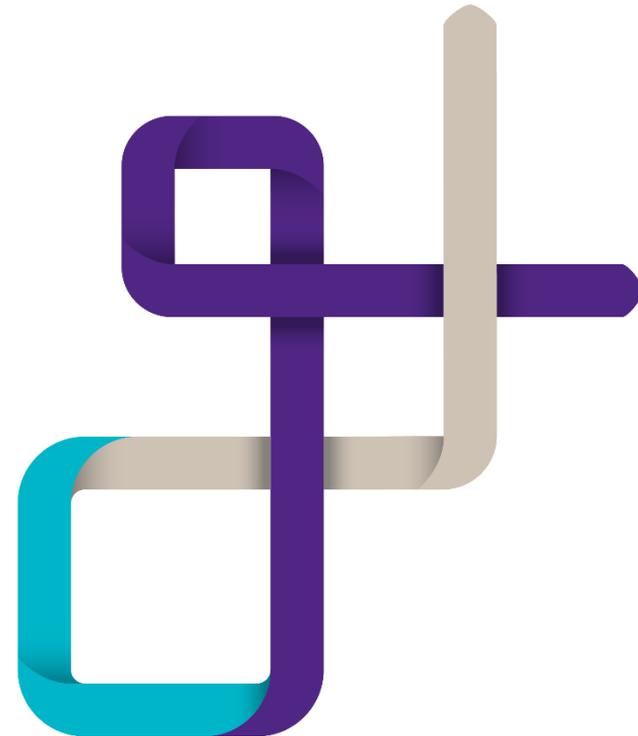


Audit Findings

Year ending 31 March 2018

West Midlands ITA Pension Fund

21 June 2018



Contents



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

Introduction

This table summarises the key issues arising from the statutory audit of west Midlands ITA Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none">the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year, and have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.	<p>Our audit work was completed on site during May and June. Our findings are summarised on pages 5 to 12. We have identified no adjustments affecting the Fund's reported financial position. We have recommended some adjustments to improve the presentation of the financial statements.</p> <p>We have independently estimated the value of the insurance buy-in to be £238,296,000 compared to your actuarial valuation of £238,333,000. The valuation of this estimate is complex and the difference is within 0.02% of the actuary's result and within the expected range we set. From this we have concluded that the valuation is reasonable and not materially misstated.</p> <p>The other key messages arising from our audit of the Fund's financial statements are:</p> <ul style="list-style-type: none">We have no unadjusted misstatements to reportThe draft accounts were presented for audit in accordance with the agreed timetable and were of a good quality,Our work at year end demonstrated that access to documents and the quality of working papers was of a high standard. <p>Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Risk and Assurance Committee (ARAC) meeting on 21 June 2018, as detailed in Appendix D. These outstanding items include:</p> <ul style="list-style-type: none">receipt of the management representation letter andreview of the final set of financial statements.
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to report to you if we have applied any of the additional powers and duties ascribed to us under the Act.</p>	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We do not expect to be able to certify the conclusion of the Combined Authority's audit as we are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements.</p>

Acknowledgements

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

Summary

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..

On 8 December 2017, in line with the Accounts and Audit Regulations 2015, the WMCA Board amended the Constitution to delegate the accounts approval process to the Audit, Risk & Assurance Committee (ARAC). We therefore consider ARAC are those charged with governance.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (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 for the preparation of the financial statements.

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. The only change in approach from that described in the audit plan was to not treat the fund managers as management experts for the valuation of level 2 investments.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Risk Committee meeting on 21 June 2018, as detailed in Appendix D. These outstanding items include receipt of management representation letter and review of the final set of 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.

Our assessment of the value of materiality, performance materiality and trivial matters has changed slightly from our audit plan. They are based on the net assets of the fund as at 31 March 2018 as opposed to 31 March 2017 in the audit plan.. We detail in the table below our assessment of materiality for West Midlands ITA Pension Fund.

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	4,920,000	We determined materiality for the audit of the Fund's financial statements as a whole to be £4,920,000, which is 1% of the Fund's net assets. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in security and value of its assets. Materiality used in the audit plan was £5,029,000.
Performance materiality	3,690,000	We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality for the audit of the financial statements. Our consideration of performance materiality is based upon a number of factors, including no significant audit findings, we are not aware of a history of significant deficiencies or a high number of deficiencies in the control environment, historically there has not been a large number or significant misstatements arising as a result of the financial statements audits at the Fund and senior management and key reporting personnel in the finance function has remained stable from the prior year audit.
Trivial matters	246,000	We determined the threshold at which we will communicate misstatements to ARAC to be £246,000.
Materiality for specific balances, transactions, or disclosures	-	In accordance with ISA320 we have considered the need to set lower levels of materiality for sensitive balances, transactions or disclosures in the accounts. We determined not to set any lower levels.

Significant audit risks

Risks identified in our Audit Plan

Auditor Commentary

1

The revenue cycle includes fraudulent transactions

Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Pension Fund, 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; and
- the culture and ethical frameworks of local authorities, including the City of Wolverhampton Council as the administering body, mean that all forms of fraud are seen as unacceptable.

Our audit work has not identified any issues in respect of revenue recognition.

2

Management over-ride of controls

Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.

We:

- gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness
- obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness
- evaluated the rationale for any changes in accounting policies or significant unusual transactions.

Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

3

Level 3 Investments Valuation is incorrect

The Prudential buy-in is the only material, directly held, 'hard to value' investment held by WM ITA Pension Fund and this will be valued by the Fund's actuary (Barnett Waddingham). We:

- Gained an understanding of the Fund's process for valuing level 3 investments and evaluated the design of the associated controls
- Reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided by these types of investments. We used our in-house experts, the Grant Thornton valuation team, to assist us in doing this. We reviewed the assumptions and calculations to provide assurance that the valuation was reasonable.
- Reviewed the qualifications of the expert Barnett Waddingham to value Level 3 investments at year end.

We have independently estimated the value of the insurance buy-in to be £238,296,000 compared to your actuarial valuation of £238,333,000. The valuation of this estimate is complex and is within 0.02% of the actuary's result and within our expected range. From this we have concluded that the valuation is reasonable and not materially misstated

Reasonably possible audit risks

Risks identified in our Audit Plan

Auditor Commentary

1

Contributions

Contributions from employers and employees' represents a significant percentage of the Fund's revenue.

We identified occurrence and accuracy as the risks requiring particular audit attention.

We :

- evaluated the Fund's accounting policy for recognition of contributions for appropriateness;
- gained an understanding of the Fund's system for accounting for contribution income and evaluate the design of the associated controls;
- tested a sample of contributions to source data to gain assurance over their accuracy and occurrence; and,
- rationalised contributions received with reference to changes in member body payrolls and number of contributing pensioners to ensure that any unusual trends are satisfactorily explained.

Our work did not identify any significant issues in respect of contributions.

2

Pension Benefits Payable

Pension benefits payable represents a significant percentage of the Fund's expenditure.

As pensions in payment expenditure comes from a number of individual transactions there is a risk that pensions expenditure in the accounts could be understated. We therefore identified completeness of pension expense as a risk requiring particular audit attention.

We:

- evaluated the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness;
- gained an understanding of the Fund's system for accounting for pension benefits expenditure and evaluated the design of the associated controls;
- tested a sample of individual pensions in payment by reference to member files;
- rationalised pensions paid with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends are satisfactorily explained

Our work did not identify any significant issues in respect of benefits payable.

3

The valuation of Level 2 investments is incorrect

While Level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly.

We have identified the valuation of Level 2 investments as the risk requiring special audit consideration.

We:

- gained an understanding of the Fund's process for valuing Level 2 investments and evaluated the design of the associated controls.
- reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided by these types of investments.
- for a sample of investments, tested the valuation by obtaining independent information from custodian/manager on unit and on unit prices.

Our work did not identify any significant issues in respect of valuation of Level 2 investments.

Accounting policies

Accounting area	Summary of policy	Auditor Commentary	Assessment
Revenue recognition	<p>a) Contribution Income</p> <ul style="list-style-type: none"> Normal contributions are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Employer deficit funding contributions are accounted for on the due dates on which they are payable as set by the scheme actuary or on receipt. <p>b) Investment Income</p> <ul style="list-style-type: none"> Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year. Benefits underwritten – The annuity purchased is treated as an investment with income recognised on an accruals basis. 	<ul style="list-style-type: none"> The revenue recognition policies are appropriate for the accounting framework used by the Pension Fund. The accounting policy choices have been complied with in the preparation of the accounts. We have no concerns in relation to the adequacy of the disclosure of accounting policies in place 	 (Green)

Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> – Pension fund liability relating to the discount rate, salary projected increases, changes in retirement ages, mortality rates and expected returns assets, and – Bulk annuity insurance buy-in discount rate underlying the asset valuation based on gilt yield 	<p>The results from our review and testing of the valuation of investments is covered on page 6 of this report above. The fair value of the insurance buy-in has been reviewed and is considered a reasonable estimate.</p> <p>The pension liability is based on your actuary's Barnett Waddingham valuation. We have been provided with assurance that Barnett Waddingham can be relied upon for the purpose of valuing the liability and have reviewed the assumptions. The Pension Fund has reflected the valuation as given to them by the Actuary in their accounts. The accounts have disclosed the nature of the valuation and the fact that the estimate is subject to significant variances based on changes to the underlying assumptions.</p> <p>The bulk annuity insurance buy-in is ultimately derived by the actuary's valuation. We have had our own valuation experts review the information and assumptions used by the actuary and based on this work consider the estimates and judgements used to be reasonable.</p>	 (Green)
Other accounting policies	We have reviewed the Fund's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	 (Green)
Going concern	The Director of Finance has a reasonable expectation that the Fund will continue for the foreseeable future. Members concur with this view. For this reason, the Fund continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Fund's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2017/18 financial statements.	 (Green)

Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

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
1 Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with ARAC. 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.
2 Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed
3 Matters in relation to laws and regulations	<ul style="list-style-type: none"> 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.
4 Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Pension Fund which is included in papers.
5 Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send a confirmation request to your bank. This permission was granted and the request was sent. This request was returned with positive confirmation,
6 Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements
7 Significant difficulties	<ul style="list-style-type: none"> There were no significant difficulties encountered in the audit of your accounts.
8 Matters on which we report by exception	<ul style="list-style-type: none"> 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 the 1st December 2018 and therefore this report has not yet been produced. We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.

Independence and ethics

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. 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 December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

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 and confirm there are none..

Adjusted misstatements

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. There are no adjusted misstatements we are required to report to you.

Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. There are no adjusted misstatements we are required to report to you.

Misclassifications 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.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Presentation and disclosure	Various	Various	<p>Our review of the accounts highlighted some minor improvements that were required to be made to the accounts. None of these were individually significant and they have been made to improve the final presentation and aid clarity for the reader. The proposed minor adjustments were agreed with the Fund and changes have been made to the draft accounts submitted for audit.</p> <p>Examples include:</p> <ul style="list-style-type: none"> • Audit fees per Note 11 of £16k to be separately disclosed between audit fees of £21k and PSAA audit fee refund of -£6k. • Financial assets per Note 19 disclosed as net gains at fair value through profit and loss to be separated out into 2 lines to be consistent with the Fund Account. • Amending reference to 'Administrator' to 'Administering Authority' within the Introduction. • Addition of brackets to net assets statement to demonstrate decrease in net assets <p>This is in addition to the need to tidy up formatting, spelling and explanation of complex terms used prior to publication.</p>

Fees

We confirm below our final fees charged for the audit and **confirm there were no fees for the provision of non audit services.**

Audit Fees

	Proposed fee	Final fee
Pension Fund Audit	£21,000	£21,000
Total audit fees (excluding VAT)	£21,000	£21,000

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Audit opinion

We anticipate we will provide the Pension Fund with an unmodified audit report.

Independent auditor's report to the members of West Midlands Combined Authority on the pension fund financial statements

Opinion

We have audited the pension fund financial statements of West Midlands Combined Authority (the 'Authority') for the year ended 31 March 2018 [set out on pages *** to **] The pension fund financial statements (entitled "West Midlands Integrated Transport Authority Pension Fund") which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and of the amount and disposition at that date of the fund's assets and liabilities,
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the pension fund of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance's use of the going concern basis of accounting in the preparation of the pension fund financial statements is not appropriate; or
- the Director of Finance has not disclosed in the pension fund financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the pension fund financial statements are authorised for issue.

Other information

The Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages [**xx to xx**] other than the pension fund financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund financial statements or our knowledge of the pension fund of the Authority obtained in the course of our work or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund financial statements the other information published together with the pension fund financial statements in the Statement of Accounts, for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities [set out on page(s) x to x], the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the director of Finance. The Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of pension fund financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund financial statements, the Director of Finance is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the pension fund lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the pension fund.

The Audit, Risk and Assurance Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these pension fund financial statements.

A further description of our responsibilities for the audit of the pension fund financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Grant Patterson
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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