

The Audit Findings for Worcestershire County Council Pension Fund

Year ended 31 March 2019

22 July 2019



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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

This table summarises the key findings and other matters arising from the statutory audit of Worcestershire County Council Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2019 for those charged with governance, (in the case of Worcestershire Pension Fund, the Audit and Governance Committee).

Financial Statements	<p>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:</p> <ul style="list-style-type: none">• 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/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.	<p>We commenced our post-statements onsite visit in early June and as at 22 July 2019 our audit is substantially complete. Our findings are summarised on pages 4 to 9.</p> <p>We have identified no material errors or adjustments to the financial statements that have resulted in a change to the Pension Fund's reported financial position for the year ended 31 March 2019. We have recommended a small number of adjustments to improve the presentation of the financial statements.</p> <p>The draft financial statements were presented for audit in accordance with the agreed timetable of the end of May 2019. The accounts were supported by working papers. The quality of the working papers has improved from last year, however there remain some areas where the clarity of the information could be enhanced.</p> <p>The position against our prior year recommendation to management is detailed in Appendix B. Audit adjustments are detailed in Appendix C.</p> <p>Subject to a small number of outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 26 July 2019, as detailed in Appendix D.</p> <p>Appendix A details our audit fees for the year. We have discussed with officers an additional fee of £1,500 to take account of the additional work that was required in relation to McCloud. We have also proposed fees of £8,000 for the work we are required to undertake for other auditors. Details of this are shown on page 11 and referred to in Appendix A</p>
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Acknowledgements

We would like to take this opportunity to record our appreciation for the 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.

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.

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 alter or change our audit plan, as communicated to you 14 December 2018.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding items being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 29 July 2019, as detailed in Appendix D.

These outstanding items include:

- receipt of management representation letter (see appendix E)
- review of the final set of financial statements
- obtaining and reviewing the annual report
- completion of our subsequent events review

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 calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for Worcestershire Pension Fund.

	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	27.010m	<ul style="list-style-type: none"> • We considered the proportion of the net assets to the Fund to be an appropriate benchmark for the financial year. In the prior year we used the same benchmark. Our materiality equates to 1% of your net assets for the year ended 31 March 2018. We have reconsidered this benchmark on receipt of the draft financial statements and have determined that this level of materiality remains appropriate.
Performance materiality	18.9m	<ul style="list-style-type: none"> • We have calculated this using 70% of materiality. This is considered an appropriate benchmark as we have not identified a history of significant deficiencies in the control environment or a large number of significant misstatements in prior year audits. The management and finance team remain stable and this is the second year of implementation of the new general ledger system.
Trivial matters	1.35m	<ul style="list-style-type: none"> • This is based on 5% of materiality, which we consider to be an appropriate threshold to use in terms of our reporting to the Audit and Governance Committee as 'Those Charged with Governance'

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>1 Revenue transactions include fraudulent transactions</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Auditor commentary</p> <p>We reported as part of our audit plan that having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we determined that the risk of fraud arising from revenue recognition could be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Worcestershire County Council as the Administering Authority of Worcestershire County Council Pension Fund, mean that all forms of fraud are seen as unacceptable. <p>We have reconsidered this as part of our audit work on the financial statements and have not changed our assessment and therefore we confirm that we do not consider this to be a significant risk for Worcestershire County Council Pension Fund.</p>
<p>2 Management override of controls</p> <p>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.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <p>As part of our audit work in this area we have;</p> <ul style="list-style-type: none"> • Gained an understanding of the accounting estimates, judgements and decisions made by management and considered their reasonableness, • Obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness, and • Evaluated the rationale for any changes in accounting policies or significant unusual transactions. <p>Our testing of estimates, judgements and journals have not identified any evidence of management override of controls. Our testing of journals did however identify one journal out of nine where the journal had not been authorised. While this had not followed the pension fund control procedures we considered the journal to be appropriate and therefore did not extend our testing in this area.</p>

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>3 The valuation of Level 3 investments is incorrect</p> <p>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.</p> <p>We identified the valuation of Level 3 investments as a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <p>As part of our audit work in this area we have;</p> <ul style="list-style-type: none"> • 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 considered what assurance management has over the year end valuations provided for these types of investments; • considered the competence, expertise and objectivity of any management experts used; • reviewed the qualifications of the expert to value Level 3 investments at year end and gained an understanding of how the valuation of these investments has been reached; and • for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. We have reconciled those values to the values at 31 March 2019 with reference to known movements in the intervening period. <p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>As part of testing of our classification of investment assets we noted that the Pension Fund initially received the market value report from it's custodian Mellon. On review of the report, the Pension Fund have amended some of the categories that Mellon had assigned to the investments. The audit team have checked the re-classifications and are satisfied that the changes are in line with the evidence received from the Fund Managers. This provides appropriate evidence of challenge by the Pension Fund of the work undertaken by the expert. The Pension Fund have informed the audit team that they are going to raise this issue with Mellon as part of the wash-up session after the accounts to ensure consistency of approach in future years.</p>

Significant findings - Going concern

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).

Going concern commentary

Management's assessment process

The Chief Financial Officer as s151 officer has a reasonable expectation that the Fund will continue for the foreseeable future. Members concur with this view. For this reason, the Fund continues to adopt the going concern basis in preparing the financial statements.

Management have confirmed that:

- No decision has been made to wind up the Pension Fund and no events have occurred that would trigger wind up.
- They have taken into account all available information about the future, which is at least, but not limited to, twelve months from the date when the financial statements are authorised for issue.
- No material uncertainties related to events or conditions that cast significant doubt upon the Pension Fund's ability to continue as a going concern exist that require disclosure.

Auditor commentary

Chapter 6 Section 3.4 of the CIPFA Code on the “Presentation of Financial Statements for Pension Funds” notes going concern as a particularly important reporting requirement and that para 3.4.2.23 of the Code applies. The CIPFA Code of Practice 2018/19 Code para 3.4.2.23 states “Local authorities that can only be discontinued under statutory prescription shall prepare their financial statement on a going concern basis of accounting; that is, the financial statement shall be prepared on the assumption that the function of the authority will continue in operational existence for the foreseeable future”.

For defined benefit schemes the Pension SORP 2015 give further guidance (paragraph 3.29.6) in that even where a defined benefit scheme is significantly underfunded it should continue to be treated as a going concern for accounting purposes unless a decision has been made to wind up the scheme.

The LGPS is a statutory scheme which can only be wound up by government and the presumption in local government is that the going concern assumption does apply unless there is specific evidence to the contrary from factors such as an announcement to wind up the administering authority.

Management have carried out a formal written assessment in respect of the going concern of the pension. As a result we have identified;

- The fund is a statutory pension provider and therefore cannot legally close.
- The actuary has set contribution rates for all employers up to 2019/20, with a full revaluation underway to determine future contribution rates from April 2020, this re-affirms that the fund intends to continue as a going concern.
- The fund also do daily monitoring of the cash position and this has been estimated going forward to cover the 12 months from the date of approval of the financial statements. This shows a positive cash balance is maintained throughout.

In addition;

- our audit did not identify any events or conditions which may cast significant doubt on the going concern assumption,
- As at the 2016 actuarial valuation, the fund was assessed as 75% funded. This corresponds to a deficit of £654m
- The aim is to achieve 100% over a period of 18 years.
- The cashflow forecast shows positive cash balance throughout the period.

As such we consider that the preparation of accounts on a going concern basis is a reasonable and valid one and there are no indications of material uncertainty.

Significant findings – 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
<p>1 McCloud ruling re age discrimination</p> <ul style="list-style-type: none"> The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where there was transitional protections given to scheme members. The Government applied to the Supreme Court for permission to appeal but this has now been denied at the High Court. The decision as to the appropriate accounting treatment is one for the Fund but our national technical advice is that we are expecting this adjustment to be made to the accounts if the estimated increase in liabilities is material. The legal ruling around age discrimination also has implications for other pension schemes where they have implemented transitional arrangements on changing benefits.. 	<ul style="list-style-type: none"> This issue has been an emerging issue following receipt of the draft financial statements and it is one that by its nature is sector wide. We have been working with management to determine the most effective way to deal with this issue, recognising that pension estimates are high value, complex and important figures within the financial statements. As a result they require an appropriate degree of focus and challenge from both management and auditors alike. We have asked management to work with their actuary to gain the necessary information to determine whether the potential impact of this judgement would have a material impact to the statement of accounts. For the pension fund, this will be via an amendment to the disclosure note on the 'Actuarial Present Value of Promised Retirement Benefits for the Purpose of IAS 26'. The fund have amended note 2 to the accounts to reflect an increase in the liability of £24m in relation to the McCloud judgement. 	<ul style="list-style-type: none"> We have reviewed the methodology applied by the pension fund to obtain this estimate from the actuary, and considered it appropriate. The amended disclosures are considered appropriate.

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Level 3 investments	<p>The Pension Fund has investments in unquoted equity investments, pooled property investments and pooled infrastructure investments that in total are valued on the balance sheet as at 31 March 2019 at £343.6m. These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management has employed expert fund managers who have the necessary experience and technical expertise to ensure the correct valuation of these investments in the year end accounts. The fund are also supported by investment advisors who are independent from the fund managers who can advise on the performance of this type of investments. The performance of these investments are scrutinised by the pension fund investment board. The value of the investment has increased by £119m in 2018/19, largely due to the fund investing funds with two new fund managers as part of their investment strategy.</p>	<p>As outlined in our testing of the valuation of level 3 investments we have;</p> <ul style="list-style-type: none"> Assessed management's expert, reviewing their competence, expertise and objectivity where appropriate, Considered the valuation techniques used against industry practice, and Reviewed the adequacy of disclosure of estimate in the financial statements. 	
Level 2 investment	<p>The Pension Fund have investments in level 2 investments total are valued on the balance sheet as at 31 March 2019 at £1,294.2m. The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management has employed expert fund managers who have the necessary experience and technical expertise to ensure the correct valuation of these investments in the year end accounts. The fund are also supported by investment advisors who are independent from the fund managers who can advise on the performance of this type of investments. The performance of these investments are scrutinised by the pension fund investment board. The value of the investment has increased by £22m which equates to 1.7%.</p>	<p>Similar to our approach for level 3 investments, we have;</p> <ul style="list-style-type: none"> Assessed management's expert, reviewing their competence, expertise and objectivity where appropriate, Considered the valuation techniques used against industry practice, and Reviewed the adequacy of disclosure of estimate in the financial statements. 	

Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process and key assumptions to be reasonable

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 the Audit and Governance 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.
2 Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed. We have identified a minor amendment to the narrative to the note to add the correct job title for a member of staff.
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 letter of representation has been requested from the Pension Fund, which is appended.
5 Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to all of the fund managers that work with the Fund. This permission was granted and the requests were sent, of these requests all were returned with positive confirmation.
6 Disclosures	<ul style="list-style-type: none"> The pension fund have worked hard to streamline the accounts this year, looking to incorporate accounting policies into the related note. Our review of disclosures has identified some where they could be improved. We have highlighted these for officers and members, and where appropriate amendments to the draft financial statements have been made.
7 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. We propose to issue our 'consistency' opinion on the Pension Funds Annual Report by 31 July 2019, at the same time as the opinion on the financial statements.

Independence, ethics and fees

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.

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 Council and Pension Fund and the following non-audit service was identified. We set out the threat to our independence and safeguard that has been applied to mitigate this threat. Both PSAA, in the Terms of Appointment, and the National Audit Office, in its Auditor Guidance Notes, expects that auditors will cooperate with other local government auditors and therefore we are required to undertake this work.

	Expected Fee £	Threats identified	Safeguards
Audit related			
Pension Assurance Letters	£8,000	Self review	This is not considered a significant threat as we are not reviewing any information that we have prepared. As this is an audit related service, it is acceptable for the audit team to carry out this work. In addition, we have not prepared the financial information on which our assurances will be used by the requesting auditor to form an opinion on as part of their opinion on the financial statements of the admitted body.
		Management	The scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. We will not be making any recommendations as part of this work.
Non-audit related			
None			

Audit Fees

We confirm below our final proposed fees charged for the audit.

Planned Audit Fees

Our Audit Plan included a PSAA published scale fee for 2018/19 of £19,222. Our audit approach, including the risk assessment, continues as the year progresses and fees are reviewed and updated as necessary as our work progresses.

Update to our risk assessment – additional work in respect of the audit code

The table below sets out the additional work which we have undertaken to complete the audit, along with the impact on the audit fee where possible. Please note that these proposed additional fees are estimates based on our best projection of work and will be subject to approval by PSAA in line with the Terms of Appointment.

Additional Audit Fees

Area of work	Timing	Comment	£
Assessing the impact of the McCloud ruling	June-July 2019	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statements along with any audit reporting requirements. This included consultation with our own internal actuary in their capacity as an auditor expert.	1,500

Total Audit Fees

	Actual 2017/18 fee £	Proposed 2018/19 fee £	Final 2018/19 fee £
Pension Fund Audit	24,963	19,222	19,222
Additional Audit Fees (see above)	5,200		1,500
Total audit fees (excluding VAT)	30,163	19,222	20,722

Audit Related Services Fees

In addition to the audit fees we set out below our final proposed fees for audit related services provided during the course of our audit.

Audit related	£	Description
<p>IAS 19 assurance letters to other auditors In addition to the audit of the main financial statements, we are also responsible for the audit of the Pension Fund. In that capacity, we have been contacted by the audits of ten other local authorities who are admitted bodies of the pension scheme to provide assurance in terms of our work on the Pension Fund audit. Both PSAA, in the Terms of Appointment, and the National Audit Office, in its Auditor Guidance Notes, expects that auditors will cooperate with other local government auditors and therefore we are required to respond.</p> <p>We are required to respond to requests received from other auditors of admitted bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations. The Chief Financial Officers has given his consent for us to respond directly to the auditors of these admitted bodies in relation to these requests.</p>	£8,000	<p>The Financial Reporting Council has highlighted that the quality and scope of work by audit firms in respect of IAS 19 assurance letters needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.</p> <p>Historically the majority of the cost of this work has been absorbed within the audit fee of the administering and admitted bodies (last year we charged the Pension Fund £1,193 for this work). Given the lower fees we are now recovering the cost of this extra work through an additional invoice to Worcestershire Pension Fund. It will be for the Pension Fund to determine any appropriate recharges. For 2018/19 IAS 19 letters of assurance were provided to the following admitted bodies of Worcestershire Pension Fund.:</p> <ul style="list-style-type: none"> • Worcestershire County Council • Worcester City Council • Wychavon Council • Wyre Forest District Council • Malvern Hills District Council • Hereford and Worcester Fire and Rescue Authority • Redditch Borough Council • Bromsgrove District Council • West Mercia Police • Herefordshire Council <p>Our estimate is that the fee for this will be £3,000 plus an additional £500 for each local government body which requests a letter of assurance.</p>

Follow up of prior year recommendations

We identified the following issues in the audit of Worcestershire County Council Pension Fund's 2017/18 financial statements, which resulted in 2 recommendations being reported in our 2017/18 Audit Findings report. We are pleased to report that management have actioned all of our recommendations from prior years, although recognise that there remains more work to do in terms of improving working papers in future years.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1 ✓	<p>Working papers</p> <p>The introduction of the new financial system has created a number of challenges for the production of the pension fund financial statements for the current year. As a result there are a number of areas where working papers could be improved to demonstrate how the output from the ledger is translated into the financial statements.</p> <p>In addition, where information has been provided by third parties, for example, the custodian, there should be clear working papers to demonstrate how these reports link into the financial statements. Where appropriate, a brief narrative should be added to the working papers to demonstrate the rationale and any assumptions made. In key areas, the fund should be able to demonstrate that it understands the judgements made by third parties, and that there is appropriate evidence of challenge.</p>	<p>Working papers have improved compared to the prior year, and there is a greater understanding and clarity of how the reports from the financial system link to the financial statements.</p> <p>There still remain some key areas, particularly in relation to investments, where the working papers would benefit from some clear narrative to demonstrate the source of the information, the method followed and any assumptions made. In some cases the working papers provided to the audit team did not 'stand alone' and it was necessary for the preparer to explain the working papers before the audit team could commence work.</p> <p>Officers have recognised this, and are committed to further improvements in future years.</p>
2 ✓	<p>Compliance with the Code</p> <p>We have identified areas where the pension fund accounts are not in accordance with the Code. In some cases, because of the nature of these areas of non compliance we have agreed with officers that these improvements can be made in future years</p>	<p>Officers have worked hard to streamline the accounts, in particular, they have incorporated the accounting policies into the associated note. The most significant area of non- compliance was the intention of the fund to publish the financial statements of the pension fund outside of the main administering authority accounts. We have discussed this with officers, and the final document will be amalgamated to ensure compliance.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

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. We have not identified any audit adjustments to the draft financial statements that are required to be reported.

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 omission	Detail	Adjusted?
Presentation and disclosure	<p>Our review of the accounts highlighted 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 officers and changes have been made to the draft accounts submitted for audit.</p> <p>Examples included the need to add some additional narrative to note 14C to clarify the notes' purpose, the need to include a policy in relation to contingent liabilities, the need to amend the wording in the narrative report to confirm that it is the audit and governance committee that are 'those charged with governance' for the purpose of the accounts, and the need to amend the prior year comparators in note 12a. This is in addition to the need to tidy up formatting and some punctuation prior to publication.</p>	✓
Fair Value Hierarchy	The Council are to remove the line 'Financial Assets at Amortised Cost' from the note as they are outside the scope for valuation level disclosures.	✓

Audit opinion

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

Independent auditor's report to the members of Worcestershire County Council on the pension fund financial statements of Worcestershire Pension Fund Opinion

We have audited the financial statements of Worcestershire (the 'pension fund') administered by Worcestershire County Council (the 'Authority') for the year ended 31 March 2019 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements. 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 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 2018/19; 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 Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's 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.

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 Chief Financial Officer's use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the pension fund's 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 the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

Other information

The Chief Financial Officer is responsible for the other information. The other information comprises the information included in the Annual Financial Report and Statement of Accounts 2018/19 and the Annual Report, other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund's 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's 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's financial statements or our knowledge of the pension fund obtained in the audit 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's 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.

Audit opinion

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's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Annual Financial Report and Statement of Accounts, and the Annual Report for the financial year for which the financial statements are prepared is consistent with the pension fund's 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 issue a report 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 make 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 make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Responsibilities of the Authority, the Chief Financial Officer 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 Chief Financial Officer. The Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the pension fund's 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial.

Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund's 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 financial statements.

A further description of our responsibilities for the audit of the 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.

Use of our report

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.

[Signature]

Peter Barber, Director
for and on behalf of Grant Thornton UK LLP, Local Auditor
Birmingham

Date:

Management Letter of Representation

Dear Sirs,

Worcestershire Pension Fund
Financial Statements for the year ended 31 March 2019

This representation letter is provided in connection with the audit of the financial statements of **Worcestershire Pension Fund** ('the Fund) for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the Fund financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Where it was necessary to choose between estimation techniques that comply with the Code, we selected the estimation technique considered to be the most appropriate to the Fund's particular circumstances for the purpose of giving a true and fair view. Those estimates reflect our judgement based on our knowledge and experience about past and current events and are also based on our assumptions about conditions we expect to exist and courses of action we expect to take.

- vi. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
- vii. Except as disclosed in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Council has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed. The financial statements are free of material misstatements, including omissions.
- x. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xi. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xii. We believe that the Fund's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Fund's needs. We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements

Management Letter of Representation

Information Provided

- i. We have provided you with:
- ii. access to all information of which we are aware that is relevant to the preparation of the Fund financial statements such as records, documentation and other matters;
- iii. additional information that you have requested from us for the purpose of your audit; and
- iv. unrestricted access to persons within the Fund from whom you determined it necessary to obtain audit evidence.
- v. We have communicated to you all deficiencies in internal control of which management is aware.
- vi. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- vii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud .
- viii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- ix. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- x. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xi. There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

- xii. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.
- xiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements .

Approval

The approval of this letter of representation was minuted by the Audit and Governance Committee at its meeting on 29 July 2019.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of Worcestershire County Council as administering body of the Worcestershire Pension Fund



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