Grant Thornton

West Midlands Pension Fund Audit Plan

Year ending 31 March 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.

Key matters

National context

The national and international economic context continues to present challenges for pension funds. Inflationary pressures at home and abroad and wider geo-political issues mean there is volatility in global markets with a consequential impact on the investments held by pension funds.

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 local government pension funds and set employer contribution rates for the period 2023/24 – 2025/26. For West Midlands Pension Fund, the valuation was undertaken by Hymans Robertson, and showed that the Pension Fund was fully funded. At West Midlands Pension Fund, a small number of employers have opted to make an early payment of their deficit recovery contributions and these will be reflected in the Pension Fund's 2023/24 contributions.

In November 2023, the Department for Levelling Up, Housing and Communities (DLUHC) published the outcome of their consultation on local government pension scheme investments. The government will now implement proposals which include revised investment strategy statement guidance that funds should transfer all assets to their pool by 31 March 2025, regulation to require funds to set a plan to invest up to 5% of assets in levelling up the UK and revised investment strategy statement guidance to require funds to consider investments to meet the government's ambition of a 10 % allocation to private equity. The Chancellor has also outlined plans that local government pension funds will be invested in pools of £200bn or more by 2040.

DLUHC have also consulted on proposals to require local government pension scheme administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). Climate risk (TCFD) reporting in the LGPS is expected to commence from 1 April 2024, with first reports due in late 2025. West Midlands Pension Fund has been conducting this reporting highlighting a report titled 'Climate-Related Disclosure Report' as prepared in alignment with the recommendations of the Task Force on Climate-Related Financial Disclosures which was published in December 2023.

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

Audit Reporting Delays

Against a backdrop of ongoing audit reporting delays, in October 2023 PSAA found that only five local government accounts had been signed by the September deadline. In June 2023 the Public Accounts Committee (PAC) also produced a report setting out their concerns over these audit reporting delays. We issued our report About time? In March 2023 which explored the reasons for delayed publication of audited local authority accounts.

Local authorities which administer local government pension funds are required to publish full pension fund accounts in the same document as their local authority accounts. This requirement means that the audited accounts of the host authority and related fund cannot be finalised until both audits have been completed. This co-dependency has compounded delays in the conclusion of pension fund audits and publication of audited accounts and annual reports. In our view, to enable a timely sign off of the financial statements, it is critical that draft local authority accounts are prepared to a high standard and are supported by strong working papers.

Key matters - continued

Our Responses

- In 2017, PSAA awarded a contract of audit for West Midlands Pension Fund to begin with effect from 18/19. This contract was re-tendered in 2023 and Grant Thornton have been re-appointed as your auditors. 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 in this Audit Plan has been agreed with the Head of Finance. Page 19 of this Audit Plan, sets out the four contractual stage payments for this fee, with payment based on delivery of specified audit milestones.
- To ensure close working with our local audited bodies and an efficient audit process, our preference as a firm is to work on site with you and your officers. A project plan has been agreed with your finance team that incorporates hybrid working that is, a mixture of working both on site and off site. This is also in compliance with our delivery commitments in our contract with PSAA.
- We offer a private meeting with the Executive Director of Pensions twice a year, and with the Head of Finance quarterly as part of our commitment to keep you fully informed on the progress of the audit.
- At an appropriate point within the audit, we would also like to meet informally with the Chair of your Pensions Committee, to brief them on the status and progress of the audit work to date.
- We will continue to provide you and your Pensions Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Pensions Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretations, to discuss issues with our experts and to facilitate networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- There is an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to ongoing financial pressures. We are required to identify a significant risk with regard to management override of controls.
- We identified a significant audit risk relating to the valuation of level 3 investments - refer to pages 9 and 10.
- We identified a significant audit risk relating to implementation of the new pensions administration system specific to data migration – refer to page 11. Our IT auditors will review whether the Pension Fund's process for ensuring the data migration was complete and accurate.

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 the Pensions Committee and the Audit & Risk Committee as those charged with governance. For the Pension Fund, the Audit & 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.

Respective responsibilities

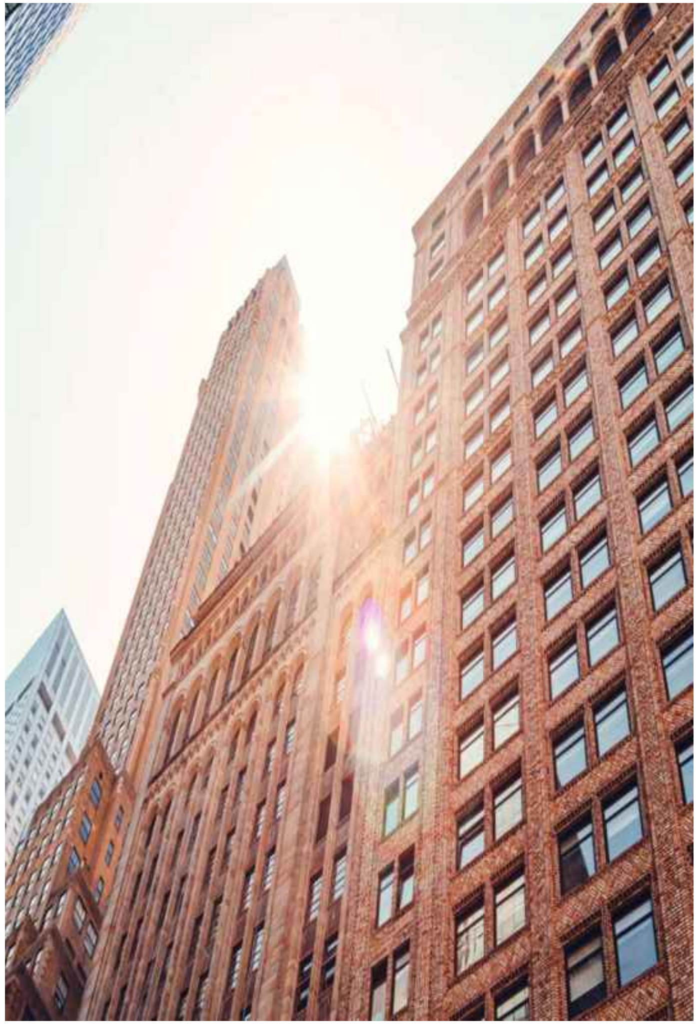
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed Terms of Appointment 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 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:

- Management over-ride of controls
- The valuation of level 3 investments – directly held property
- The valuation of level 3 investments – financial assets
- Change in pensions administration system

We have rebutted the presumed risk of fraud arising from revenue and expenditure recognition (see page 7 and 8).

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 determined planning materiality to be £191.6m (PY £189.5m) for the Pension Fund, which equates to 0.98% of your gross investment assets as at 30 September 2023. We have determined a lower specific planning materiality for the Fund Account of £65.1m (PY £65.55m), which equates to 7.5% of your extrapolated gross expenditure (using financial information to 30 September 2023).

As a result of the change in pensions administration system, we have further determined a lower specific materiality for testing benefits payable of £36.2m which equates to 5% of your extrapolated benefits payable (using financial information to 30 September 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 £9.58m (PY £9.475m).

Audit logistics

Our planning visit took place from January to March 2024. Our interim visit will take place from March to April 2024 and our final visit will take place from July to September 2024. Our key deliverables are this Audit Plan and our Audit Findings Report.

Our preference is for all our work to take place on site alongside your officers.

Our proposed fee for the audit will be £193,195 for the Pension Fund, subject to the Pension Fund delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input.

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.

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 recognition - opportunities to manipulate revenue recognition are very limited - the nature of the Pension Fund's revenue is in many respects relatively predictable and does not generally involve cash transactions - 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 pension funds - historically, the split of responsibilities between the Pension 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 Pension 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 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 assets, and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management over-ride of controls, 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 - evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions
PN10 expenditure risk	Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting which 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 the 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 7 relating to revenue recognition apply. We therefore do not consider this to be a significant risk for the Pension Fund.	

Management should expect engagement teams to challenge areas that are complex, significant or highly judgmental. This 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, with reference 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 – financial assets	The Pension 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 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 to provide an estimate of the fair value of these assets. We therefore identified valuation of level 3 financial assets as a significant risk.	We will: - 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 investments 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 statements 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 investment 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 - compare the investment unit price for any transactions close to year-end against the price per the confirmation received from the investment manager - review investment manager service organisation reports where these are available with specific emphasis on controls over the valuation of investments

Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of level 3 investments – directly held property	The Pension 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 valuers 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, particularly revaluations and impairments, as a significant risk.	We will: - 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 valuers 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 Pension Fund's valuers, the Pension Fund valuers' report and the methodology and assumptions that underpin the valuation - challenge the information and assumptions used by the valuers to assess completeness and consistency with our understanding - for a sample of assets agree key inputs that is, rental income to signed lease agreements

Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Change in pensions administration system	The Pension Fund has changed its pensions administration system from Universal Pensions Management (UPM) to Compendia. This has an impact on the financial statements with reference to data migration that is, the risk that information between the old and new system was not accurately and completely transferred resulting in errors in the benefits payable to members. We note that there have been a number of implementation issues with the new pensions administration system. This includes delays in processing member benefits for new retirements and delays in the receipt of admitted / scheduled body data submissions. We have reduced our materiality in relation to benefits payable and will undertake additional work on contributions receivable.	We will engage our IT audit specialists to: - perform a detailed ITGC assessment (*for information, IT general controls are controls implemented within the IT environment to mitigate risks from the use of IT*) - review system implementation - review data migration We will also: - reduce materiality for benefits payable thus increasing our sample testing of benefits payable - review and test the Pension Fund's procedures to identify members who have not received their benefits payable on time and test whether they have been appropriately accrued at year end - perform analytical procedures on a month-by-month basis seeking to identify anomalies which will be further investigated

Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the actuarial present value of promised retirement benefits	The Pension Fund's actuarial present value of promised retirement benefits, as reflected in the Pension Fund's notes to the pension fund statements represents a key estimate in the financial statements. We do not believe there is a significant risk of material misstatement in the IAS 26 estimate due to the methods and models used in the calculation or due to the source data used in the calculation. Though we acknowledge that small changes in key assumptions could materially impact the valuation, we are of the view that the incentives to misstate key assumptions (discount rate, inflation rate, salary increase and life expectancy) are low. A management expert is also engaged by the Pension Fund (with the appropriateness of the assumptions proposed by the actuary covered by the TAS actuarial standards) and finally, the valuation is not disclosed in the primary statements. On this basis, we have concluded that there is not a significant risk associated with the valuation of the actuarial present value of promised retirement benefits.	We will: - update our understanding of the processes and controls put in place by management to ensure that the disclosure is not materially misstated and evaluate the design of the associated controls - evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work - assess the competence, capabilities and objectivity of the actuary who carried out the promised retirement benefits valuation - assess the accuracy and completeness of the information provided by the Pension Fund to the actuary to estimate the liability - test the consistency of the promised retirement benefits and disclosures in the notes to the pension fund statements with the actuarial report from the actuary - undertake procedures to confirm the reasonableness of the actuarial assumptions used by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report

Other risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of level 3 investments – bulk annuity insurance buy-in contract	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 contract 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 will: - update our understanding of the processes and controls put in place by management to ensure that the disclosure is not materially misstated and evaluate the design of the associated controls - evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work - assess the accuracy and completeness of the information provided by the Pension Fund to the actuary to estimate the asset - assess the competence, capabilities and objectivity of the actuary who carried out the bulk annuity insurance buy-in contract valuation - test the consistency of the bulk annuity insurance buy-in contract disclosures in the notes to the pension fund statements with the actuarial report from the actuary - undertake procedures to confirm the reasonableness of the actuarial assumptions used by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report

Other matters

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 2023/24 financial statements, consider and decide upon any objections received in relation to the 2023/24 financial statements;
    - Issue of a report in the public interest or written recommendations to the Pension 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 Pension 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.

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 by applying a reasonable measurement percentage to an appropriate benchmark. Materiality at the planning stage of our audit is £191.6m, which equates to 0.98% of your gross investment assets as at 30 September 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 a lower specific planning materiality for the Fund Account of £65.1m (PY £65.55m), which equates to 7.5% of extrapolated gross expenditure on the Fund Account. The lower specific materiality for the Fund Account will be applied 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 has been set at 65% of headline materiality. In July 2023, a new pensions administration system was implemented and as benefits payable are derived from this system, we have determined a lower specific materiality of £36.2m (5% of extrapolated benefits payable) and a performance materiality of £27.2m (75% 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 Pensions 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 Pensions 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 will report to the Pensions 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 £9.58m (PY £9.475m). 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 its governance responsibilities.

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.

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	Planned level IT audit assessment
Business World	Financial reporting	• Roll-forward ITGC assessment including assessment of the design and implementation of ITGCs.
Compendia	Benefits payable and member data (new system)	• Detailed ITGC assessment including assessment of the design and implementation of ITGCs.
Universal Pensions Management	Benefits payable and member data (old system)	• Roll-forward ITGC assessment including assessment of the design and implementation of ITGCs.
Icon and Private-I	Investments	• Detailed ITGC assessment including assessment of the design and implementation of ITGCs.

In addition, due to the significant changes during the period, specifically the new system implementation, additional audit procedures will be completed to address the additional risks of material misstatement identified.

IT system	Event	Relevant risks	Planned IT audit procedures
Compendia	New system implementation	The risk that information between the old and new system was not accurately and completely transferred.	We will engage our IT audit specialists to: - perform a detailed ITGC assessment (*for information, IT general controls are controls implemented within the IT environment to mitigate risks from the use of IT*) • review system implementation • review data migration

Audit logistics and team

Planning and risk assessment

Pensions Committee March 2024 — Audit Plan

Interim audit March to April 2024

Year end audit July to September 2024

Pensions Committee September 2024 — Audit Findings Report

Audit & Risk Committee TBC — Audit opinion

Ben Stevenson, Audit Incharge

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

Keith Chaisewa, Audit Manager

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

Mark Stocks, Key Audit Partner

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

Audited Entity responsibilities

Where audited bodies 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 audited bodies. 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, you need to:

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes and the Annual Report
- 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
- ensure that the agreed data reports are cleansed, are made 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
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit logistics and team (continued)

Our commitment to the Pension Fund

To ensure a good working relationship with the Pension Fund which includes delivery of the audit within agreed timescales, we make the following commitments:

- to provide required reporting (of a good quality) in line with agree timelines;
- to be clear and accurate in the information requests using prior year knowledge to inform these requests;
- to respond promptly and adequately to client queries; and
- to ensure that all appropriate staff are available throughout the planned period of the audit (or as otherwise agreed).

Audit fees and updated Auditing Standards

Audit fees are set by PSAA as part of their national procurement exercise. In 2017, PSAA awarded a contract of audit for West Midlands Pension Fund to begin with effect from 2018/19. This contract was re-tendered in 2023 and Grant Thornton have been re-appointed as your auditors. The scale fee set out in the PSAA contract for the 2023/24 audit is £146,945. The contract excludes the costs of work of experts and ISA315. We are also able to vary the fee for additional audit work and risks, for example, the implementation of new IT systems. The final proposed fee for the audit is £193,195. Details are provided on the next page.

This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- Production of the final auditor's annual report for the previous Audit Year (exception for new clients in 2023/24 only)
- Production of the draft audit planning report to Audited Body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed

Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here https://www.psaa.co.uk/appointing-auditors-and-fees/fee-variations-overview/'

Assumptions

In setting these 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
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.

Updated Auditing Standards

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements (ISA 220). We confirm we will comply with these standards.

Audit fees

	Proposed fee 2023/24
Scale Fee	£146,945
Appointment of IT audit specialists – implementation of new pensions administration system	£10,000
Appointment of auditor's expert – directly held property*	£10,000
Implementation of new pensions administration system – additional testing re reduced materiality on benefit payments, and additional review re delays in processing member benefits for new retirements and admitted body pension data submission issues	£7,500
Appointment of auditor's expert – derivatives and investments valued using the discounted cash flow technique	£3,750
ISA 315**	£15,000
Total audit fees (excluding VAT)	**£193,195**

*Final fee will depend on the invoice received from the auditor's expert for work performed over directly held property.

**This is an estimate which will be adjusted based on the final hours charged.

Previous year

In 2022/23 the scale fee set by PSAA was £45,248.

Relevant professional standards

In preparing our fees, 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, confirm that we are independent and are able to express an objective opinion on the financial statements.

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 May 2020 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.

Other services

No other services provided by Grant Thornton were identified.

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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