The Audit Findings Report for West Midlands Pension Fund

Year ended 31 March 2023

17 January 2024

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.

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

Grant Patterson

Name: Grant Patterson
For Grant Thornton UK LLP
Date: 12 January 2024

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of West Midlands Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2023 for the attention of the Pensions Committee and the Audit & Risk Committee as 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 was completed both on site and remotely during July-October. Our findings are summarised on pages 5 to 29.

We have identified two adjustments to the primary financial statements (Fund Account and Net Assets Statement). One, linked to the valuation of the insurance buy-in asset within an Admitted Body Separate Fund (ABSF), resulted in a £13m adjustment to the Pension Fund's reported financial position (see page 14) whilst the other is a £51.8m reclassification of assets from equities to cash (see Page 25). Audit adjustments are detailed in Appendix D.

In October 2023 we reported to the Pensions Committee a potential estimated misstatement of £47m . We have now completed our testing on investment assets and have identified a quantifiable positive timing variance of £29.1m (which is attributed predominantly to level 3 investments) - that is to say, the estimated value of these assets as at 31 March 2023 per investment manager statements was £29.1m higher than the value recorded in the ledger and draft financial statements. We recognise the difference is primarily driven by timing differences on closing down the financial statements and receipt of final valuation statements and is not an uncommon finding at pension funds. Management have opted not to amend on the grounds that the variance is not material both quantitatively and qualitatively.

We have also identified two material disclosure amendments within Note P17 which discloses the investment assets of the Fund against the Fair Value Hierarch (Level 1, Level 2 and Level 3). Management has agreed to amend for the following, both are disclosure errors and the value of assets in the net assets statements is not affected:

- 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. The is a disclosure error and the value of assets in the net assets statements is not affected.
- With a greater regulatory focus on fair value disclosures we have enhanced our procedures. This has identified that the Fund held historic assets within Level 2 in corporate bonds (Level 1) and limited partnerships (Level 3). As a result, we concluded that these assets which were incorrectly categorised in the fair value hierarchy. Amendments made were Level 1 – £148m increase, Level 2 – £474.6m decrease and Level 3 – £326.3m increase.

As a result of the second item the 2021/22 financial statements have also been restated as the same assets were held. The restatement is only a disclosure issue with no impact on the reported 2021/22 net assets of the Pension Fund. For more details of the restatement, please refer to page 15.

We have also raised recommendations for management as a result of our audit work. These are set out in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited. We will revisit this when the audit of the Administering Authority's financial statements is completed.

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements subject to satisfactory resolution of the outstanding matters, as set out on page 6.

Whilst our work on the Pension Fund financial statements is substantially complete, we will be unable to issue our final audit opinion on the Pension Fund financial statements until the audit of the Administering Authority is complete.

We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until 1 December 2023 and therefore this report has not yet been produced. We have therefore not given this separate ('consistency') opinion at this time.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November 2022. We issued our opinion on the Fund's 2021-22 financial statements on 22 September 2023.

There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions. Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

We would like to thank everyone at the Pension Fund for their support in working with us to resolve any delays.

Local context - triennial valuation

Triennial valuations for local government pension funds have been published. These valuations, which are as at 31 March 2022, provide updated information regarding the funding position of the Pension Fund and set employer contribution rates for the period 2023/24 – 2025/26. For the Pension Fund, the valuation was undertaken by Hymans Robertson, and showed that the Pension Fund was fully funded. These valuations also provide updated information for the net pension liability on employer balance sheets.

We have performed testing of the completeness and accuracy of triennial valuation source data. This was to support our work providing assurances to auditors of employer bodies. As part of this work, we tested a sample 75.

For active members, 1 error was identified regarding the attribute "Date joined the scheme". We selected an additional sample of 10 members for testing of this attribute for which no exceptions were identified therefore concluding that the error was isolated. In addition to the additional testing performed, we inquired with the actuary who advised that the date of joining the scheme is not a direct input to any of the liability calculations. For deferred members (specific to frozen members – original sample of 3), we were unable to substantiate for 2 samples the attributes, "Frozen pension amount" and "Frozen spouse pension" being that the pension fund could not provide us with any documentary evidence. However, the information on the data extract matched information on the pension administration system. We selected an additional sample of 2 members for testing of these attributes for which no exceptions were identified. Following the extended procedures performed, we found the source data to be complete and accurate.

This additional testing is only required after each triennial review, rather than annually. See Appendix E for the impact of this work on our 2022/23 audit fee.

2. Financial Statements

Overview of the scope of our audit

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

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

For West Midlands Pension Fund, the Audit and Risk Committee (City of Wolverhampton Council) fulfil the role of those charged with governance and there is a separate Pensions Committee which considers the draft financial statements and is part of the overall member oversight process. In line with ISA 260 we have determined to communicate with the Pensions Committee who recommend adoption of the financial statements to the Audit & Risk Committee.

Audit approach

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

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

We have not had to significantly change our strategy communicated in our Audit Plan. However, on receipt of the draft financial statements we concluded that we needed to engage additional auditor experts to help us gain assurance over the valuation and economic exposure disclosures of derivatives and also in respect of three assets totalling £222m which were valued on the discounting method.

Conclusion

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements subject to satisfactory resolution of the outstanding matters, as set out on page 6.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

2. Financial Statements

Status of the audit: the outstanding matters as at the time of writing are set out below.

- receipt of the signed management representation letter once approved;
- review of the Pension Fund accounts within the City of Wolverhampton's incorporated into the final set of financial statements; and
- receipt and review of the final 2022-23 Annual Report - due to statutory deadlines the draft Pension Fund Annual Report was published on 1 December 2023.

Status

- High potential to result in material adjustment or significant change to disclosures within the financial statements
- Some potential to result in material adjustment or significant change to disclosures within the financial statements
- Not considered likely to result in material adjustment or change to disclosures within the financial statements

2. Financial Statements

Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan on 27 September 2023.

We set out in this table our determination of materiality for the Pension Fund.

	Pension Fund Amount	Qualitative factors considered
Materiality for the financial statements	£189.5m	Per the audit plan, we set headline materiality based on a proportion of the Pension Fund's gross assets which equates to 0.975% of the Pension Fund's gross investment assets at 31 March 2023.
Performance materiality	£132.5m	Based on the internal control environment at the Pension Fund we determined that 70% of headline materiality would be an appropriate benchmark.
Trivial matters	£9.475m	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. This has been set as 5% of headline materiality.
Materiality for the fund account	£65.55m	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 materiality equivalent to 7.5% of gross expenditure. Further, for the Fund Account, performance materiality and clearly trivial have been set at 65% (£42.61m) and 5% (£3.28m) respectively of this lower specific materiality.

2. Financial Statements: Significant risks

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

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

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Pension Fund faces external scrutiny of its spending and stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgments applied by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. **Conclusion** Our audit work has not identified any issues in respect of management override of controls. No changes in accounting policy, estimates or significant unusual transactions for which an appropriate business purpose could not be determined were identified during the course of our program of work.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Fraud in revenue recognition (rebutted) 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; and • 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. **Conclusion** Therefore at the planning stage, we did not consider this to be a significant risk for West Midlands Pension Fund. We have continued to update our risk assessment during the course of the audit. We have also sample tested income as part of our audit strategy. We have not identified any circumstances which would suggest an amendment to the rebuttal would be appropriate or required.
Fraud in expenditure recognition – Practice Note 10 (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 above relating to revenue recognition apply. **Conclusion** We therefore did not consider this to be a significant risk for West Midlands Pension Fund at the planning stage. We have continued to update our risk assessment during the course of the audit. We have also sample tested expenditure as part of our audit strategy. We have not identified any circumstances which would suggest an amendment to the rebuttal would be appropriate or required.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
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.	We have: - evaluated management's processes for valuing Level 3 investments. - reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investment to ensure the requirements of the CIPFA Code are met. - independently requested year end confirmations from investment managers, 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, tested 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 applicable, latest audited financial statements. - completed sample testing of purchases and sales to prime documentation across the period to support our reconciliation of the opening and closing balances. - analysed the fund's holdings by sector, applying an additional layer of professional scepticism and challenge in relation to any assets with potential exposure to the pandemic or other significant economic risks; Per the Fund's accounting policies, and in common with other comparable bodies in the sector, a number of the Fund's Level 3 assets are valued a quarter or more in arrears and, as such, given the requirement for the Fund to produce draft accounts within a time limited window the value within the general ledger and draft financial statements at the balance sheet date is a December 2022 or earlier valuation adjusted for known cash movements. Consequently, this will inevitably lead to a variance between the balances recorded in the Net Assets Statement for these assets and the actual, up to date 31 March investor statements which are typically received after the Pension Fund has prepared draft accounts. This timing variance can be especially pronounced in periods of significant market uncertainty or upheaval. **Conclusion** We identified a quantifiable positive timing variance of £29.1m (that is to say, the estimated net value of these assets as at 31 March 2023 per investment manager statements was £29.1m higher than the value recorded in the ledger and draft financial statements). Management have opted not to amend the £29.1m variance on the grounds that it is not material both quantitatively and qualitatively. For clarity, this is in line with experiences with other comparable bodies from within the sector owing to market conditions and, as such, we do not deem this to be indicative of a control weakness at the Pension Fund. Smaller, trivial, differences of £0.3m (overstatement) in Level 1 assets, £0.7m in Level 2 assets (understatement) and £1.2m in foreign currency holdings (understatement) were also identified but are not required to be considered by us as unadjusted misstatements. With a greater regulatory focus on fair value disclosures we have enhanced our procedures. This has identified that the Fund held historic assets within Level 2 in corporate bonds (Level 1) and limited partnerships (Level 3). As a result, we concluded there were assets which were incorrectly categorised in the fair value hierarchy. Amendments made were Level 1 – £148m increase, Level 2 – £474.6m decrease and Level 3 – £326.3m increase. As part of our testing, we have reviewed investment manager service organisation reports. However, we have identified a deficiency in regard to lack of service organisation reports at certain investment managers detailing the service auditor's opinion on the operating effectiveness of the investment manager's valuation controls. The value of investments of which we were unable to obtain a service organisation report is £10.5bn (£1.6bn excluding LGPS Central made up of investment with 30 investment managers). We have made a recommendation to management as detailed on page 25.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Directly Held Property (Level 3 investment) (Annual Revaluation) The Fund revalues its directly held property on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Management engage the services of a valuer to estimate the value at the balance sheet date as well as an investment manager for the portfolio. We have therefore identified valuation of directly held property assets, particularly revaluations and impairments, as a significant risk.	We have: - evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; - independently requested year-end confirmations from the investment manager; - evaluated the competence, capabilities and objectivity of the valuation expert; - written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the CIPFA Code are met; - engaged our own valuer to assess the instructions to the Fund's valuer, the Fund valuer's report and the methodology and assumptions that underpin the valuation; - challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; - where available, reviewed the investment manager service auditor report on design effectiveness of relevant controls. Conclusion We have now finalised our work over directly held property. We have not identified any reportable matters in respect of the expertise, assumptions and information underpinning the assumptions used by Savills as the Fund's expert (primarily in the area of void and rental stream assumptions) and are therefore satisfied the management's valuation within the financial statements is fairly stated.

2. Financial Statements: Other risks

Risks identified	Commentary
Admitted Body Separate Fund (ABSF) Insurance buy-in asset valuation (£131m)	The Admitted Body Sub Funds (ABSF) was established for former employers of the West Midlands Integrated Transport Authority Pension Fund (ITA Pension Fund), West Midlands Transport Limited (WMTL) and Preston Bus (PB) as part of the merger of the ITA Pension Fund and the main West Midlands Pension Fund in 2019/20. Within the ABSF one of the largest assets is a bulk annuity insurance buy-in that was originally put in place in 2012/13 as part of the ITA Pension Fund's risk strategy. 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 have: • performed an assessment of the competence and capabilities of the expert, and • engaged our Firm's internal actuary to provide assurance over the insurance buy-in contained within the ABSF. 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 (Appendix D).

2. Financial Statements: key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – £3,364.1m These are typically unquoted investments and pooled investment vehicles and are not traded on an open exchange. The valuation of these assts is typically highly subjective due to a lack of observable inputs. In order to determine the value, management rely on the valuations provided by investment managers which in turn are provided by experts employed by the private equity funds or similar vehicles in which the Pension Fund invests.	These investments are not traded on an open exchange and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management typically rely on the valuations expertise of investment managers, supported by the Pension Fund's own advisors and analysis of performance against the market and expectations. The value of the investments has increased by approximately £425m, reflective of gains of £249m (driven by returns from the Pension Fund's investment strategy) and net purchases of £176m.	Management processes are in line with expectations and we are satisfied that their process for arriving at and accounting for the estimate is appropriate and not subject to undue optimism or bias. The above conclusion was reached after £474.6m of investment assets in Level 2 were noted as being incorrectly categorised in the fair value hierarchy. Of these, £326.3m should have been categorised as Level 3 investments which management corrected in the draft financial statements. The final reported value of Level 3 investments is £3,690.4m. For issues identified following work performed and conclusions reached, please see page 9.	Light Purple
Level 2 Investments – £3,866.7m The Pension Fund has investments in pooled investment vehicles and derivatives that cannot be easily reconciled to valuations recorded on an open exchange as the valuation of the investments involves some subjectivity. In order to determine the value, management rely on the information which they are given from the various fund managers.	As with Level 3 investments, management typically rely on valuation information provided by investment managers, supported by assessment against the market and expectations by its advisors. This area of the accounts has experienced a significant drop (approximately £822m) in valuation as a result of market conditions prevalent at 31 March 2023.	Management processes here are in line with expectations and we are satisfied that their process for arriving at and accounting for the estimate is appropriate and not subject to undue optimism or bias. The above conclusion was reached after £474.6m of investment assets were noted as being incorrectly categorised in the fair value hierarchy. These should have been categorised as Level 3 (£326.3m) and Level 1 (£148m) investments respectively which management corrected in the draft financial statements. The final reported value of Level 2 investments is £3,392.1m.	Light Purple

Assessment

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

2. Financial Statements: key judgements and estimates (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Directly held property – £1,007.9m The Pension Fund has investments in directly held property totalling £1bn in 2022/23. These assets are hard to value and are therefore held at Level 3 in the fair value hierarchy, representing a significant estimate for the Pension Fund.	Management forms its estimates of the valuation by placing reliance on the valuations expertise of its external valuer. The valuer provides quarterly investor statements which provide a valuation of the full portfolio held by the Pension Fund. The value of the investment has seen valuation losses of £135m, reflective of net purchases totalling £41m and losses of £176m (due to market conditions prevalent at 31 March 2023).	Our work over directly held property has now been finalised. Management processes are in line with expectations and we are satisfied that their process for arriving at and accounting for the estimate is appropriate and not subject to undue optimism or bias.	Light Purple
Admitted Body Separate Fund (ABSF) **Insurance buy-in asset valuation – £131m** A bulk annuity insurance buy-in was put in place in 2012/13 as part of the ITA Pension Fund's risk strategy. This is now an asset within the ABSF.	This cover means that the insurer underwrites the risk of meeting the future liabilities relating to West Midlands Travel Ltd. Pensioners on the payroll at 11 August 2011 in return for a one-off premium. This buy-in was originally valued within the financial statements at £131m. The balance is highly subjective due to a lack of observable inputs. In order to determine the value, management have engaged their Actuary, Hymans Robertson. We appointed our expert and 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.	Management's process for arriving at this value is based around usage of an external expert to determine the value. Grant Thornton have performed an assessment of the competence and capabilities of the expert, as well as engaging our own expert to calculate an independent estimate of the valuation as well as review the methodology and assumptions employed by management's expert. See results of work performed and conclusions reached on page 11.	Light Purple This is based upon the revised valuation received.

Assessment

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

2. Financial Statements: Information Technology

The Pension Fund has a Service Level Agreement (SLA) with the City of Wolverhampton Council to utilise certain of their systems, primarily the General Ledger (Unit 4 ERP) and the associated Active Directory. The Fund also directly utilised the Universal Pensions Management (UPM) software for pensions administration.

As part of our audit work we therefore assess the Information Technology (IT) environment and controls which includes identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

Work on the Unit 4 ERP and Active Directory has been undertaken by the Administering Authority's auditors. Interim findings have been shared with the Administering Authority's management. Potential areas for improvement have been identified in the areas of:

- The number of System Administrators with unrestricted access to both development and production environments
- The controls to actively monitor the usage of generic accounts within Unit/Agresso Database and Active Directory, and
- Timeliness of processes in revoking user access within Unit4 for terminated employees

These are still being discussed with the Administering Authority's management and the report is expected to be taken to the Council's next Audit & Risk Committee. Once finalised we will complete the assessment ratings below. The Fund's Management should also ensure they understand the City of Wolverhampton Council's response to any final recommendations. This should include any agreed action plan and timelines by the Administering Authority and an assessment of any risks to and impact upon the Fund's processes.

Our work on UPM is currently being finalised but we have not identified any specific issues at this time.

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating: Security management	ITGC control area rating: Technology acquisition, development and maintenance	ITGC control area rating: Technology infrastructure	Related significant risks/other risks	Additional procedures carried out to address risks arising from our findings
Unit4 ERP	Detailed ITGC assessment (design effectiveness only)	🟡	🔴	🟡	🟢	No specific risks identified.	N/A
Active Directory	Detailed ITGC assessment (design effectiveness only)	🟡	🟡	Not in scope	Not in scope	No specific risks identified.	N/A
Universal Pensions Management (UPM)	Roll-forward streamlined ITGC review	🟡	🟡	🟢	🟢	No specific risks identified.	N/A

Assessment

- 🔴 Significant deficiencies identified in IT controls relevant to the audit of financial statements
- 🟡 Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- 🟢 IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ⚫ Not in scope for testing

2. Financial Statements: matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view and management response
Prior year adjustments identified	Per Par 2.10.2.29 of the CIPFA Code, local authorities are required to follow the fair value hierarchy prescribed by paragraphs 76 to 90 of IFRS 13 to increase consistency and comparability in fair value measurements and related disclosures. Par 2.10.4.1 goes on to state that for recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety (Level 1, 2 or 3) should be disclosed. The hierarchy categorises into three levels the inputs to valuation techniques used to measure fair value; these include: Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date Level 2 inputs – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly Level 3 inputs – unobservable inputs for the asset or liability This is a material disclosure for the pension fund noting that investment assets are measured at fair value through profit or loss with the value of investment assets measured at FVTPL being £18,962.7m at 31 March 2023 and £19,534m at 31 March 2022. On the basis that this is a material disclosure, we therefore included in our testing strategy, reviewing the appropriateness of categorization of investment assets in the fair value hierarchy. Following that review, we identified that plan assets had not been appropriately categorized within the fair value per the above basis.	Following discussions with management, the 2021/22 audited financial statements have been restated as follows: • Level 1 – £176m increase • Level 2 – £514m decrease • Level 3 – £338m increase On page 25 we have made a recommendation to management to continuously review the Pension Fund's asset listing with reference to the fair value hierarchy in IFRS 13.

2. Financial Statements: other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Pensions Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation will be requested from the Pension Fund. We are not requesting specific additional representations except for the recognition of management's rationale for not adjusting for the identified unadjusted misstatements.
Audit evidence and explanations	All information and explanations requested from management was provided.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Pension Fund's investment managers and banking partners. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.

2. Financial Statements: other communication requirements

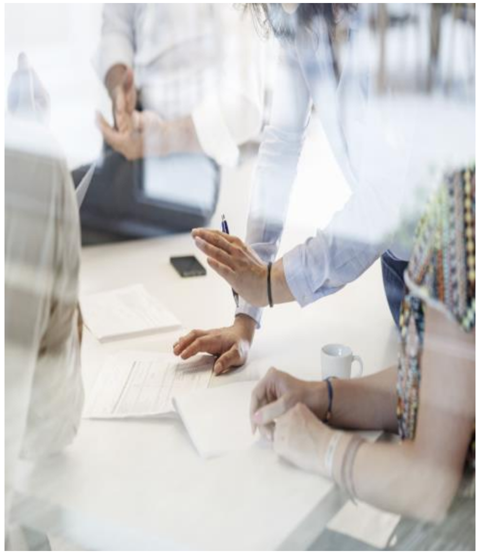
Our responsibility

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

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

2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	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. We are required to 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 have reviewed the Council's unaudited accounts and concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited. We will revisit this when the audit of the Administering Authority's financial statements is completed.
Matters on which we report by exception	We are required to report if we have applied any of our statutory powers or duties as outlined in the Code. We have nothing to report on these matters. We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until 1 December 2023 and therefore this report has not yet been produced. We have therefore not given this separate ('consistency') opinion at this time.



3. Independence and ethics

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 and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

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, 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix E.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Grant Thornton International Transparency report 2023.

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. No non-audit services were identified which were charged from the beginning of the financial year to current date. Note that fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances should be considered work undertaken under the Code of Audit Practice for 2022/23 onwards.

3. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	As noted in our Audit Plan, from 1 November 2022 the Engagement Lead's (EL) wife became a member of West Midlands Pension Fund through being employed by a 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 were only required in respect of picking samples for member data testing which were undertaken by the Audit Manager and Engagement Team with no influence from the EL. The PCA was not selected in any of our samples therefore additional safeguards were not required. We the exception of the PCA above we are not aware of any relationships between Grant Thornton and the Pension Fund that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Pension Fund held by individuals.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Pension Fund as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Pension Fund.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Pension Fund's board, senior management or staff.

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person and network firms have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

Appendices

A. Communication of audit matters to 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	•	
Confirmation of independence and objectivity	•	•
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 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 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 Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

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.

Distribution of this Audit Findings Report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan – Audit of Financial Statements

We have identified 8 recommendations for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2023/24 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
● (Low)	**Investments** The Pension Fund outsources Fund Accounting for Admitted Body Separate Funds (ABSF) to HSBC. HSBC records trades (purchases and sales) related to the ABSFs as gross monthly totals as opposed to being recorded on a transaction by transaction basis. We require listings at a transactional level in order to undertake testing. Management were able to reproduce a listing with a breakdown of the trades to allow for sample selection but this did lead to delays in our audit work. Further to the above, we were provided with the Pension Fund's asset listing. We noted that: • some of the investments did not have unit/share holding data documented though valuation data was provided (i.e. LDI Gilts, Legal & General (L&G) North America Equity Index and L&G General Active Corp Bond All Stocks), and • for some assets, the investment names on the Pension Fund's asset listing did not match those on the capital statements received from investment managers. As the valuation of unitized investments is derived by multiplying the number of units held by the unit price, recording only the valuation at year end from the investment manager's capital statement could mean that any potential errors go unnoticed and investments might be missed where the names or identifiers do not match the record per the investment manager or custodian.	a) Management were able to reproduce trades information for the ABSFs at a transactional level at year end on audit request. As HSBC currently report this information gross on a monthly basis we recommend management discuss with HSBC whether the recording and reporting of these transactions can be done at a transactional level on a monthly basis in a manner that will allow for information to be readily available for the year-end audit purposes. If this is not possible then we recommend management produce the information in this form as part of their future closedown arrangements. b) Management should liaise with HSBC to seek to ensure that all relevant data is captured on the asset listing with investment names accurately matching investment manager / custodian records. This could be done through half yearly reviews of the asset data listings. **Management response** a) The Fund accepts the recommendation and will explore with the external provider on provision of the additional recommended details. b) The Fund works to ensure that investment names are recorded and take into account any changes to this over time. In response to the recommendation a formal periodic review will be built into processes.
● (Medium)	**Direct property holdings** Part of the Pension Fund's direct property portfolio includes agricultural assets which were valued at £17m at 31 March 2023. The valuation report provided by management's expert was dated 30 June 2023. Upon inquiry we were advised that the last valuation report produced was as at 31 December 2021 with the Pension Fund not being able to commission a March 2023 valuation. There is a risk that valuation movements reflective of market conditions at 31 March 2023 are not reflected in the financial statements.	Management should ensure that the valuation is performed at 31 March 2023 to coincide with the Pension Fund's year end. Should there be concerns regarding producing a report at 31 March, management should perform additional procedures to confirm there being no significant movements between 31 December and 31 March. **Management response** The Fund has already put measures in place to ensure that the valuation of agricultural direct property holdings are valued as at 31 March moving forward.

Controls

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

B. Action Plan – Audit of Financial Statements (continued)

Assessment	Issue and risk	Recommendations
●	**Controls Reports and Bridging Letters** One of our audit procedures requires us to review service organisation reports where these are made available. The value of investments for which we were unable to obtain a service organisation report during the period of our audit was £11.1bn. Of this, £9.5bn of assets are covered through the LGPS Central service organisation report (£1bn is made up of investments with 30 investment managers). The report for 2021/22 was provided in July 2022 but the equivalent report for this year (2022/23) is still unavailable, although we understand it will be available very shortly. Delays in investment managers providing these reports could signify internal control concerns within the investment manager that may have an impact on the valuations produced for the Pension Fund's investments. We have obtained sufficient assurance through the alternate procedure of review of audited accounts of the underlying investment funds hence non-receipt has not impacted upon our ability to conclude our work but has impacted upon efficient audit delivery.	As the audit cycle begins to return to normality and not achieving the 30 September publication deadline for audited financial statements again becomes less common the timely receipt of service organisation reports will be key to timely audit delivery alongside providing assurance for the Fund as part of its own internal compliance processes and controls. We recommend that: • as part of their regular meetings with LGPS Central that management gain assurance that the 2023/24 report will be produced in a timely manner or explore whether moving to a twelve month reporting cycle at 31 December each year might provide more time for the report to be finalised and made available to all 8 LGPS schemes supported by LGPS Central, and • review the internal compliance team's reporting and escalation of matters where service organisation reports are either not received or are delayed through the lens of confirming other compliance related areas such as regulatory status, financial crime, conflicts of interest, business continuity, etc. **Management response** The Fund will continue its dialogue with LGPS Central with respect of ensuring that assurance reporting is received within a timely manner. The Fund will continue to review and refine its internal reporting and escalation processes which already include follow-up actions were assurance reports are not received.
● For clarity this is deemed high risk from an accounts presentational perspective not from how the Fund is managing the assets	**Classification of Investment Assets** We noted that the Pension Fund has 7 segregated portfolios which are aggregated and recorded gross on the asset listing as opposed to being recorded on an individual asset basis. The result was that £53m worth of cash was recorded as equities as opposed to cash deposits. Recording investment assets on a gross basis could result in classification errors in the financial statements. Whilst we have not identified any misclassifications with newly acquired assets we did also identify £474.6m of historic investment assets which were incorrectly categorised as Level 2 assets in the fair value hierarchy. £148m was assumed to be a pooled fund though it is managed as a segregated bond portfolio by the investment manager and should have been Level 1. Upon inquiry we were advised that £326.3m of investment assets (limited partnerships) were categorised as Level 2 investments to ensure consistency with the prior year disclosures when they should have been classified as Level 3. Should there have been changes to the inputs used in valuing these assets or changes to the valuation methodology of these assets, errors would have been made in their categorisation thus impacting disclosures in the financial statements.	Management should: • review the segregated portfolio and where aggregated should disaggregate them and allocate the various types of assets appropriately within the Net Assets Statement, and • also ensure that they continuously review the Pension Fund's asset listing with reference made to the requirements of IFRS 13 when determining where to place an asset in the fair value hierarchy. **Management response** The Fund takes into account any changes in the nature of the asset or the classification criteria in reviewing the classification of assets that it to continues to hold from prior reporting periods. In the case of the assets identified for adjustment in 2022/23 there had been no changes to the underlying asset or classification criteria from the previous year classification agreed with the auditor.

Controls

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

B. Action Plan – Audit of Financial Statements (continued)

Assessment	Issue and risk	Recommendations
●	**Recognition of Accruals** During our journal entries testing, we noted a transaction which was recorded in 2022/23 but relating to previous years. The value of this transaction was £4k. Upon inquiry with management, we were advised that the Pension Fund does not have a de-minimis level which would act as a threshold for ensuring that management make all attempts to accrue for costs incurred above that threshold.	Our experience is that a number of clients set a de-minimis level to improve efficiency in the year-end reporting process as management are able to focus their attention on significant accruals, thus creating capacity. The Fund may wish to consider if this is a practice it wishes to adopt. **Management response** Upon considering the recommendation the Fund will continue with its current approach of accruing all transactions that it has information on at the year end.
●	**Information Technology** The Pension Fund has a Service Level Agreement (SLA) with the City of Wolverhampton Council to utilise certain of their systems, primarily the General Ledger (Unit 4 ERP) and the associated Active Directory. The Fund also directly utilised the Universal Pensions Management (UPM) software for pensions administration. Work on the Unit 4 ERP and Active Directory overall IT General Control (ITGC) environment has been undertaken by the Administering Authority's auditors. Interim findings have been shared with the Administering Authority's management and potential areas for improvement have been identified.	We recommend that the Fund's Management should ensure they understand the City of Wolverhampton Council's response to any final recommendations, including also understanding the action plan and agreeing timelines of when the actions will be addressed, and assess the risks to and impact upon the Fund's processes. **Management response** The Fund will incorporate the review of City of Wolverhampton Council's responses to recommendations arising from the ITGC work carried out as part of their Audit into its standard SLA monitoring and review processes.

Controls

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

B. Action Plan – Audit of Financial Statements (continued)

Assessment	Issue and risk	Recommendations
●	**Investment Management Expenses** The Pension Fund engaged an external provider for purposes of data collection with reference to cost transparency reporting required as part of the financial statement preparation process. It is understood that as part of the data collection exercise, some fund managers do not provide information by the cut-off date. As a result, methodology was proposed for estimating investment management expense data when information could not be collected which was authorised by the Pension Fund. However, the methodology does not mandate for follow up with fund managers that would not have provided the required information as a measure of checking the accuracy of the estimated figures. As such, where information is outstanding from the same fund managers year on year, differences could go unnoticed leading to inaccurate information being reported in the financial statements.	Management should ensure that fund managers are held to account regarding their duty to the Pension Fund as required by the terms and conditions of the fund management agreement. Management should also obtain investment management expense data after the cut-off date making adjustments where necessary to the methodology to reduce estimation uncertainty. **Management response** The Fund monitors the provision of information as part of the Cost Transparency Initiative and had over 92% response rate by value of assets held for the 2022/23 exercise and over 72% by number, a substantial improvement on the same point in previous years. The Fund accepts the recommendation and will liaise with the external provider to build this process into the work in future years as well as continuing to monitor the level of provision of information by investment managers.
●	**Universal Pensions Management (UPM)** As part of our understanding of the Pension Fund's security management controls over the former pensions administration system, we were advised that the Pension Fund's Systems Support Technician maintained a register of IT users for UPM. The register included the names of staff (permanent and others) and contractors authorised to access the Pension Fund's systems and business premises. The register was reviewed weekly by the Systems & Business IT Manager to ensure it was up to date. There was however no formal documented evidence of these reviews for us to confirm implementation of the control. Lack of formal sign off which aids with accountability could result in the review not being performed with reference to the new pensions administration system.	Management should ensure that procedures are put in place to formalise the register review now maintained for the new pensions administration system. **Management response** The Fund accepts the recommendation and will formalise evidencing of the register review.

Controls

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

C. Follow up of prior year recommendations

We identified the following issues in the audit of West Midlands Pension Fund's 2021/22 financial statements, which resulted in 2 recommendations being reported in our 2021/22 Audit Findings Report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	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.	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. 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.	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.

Assessment

✓ Action completed

X Not yet addressed

D. Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net assets for the year ending 31 March 2023.

Detail	Pension Fund Account £'m	Net Asset Statement £'m	Impact on total net assets £'m
• Bulk annuity insurance buy-in contract • Revaluation of bulk annuity insurance buy-in contract Differences identified between the value of investments disclosed in the financial statements at 31 March 2023 and the valuation statements received from third party fund managers.	13	(13)	(13)
• Overseas equities • Cash deposits The Pension Fund has several segregated mandates with a value of £2.3bn at 31 March 2023. £53m worth of cash included within these mandates was erroneously recognised as equities as opposed to cash deposits.		(52) 52	(52) 52
• Contributions receivable • Current assets Overstatement of contributions receivable arising from prepayments made where no income should have been recognised in 22/23.	7	(7)	(7)
Overall impact	£20	£(20)	£(20)

D. Audit Adjustments (continued)

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

Misclassification and disclosure changes

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

Disclosure/issue/Omission	Auditor recommendations	Adjusted?
Note P17i – Fair value hierarchy	Note P17 discloses the investment assets of the Fund against the Fair Value Hierarch (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. The is a disclosure error and the value of assets in the net assets statements is not affected. Further to the above, we identified assets which were incorrectly categorised in the fair value hierarchy. Amendments made were Level 1 – £148m increase, Level 2 – £474.6m decrease and Level 3 – £326.3m increase.	✓
Note P6 – Actuarial valuation of the fund	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.	✓
Note P26 – Related parties	Councillor Angela Underhill was omitted from the list of members making up the Pensions Committee.	✓
Investment notes (P15, P16 and P17)	The engagement team recommended and agreed amendments which have been reflected in the final version of the Financial Statements.	✓
Financial instruments notes (P23 and P24)	The engagement team recommended and agreed amendments which have been reflected in the final version of the Financial Statements.	✓
Note P26 – Related parties	This note discloses transactions and balances with entities related to the Pension Fund. We noted that a £12.7m loan investment into the Help to Own scheme, a joint venture between City of Wolverhampton Council and the West Midlands Combined Authority had not been disclosed. This was subsequently amended by management.	✓
Annual report	We identified several inconsistencies between information contained in the Pension Fund's financial statements in the administering authority's statement of accounts and the Pension Fund's annual report. Amendments were agreed which are now reflected in the final Pension Fund annual report.	✓

D. Audit Adjustments (continued)

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 audit which have not been made within the final set of financial statements. The Pensions Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Pension Fund Account £'m	Net Asset Statement £'m	Impact on total net assets £'m	Reason for not adjusting
• Changes in value of investments • Investment assets Differences identified between the value of investments disclosed in the financial statements at 31 March 2023 and the valuation statements received from third party fund managers.	(29)	29	29	Not material quantitatively or qualitatively
Overall impact	£(29)	£29	£29	

Unadjusted misclassification and disclosure changes

The table below provides details of unadjusted misclassification and disclosure changes identified during the audit which have not been made in the final set of financial statements.

Disclosure/Issue/Ommission	Auditor recommendations	Adjusted?
Note P18 – Investment capital commitments	The CIPFA Code requires disclosure in the Pension Fund's financial statements of investment commitments at the end of the financial year in respect of future payments. Following testing performed, we identified that capital commitments disclosed in the financial statements were overstated by £25m. Management have not adjusted for this disclosure issue on the basis that the difference is not material quantitatively and qualitatively.	X

D. Audit Adjustments (continued)

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2021/22 financial statements. Investment assets are revalued at the end of each financial year, therefore there is no cumulative impact upon the 2022/23 financial statements.

Detail	Pension Fund Account £'m	Net Asset Statement £'m	Impact on total net assets £'m	Reason for not adjusting
Quantifiable understatement of investment assets as detailed within the body of the report. No impact on the current year as all assets were revalued at 31 March 2023.	(94)	94	94	Not material quantitively or qualitatively
Related estimation uncertainty based on extrapolation of residual "time lagged" assets for which updated valuation reports were available at the report date. No impact on the current year as all assets were revalued at 31 March 2023.	(25)	25	25	Not material – extrapolation and therefore indicative only
Overall impact	£(119)	£119	£119	

E. Fees and non-audit services

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services. The financial statements show audit fees of £85k which were recognised as an accrual prior to the proposed 22/23 audit fees being communicated to the Pension Fund.

Audit fees	Proposed fee	Final fee
Scale Fee	45,248	45,248
Reduced materiality	2,029	2,029
Valuation of Level 3 Investments	2,188	2,188
Direct Property - appointment of auditor's expert ***	3,500	3,500
Impact of ISA 540	3,600	3,600
Impact of ISA 315	3,000	3,000
Journals testing	2,000	2,000
Level 3 Investments and derivatives – appointment of auditor's expert **	1,500	TBC
Additional change of circumstances work	500	500
IAS 19 letters for employer body auditors, including testing of 31 March 2022 triennial review *	18,100	18,100
Work on triennial valuation member data *	5,000	5,000
Additional FRC challenge	3,125	3,125
Additional time required to perform audit procedures ****	-	TBC
Total audit fees (excluding VAT)	**£89,790**	**TBC**

*Note that fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances to auditors of local government and NHS bodies should be considered work undertaken under the Code of Audit Practice for 2022/23 onwards. Provision of IAS 19 assurances to auditors of any other type of entity remains non-Code work.

**Two additional auditor's experts were appointed to review the valuation of derivatives and £222m worth of investments valued using the discounting method.

***The auditor's expert fee is subject to the engagement team receiving the final fee note.

**** As a result of our audit findings and delays in receipt of certain service organisation reports we have had to extend our, and undertake alternate, audit procedures to gain sufficient and appropriate audit assurance. As our audit is not yet complete we are not in a position to finalise and discuss these in detail with management but we currently estimate that in conjunction with items ** and *** above a potential fee variation to be discussed with management will be in the region of 10-15% of our proposed fee.

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

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