Grant Thornton

External audit plan

Year ending 31 March 2023

West Midlands Pension Fund

31/03/2023

Contents

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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 Pension Fund 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.

Key matters

National and local context

For the general population, rising inflation, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. The pressures on household income have raised concerns that members could look at their pension contributions as a way of cutting back on their monthly costs. For instance, the Fund may receive more opt out requests and, whilst the statutory framework around employee contributions makes this difficult, funds may receive more requests for early access to their pension after age 55 as a means to financially manage their commitments.

In recent years, LGPS funding levels have been rising because of strong returns on assets. Some funds have generated a return in excess of 100% over the last decade. Locally, the results of the recently completed 2022 triennial valuation show the Fund moving from a £1.014bn deficit at March 2019 (94% funded) to a £679m surplus (103% funded) at March 2022. The key drivers for this have been better than expected investment returns alongside smaller benefit increases than expected over the period and decreases in expected improvements in longevity. These gains have been mitigated by reductions in forecast future investment returns and higher future inflation to get to the net position.

Overall, the number of members within the Fund continues to grow with the long-term trend over a 12 year period in membership continuing to illustrate a move towards a more mature profile whereby, in general, pensioners and deferred memberships continue to rise. This alongside the completion of the 2022 triennial valuation is leading to changes in the key strategic asset allocations within the Investment Strategy Statement (ISS) for the Main fund to further reduce the target allocation to growth assets and continuing to increase the strategic allocation to income producing assets and stabilising (lower risk) assets, reflecting the improved funding position from the actuarial valuation and the desire to reduce overall levels of investment risk whilst maintaining a return target focused on delivering the longer-term investment returns to meet the Fund's funding strategy.

The Finance function is continuing the transformation program which started in 2022 to update, enhance and develop its controls and processes. To date this has led to development of fund accounting capabilities and enhancing internal controls through review of process and accountabilities across interdependent teams. The Fund also has a compliance monitoring programme which includes monitoring LGPS Central Ltd and external fund managers to satisfy itself that they are performing suitable compliance monitoring and that they remain fit and proper persons with the Financial Conduct Authority (FCA) to manage the Fund's investments.

In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances.

Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan, has been agreed with the Head of Finance.
- We will continue to provide you and your Pensions Committee (and the Audit and Risk Committee) with sector updates providing our insight on issues from a range of sources and other sector commentators
- We hold annual financial reporting workshops for our clients to access the latest technical guidance and interpretation , discuss issues with our experts and create networking links with other clients to support consistent and accurate financial reporting across the sector.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of West Midlands Pension Fund ('the Pension Fund') for those charged with governance.

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 in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of West Midlands Pension Fund. 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 Pension Fund's financial statements that have been prepared by management with the oversight of the Pensions Committee, for and on behalf of those charged with governance (the Audit & Risk Committee).

The audit of the financial statements does not relieve management or the Pensions Committee of your responsibilities. It is the responsibility of the Pension 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 Pension Fund is fulfilling these responsibilities.

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

Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- ISA 240 – management override of controls.
- The valuation of direct property holdings and other level 3 investments.

We have rebutted the presumed risk for revenue recognition (see page 6).

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have changed our approach to materiality this year by setting separate materiality levels for the Net Asset Statement (NAS) and the Fund Account (FA).

Based upon the recently published draft accounts we have determined headline materiality on the NAS to be £189.5m (PY £200m) for the Pension Fund, which equates to 0.975% of the Pension Fund's gross investment assets as at 31/3/2023. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £9.475m (PY £10m).

We have also determined materiality to be £65.55m for Fund Account transactions which equates to 7.5% of the Pension Fund's total expenditure for the year ended 31/03/23. Clearly trivial has been set at £3.275m.

Audit logistics

Our interim visit took place in February and March 2023 and our final visit will take place from July to October 2023. Our key deliverables are this Audit Plan and our Audit Findings Report. The Administering Authority's auditor will also consider if there are any value for money points they need to pick up as part of their Auditor's Annual Report.

Our proposed fee for the audit will be £71,690 [Prior year fee - £68,486 (TBC)] for the Pension Fund, subject to the Pension Fund delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

Significant risks identified

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.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
ISA240 revenue risk	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.	Having considered the risk factors set out in ISA 240 we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: - there is little incentive to manipulate revenue and expenditure 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 separately sent schedules and are directly attributable to gross pay making any improper recognition 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 Depositary 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 frameworks of local authorities, including the administering authority for the Fund, City of Wolverhampton Council, mean that all forms of fraud are seen as unacceptable.

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Under ISA (UK) 240, there is a non-rebuttable presumed risk that management override of controls is present in all entities. The Pension Fund faces external scrutiny of its spending and stewardship of assets and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.	We will: - evaluate the design effectiveness of management controls over journals; - analyse the journals listing and determine the criteria for selecting high risk unusual journals; - test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; - gain an understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence; and - evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Fraud in expenditure recognition (rebutted)	Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially an entity that is required to meet financial targets. Having considered the risk factors relevant to West Midlands Pension Fund and the relevant expenditure streams, we have determined that no separate significant risk relating to expenditure recognition is necessary, as the same rebuttal factors listed on page 6 relating to revenue recognition apply. We therefore do not consider this to be a significant risk for West Midlands Pension Fund.	

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 3 investments (Annual revaluation)	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 statements 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 this estimate to changes in the key assumptions. Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers as valuation experts to estimate the fair values of these assets. We therefore identified valuation of Level 3 investments as a significant risk.	- evaluate management's processes for valuing Level 3 investments. - review 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 code are met. - independently request year end confirmations from investment managers, with an additional focus on ensuring use of appropriate International Private Equity and Venture Capital Valuation (IPEV) (or equivalent) methodology in their valuation books, updated for most recent available guidance. - for a sample of investments, test the valuation by comparing the valuation per the General Ledger (typically based on investor statement as at the reporting date, or in the case of harder to value assets, the latest capital statement available adjusted for known cash movements in the final quarter of the year) to direct confirmation of capital balances from investment managers and, where available, latest audited financial statements. - complete sample testing of purchases and sales to prime documentation across the period to support our reconciliation of the opening and closing balances. - analyse 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;

Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
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.	- evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; - independently request year-end confirmations from the investment manager; - evaluate the competence, capabilities and objectivity of the valuation expert; - write 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; - engage 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; - challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; - where available, review the investment manager service auditor report on design effectiveness of relevant controls.

'In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them.' (ISA (UK) 315)

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Other risks and matters

Risk	Reason for risk identification and key aspects of our proposed response to the risk
Admitted Body Separate Fund insurance buy-in valuation - £159.5m (PY £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 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 no longer material but the balance is highly subjective due to a lack of observable inputs. In order to determine the value, management engage their Actuary, Hymans Robertson, as an external expert to determine the value. We will: • performed an assessment of the competence and capabilities of the expert, and • engage the Firm's internal actuary to provide assurance over the ITA Fund insurance buy-in valuation.

Other work

The Pension Fund is administered by City of Wolverhampton Council (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements.

Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Pension Fund, such as:

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about your 2022/23 financial statements, consider and decide upon any objections received in relation to the 2022/23 financial statements;
    - Issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
    - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
    - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

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.

Progress against prior year audit recommendations

We identified the following issues in our 2021/22 audit of the Pension Fund's financial statements, which resulted in two recommendations being reported in our 2021/22 Audit Findings Report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
In progress	Management should implement a policy of reconciling its list of investment manager contacts to its asset listing on a periodic basis.	In discussions held during planning management have indicated they intend to implement this. This will not be implemented until the Fund has an updated investment schedule for the financial year end.
In progress	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.	In discussions held during planning management have indicated they intend to implement this. This will be provided during our fieldwork.

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.

Matter	Description	Planned audit procedures
1	**Determination** We have determined financial statement materiality based on a proportion of the gross assets as at 31/3/2023 for the Pension Fund. Materiality at the planning stage of our audit is £189.5m, which equates to 0.975% of the Pension Fund's gross investment assets as at 31/3/2023. Performance materiality and clearly trivial have been set at 70% and 5% of headline materiality.	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements
2	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. We have determined transactions within the Fund Account as items requiring greater precision and where we will apply a lower materiality level, as these are considered a key area of focus for users of the financial statements which is not directly derived from the investment portfolio. We have set a materiality of £65.55m which is equivalent to 7.5% of gross expenditure in the Fund Account. We will apply this to the audit of all fund account transactions, except for investment transactions, for which materiality for the financial statements as a whole will be applied. For the Fund Account Performance materiality and clearly trivial have been set at 65% and 5% of headline materiality.

Our approach to materiality

Matter	Description	Planned audit procedures
3	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.
4	**Other communications relating to materiality we will report to the Audit Committee** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Pensions Committee and Audit & Risk Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £9.475m (PY £10m). We have also set a separate triviality level for the Fund Account, individual difference could normally be considered to be clearly trivial if it is less than £3.275m. If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Pensions Committee and Audit & Risk Committee to assist it in fulfilling their governance responsibilities.

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.

	Amount (£)	Qualitative factors considered
Materiality:	Investments: £189.5m. Areas other than investments (Fund Account): £65.55m.	• Concentration of ownership: the entity is not owned by shareholders, there is no group structure in place (group structures, ownership by shareholders could affect materiality by making it lower) • Debt arrangements: the pension fund does not have any debt financing. • Business environment: the operations of the entity are less complex and few core business processes in which the entity is involved. Due to its nature as a public body administering the pensions of public sector workers, the pension fund operates within a stable environment and there has not been significant changes in the nature of its business activities over recent years. • Control environment: no issues have been identified in relation to the control environment. • Other sensitivities: the Fund continues to have a relatively high proportion of L3 investments (20-25%) which will be of interest to readers. Also, as per the Firm's guidance performance materiality for the financial statements as a whole should not exceed an admitted body auditor's materiality once the admitted body's asset share is taken into account. In order to meet this Fund Account materiality has been capped at £189.5m. No other sensitivities have been identified that would require materiality to be reduced.

IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on page 17.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Spend/Income	Planned level IT audit assessment
Business world	Financial reporting	N/A – all balances are impacted.	Roll-forward streamlined ITGC review (also make reference to page 17)
Universal Pensions Management (UPM)	Benefits payable	£722.7m (based on draft financial statements)	Roll-forward streamlined ITGC review (also make reference to page 17)

Audit logistics and team

Planning and risk assessment

Interim audit February and March 2023

Pensions Committee March 2023

Informing the Audit Risk Assessment and indicative risks

Year end audit July to October 2023. Full Audit Plan circulated.

Pensions committee TBC [est Sept 2023]

Audit Findings Report / Audit Opinion

Grant Patterson, Key Audit Partner

Provides oversight of the delivery of the audit including regular engagement with Governance Committees and senior officers.

Keith Chaisewa, Audit Manager (from June 2023)

Plans and manages the delivery of the audit including regular contact with senior officers.

David Rowley, Audit Manager (until June 2023)

Plans and manages the delivery of the audit including regular contact with senior officers.

Ben Stevenson, Audit In-charge

Key audit contact responsible for the day to day management and delivering of the audit work.

Audited Entity responsibilities

Where audited entities do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, all clients need to :

- ensure that they produce draft financial statements of good quality by the deadline they have agreed with us, including all notes – we have received these in line with agreed timelines
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you – working papers have been received but there will be on-going requests during the audit that will need to be addressed in a timely manner
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing – working papers have been received, there have been some clarifications required to enable samples to be selected but audit in progress
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit – we have a plan in place which will be monitored over the duration of the audit
- respond promptly and adequately to audit queries.

Audit fees and updated Auditing Standards including ISA 315 Revised

In 2018 PSAA awarded a contract of audit for West Midlands Pension Fund to begin with effect from 2018/19. The scale fee agreed in the contract was £37,436. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Additional documentation of our understanding of the Fund's business model, which may result in us needing to perform additional inquiries to understand the Fund's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for a Fund of your size, we estimate an initial increase of £3,000. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, is detailed overleaf and has been agreed with the Head of Finance.

Audit fees

	Actual Fee 2020/21	Estimated Fee 2021/22	Proposed fee 2022/23
West Midlands Pension Fund Audit – Scale Fees	£37,436	£37,436	£45,248
Brought Forward 2019/20 plus 2020/21 Fee Variations	£23,700	N/A	N/A
Ongoing Prior Year Variations taken into 2021/22	N/A	£24,520	N/A
2021/22 Proposed Variations			
- EQCR	N/A	£1,500	N/A
– additional quality procedures and work on L3 investments	N/A	£5,000	N/A
Ongoing Prior Year Variations not contained within amended scale fee	N/A	N/A	£17,942
2022/23 – ISA 315	N/A	N/A	£3,000
2022/23 – Additional Change of Circumstances Work	N/A	N/A	£500
2022/23 – Triennial Data Assurance Work	N/A	N/A	£5,000
Total statutory audit fees (excluding VAT)	£61,136	£68,456 (TBC)	£71,690 (TBC)

Assumptions

In setting the above fees, we have assumed that the Pension Fund will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person. We are independent and are able to express an objective opinion on the financial statements.

From the 1 November 2022 the Engagement Lead's wife became a member of West Midlands Pension Fund through being employed by scheduled body (not the administering authority). Under the FRC's Ethical Standard she is considered a Person Closely Associated (PCA) with the audit team. We have consulted our Ethics Team who have determined that as the PCA is not in a position to influence the preparation of the financial statements that the independence of the West Midlands Pension Fund audit would not be compromised and the current Engagement Lead can continue in this role. Additional safeguards will only be required in respect of picking samples for member data testing which will only be undertaken by the Audit Manager. If the PCA is selected any work related to the PCA will be reviewed by a different Director.

We the exception of the PCA above 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 we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in September 2022 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund.

Independence and non-audit services

Other services

The following other services provided by Grant Thornton were identified/ No other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

Service	Fees £	Threats	Safeguards
Audit related			
IAS19 Assurance letters for Scheduled and Admitted Bodies	£6,000 and £1,100 per audit letter.	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is small in comparison to the audit fee of £71,690 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Total:	£18,100	In 2021/22 we received 11 requests. If this changes then the fee will be varied.	

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud (deliberate manipulation) involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Grant Thornton

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