



# West Midlands Pension Fund Audit Progress Report

**Year ending 31 March 2023**

September 2023



## Appendix B

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# 1. Headlines

This table summarises the interim 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 2023 for the attention of 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 transactions of the Pension Fund during the year ended 31 March 2023 and of the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay promised retirement benefits after the end of the fund 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 has been in progress since July. A significant amount of progress has been made but we are not in a position to issue a draft Audit Findings Report at this time.

The following pages summarise our progress against the risks highlighted in our audit plan and findings we have identified to date.

We anticipate completing the majority of our substantive audit work by the end of September although audited financial statements and the service auditors report from LGPS Central are not expected until towards the end of the month which will mean some audit work may fall into October.

As a result, our Audit Findings Report will be reported to the administering authority's November Audit and Risk Committee. Given the next Pensions Committee is not due until December 2023 we will liaise with the Chair and Management on the best way to communicate with the Pensions Committee before this.

The 2022 triennial valuations were published in March/April 2023. The data for this underpins IAS19/IAS26 roll forward disclosures within the Fund's and employer accounts. We are required to gain assurance that the information submitted to the actuary is consistent with the underlying records of the Fund. This work happens every three years and is normally undertaken at the same time as the annual IAS 19 work. However, as this element of our work was also required for employer bodies with open 2021/22 audits it was undertaken earlier and reported upon in early September. It was delayed slightly as we resolved reconciliation differences on member numbers with the Fund and the actuary.

During the performance of our audit procedures, there are areas (detailed below) where additional audit procedures / time have been or has been required. These are subject to further discussion with management in terms of improving efficiency of the audit.

- valuation of level 3 investments (financial instruments) where no financial statements are prepared. We have engaged an internal expert to review the valuations provided;
- valuation of level 2 investments (derivatives) where an internal expert has been engaged to review the valuations provided;
- additional review and follow up of the buy-in insurance contract following issues identified (see page 5);
- additional engagement team follow up with investment managers;
- a detailed review of the segregated portfolios with the identification of £54m worth of cash disclosed incorrectly in the Net Assets Statement; and
- resolution of queries raised regarding the triennial data testing.



# Findings of Audit Fieldwork (to date)

## Significant Risk Areas

### Status

#### Management override of controls (significant risk)

Journals is an area of focus in relation to our work on the significant risk of management override of controls. Following our understanding of the journals process we developed a testing strategy based on specific risk criteria which allowed us to select a sample of journals for testing.

To date, we have no significant findings or control weaknesses to report. We await resolution of a small number of queries in relation to our sample selected for substantive testing.

#### Valuation of Level 3 Investments (significant risk)

In the case of pooled investment vehicles, we have selected a sample of level 3 investment assets for substantive testing. Testing involves the agreement of year-end values as provided by management to third party investor statements obtained directly by the engagement team from investment managers, review of audited accounts for the investments and review of service organisation reports.

Our work is still in progress. At this point we have identified some timing differences between the investment manager capital statements and the Fund's Accounts. We cannot fully quantify this until we have completed our work on all sampled investments.

#### Valuation of Directly Held Property (significant risk)

We have engaged with a valuation expert to review the methodology and assumptions employed by management's expert. To supplement this work, an audit strategy was designed using indexation and other qualitative factors to identify a sample of assets for further testing. Inputs to the valuation calculation such as yield/reversion, rental income and Gross Internal Area have been tested to supporting documentation.

To date, we have no significant findings or control weaknesses to report. We await resolution of a small number of queries in relation to our sample selected for substantive testing.

#### Fraud in revenue and expenditure recognition (significant risk)

As part of our planning we considered the risk factors set out in ISA 240 and PN 10 in respect of fraud in both revenue and expenditure recognition. We have determined that the risk of fraud arising in both could be rebutted.

To date, we have no significant findings or control weaknesses to report.



# Findings of Audit Fieldwork (to date)

## Other Risk Areas

### Admitted Body Separate Fund insurance buy-in valuation - £131m (PY £174m)

We have engaged an internal valuations specialist to review the methodology and assumptions employed by management's expert and to perform an independent calculation of the estimated value for the bulk annuity insurance buy-in contract.

## Status

We noted that the valuation methodology did not match the methodology followed for determining the related actuarial liabilities. Further, the methodology was not in accordance with the requirements of the CIPFA Code as the discount rate assumption was determined with reference to the 8.5-year point of the Bank of England nominal gilt yield curve as opposed to high quality corporate bonds as required by IAS 19. This resulted in the valuation being overstated by £13m which management have agreed to amend in the financial statements.

# Findings of Audit Fieldwork (to date - continued)

## Other Audit Findings

### Status

#### Disclosure errors & enhancements and misstatements identified in other areas

Management have agreed to amend the financial statements.

#### Overseas equities (Net Assets Statement)

- The Pension Fund has several segregated mandates with a value of £2.3bn at 31 March 2023. £53.9m worth of cash included within these mandates was erroneously recognised as equities as opposed to cash deposits.

#### Investment income and Change in value of investments (Fund Account)

- For investment income, the amount disclosed of £82.9m was overstated by £5.4m as it did not match the total per the general ledger of £77.5m. For the change in value of investments, the amount disclosed of (£360.2m) was overstated by £6.5m as it did not match the total per the general ledger of (£353.7m). The overall net impact of £1.1m on the Fund Account is trivial from an audit perspective.

#### Fair value hierarchy (Note P17)

- Note P17 discloses the investment assets of the Fund against the Fair Value Hierarchy (Level 1, Level 2 and Level 3). The line for Financial assets at fair value through profit and loss of £18,834.1m erroneously also included the Fund's Direct Property holdings of £1,007.9m which are separately disclosed in the Non-financial assets at fair value through profit and loss line below. Hence inflating the financial assets total. There is a disclosure error and the value of assets in the net assets statements is not affected.

#### Actuarial valuation of the fund (Note P6) – Actuarial present value of promised retirement benefits for the purposes of IAS 26

- Note P6 discloses how changes in actuarial assumptions have impacted upon the present value of retirement benefits. Details of the financial assumptions such as discount rate, pay increases and pension increases are disclosed in addition to sensitivities of the assumptions to slight changes. However, consistent with the prior year no examples of the demographic assumptions were disclosed in the financial statements although their impact on the valuation was to decrease the actuarial present value by £172m with the impact of a 1 year increase in member life expectancy increasing actuarial liabilities by £791m (see Note P5). Inclusion of the demographic assumptions will enhance reporting thus providing a complete picture of all significant assumptions made use of by the expert.

#### Related parties (Note P26)

- Councillor Angela Underhill was omitted from the list of members making up the Pensions Committee.

# Follow up of Prior Year Recommendations

## Assessment Issue and risk previously communicated



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 Pension 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.

## Update on actions taken to address the issue

### Update

Management provided us with a reconciliation on 18 April 2023. Our review of the reconciliation did not highlight any issues.



Approximately £1.5bn of the Pension 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.

### Update

Management provided us with a working paper that shows the indexation of these assets from 31 March 2022 to 31 March 2023. No material difference was identified.

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 not appear to address the expected areas but could be refined.



# Audit Deliverables

## 2022/23 Deliverables

## Planned Date Status

### Audit Plan

Whilst under the administering authority's constitution their Audit and Risk Committee is considered those charged with governance for the administering authority's Statement of Accounts which include the Pension Fund accounts. We have determined that we shall also report to the Pensions Committee in their role of overseeing the production of the Pension Fund Annual Report and Accounts.

We are required to issue a detailed audit plan to the Pensions Committee setting out our proposed approach in order to give an opinion on the Pension Fund's 2022/23 financial statements.

September  
2023

Completed

### IAS 19 Assurance Reports

#### Triennial Membership Data

The 2022 triennial valuations were published in March/April 2023. The data for this underpins IAS19/IAS26 roll forward disclosures within the Fund's and employer accounts. We are required to gain assurance that the information submitted to the actuary is consistent with the underlying records of the Fund. This work happens every three years and will be conducted as part of the 2022/23 audit. It is normally undertaken at the same time as the annual IAS 19 work but as it was also required for employer bodies with open 2021/22 audit this element of the work was undertaken earlier. It was delayed slightly as we resolved reconciliation differences on member numbers with the Fund and the actuary.

31 August 2023

Completed  
(8 September  
2023)

### Annual (2022/23) IAS 19 Assurances

We will issue assurance letters to the auditors of member employers covered by the NAO's Code of Audit Practice as requested upon completion of sufficient audit procedures in order to enable employer financial statements to be signed off.

September/  
October 2023

Not yet due

### Audit Findings Report

Our Audit Plan showed audit work being conducted between July and October 2023. We were hopeful that we would be able to complete our audit work by the end of September 2023 but as reported in this update report, we now anticipate finishing in October and the Audit Findings Report will be reported to the administering authority's November Audit and Risk Committee. Given the next Pensions Committee is not due until December 2023 we will liaise with the Chair and Management on the best way to communicate with the Pensions Committee before this.

Est September  
2023

Est November  
2023

### Auditors Report

This includes the opinion on your financial statements.

Est September  
2023

Est November  
2023

### Consistency Statement

We are required to issue a statement confirming that the financial statements reproduced in your Annual Report are consistent with those included in the administering authority's financial statements.

Est September  
2023

Est November  
2023

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