure investment holdings are valued at fair value in accordance with relevant accounting standards and industry guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.</p> <p>Direct property is valued at fair value by external independent property valuation experts.</p> <p>The insurance buy in and disclosures of net liability within the notes to the accounts also represent significant estimates and are based on information supplied to management by the Fund's actuary.</p> |
| <p>2. How does the Fund's risk management process identify and address risks relating to accounting estimates?</p> | <p>The Fund's risk management process includes the creation and management of risk maps by individual heads of service, the Head of Finance is responsible for the financial risk map. The Pension Fund's Accounting Policies are disclosed in the annual report and accounts and covers areas of accounting estimates. The accounting policies are formally adopted by the Pensions Committee each year.</p> |
| <p>3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?</p> | <p>The Fund regularly reviews appropriate guidance (CIPFA) and best practice in the assessment of methods and processes used together with any enhancements which support its accounting responsibilities.</p> <p>Accounting reports are presented on an annual basis to Senior Management with subject experts called where required.</p> |
| <p>4. How do management review the outcomes of previous accounting estimates?</p> | <p>Accounting estimates are made in line with IASs/IFRSs and Generally Acceptable Accounting Practices. When the actual year end external assessments are received management compares them to the respective historical valuation estimates. Variances are analysed with a view to improving the estimation process.</p> |
| <p>5. Were any changes made to the estimation processes in 2022/23 and, if so, what was the reason for these?</p> | <p>No changes made.</p> |

Accounting Estimates - General Enquiries of Management

| Question | Management response |
|---|--|
| 6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates? | The Fund's Head of Finance is also the Deputy S151 officer which requires relevant knowledge and experience to identify any needs. The Fund appoints specialist advisors where required. |
| 7. How does the Fund determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts? | The Fund documents its methodology for accounting estimates with the accounting policies presented to Pensions Committee for approval each year in March. There is a routine review of specialist advisors who support in the accounting estimates (asset valuations in particular). |
| 8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts? | In addition to the reporting to Pensions Committee, the Fund's statement of accounts are presented to the Council's Audit and Risk Committee before being signed off by the S151 officer. |
| 9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. | As outlined above, the Fund reports to senior managers, Pensions Committee and the Council's Audit and Risk committee. The internal audit team include a relevant area of finance accounting on their internal audit plan each year. |

Accounting Estimates - General Enquiries of Management

| Question | Management response |
|---|--|
| 10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they? | Management is not aware of any such transactions, events or conditions. |
| 11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable? | Estimates are consistent year on year and reflect standard industry practice. No known changes to accounting standards that would impact on the estimates approach adopted. |
| 12. How is the Pensions Committee provided with assurance that the arrangements for accounting estimates are adequate ? | Pensions Committee are assured via the annual external audit of the Pension Fund Statement of Accounts which is prepared using the arrangement for accounting estimates where appropriate. |

Appendix A Accounting Estimates

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|------------------------|---|---|--|--|---|
| Pension Fund Liability | The administering authority engage the Actuary who provides the estimate of the pension liability. | Payroll data is provided to the Actuary. Management reconcile this estimate of contributions to the actuals paid out in the year. | Scheme actuary | As disclosed in the actuary's report. Assumptions and illustrations of sensitivity to these are included to demonstrate where judgement is applied in relation to the rate at which inflation and pension benefits are projected to increase, mortality rates and expected returns on pension fund assets. | No |
| Private Equity | Private Equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. | December valuation is received and cash flow adjustments are used to roll forward the valuation to 31 March as appropriate. Valuation is then compared to the year end capital statement to determine any significant fluctuations. | Custodian and Fund Manager Capital Statement | Asset values are adjusted for cashflows generated by the underlying assets, leading to distributions to or payments from the Fund. | No |

Appendix A Accounting Estimates

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|---------------|--|--|--|--|---|
| Accruals | Finance team collate accruals of expenditure and income. Activity is accounted for in the financial year that it takes place, not when money is paid or received. | Review financial systems to identified where goods have been received or benefits accrued but not paid for. Requests of service managers to identify any other goods or services received or provided but not paid for. | No | Accruals for income and expenditure often based on known values. Where accruals are estimated the latest available information is used. | No |
| Contributions | If March values will not be readily available at the time of compiling the accounts then there may be a degree of estimation involved in calculating month 12 contributions. Finance team would then estimate the month 12 contributions based on actual figures to the end of March 2023. | Management reconcile this estimate of contributions to the actuals received for month 12. | No | Monthly contributions are usually based on known values. Where month 12 figures are estimated the latest available information is used. | No |



Appendix A Accounting Estimates

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|----------------------------|--|--|--|--|---|
| Property Valuations | Property is valued at fair value by property valuations experts. If March values will not be readily available at the time of compiling the accounts then there maybe a degree of estimation involved in the valuation. | December valuation is received and cash flow adjustments are used to roll forward the valuation to 31 March as appropriate. Valuation is then compared to the year end valuation to determine any significant fluctuations. | Property valuer | Not applicable | No |
| Provisions for liabilities | Accruals would be made in the year end financial statements. No provisions are expected for 2022/23. | Not applicable. | No | Not applicable | No |

Appendix A Accounting Estimates

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|--|--|--|--|--|---|
| Non Adjusting events – events after the balance sheet date | Reasonable estimates will be used to assess significant post balance sheet events unless actual numbers become available between year end and finalisation of the accounts for audit purposes. | Review financial systems to assess whether significant financial transactions or adjustments to valuations have taken place post the year end. | No | Not applicable | No |

Appendix A Accounting Estimates

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|----------------------|---|--|--|--|---|
| Level 2 investments | Fair valuation of assets in line with accounting standards, GAAP and industry practice. | Reliance on the work of experts including independent auditor. | Investment Manager | Not applicable | No |
| Level 3 investments | Fair valuation of assets in line with accounting standards, GAAP and industry practice. | Reliance on the work of experts. | Investment Manager | Not applicable | No |
| Fair value estimates | Assets and liabilities are recorded at fair values in line with relevant IFRSs | As above | Yes, where applicable | Not applicable | No |

Appendix B



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