



The Audit Findings for Worcestershire Pension Fund

Year ended 31 March 2020

22 September 2020



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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 Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2020 for those charged with governance (the Audit and Governance Committee).

<p>Covid-19</p>	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Pension Fund. The Fund focused on identifying key operational and strategic risks, using new interim working practices to ensure that functions could continue during 'lock down'. Our experience of working with the pensions finance team has demonstrated that while operations continue, these are inevitably taking more time to complete than in a normal year.</p> <p>Pension Funds are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 28 April 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19. Further detail is set out on page 5.</p> <p>Restrictions for non-essential travel has meant both Pension Fund and audit staff have had to adapt to ensure we have gained sufficient audit evidence for the balances with the financial statements. This has meant a greater reliance on video calling for many aspects of the audit, particularly in terms of the use of sharing of screens to watch transaction listings being run. Where information is normally provided in a spreadsheet format, we have undertaken additional levels of testing to ensure that the information provided hasn't been manipulated prior to being sent to the audit team.</p> <p>Inevitably the remote working has impacted on delivery and additional resources have been necessary on both sides to complete the work in accordance with the new extended reporting timetable.</p>
<p>Financial Statements</p>	<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 remote audit on 8 June and as at 22 September 2020 our audit is substantially complete. Our findings are summarised on pages 4 to 12.</p> <p>We have identified no material errors or adjustments to the financial statements. We have identified one adjustment of £10.3m that has resulted in a change to the Pension Fund's reported financial position for the year ended 31 March 2020. We have recommended a small number of other adjustments to improve the presentation of the financial statements. Audit adjustments are detailed in Appendix A.</p> <p>The draft financial statements were presented for audit in advance of the agreed timetable on the 17 May 2020. The accounts were supported by good quality working papers and we received prompt responses to our queries. We commend the Pension Fund for producing an early set of accounts free of material error despite the challenges faced as a result of Covid-19.</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 2 October 2020, as detailed in Appendix C.</p> <p>Our anticipated audit report opinion will be unmodified.</p>

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

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 had to alter our audit plan, as communicated to you on 13 March 2020, to reflect our response to the Covid-19 pandemic. We have also reduced our materiality level since planning to reflect the reduction in the value of net assets at year end. The changes have focused on understanding what arrangements the fund has put in place to produce materially accurate financial statements and to demonstrate the impact on going concern assessment.

	Pension Fund (£)	Qualitative factors considered
Materiality for the financial statements (figures in brackets are the values at planning)	26.3m (27.9m)	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 approximately 1% of your net assets for the year ended 31 March 2020.
Performance materiality	18.4m (19.5m)	We have determined 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.
Trivial matters	1.3m (1.4m)	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'.

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 Governance Committee meeting on 2 October 2020, as detailed in Appendix C. These outstanding items include:

- Resolution of the McCloud and Goodwin developments including any potential adjustments to the gross IAS26 pension liability
- Confirmation from Northern Trust
- Agreement of purchases and sales in note 12A
- Final clearance from our technical team on the review of the accounts
- receipt of management representation letter – see appendix D;
- Receipt and review of the Annual Report 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.

Materiality levels have been revised, to reflect the fall in net assets at year end. We have kept the benchmarks used consistent with that at planning, as we believe these remain appropriate at year end.

Significant audit risks

Risks identified in our Audit Plan

Covid-19

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances to have an impact on the production and audit of the financial statements for the year ended 31 March 2020, included and not limited to;

- Remote working arrangements and redeployment of staff to critical from line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation
- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and the reliability of evidence we can obtain to corroborate management estimates
- For instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification if the instruments of trading may have reduced to such an extent that quoted prices are not readily and regularly available and therefore do not represent actual and regularly occurring market transactions.
- Whilst the nature of the Fund and its funding position (i.e. not in a winding up position or no cessation event) means the going concern basis of preparation remains appropriate management may need to consider whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

Auditor commentary

We:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. The draft financial statements were provided on 17 May 2020;
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose.
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic. Including management's assessment of the impact of Covid 19 upon forecast cashflows
- evaluated whether sufficient audit evidence could be obtained using alternative approaches for the purposes of our audit while working remotely;
- Evaluated whether sufficient audit evidence could be obtained to corroborate management's fair value hierarchy disclosure
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as level 3 asset valuations;
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;
- discussed with management the implications for our audit report if we have been unable to obtain sufficient audit evidence.

Our audit work has not identified any issues in respect of Covid-19 specific risks. The Fund responded well to the challenge of remote working and were able to produce draft financial statements to a broadly similar timetable as in previous years. As explained on page 9 we have concluded that a material uncertainty does not exist in respect of property and infrastructure assets held by the Fund.

Significant audit risks

Risks identified in our Audit Plan

The revenue cycle includes fraudulent transactions (rebutted)

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

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

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

Therefore we do not consider this to be a significant risk for Worcestershire Pension Fund.

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.

Auditor commentary

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 Pension Fund.

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

We have;

- Evaluated the design effectiveness of management controls over journals,
- Analysed the journals listing and determined the criteria for selecting high risk unusual journals,
- Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration,
- Gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence, and
- Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our testing of estimates, judgements and journals have not identified any evidenced of management override of controls.

Significant audit risks

Risks identified in our Audit Plan

Auditor commentary

Valuation of Level 3 investments

The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.

By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in 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 and custodians as valuation experts to estimate the fair value as at 31 March 2020.

We therefore identified valuation of Level 3 investments as a significant risk.

We have:

- evaluated management's processes for valuing Level 3 investments
- reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met
- independently requested year-end confirmations from investment managers and custodians
- 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. Reconcile those values to the values at 31 March 2020 with reference to known movements in the intervening period
- in the absence of available audited accounts, we have evaluated the competence, capabilities and objectivity of the valuation expert
- tested revaluations made during the year to see if they had been input correctly
- where available, reviewed investment manager service auditor report on design effectiveness of internal controls.

Our audit work has not identified any significant issues in relation to the risk identified.

As highlighted above, our audit work focuses on looking at external confirmations from both investment managers and the custodian, and as a result there will always be differences, which are largely as a result of timing differences in when information is received compared to the information available when management are estimating the values for the accounts. For this year, the following differences were identified;

- **EQT Valuation:** The figure included in the accounts is £38.0m, this is derived by the custodian taking the actual figure at December 2019 and then adjusting this for drawdowns and distributions. The audit team received the valuation of £36.6m from the Fund Manager. The difference between the figure included in the accounts and the figure received as the actual value of the investment is different by £1.4m.
- **Green Investment Bank Valuation:** The figure included in the accounts is £46.7m, this is derived by the custodian in the same way as described above. The confirmation received by the audit team (June 2020) shows that the valuation as at 31/03/2020 was £44.6m, this is £2.1m lower than the figure included in the accounts.
- **AEW:** The valuation received by the Fund Manager is £20,020,215, the custodian figure is £19,719,972 which is a difference of £300,243. The FM valuation as at 31/03/2020 was issued in April 2020. Also provided by AEW is the 30/06/2020 valuation, the date of the report for this is July 2020 and this shows a valuation figure of £19,368,929, a difference to the March valuation of: £651,286.
- **Hermes:** The Fund Manager confirmation figure is £99.9m which is the NAV of investments plus the working capital. This is the equivalent figure which was taken in the 2018/2019 accounts. The figure included by BNY Mellon is £97.9m which from review of the independent Fund Manager confirmation appears to be the NAV before working capital. The difference between these figures is £2m
- Taking these four differences together shows that the management estimate of investment values at year end is £6.2m higher than more recently updated information. Given that our headline materiality is £26.3m, we are comfortable that these differences do not present of a risk of material misstatement of the fair value of your investments. The differences referenced above does not indicate any weakness in management's arrangements for estimating investment values at year end.

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, Annex 6.5 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 2019/20 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 gives further guidance 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 2022/23, 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 90% funded. This corresponds to a deficit of £295m
- The aim is to achieve 100% over a period of 15 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.

Issue	Commentary	Auditor view
<p>Impact of Covid 19 on asset valuations at year end.</p> <p>Given the timing of Covid 19 in relation to the year end of the 31 March 2020, we identified that there would be volatility in both financial and property markets that would increase the uncertainty of assumptions applied by management to asset valuation and the reliability of the evidence we can obtain to corroborate management estimates.</p>	<p>The fund hold £149.8m in pooled property funds. These are held with five different fund managers. Officers have worked closely with fund managers during the closedown of the accounts to try to ascertain the best possible estimate of the asset value at year end given these unprecedented circumstances. In considering the estimates, officers have looked at what assets are actually held and whether these would be likely to be materially impacted by Covid based on their knowledge of the market and by being guided by the expert fund managers.</p> <p>For the five different funds, only one fund manager (AEW) included in their report a material uncertainty over the valuation provided at year end. Officers at the fund, asked the fund manager to quantify the likely effect, and applied this percentage to the valuation given. This resulted in the amount in the accounts for AEW being shown at £2.3m less than the fund manager included in their valuation.</p> <p>Officers then looked at the remaining four funds that make up this category. They concluded that two of these funds would not be impacted on by Covid-19, and this agreed with the view of their fund managers. For the other two funds, officers were of the view that the types of assets in these funds were similar to those in the AEW fund, and therefore decided to apply similar percentage impairments to those funds and further reduced the valuations down by £11m. Resulting in an overall impairment value of £13.3m on the value of pooled property.</p> <p>In addition, to the pooled property funds, the Fund also holds £299.1m in infrastructure assets. As for the pooled property funds, officers worked closely with the fund managers, none identified material uncertainties in their valuation reports. Officers have reviewed the assets held in these funds, and have concluded that given the nature of these assets the view of the fund managers is reasonable and therefore no material uncertainty exists in relation to these assets.</p>	<p>Officers have produced a thorough and detailed analysis of the assets held in their fund, and have worked well with their experts to gain the best possible information that they could. Their approach has been prudent, in impairing asset values down when producing the draft financial statements.</p> <p>As previously highlighted on page 7, actual valuation results have been obtained for AEW during the audit process, which weren't available when officers were putting together the draft financial statements. This highlighted that values had only decreased by £651k, which is less than the £2.3m allowed for by officers when making this impairment. As similar percentages were applied to two other funds, it is likely that these impairments are overstated as well, although actual information in respect of these funds is not yet know.</p> <p>Our view is that the impairment of £13.3m understates the value of investments at year end, however this is not material. Given the immaterial nature of this amount we have agreed with officers to report this as an unadjusted misstatement.</p> <p>Given the values involved there is not a material uncertainty in relation to asset valuations at year end as a result of Covid 19. We have asked officers to clarify the disclosures in relation to this point, and also include an appropriate post balance sheet event disclosure note.</p>

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Level 3 investments	The Pension Fund has investments in pooled property funds, pooled infrastructure funds and unquoted equity investments that in total are valued on the balance sheet as at 31 March 2020 at £486.9m. 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 £143.3m, however level 3 investments still only account for 19% of the fund.	As outlined in our testing of the valuation of level 3 investments we have; <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 investments	The Pension Fund investments in level 2 are totalled on the balance sheet as at 31 March 2020 at £1,137m. 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 decreased by £157.2m, which equates to 12%.	Similar to our approach for level 3 investments, we have; <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 is appropriate and key assumptions are neither optimistic or cautious

Other matters for communication

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	Auditor commentary
Matters in relation to fraud	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.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed. We noted a minor error in note 20, where the Fund had incorrectly disclosed 9 related parties, when for this year the number was 8. Officers are to amend this is the final version of the financial statements.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Pension Fund, which is appended.
Confirmation requests from third parties	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.
Disclosures	Our review of disclosures identified some errors. We have highlighted these for officers and members, and where appropriate amendments to the draft financial statements have been made.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided. Obtaining suitable external confirmation from fund managers remains a time consuming process, with it rare that information requested is returned in full at the first request. Officers have been proactive in assisting the audit team in gaining this information, but this has been an extremely time consuming process. Similarly the responsiveness from the pension fund admin team could be improved, as there were various examples where information was not to be provided, or wasn't provided right first time.
Matters on which we report by exception	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 December 2020 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

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 Pension Fund'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 Pension Fund's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B

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.

	Fees £	Threats identified	Safeguards
Audit related			
Pension Assurance Letters	8,500	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 requested auditors 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			

These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees.

Audit Related Services Fees

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

Audit related	£	Description
<p>IAS 19 assurance letters to other auditors</p> <p>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 eleven other auditors 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>	8,500	<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. 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 2019/20 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 • Shaw Healthcare <p>Our estimate is that the fee for this will be £3,000 plus an additional £500 for each body which requests a letter of assurance.</p>

Audit adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Pension Fund Account £'000	Net Asset Statement £m	Impact on total net assets £m
The draft accounts included an error in respect of River and Mercantile. BNY Mellon did not include cash of £10.3m in their valuation, this is due to the timing of their reporting and the fact they did not include the cash break in their valuation. The draft accounts show an increase in the cash deposits (which is correct) but they show a decrease in investments which is incorrect. The revised account should show an increase in investments and an increase in the profit/loss on investments in the fund account.			10.3
			10.3
Overall impact			£10.3
			£10.3

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Pension Fund Account £'000	Net Asset Statement £m	Impact on total net assets £m	Reason for not adjusting
Estimated impairment of investments due to impact of Covid 19. See page 9 for further details.		13.3	13.3	Not material
Overall impact		13.3	13.3	

Audit adjustments

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. Non 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 amend note 12A as the line for fixed interest securities was incorrect, the need to amend note 15A as the current assets line was incorrectly included as £29.6m when it should be £31.2m, and the narrative table for the currency risk sensitivity analysis needs to be amended from 11% to 10.2%</p>	✓
Current assets - classification	<p>The figure in the Fund Account is £35.3m, on review of the agreement of the Trial Balance to the accounts it was noted that the Pension Fund had added £1.6m to the trial balance figure of £33.7m. The reason provided by the Pension Fund is as follows: There is an additional 1.6m added to this figure to reach the 35.3m figure in the accounts. This relates to an adjustment made to debtors as the Overall Investment Assets on the Net Assets reconciliation re Note 12a (which feeds into the Fund account) is out when compared to the E5 Balance Sheet. This is most likely to be that the Fund managers assets should increase by this amount so have adjusted Debtors with a view that this will be rectified in 2020/21. The overall Assets and Liabilities balance on E5 so the Total Fund balance of £2,635m is correct which narrows the error down to the Investment Asset Reconciliation on Note 12a. This equates to less than 0.06% of the total fund value so was deemed immaterial</p>	✓
Note 13A – Analysis of Derivatives	<p>Assets - the figures in the table for outstanding exchange traded future contracts need to amended as follows: 23.5 to 5.5, 4.5 to 15.2 and 3.8 to 11.7. Liabilities - the figures need to be amended as follows: -12.8 to -9.5, -2.7 to -6.1, -5.1 to -5.8 and -0.2 to 0.0. The totals in both the assets and liabilities need to change from 32.1 to 32.4 and -20.8 to -21.4.</p>	✓
Note 14C – Sensitivity of assets valued at level 3	<p>The Pooled Investments - Property Funds percentage of 6.5% is being changed to 15%, this means the increase figure is changing from 160.3 to 172.3 and the decrease figure is from 139.3 to 127.3.</p>	✓
Net Asset Statement disclosures	<p>The note says 'Financial assets are included in the Net Asset Statement above on a fair value basis at the reporting date'. This should not be the case for those financial instruments that are held at SPPI such as cash and debtors as they should be measured at amortised cost. (The same point is also made for financial liabilities on page 11). The disclosure is to be amended to reflect the actual measurement of asset classes.</p>	✓
Note 2 – Funding arrangements and actuarial present value of promised retirement benefits	<p>Not all relevant assumptions have been disclosed as per the Code. Agreed with offers that the FSS covers off all of the demographic assumptions used in the calculations and therefore it was agreed to provide updated narrative to this note to direct readers to the publicly available information on the Fund's website. In addition, this note also needs to disclose the fair value of scheme assets and the net liability for both the current and prior year.</p>	✓

Audit adjustments continued

Disclosure omission	Detail	Adjusted?
Note 12 A – Reconciliation of Movements in Investments and Derivatives	For derivatives, the nature of the amounts included in purchases and sales should be explained.	✓
Note 14 C – Sensitivity of Assets Value at Level 3	The paragraph under the final table is to be removed as it is not a material uncertainty, by the nature of the value not being material. Instead, officers should include a non adjusting PBSE disclosure to explain the impact of Covid 19 on investment values.	✓

Fees

We confirm below our final fees charged for the audit.

Audit fees	Proposed fee	Final fee
Pension Fund	£23,743	TBC
Total audit fees (excluding VAT)	£23,743	TBC

The Audit Plan presented in March included £4,250 in addition to the scale fee to take account of the additional scepticism required on the audit and the raising of the bar by our regulator. This is reflected in the proposed fee above. Since the presentation of the audit plan, we have added a significant risk to the audit following the impact of Covid 19. We are discussing with PSAA and Finance officers the impact that this may have on the final fee.

The fees reconcile to the financial statements, with note 8 to the financial statements showing the audit fee as £23,742.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services IAS 19 Assurances (see page 12)	8,000	8,500
Non- Audit Related Services	nil	nil
Total non- audit fees (excluding VAT)	£8,000	£8,500

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 Pension Fund (the 'pension fund') administered by Worcestershire County Council (the 'Authority') for the year ended 31 March 2020 which comprise, the Explanatory Foreword and a Review of the Year 2019/20, the Worcestershire Pension Fund Account, the Net Assets Statement for the year ended 31st March 2020 and notes to the pension fund financial statements, which include the 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 2019/20.

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 2020 and of the amount and disposition at that date of the fund's assets and liabilities,
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; 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.

The impact of macro-economic uncertainties on our audit

Our audit of the pension fund financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Chief Financial Officer and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties. However, no audit should be expected to predict the unknowable factors or all possible future implications for a fund associated with these particular events.

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.

Appendix C

In our evaluation of the Chief Financial Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the pension fund financial statements shall be prepared on a going concern basis, we considered the risks associated with the fund's operating model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the fund's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the fund will continue in operation.

Other information

The Chief Financial Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts 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.

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 Statement of Accounts 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 2019/20, 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.

Appendix C

In preparing the pension fund's financial statements, the Chief Financial Officer 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 there is an intention by government that the services provided by the pension fund will no longer be provided.

The Audit and Governance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

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 Key Audit Partner
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 2020

This representation letter is provided in connection with the audit of the financial statements of Worcestershire Pension Fund for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the 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 2019/20 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 2019/20 ("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. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. 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.

- vi. Except as disclosed in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Fund 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.
- vii. 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.
- viii. 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.
- ix. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- x. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Fund and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiii. There are no prior period errors to bring to your attention.

Appendix D

- xiv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Fund's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern 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

Information Provided

- xv. We have provided you with:
- a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. access to persons within the Fund via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic from whom you determined it necessary to obtain audit evidence.
- xvi. We have communicated to you all deficiencies in internal control of which management is aware.
- xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xviii. 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.
- xix. 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.

- xx. 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.
- xxi. 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.
- xxii. 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.
- i. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.
 - ii. 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.
 - iii. 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 Fund's Audit and Governance Committee at its meeting on 2 October 2020.

Yours faithfully

Name.....

Position.....

Signed on behalf of the Fund



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