Item 4

Council

25 July 2019

Warwickshire Pension Fund Statement of Accounts 2018/19

Recommendations from the Audit and Standards Committee

1. That the Council approves the 2018/19 Pension Fund Statement of Accounts.

2. That the Council authorises the Strategic Director of Resources to make any amendments to the final version of the accounts to take account of any observations from the External Auditors.

1.0 Statement of Accounts

1.1 Appendix A to this report presents the Warwickshire Pension Fund Statement of Accounts for 2018/19. The accounts are comprised of:

- The Pension Fund Account
- Net Assets Statement
- Notes to the Accounts

2.0 Audit of the Accounts

2.1 Our external auditors are required to report to those charged with governance on issues arising from the audit of the financial statements of the Pension Fund before issuing their final opinion. Their report for 2018/19 is being reported to the Audit and Standards Committee on the 24th July 2019.

2.2 As part of the audit process the External Auditors require written confirmation about the fairness of various elements of the financial statements. This is known as the Letter of Representation and a draft will be presented to the Audit and Standards Committee on the 24th July 2019.

Background papers

None

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The report was circulated to the following members prior to publication:

Local Member(s):
Other members: Members of the Audit and Standards Committee will have received this for their meeting on 24 July.

Warwickshire Pension Fund

Statement of Accounts

2018/19

We would welcome any comments or suggestions you have about this publication. Please send any comments or suggestions to wpfinvestments@warwickshire.gov.uk

If this information is difficult to understand, we can provide it in another format, for example, in Braille, in large print, on audiotape, in another language or by talking with you.

Contents

Note on roundings: individual tables presented within disclosures may not sum due to roundings. This does not reflect any inaccuracy or error.

(Independent auditors report)

Statement of responsibilities for the statement of accounts

This section explains our responsibilities, in line with the Accounts and Audit Regulations 2015, for our financial affairs and how we ensure we carry out these responsibilities properly.

Responsibilities of the Pension Fund

We must do the following:

- Make sure that one of our officers is responsible for managing our financial affairs. In the Pension Fund, Warwickshire County Council's Strategic Director of Resources is responsible for doing this.
- Manage our affairs to use our resources efficiently and effectively and to protect our assets.
- Comply with IFRS financial reporting framework
- Approve the statement of accounts.

Responsibilities of the Strategic Director of Resources

As the Strategic Director of Resources, I am responsible for preparing our statement of accounts. These accounts must present a true and fair view of our financial position, including our income and spending for the year.

In preparing the Pension Fund accounts, I have:

- Selected suitable accounting policies and applied them consistently
- Made reasonable and prudent judgements and estimates
- Followed the Chartered Institute of Public Finance and Accountancy's/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

I have also:

- Kept proper accounting records which are up to date; and
- Taken steps to prevent and detect fraud and other irregularities.

I confirm that the accounts were considered and approved at a meeting of the Council on 31st of May 2019. The unaudited draft accounts were authorised for issue on 31 May 2019. These were audited and were considered and approved at a meeting of the Council on 25 July 2019. The approved accounts were authorised for issue on that date.

Rob Powell
Strategic Director Resources — Date: 25 July 2019

Councillor Nicola Davies
Chair of the Council — Date: 25 July 2019

Warwickshire Pension Fund Account

2017/2018			2018/2019
£ m		Notes	£ m
	Dealings with members, employers and others directly involved in the fund		
(65.8)	Contributions	7	(80.1)
(11.4)	Transfers in from other schemes	8	(8.5)
(77.2)			(88.7)
72.9	Benefits payable	9	76.9
8.3	Payments to and on account of leavers	10	7.9
81.2			84.8
4.0	**Net (additions)/withdrawals from dealing with members**		**(3.9)**
10.6	Management expenses	11	**12.3**
14.6	**Net (additions)/withdrawals including fund management expenses**		**8.5**
	Returns on investments		
(27.4)	Investment income	13	(29.2)
0.1	Taxes on income		0.5
(100.0)	Profit and losses on disposal of investments	23	(79.6)
64.3	Changes in the market value of investments	23	(33.7)
(63.0)	**Net return on investments**		**(141.9)**
(48.5)	**Net (increase)/decrease in the net assets available for benefits during the year**		**(133.4)**
(1,983.8)	**Opening net assets of the scheme**		**(2,032.3)**
(2,032.3)	**Closing net assets of the scheme**		**(2,165.7)**

Net Assets Statement

2017/2018			2018/2019
£ m		Notes	£ m
0	Long-term Assets	15	0.8
1,963.6	Investment assets	15/16/17	2,139.7
0.0	Investment liabilities	15	0.0
73.7	Cash deposits	15/16/17	17.5
2,037.3	Total net investments		2,158.0
12.6	Current assets	29	11.4
(17.6)	Current liabilities	30	(3.8)
2,032.3	**Net assets of the fund available to fund benefits at the period end**		**2,165.7**

Notes to the Warwickshire Pension Fund Accounts for the year ended 31 March 2019

Note 1: Description of fund

The Warwickshire Pension Fund ('the fund') is part of the Local Government Pension Scheme and is administered by Warwickshire County Council. The county council is the reporting entity for this pension fund.
The following description of the fund is a summary only. For more detail, reference should be made to the Warwickshire Pension Fund Annual Report 2018/19 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and The Local Government Pension Scheme (LGPS) Regulations.

a) General

The scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and
- Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended).

It is a contributory defined benefit pension scheme administered by Warwickshire County Council to provide pensions and other benefits for pensionable employees of Warwickshire County Council, the district and borough councils in the county of Warwickshire and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The fund is overseen by the Warwickshire Pension Fund Investment Sub-committee, which is a sub-committee of Warwickshire County Council and is made up of five County Councillors. Two independent specialists provide advice and guidance to the sub-committee.

The Public Service Pensions Act 2013 included a requirement to establish a local Pension Board, with responsibility to assist the administering authority:

- To secure compliance with; the LGPS regulations; other legislation relating to the governance and administration of the LGPS, and; the requirements imposed by the Pension Regulator in relation to the LGPS and

- Perform an oversight role to ensure the effective and efficient governance and administration of the LGPS.

A local Pension Board has been in place since February 2015.

b) Membership

Membership of the LGPS is automatic for entitled employees, but they are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Warwickshire Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
- Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 192 employer organisations with active members within Warwickshire Pension Fund including the county council itself, as detailed below.

Warwickshire Pension Fund	31 March 2018	31 March 2019
Number of employers with active members	181	192
Number of employees in scheme		
County Council	8,193	8,303
Other employers	8,561	8,755
Total	**16,754**	**17,058**
Number of pensioners		
County Council	6,487	7,706
Other employers	5,002	5,970
Total	**11,489**	**13,676**
Deferred pensioners		
County Council	10,707	10,680
Other employers	7,098	7,128
Total	**17,805**	**17,808**
Total	**46,048**	**48,542**

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with The LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2019. Contributions are also made by employers' which are set based on triennial actuarial funding valuations. The last valuation was at 31 March 2016 and a revised schedule of employer contribution rates became effective for the three years from 1 April 2017.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised in the following table.

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump Sum	Automatic lump sum of 3 x pension	No automatic lump sum
	In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index. The changes also brought in a 50/50 option allowing members the opportunity to contribute 50% for 50% of the benefit entitlement.

Contributions to the LGPS prior to 1 April 2014 were assessed on full-time equivalent pay and excluded non-contractual elements of pay such as overtime and bonus. However, contributions since 1 April 2014 are assessed on all pensionable pay received including non-contractual elements. In addition, the contribution bandings were extended with many of the higher paid seeing an increase in contributions.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

Note 2: Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2018/19 financial year and its position at year-end as at 31 March 2019. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2018/19* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. They have been prepared on a going concern basis in accordance with IAS1.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. This is addressed by the actuary's triennial valuation.

Note 3: Summary of significant accounting policies

a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the period to which they relate.

Employer deficit, augmentation and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with The Local Government Pension Scheme Regulations (see notes 8 and 10). This is normally when the member liability is accepted or discharged.

c) Investment income

i) Interest Income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is reflected within investment assets in the Net Assets Statement.

iii) Distributions from managed funds

Distributions from managed funds are recognised at the date of issue. Any amount not received by the end of the reporting period is reflected within investment assets in the Net Assets Statement.

iv) Profit and losses on disposal of investments

Profit and losses on the disposal of investments are recognised as income and comprise all realised profits/losses during the year.

v) Movement in the market value of investments

Changes in the market value of investments are recognised as income and comprise all unrealised profits/losses during the year.

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. And amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

e) Taxation

The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

f) Management expenses

The Code does not require a breakdown of pension fund administration expenses. However, in the interests of greater transparency, the council discloses its pension fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs.*

Administrative expenses
All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team and associated accounting, management, accommodation and other overheads are apportioned and charged as expenses to the fund.

Oversight and governance costs
All oversight and governance expenses are accounted for on an accruals basis. All costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Investment management expenses
All investment management expenses are accounted for on an accruals basis.
Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. Where these are deducted at source (as opposed to being charged via an invoice) the fee is identified and a journal posted to record the investment management fee and increase the investment income.

g) Investment assets
Investment in the LGPS asset pool, Border to Coast Pensions Partnership, is valued attransaction price i.e. cost. The pool's main trading company, Border to Coast pensions Partnership Limited, only became licensed to trade in July 2018 and they do not have any reliable trading results or profit forecasts available yet.

Consequently, the Pension Fund's view is that the market value of this investment at

31 March 2019 cannot be reasonably assessed and that cost is therefore an appropriate estimate of fair value.

All other investment assets are included in the net assets statement on a fair value basis as at the reporting date. An investment asset is recognised in the net asset statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised in the Fund.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Pension Fund Note 24).For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted theclassification guidelines recommended in Practical Guidance on Investment Disclosures(PRAG/Investment Association, 2016).

The values of investments as shown in the Net Assets Statement have been determined as follows:

i) Market-quoted investments
The value of an investment for which there is a readily available market price is determined by the bid market price on the final day of the accounting period.

ii) Fixed interest securities
Are recorded at net market value based on their current yields.

iii) Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

- Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or to the management agreement.

- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.

- Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the *International Private Equity and Venture Capital Valuation Guidelines 2012.*

iv) Limited partnerships

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

v) Pooled investment vehicles
Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; if single priced, at the closing single price.
In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

h) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

i) Cash and cash equivalents

Cash comprises cash in hand and on demand deposits and includes amounts held by the fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

j) Investment Liabilities

The fund recognises investment liabilities at fair value as at the reporting date. An investment liability is recognised on the date the fund becomes party to the liability and are summarised in Note 13. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

k) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards.
As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 28).

l) Additional voluntary contributions

Warwickshire Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The fund has appointed Equitable Life and Standard Life as its AVC providers. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and movements in the year.

AVCs are not included in the accounts in accordance with section 4(1)(b) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 31).

j) Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term, 'financial instrument' covers both financial assets and financial liabilities and includes financial assets and liabilities such as trade receivables and trade payables.

IFRS 13 Fair Value Measurement - The standard provides a consistent definition of fair value and enhanced disclosure requirements. It is designed to apply to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value (with some exceptions). The Fund currently complies with this standard.

Note 4: Critical judgements in applying accounting policies

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using the *International Private Equity and Venture Capital Valuation Guidelines 2012*. The value of unquoted private equities, infrastructure and private debt at 31 March 2019 was £211.0m (31 March 2018: £110.0m).

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 27. This estimate is subject to significant variances based on changes to the underlying assumptions.

Investment in Border to Coast Pensions Partnership

This investment has been valued at cost on the basis that fair value as at 31 March 2019 cannot be reliably estimated. Management have made this judgement because: „

• Border to Coast Pensions partnership only became licensed to trade on July 2018;

• No published trading results are as yet available which would allow fair value to be calculated on a net asset basis or enable the accuracy of profit and cash flow projections contained in the company's business plan to be assessed with confidence

Note 5: Assumptions made about the future and other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the Balance Sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the accounts as at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: - a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £294m - a 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £43m, and - a one-year increase in assumed life expectancy would increase the liability by approximately 3-5%.
Private equity, Infrastructure and Private Debt	Private equity investments are valued at fair value in accordance with *International Private Equity and Venture Capital Valuation Guidelines* 2012. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £211m. There is a risk that this investment may be under or overstated in the accounts. The custodian reports a tolerance of +/- 2% around the net asset values on which the valuation is based. This equates to a tolerance of +/- £4.2m.

Note 6: Events after the reporting date

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

a) Those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period), and
b) Those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

There were no adjusting or non-adjusting events.

Note 7: Contributions receivable

By category

2017/2018		2018/2019
£ m		**£ m**
16.7	Employees' contributions	17.3
	Employer's contributions:	
44.7	Normal contributions	58.0
4.4	Deficit Recovery contributions	4.8
49.1	**Total employer's contributions**	**62.8**
65.8		**80.1**

By authority

2017/2018		2018/2019
£ m		**£ m**
35.9	Administering authority	36.9
22.9	Scheduled bodies	39.7
6.9	Admitted bodies	3.4
0.1	Bodies no longer contributing	0.1
65.8		**80.1**

Note 8: Transfers in from other pension funds

2017/2018		2018/2019
£ m		**£ m**
0.7	Group transfers	0.7
10.7	Individual transfers	7.8
11.4		**8.5**

Note 9: Benefits payable

By category

2017/2018		2018/2019
£ m		£ m
59.4	Pensions	62.1
11.7	Commutation and lump sum retirement benefits	13.3
1.9	Lump sum death benefits	1.5
72.9		**76.9**

By authority

2017/2018		2018/2019
£ m		£ m
38.9	Administering authority	41.8
30.2	Scheduled bodies	30.7
3.1	Admitted bodies	3.7
0.7	Bodies no longer contributing	0.8
72.9		**76.9**

Note 10: Payments to and on account of leavers

2017/2018		2018/2019
£ m		£ m
0.2	Refunds	0.3
0.0	Group transfers	0.0
8.0	Individual transfers	7.7
8.3		**7.9**

Note 11: Management expenses

2017/2018		2018/2019
£ m		£ m
1.5	Administration costs	1.3
8.7	Investment management expenses	10.0
0.3	Oversight and governance costs	1.0
10.6		**12.3**

This analysis of the costs of managing the Warwickshire Pension Fund during the period has been prepared in accordance with CIPFA guidance.

Indirect costs are incurred through the bid-offer spread on investment sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sale of investments (Note 16 and Note 25).

Note 12: Investment management expenses

2017/2018		2018/2019
£'000		**£'000**
7,623.0	Management fees	8,644.6
647.0	Performance related fees	975.1
76.1	Custody fees	76.1
386.8	Transaction costs	323.3
8,732.9		**10,019.0**

Note 13: Investment income

2017/2018		2018/2019
£ 000		**£ 000**
0.0	Index linked bonds	0.0
17,473.0	Equity dividends	15,381.7
9,259.6	Managed funds:	13,488.8
4,823.2	Property	4,864.5
557.2	Infrastructure	1,010.6
712.7	Hedge Funds	0.0
0.0	Pooled Equity	190.2
0.0	Private Debt	489.1
1,713.7	Absolute Return	5,499.1
1,452.8	Private Equity	1,435.3
616.3	Interest on cash deposits	252.0
40.5	Stock lending	45.7
27,389.4		**29,168.2**

Note 14: Other fund account disclosures: external audit costs

The external audit fee for 2018/19 was £19,724 excluding VAT The fee for 2017/18, including fee variation, was £25,220 excluding VAT.

Note 15: Investments

2017/2018		2018/2019
£ m		**£ m**
	Long term investments	
0	Equities	0.8
	Investment Assets	
0.0	Index linked bonds	0.0
638.3	Equities	389.3
1,314.1	Managed funds:	1,744.8
78.1	Private Equity	101.2
207.8	Pooled Property	224.7
996.3	Pooled Investments, Unit Trusts & Other Managed Funds	1,308.9
31.9	Infrastructure	47.9
0.0	Private Debt	62.1
73.7	Cash deposits	17.5
11.2	Investment current assets	5.6
2,037.3	**Total Investment Assets**	**2,158.0**
	Investment Liabilities	
0.0	Investment current liabilities	0.0
	Total Investment Liabilities	
2,037.3	**Net Investment Assets**	**2,158.0**

Outstanding capital commitments at 31 March 2019 totalled £202.5m. Of this, £107.4 related to Private Equity, £51.4 related to Infrastructure and £43.7 related to Private Debt.

Note 16: Reconciliation of movements in investments

	Market value 31 March 2018	Purchases during the year	Sales during the year	Change in market value during the year	Market value 31 March 2019
	£ m	£ m	£ m	£ m	£ m
Investment Assets					
Index linked bonds	0.0				0.0
Equities	638.3	78.8	-361.4	34.5	390.1
Managed funds:	1,314.1	681.0	-327.6	77.4	1,744.8
Private Equity	78.1	17.1	-15.9	21.9	101.2
Pooled Property	207.8	13.3	-3.7	7.3	224.7
Pooled Investments, Unit Trusts & Other Managed Funds	996.3	574.4	-305.3	43.5	1308.9
Infrastructure	31.9	16.1	-2.5	2.5	47.9
Private Debt	0.0	60.2	-0.2	2.1	62.1
Other Investment Balances	0.0				0.0
Cash deposits	73.7	80.3	-137.0	0.4	17.5
Net investment current assets	11.2	0.1	-5.8	0.1	5.6
Net Investment Assets	**2,037.3**	**840.2**	**-831.9**	**112.4**	**2,158.0**

	Market value 1 April 2017	Purchases during the year	Sales during the year	Change in market value during the year	Market value 31 March 2018
	£ m	£ m	£ m	£ m	£ m
Investment Assets					
Equities	683.0	99.2	-133.4	-10.5	638.3
Managed funds:	1307.2	216.4	-256.2	46.7	1314.1
Private Equity	66.2	16.4	-12.4	7.9	78.1
Pooled Property	192.5	10.8	-12.8	17.3	207.8
Pooled Investments, Unit Trusts & Other Managed Funds	945.6	176.2	-142.9	17.4	996.3
Infrastructure	18.7	12.9	-0.8	1.1	31.9
Hedge Funds	84.3	0.0	-87.3	3.0	0.0
Other Investment Balances					
Cash deposits	30.8	162.0	-118.8	-0.4	73.7
Net investment current assets	-42.2	53.7	-0.1	-0.3	11.2
Net Investment Assets	**1,978.8**	**531.4**	**-508.5**	**35.6**	**2,037.3**

Note 17: Analysis of investments

31 March 2018		31 March 2019
£ m		**£ m**
	Index linked bonds	
0.0	UK	0.0
0.0	Overseas	0.0
0.0		**0.0**
	Equities	
301.1	UK	0.8
337.2	Overseas	389.3
638.3		**390.1**
	Managed funds	
1,219.6	UK:	1,551.0
207.3	Pooled Property	224.4
996.3	Pooled Investments, Unit Trusts & Other Managed Funds	1,308.9
15.9	Infrastructure	17.7
94.5	Overseas:	193.8
0.0	Private Debt	62.1
78.1	Private Equity	101.2
0.5	Pooled Property	0.3
15.9	Infrastructure	30.2
1,314.1		**1,744.8**
	Cash deposits	
69.5	UK Sterling	11.2
4.2	Foreign currency	6.3
73.7		**17.5**
11.2	**Net investment current assets/(liabilities)**	**5.6**
2,037.3	**Net Investment Assets**	**2,158.0**

Note 18: Investments analysed by fund manager

Market value 31 March 2018			Market value 31 March 2019	
£ m	**%**		**£ m**	**%**
Investments managed by BCPP asset pool				
0.0	0.0%	UK Equity Alpha Fund	253.6	11.8%
0.0	0.0%	BCPP Shareholding	0.8	0.0%
0.0	**0.0%**		**254.5**	**11.8%**
Investments managed outside of BCPP asset pool				
309.0	15.2%	Columbia Threadneedle Investments (UK Equities)	0.7	0.0%
345.1	16.9%	MFS Investment Management (Global Equities)	396.9	18.4%
512.6	25.2%	Legal and General Investment Management (Index Tracker - Global Equities)	578.3	26.8%
319.6	15.7%	Legal and General Investment Management (Index Tracker - Fixed Income)	349.3	16.2%
115.7	5.7%	Columbia Threadneedle Investments (Property)	121.8	5.6%
100.5	4.9%	Schroder Investment Management (Property)	105.5	4.9%
78.1	3.8%	HarbourVest (Private Equity)	101.2	4.7%
158.4	7.8%	JP Morgan (Strategic Bond)	128.2	5.9%
15.9	0.8%	Standard Life Capital (Infrastructure)	17.7	0.8%
15.9	0.8%	Partners Group (Infrastructure)	30.2	1.4%
0.0	0.0%	Alcentra (Private Debt)	10.3	0.5%
0.0	0.0%	Partners (Private Debt)	51.8	2.4%
66.3	3.3%	BNY Mellon (Global Custodian)	11.7	0.5%
2,037.3	100.0%		1903.5	88%
2,037.3	**100.0%**		**2,158.0**	**100.0%**

Note 19: Investments representing more than 5% net assets of the scheme

Security	Market value 31 March 2019	% of total fund as at 31.03.19
	£ m	
Border to Coast Alpha Equity Fund	253.6	11.79%
L&G Investment Grade Corporate Bond	229.4	10.66%
L&G Fundamental Indexation	216.6	10.07%
L&G Europe (Exc UK) Equity Index	136.0	6.32%
JPM Strategic Bond Fund	128.2	5.96%
Columbia ThreadneedleTPN Property A	121.8	5.66%
L&G Index linked Bonds	119.6	5.56%
L&G UK Equity Index	117.6	5.47%

Security	Market value 31 March 2018	% of total fund as at 31.03.18
	£ m	
L&G Investment Grade Corporate Bond	210.1	10.31%
JPM Strategic Bond Fund	158.4	7.77%
L&G UK Equity Index	130.5	6.41%
L&G Europe (Exc UK) Equity Index	133.5	6.55%
L&G Fundamental Indexation	109.2	5.36%
Columbia ThreadneedleTPN Property A	115.7	5.68%
L&G Index linked Bonds	144.4	7.09%

Note 20: Stock lending

The fund's Statement of Investment Principles sets the parameters for the fund's stock-lending programme. At the year-end, the value of stock on loan was £4.0m (31 March 2018: £35.2m). The investments continue to be recognised in the fund's financial statements.

Counterparty risk is managed through holding collateral at the fund's custodian bank. At the year-end the fund held collateral (via the custodian) at fair value of £4.3m (31 March 2018: £37.2m). Collateral is obtained at 102% for sterling denominated equities and 106% for all other currency denominations and consists of government debt.

Stock-lending commissions are remitted to the fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stock pass to the borrower.

There are no liabilities associated with the loaned assets.

Note 21: Property holdings

The fund does not hold property directly. Property is held in the form of pooled funds.

Note 22: Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and Net Assets Statement heading. No financial assets were reclassified during the accounting period.

Fair value through profit and loss	Assets at amortised cost	Financial liabilities at amortised cost		Fair value through profit and loss	Assets at amortised cost	Financial liabilities at amortised cost
31 March 2018				31 March 2019		
£ m	£ m	£ m		£ m	£ m	£ m
			Investment Assets			
0.0			Index linked bonds	0.0		
638.3			Equities	390.1		
1,314.1			Managed funds:	1,744.8		
78.1			Private Equity	101.2		
207.8			Pooled Property	224.7		
996.3			Pooled Investments, Unit Trusts & Other Managed Funds	1,308.9		
31.9			Infrastructure	47.9		
0.0			Private Debt	62.1		
	73.7		Cash deposits		17.5	
	11.2		Investment current assets		5.6	
	10.2		Debtors		9.8	
	2.3		Cash balances		1.7	
1,952.4	**97.5**	**0.0**		**2,134.9**	**34.5**	**0.0**
			Liabilities			
		0.0	Investment current liabilities			0.0
		-17.6	Creditors			-3.8
0.0	**0.0**	**-17.6**		**0.0**	**0.0**	**-3.8**
1,952.4	**97.5**	**-17.6**		**2,134.9**	**34.5**	**-3.8**

Note 23: Net gains and losses on financial instruments

31 March 2018		31 March 2019
£ m		**£ m**
	Financial Assets	
100.0	Fair value through profit and loss	113.2
0.0	Loans and receivables	0.0
	Financial liabilities	
-64.3	Fair value through profit and loss	0.0
0.0	Loans and receivables	0.0
35.7	**Total**	**113.2**

The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

Note 24: Valuation of financial instruments carried at fair value

The Unquoted equities holding in Border to Coast Pensions Partnership is valued at cost (i.e. transaction price), as an appropriate estimate of fair value. A fair value cannot be otherwise established for these assets as at 31 March 2019 because the main trading vehicle of Border to Coast Pensions Partnership only became licenced to trade in July 2018 and the reliability of any observable or unobservable inputs used to calculate fair value cannot as yet be assessed with certainty.

All other investments are held at fair value in accordance with the requirements of the Code and

IFRS13. The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year.

All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange

Level 2

Financial instruments at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value, these inputs are observable. Products classified as level 2 include unquoted bonds and overseas unit trusts and property funds.

Level 3

Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity and debt investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity, infrastructure and private debt are based on valuations provided by the general partners to the funds in which Warwickshire Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are undertaken quarterly and an adjustment is made to roll forward the latest available valuation to 31 March as appropriate.

Description of asset	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Pooled investments – overseas unit trusts & property funds Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price is published.	NAV-based pricing set on a forward pricing basis	Not required
Private equity, Infrastructure and Private Debt. Level 3	Private equity and Infrastructure investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines 2012.	NAV-based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension funds own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Valuation at 31 March 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
	£ m	**£ m**	**£ m**	**£ m**
Financial assets				
Financial assets at fair value through profit and loss	528.7	1,394.2	211.2	2,134.1
Financial liabilities				
Financial liabilities at fair value through profit and loss	0.0	0.0	0.0	0.0
Net financial assets	528.7	1,394.2	211.2	2,134.1

Valuation at 31 March 2018	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£ m	£ m	£ m	£ m
Financial assets				
Financial assets at fair value through profit and loss	864.4	978.0	110.0	1,952.4
Financial liabilities				
Financial liabilities at fair value through profit and loss	0.0	0.0	0.0	0.0
Net financial assets	864.4	978.0	110.0	1,952.4

The following assets have been carried at cost (no investment assets were carried at cost in 2017/18):

Valuation at 31 March 2019	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£ m	£ m	£ m	£ m
Investment in Border to Coast Pensions Partnership			0.8	0.8
Investments held at cost				

Note 25 Reconciliation of fair value measurements within Level 3

	Market value 31 March 2018	Purchases during the year	Sales during the year	Change in market value during the year	Realised profit or loss (-) during the year	Market value 31 March 2019
	£ m	£ m	£ m	£ m	£ m	£ m
Private Debt	0.0	60.2	-0.2	-0.3	2.4	62.1
Private Equity	78.1	17.1	-15.9	12.9	9.0	101.2
Infrastructure	31.9	16.1	-2.5	2.5	0.0	47.9
	110.0	**93.3**	**-18.7**	**15.0**	**11.5**	**211.2**

Note 26: Nature and extent of risks arising from financial instruments

Risk and risk management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities (ie promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the pension fund investment sub-committee. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The fund manages these risks in two ways:

- The exposure of the fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
- Specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital.

The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored to ensure it is within limits specified in the fund investment strategy.

Following analysis of historical data and expected investment return movement, the fund has determined that the following movements in market price risk were reasonably possible for the 2018/19 reporting period. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Asset Type movement	**2018/19 Potential market**
	%
UK Equities	17%
Overseas Equities	18%
Total Bonds, Index Linked & Pooled Managed Funds	10%
Cash	1%
Property	14%
Alternatives	10%

The potential price changes disclosed above are broadly consistent with a one year dispersion in the value of the assets and are based on observed historical volatility of the returns of the asset class.

Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits would have been as follows (the prior year comparator is shown below):

Asset Type	Value as at 31 March 2019	Potential market movement	Value on increase	Value on decrease
	£ m	£ m	£ m	£ m
UK Equities	578.3	98.3	676.7	480.0
Overseas Equities	652.0	117.4	769.4	534.6
Total Bonds & Pooled Managed Funds	349.3	34.9	384.2	314.3
Cash	11.7	0.1	11.8	11.6
Alternatives	339.4	33.9	373.4	305.5
Property	227.3	31.8	259.1	195.4
Total	**2,158.0**	**316.5**	**2,474.5**	**1,841.5**

Asset Type	Value as at 31 March 2018	Potential market movement	Value on increase	Value on decrease
	£ m	£ m	£ m	£ m
UK Equities	512.6	87.1	599.8	425.5
Overseas Equities	654.1	117.7	771.8	536.4
Total Bonds, Index Linked & Pooled Managed Funds	319.6	32.0	351.6	287.7
Cash	62	0.6	62.6	61.4
Alternatives	272.2	27.3	300.0	245.4
Property	216.2	30.3	246.5	186.0
Total	**2,037.3**	**295.0**	**2,332.3**	**1,742.3**

Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The fund's interest rate risk is monitored as part of asset allocation decisions. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£UK). The fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

Currency	2018/19 Potential market movement
	%
Czech Republic Koruna	10%
Danish Krone	9%
Euro	9%
Japanese Yen	13%
Mexican Peso	13%
Swedish Krona	10%
Swiss Franc	11%
Thai Baht	10%
US Dollar	10%
Hong Kong Dollar	10%

A strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows. This analysis assumes that all other variables, in particular interest rates, remain constant. The prior year comparator is shown below:

Currency	Value as at 31 March 2019	Potential market movement	Value on increase	Value on decrease
	£ m	£ m	£ m	£ m
Czech Republic Koruna	0.0	0.0	0.0	0.0
Danish Krone	2.7	0.2	3.0	2.5
Euro	136.4	12.3	148.6	124.1
Japanese Yen	10.8	1.4	12.2	9.4
Mexican Peso	1.0	0.1	1.2	0.9
Swedish Krona	9.2	0.9	10.0	8.3
Swiss Franc	30.2	3.4	33.6	26.8
Thai Baht	0.8	0.1	0.9	0.7
US Dollar	307.0	30.1	337.1	276.9
Hong Kong Dollar	0.7	0.1	0.8	0.7
Total	**498.8**	**48.6**	**547.4**	**450.3**

Currency	Value as at 31 March 2018	Potential market movement	Value on increase	Value on decrease
	£ m	£ m	£ m	£ m
Czech Republic Koruna	0.0	0.0	0.0	0.0
Danish Krone	2.4	0.2	2.6	2.2
Euro	112.5	10.1	122.6	102.4
Japanese Yen	5.0	0.7	5.7	4.4
Mexican Peso	1.1	0.1	1.2	0.9
Swedish Krona	7.0	0.7	7.7	6.3
Swiss Franc	27.5	3.1	30.5	24.4
Thai Baht	0.8	0.1	0.9	0.7
US Dollar	255.5	25.0	280.5	230.4
Hong Kong Dollar	0.7	0.1	0.8	0.7
Total	**412.5**	**40.1**	**452.6**	**372.5**

Credit risk

Credit risk represents the risk that the counterparty to a transaction will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund’s financial assets and liabilities.

In essence the fund’s entire investment portfolio is exposed to some form of credit risk. However, the selection of high quality counterparties and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The Pension Fund is exposed to credit risk through the stock lending programme. This is managed by the custodian who monitors the counterparty and collateral risk. The level of collateral for stock on loan is assessed daily to ensure it takes account of market movements. To mitigate risk, stock lending is restricted to 25% of the total market value of the stock held, in accordance with investment regulations.

Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The Pension Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments, particularly cash to meet pensioner payroll and other benefit costs, and also cash to meet investment commitments.

The Pension Fund has immediate access to its cash holdings and has had a long term positive cash flow. Cash flow surpluses are invested with fund managers. The Pension Fund is authorised to borrow on a short term basis to fund cash flow deficits.

The actuary to the Pension Fund produces regular cash flow forecasts which are presented to the Investment Sub-Committee.

All financial liabilities as at 31 March 2019 are due within one year.

Note 27: Funding arrangements

In line with The Local Government Pension Scheme Regulations 2013, the fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016 and set contribution rates for the three years commencing 1 April 2017.

The key elements of the funding policy are:

- to ensure the long-term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment
- to ensure that employer contribution rates are as stable as possible
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 19 years and to provide stability in contribution rates by spreading any increases in rates over a period of time. Normally this is three years but in some cases an extended period can be granted. Solvency is achieved when the funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable. When an employer's funding level falls significantly short of the

100% funding target, then a deficit recovery plan will be put in place requiring additional contributions from the employer to meet the shortfall.

At the 2016 actuarial valuation, the fund was assessed as 82% funded. This corresponded to a deficit of £358m.

Contribution increases were phased in over the three year period ending 31 March 2020. The common contribution rate (ie the rate which all employers in the fund pay) is as follows.

Valuation Date	**31-Mar-16**
Total contribution rate	
Primary Rate (% of pay)	20%
2018/19 Secondary Rate £000	39.19
2018/19 Secondary Rate £000	61.25
2019/20 Secondary Rate £000	84.4

Individual employer rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2016 actuarial valuation report and the funding strategy statement on the fund's website.

The valuation of the fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions are as follows:

Financial assumptions

Financial assumptions	**Nominal**	**Real**
	%	**%**
Post Retirement Discount Rate	3.8%	1.7%
Pre Retirement Discount Rate	3.8%	1.7%
Salary Increases	2.8%	0.7%
Price Inflation/Pension Increases	2.1%	-

Demographic assumptions

Assumed life expectancy from age 65 is as follows.

Demographic assumptions	**31 March 2016**	
Assumed life expectancy at age 65	**Male**	**Female**
Pensioners	22.5	24.7
Non-pensioners	24.3	26.7

Commutation assumptions

It is assumed that future retirees will take 50% of the maximum additional tax-free lump sum up to HMRC limits for pre-April 2008 service and 75% of the maximum for post-April 2008 service.

50:50 Option

2.0% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option.

Note 28: Actuarial present value of promised retirement benefits

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 24). The following is the full Pension Fund Accounts Reporting Requirement provided by the fund actuary.

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2018/19 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the Warwickshire Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund’s funding assumptions.

31 March 2018		31 March 2019
£m		£m
1,307	Active members	1,593
597	Deferred pensioners	670
945	Pensioners	948
2,849	**Present value of promised retirement benefits**	**3,211**

The promised retirement benefits at 31 March 2019 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis). Assumptions

Assumptions

The assumptions used are those adopted for the Administering Authority’s IAS19 report and are different as at 31 March 2019 and 31 March 2018. I estimate that the impact of the change in financial assumptions to 31 March 2019 is to increase the actuarial present value by £246m. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

Financial assumptions

Year ended (% p.a.)	31 March 19	31 March 18
	%	%
Inflation/pensions increase rate	2.5%	2.4%
Salary increase rate	3.1%	3.0%
Discount rate	2.4%	2.7%

Longevity assumptions
Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.5 years	24.7 years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	24.3 years	26.7 years

Please note that the longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

Commutation assumptions
An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

Sensitivity analysis
CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2019	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	271
0.5% p.a. increase in the Salary Increase Rate	2%	49
0.5% p.a. decrease in the Real Discount Rate	11%	341

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

Professional notes
This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2019 for accounting purposes'. The covering report identifies the appropriate reliance's and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

Robert Bilton
13 April 2019
For and on behalf of Hymans Robertson LLP

Note 29: Current assets

31 March 2018		31 March 2019
£m		**£m**
	Debtors:	
1.1	Contributions due: Employees	1.4
7.0	Contributions due: Employers	6.1
1.7	Invoiced debtors	1.7
0.3	Sundry debtors	0.6
2.3	Cash balances	1.7
12.6	**Total**	**11.5**

Note 30: Current liabilities

31 March 2018		31 March 2019
£m		**£m**
	Liabilities:	
15.1	Owed to administering authority	1.0
1.7	Sundry Creditors	1.6
0.8	Benefits Payable	1.1
17.6	**Total**	**3.8**

Note 31: Additional Voluntary Contributions

31 March 2018		31 March 2019
£m		**£m**
2.5	Standard Life	2.6
0.2	Equitable Life	0.2
2.8	**Total**	**2.8**

31 March 2017		31 March 2018
£m		**£m**
2.7	Standard Life	2.5
0.3	Equitable Life	0.2
3.0	**Total**	**2.8**

AVC contributions of £0.3 m were paid directly to Standard Life and £2000 was paid directly to Equitable Life during the year (2017/18: £0.3m to Standard Life and £2000 to Equitable Life).

Note 32: Related Party Transactions

Warwickshire County Council

The Warwickshire Pension Fund is administered by Warwickshire County Council. Consequently there is a strong relationship between the council and the pension fund.

During the reporting period, the council incurred costs of £892,212 (2017/18: £913,654 restated) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses. The council is also the single largest employer of members of the pension fund. Employee and employer contributions from the council amounted to £36.9m in 2018/19 (2017/18 £35.9 m).

Border to Coast Pensions Partnership

The Warwickshire Pension Fund, through Warwickshire County as the Administering Authority, is a shareholder in the Border to Coast Pension Partnership Limited. The partnership is a wholly owned private limited company registered in England and Wales founded to carry out pension fund asset pooling obligations set out by the Government. The company provides the facility to pool the pension fund investments of 12 local authorities in order to gain the benefits of economies of scale, concentration of expertise and improved ability to reduce investment costs. The company was incorporated in 2017/18 and the first transfers of investment assets into the pool occurred in 2018/19. All 12 partners own an equal 1/12th share of the company.

Governance

There are two member of the pension fund investment sub-committee who are in receipt of pension benefits from the Warwickshire Pension Fund

Each member of the pension fund investment sub-committee is required to declare their interests at each meeting.

There are three members of the local pension board who are active members of the Warwickshire Pension Fund.

Key management personnel

Several employees of Warwickshire County Council hold key positions in the financial management of the Warwickshire Pension Fund, alongside responsibilities for Warwickshire County Council directly. These employees and their financial relationship with the fund (expressed as cash-equivalent transfer values, as an appropriate approximation for an IAS19 exercise) are set out below.

	2018/19	**2017/18**
	£	**£**
Head of Finance	890,455	749,900
Strategic Finance Manager	476,557	384,576
Pensions Manager	0	0
Treasury and Pension Fund Manager	n/a	187,205
Principal Accountant	62,605	43,346

*The replacement for the Head of Finance was not in position until 1st April 2019 Figure based on final working day.
**Interim Treasury & Pension Fund Manager in place.

Note 33: Contingent Liabilities

McCloud

As the result of a legal ruling (“McCloud/Sargeant”) elements of the Judges’ and Firefighters’ Pension Schemes have been found to be unlawful on the grounds of age discrimination. It is probable that this will also be the case for similar transitional protections introduced when the Local Government Pension Scheme was changed in 2014. The impact of this is still uncertain both in terms of future changes to the benefits payable to individuals and the resulting financial impact for the fund. Initial high level estimates indicate this is unlikely to be a material figure.

GMP

As the result of a legal ruling UK defined benefit pension schemes (such as the LGPS) must compensate members for differences attributable to guaranteed minimum pensions (the minimum pension an occupational pension scheme must provide a scheme member as an alternative to the State Earnings Related Pension Scheme). The impact of this is still uncertain as further consultation on the methodology for ensuring equalisation and the legislation required to implement the preferred option has yet to happen. Initial high level estimates indicate this is unlikely to be a material figure.

Glossary

A

Actuarial valuation

A review of the assets and *liabilities* of a pension fund to determine the surplus or deficit, and the future rate of contributions required.

Alternative investments

Investments other than the mainstream *asset classes* of *equities* and *bonds*. Alternatives include *hedge funds*, *private equity*, *infrastructure* and *commodities*. Property is also sometimes described as an alternative.

Asset allocation

The apportionment of a fund's assets between different *asset classes*.

B

Benchmark

A yardstick against which the investment policy or performance of a fund manager can be compared.

C

Currency risk

Investing in any securities not denominated in the investor's own base currency introduces currency risk due to the *volatility* of foreign exchange rates.

D

Defined benefit scheme

A type of pension scheme where the pension that will ultimately be paid to the employee is fixed, usually as a percentage of final salary. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the pension promised. Compare with *defined contribution scheme*.

Diversification

The spreading of investment funds among different types of assets, markets and geographical areas in order to reduce *risk*.

H

Hedge Funds

A hedge fund is a capital pool that has the ability to use *leverage* and to take both *long* and *short* positions with the aim of achieving an *absolute return*. A large variety of hedge fund strategies exists and the level of *risk* taken will vary. Investors looking for a diversified exposure to hedge funds will normally opt for a fund of hedge funds – a fund with underlying investments in several hedge funds covering different strategies and geographical areas.

I

IAS19 (International Accounting Standards)

An accounting standard which requires organisation's to incorporate their pension funds into their balance sheets and specifically that all pension fund *liabilities* should be valued using an AA corporate bond yield. Any mismatch between assets and liabilities is effectively brought on to the organisation's balance sheet.

IAS1

An accounting standard that sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

P

Private equity

Funds put up by investors to finance new and growing businesses. Also known as venture capital

Private Debt

Private debt comprises mezzanine and other forms of debt financing that comes mainly from institutional investors such as funds and insurance companies – but not from banks.

R

Risk

In its simplest sense, risk is the variability of *returns*. Investments with greater inherent *risk* must promise higher expected returns if investors are to invest in them. Risk management is an important aspect of portfolio management and involves the use of complex statistical models.

Stocklending

The lending of a *security* by the registered owner, to an authorised third party, for a fixed or open period of time, for an agreed consideration secured by *collateral*. The demand to borrow *securities* comes mainly from *market makers* to cover *short positions* or take *arbitrage* opportunities.

T

Transaction costs

Those costs associated with trading on a portfolio, notably *stamp duty* and *commissions*.

The Audit Findings for Warwickshire County Council and Warwickshire Pension Fund

Year ended 31 March 2019

24 July 2019

Contents

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Headlines – Warwickshire County Council

This table summarises the key findings and other matters arising from the statutory audit of Warwickshire County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's and Pension Fund's financial statements: • give a true and fair view of the financial position of the Council and Pension Fund and 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. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was completed on site during June and July. Our findings are summarised on pages 7 to 18. We have identified one adjustment to the financial statements, this is detailed in Appendix B. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion at Appendix D or material changes to the financial statements, subject to the following outstanding matters; • Completion of our audit work on other material balances and transactions – see page 5 for further information • Response to points raised by our technical team as a result of their review of the draft financial statements • Whole of Government Accounts • Updating our post balance sheet events review, to the date of signing the opinion • Receipt of management representation letter; and • Review of the final set of financial statements. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited. Our anticipated audit report opinions will be unmodified
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that Warwickshire County Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 19 to 21.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties We have completed the majority of work under the Code but are unable to issue our completion certificate until we complete our work on the Whole Government Accounts review and open objection.

Headlines – Warwickshire Pension Fund

This table summarises the key findings and other matters arising from the statutory audit of Warwickshire 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.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements: • give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year ended 31 March 2019; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.	Our audit work was completed on site during June and July. Our findings are summarised on pages 7 to 18. Our audit of the Fund did not identify any material adjustments to the financial statements. Audit adjustments are detailed in Appendix C. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion at Appendix D or material changes to the financial statements, subject to the following outstanding matters; • Completion of our audit work on other material balances and transactions – see page 5 for further information • Updating our post balance sheet events review, to the date of signing the opinion • Receipt of management representation letter; and • Review of the final set of financial statements. Our anticipated audit report opinion will be unmodified.

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 will be discussed with management and the Audit & Standards Committee.

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 Council's and Pension Fund's business and is risk based, and included:

- An evaluation of the Council's and Pension Funds internal controls environment, including its IT systems and controls;
- 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 on 13 March 2019.

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

Local Authority

- Agreement of financial instruments disclosed to corresponding areas of the accounts and that the requirements of IFRS 9 have been met
- Agreement of related party transactions disclosed to underlying support
- Substantive analytical procedures on Council Tax and NNDR
- Agreement of DSG income and expenditure to underlying support and consideration of question received from local elector
- Completion of our procedures on the valuation of land and buildings following recent receipt of the valuer report

Pension Fund

- Completion of IAS 19 assurance work for other auditors
- Completion of benefits payable testing

Audit opinion

We have substantially completed our audit of your financial statements and subject to the satisfactory conclusion of the outstanding matters listed above our anticipated audit report opinion will be unmodified and will be issued following the Audit & Standards Committee meeting on 24 July 2019 and the Council meeting on 25 July, as detailed in Appendix E .

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Matter	Description	Planned audit response to the Council
1	**Calculation and determination** We have determined planning materiality (financial statement materiality determined at the planning stage of the audit) based on professional judgment in the context of our knowledge of the Authority and the Fund, including consideration of factors such as stakeholder expectations, financial stability and reporting requirements for the financial statements. We determine planning materiality in order to: – estimate the tolerable level of misstatement in the financial statements – assist in establishing the scope of our audit engagement and audit tests – calculate sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements	• For the Council, we have determined financial statement materiality at the planning stage of our audit to be £15m for the Authority. We believe the appropriate benchmark to consider this against is the proportion of the gross expenditure of the Authority for the financial year and it equated to 1.8% of your prior year gross expenditure for the year (cost of services). This is within the acceptable range for the sector. We did not amend our materiality on receipt of the draft financial statements. • For the Pension Fund, we determined financial statement at the planning stage was £20m. We believe the appropriate benchmark to consider this against is the proportion of the Pension Fund's net assets and it equated to 1% of your actual net assets for the year ended 31 March 2018. This is within the acceptable range for the sector. We did not amend our materiality on receipt of the draft financial statements.
2	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements. We design our procedures to detect errors in specific accounts at a lower level of precision which we deem to be relevant to stakeholders.	• For the Council, we have determined a lower specific materiality level of £25K for senior officer remuneration disclosures. • For the Pension Fund, no lower specific materiality levels were set.
3	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	• Materiality calculations remain the same as reported in our audit plan for both the Council and Pension Fund
4	**Matters we will report to the Audit & Standards Committee** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Standards Committee any unadjusted misstatements of lesser amounts, other than those which are 'clearly trivial', to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	• In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £750k. • In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1m. • If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit & Standards Committee to assist it in fulfilling its governance responsibilities.

Significant findings – audit risks

Matter	Risks identified in our Audit Plan	Risk relates to	Commentary
1	**Fraudulent revenue recognition** 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 Authority and 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 Warwickshire County Council and Warwickshire Pension Fund, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Warwickshire County Council and Warwickshire Pension Fund.	Authority and Pension Fund	We have not altered our assessment as reported in the audit plan and therefore have no issues to report n this regard. Whilst not a significant risk, as part of our audit work we did undertake work on material revenue items. Our work did not identify any matters that would indicate our rebuttal was incorrect.
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority and Fund faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk for both the Authority and Fund	Authority and Pension Fund	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 made by management and considered their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. **Conclusion** Our audit work has not identified any issues in respect of management override of controls.

Significant findings – audit risks

	Risks identified in our Audit Plan	Risk relates to	Commentary
3	**Valuation of Land and Buildings** The Authority revalues its land and buildings on a rolling five-yearly basis. In 2018/19, the entire asset base will be revalued in line with this policy. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.	Authority	We have: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written to the valuer, with follow up discussions as necessary, to confirm the basis on which the valuations were carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • tested, on a sample basis, revaluations made during the year to ensure they have are consistent with the valuer’s report and have been input correctly into the Authority's asset register **Conclusion** Our audit work has not identified any issues in respect of the valuation of land and buildings.

Significant findings – audit risks

Risks identified in our Audit Plan	Risk relates to	Commentary
4 **Valuation of the pension fund net liability** The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£912.3m million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk.	Authority	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (Hymans Robertson) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtained assurances from our audit of the Warwickshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. **Conclusion** Our audit identified one issue in relation to accounting for the impact of the McCloud Court of Appeal judgement and Guaranteed Minimum Pension (GMP) equalisation. This is considered under section "Significant findings – key judgements and estimates" at page 11.

Significant findings – audit risks

	Risks identified in our Audit Plan	Risk relates to	Commentary
5	**Valuation of Level 3 (hard to value) Investment Assets** 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 (£211.2 million) 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 the custodians as valuation experts to estimate the fair value as at 31 March 2019. We therefore identified valuation of Level 3 investments as a significant risk.	**Pension Fund**	We have: • evaluated management's processes for valuing Level 3 investments • reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met • 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 **Conclusion** Management estimate the value of investment assets at the year end. Subsequently, the Council receives quarterly valuation reports in arrears from investment managers. During the course of our work we noted that the fund's value of holdings varied by £14.4m to the confirmation received from investment managers. The Council's estimation approach is required due to the earlier reporting deadlines. The variance noted is above triviality but below our performance materiality and therefore in line with the acceptable difference for assessing the estimate. We are bringing it to the attention of those charged with governance for information and ultimately we are satisfied that the Council's estimation approach is appropriate.

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

	Issue	Commentary	Auditor view
1	**Impact of the McCloud judgement and GMP equalisation** The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. Our Grant Thornton view was that this gave rise to a past service cost and liability within the scope of IAS 19 as the ruling created a new obligation. The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy. The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits. This was confirmed on 15 July 2019 in a statement released by The Chief Secretary to the Treasury. The quote extracted and shown below is of greatest interest as it recognises remedies will need to be applied to the LGPS and hence supports the Authority's stance in the recognition of increased liabilities: *"As 'transitional protection' was offered to members of all the main public service pension schemes, the government believes that the difference in treatment will need to be remedied across all those schemes. This includes schemes for the NHS, civil service, local government, teachers, police, armed forces, judiciary and fire and rescue workers. Continuing to resist the full implications of the judgment in Court would only add to the uncertainty experienced by members."* https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2019-07-15/HCWS1725/	The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling and GMP equalisation. The actuary's estimate was as follows: • LGPS - £8.797m; and • FFPS - £12.500m Management have amended the financial statements to reflect the actuarial review of the impact of the McCloud judgement and GMP equalisation for FFPS. Having considered the potential impact of the McCloud judgement and GMP equalisation on the LGPS management do not consider the potential impact to be material. The financial statements have therefore not be amended and a 'contingent liability' disclosure has been retained.	We have reviewed the analysis performed by the actuary, and consider that the approach that has been taken to arrive at this estimate is reasonable. Our audit procedures have confirmed the relevant adjustments have been made to the financial statements in regard to the FFPS. As a result of the Court of Appeal judgment we are of the view that it is now probable that the Council will need to recognise (as employer) the increased liabilities in respect of LGPS members (primarily as a past service cost). The Council has determined not to amend the financial statements on the basis of materiality and the anticipation that it will be reflected in the 2019 actuarial valuation going forward. We are not minded to challenge the Council's approach and are satisfied that there is sufficient information such that a reader of the accounts will not be misled. However, in line with auditing standards we are required to record this as an unadjusted audit difference and seek the Audit & Standards Committee agreement to management's decision not to make an amendment. A specific reference to this is made in the Letter of Representation. In respect of the Pension Fund the Council discloses the present value of retirement benefits through reproducing the actuary's statement in a note to the accounts (Option B). The Council has not requested a fully updated actuarial statement to reflect the potential impact upon the pension fund liability. However, it has increased disclosure to reflect the actuary's view that the impact, at £17.537m, would not be material to the overall present value of retirement of £3.2bn shown in Note 28. We are satisfied that there is sufficient information for a reader within the disclosure to understand the position.

Significant findings – key judgements and estimates (Council)

	Issue	Summary of management's policy	Auditor view	Assessment
1	Land and Buildings	Other land and buildings comprises specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged its Internal Valuer to complete the valuation of properties as at 31/03/19 on a cyclical basis however 100% of total assets were revalued during 2018/19. The valuation of properties valued by the valuer has resulted in a net surplus on revaluation of £58.2m.	We have • Undertaken an assessment of management's expert, • Reviewed the completeness and accuracy of the underlying information used to determine the estimate • Reviewed the impact of any changes to valuation method • Agreed the reasonableness of increase in estimate • Reviewed the adequacy of disclosure of estimate in the financial statements **Conclusion** We consider managements assessment of the valuation of land and buildings to be reasonable	Green

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

Significant findings – key judgements and estimates (Council)

Issue	Summary of management's policy	Auditor view	Assessment
2 **Net pension liability – £924.8m**	The Council's net pension liability at 31 March 2019 is £924.8m comprising the LGPS, unfunded defined benefit pension scheme obligations and the FFPS. The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.	We have • Undertaken an assessment of management's expert • Reviewed and assessed the actuary's roll forward approach taken, • Used an auditors expert (PWC) to assess the actuary and assumptions made by the actuary	Green

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.4% - 2.5%	Amber
Pension increase rate	2.5%	2.4% - 2.5%	Yellow
Salary growth	3.1%	Scheme and employer specific	Green
Life expectancy – Males currently aged 45 / 65	24.3/ 22.5	23.7 – 24.4/ 21.5 – 22.8	Yellow
Life expectancy – Females currently aged 45 / 65	26.7/ 24.7	26.2 – 26.9/ 24.1 – 25.1	Yellow

Reviewed

- the completeness and accuracy of the underlying information used to determine the estimate
- Impact of any changes to valuation method
- Reasonableness of the Council's share of pension assets.
- Reasonableness of increase/decrease in estimate
- Adequacy of disclosure of estimate in the financial statements

Conclusion

We consider managements assessment of the net defined liability to be reasonable

Assessment

- (Red) We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- (Amber) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- (Yellow) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- (Green) We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates (Pension Fund)

	Issue	Summary of management's policy	Auditor view	Assessment
1	**Level 3 and Level 2 investments**	The Pension Fund has investments classified as level 3 which are valued on the net asset statement as at 31 March 2019 at £211.2m. These investments are not traded on an open market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management use fund managers who value within industry accepted guidelines. In addition to this, the Pension Fund have investments classified as level 2 which are valued on the net asset statement as at 31 March 2019 at £1,395m. The investments are not traded on an open exchange and the valuation of the investment is subjective. In order to determine the value, management use valuation techniques based on observable inputs.	• The fund has a material balance of investments with significant unobservable inputs and also those with some observable inputs. The valuation of these investments is subject to varying degrees of estimation uncertainty. The Fund discloses the differing methods of valuation for these funds within the accounts. In each case the Fund choses to rely on the valuation provided by the fund manager. • Appropriateness of the underlying information used to determine the estimate is reasonable – we note a non-material difference in estimate between the fund/ custodian and the individual investment managers. See page 10 for further information • The methodology applied in calculating these estimates is consistent with peers and industry practice. • Disclosure of estimate in the financial statements is adequate	● **Green**

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

Significant findings - Going concern - Council

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 - Council

Management's assessment process	Auditor commentary
Management have assessed the Council as a going concern on the basis that: • There are no events, of which they are aware, that could cause sufficient material uncertainty to cast significant doubt on the Fund's ability to continue as a going concern. This extends but is not limited to at least twelve months from the reporting date. • The Authority are required by statute to produce an annual balanced budget, this is supplemented by the MTFP which currently covers the period to 30 March 2020 and is in the process of being updated to 2025 • The Authority, has a strong balance sheet as at 31 March 2019	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). Management's assessment has considered the applicable guidance relating to public sector bodies which presumes in local government is that the going concern assumption does apply unless there is specific evidence to the contrary. Management assessment has concluded that no material uncertainty in respect of going concern exists. In addition based on our own review of the Council, we are aware that the Council has set an "approved budget" for 2019/20 and has a longer term financial plan. As such we consider that the assessment undertaken by the Authority on going concern is a reasonable and valid one and there are no indications of material uncertainty.
Work performed	**Auditor commentary**
• Detailed audit work performed on management's assessment	• Our audit did not identify any events or conditions which may cast significant doubt on going concern assumption. • The reported position of the council at 31 March 2019 per the draft financial statements shows that they have total current assets of £441.7m compared to £144.6m current liabilities, £204.7m and £154.3m of total current assets are cash and short term investments respectively and are therefore highly liquid. • The borrowings of the council, while significant are entirely with PWLB and therefore low risk. • The council will remain a going concern throughout the life of the MTFP however there are funding gaps which must be met through the achievement of savings targets
Concluding comments	**Auditor commentary**
	• Overall, we are satisfied that the preparation of the financial statements using the going concern principal is reasonable • Based on the above comments, we anticipate being able to issue an unmodified opinion.

Significant findings - Going concern Pension Fund

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 - Council

Management's assessment process Management have assessed the Pension Fund as a going concern on the basis that: • There are no events, of which they are aware, that could cause sufficient material uncertainty to cast significant doubt on the Fund’s ability to continue as a going concern. This extends but is not limited to at least twelve months from the reporting date. • The Fund account has a strong asset balance at 31 March 2019	**Auditor commentary** 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). Management’s assessment has considered the applicable guidance relating to public sector bodies which presumes in local government is that the going concern assumption does apply unless there is specific evidence to the contrary. Management assessment has concluded that no material uncertainty in respect of going concern exists. The purpose of the review is to ensure that cash is available to meet liabilities as and when they fall due. The fund continues to have a positive net cash flow due to investment income and any downward cashflow trend is reversed by large employers contributions. As such we consider that the assessment undertaken by the Council on going concern is a reasonable and valid one and there are no indications of material uncertainty.
Work performed • Detailed audit work performed on management’s assessment	**Auditor commentary** • Our audit did not identify any events or conditions which may cast significant doubt on going concern assumption. • The Fund account has a strong asset balance of £2,165.7m and net return on investments of £141.9m is in excess of benefits paid by £57.1m.
Concluding comments	**Auditor commentary** • Overall, we are satisfied that the preparation of the financial statements using the going concern principal is reasonable • Based on the above comments, we anticipate being able to issue an unmodified opinion.

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 of both the Council and Pension Fund.

	Issue	Commentary
1	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit and Standards Committee. We have been made aware of three incidents in the period relating to the Council which are immaterial. No other issues have been identified during the course of our audit procedures
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed
3	**Matters in relation to laws and regulations**	• We have not been made aware of any incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	**Written representations**	• A letter of representation has been requested from the Council, and the Pension Fund which are included in the Audit and Standards Committee papers. We have requested specific disclosures in respect of management's decisions on how to disclose the potential impact of the McCloud judgment.
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to banks and investment bodies. This permission was granted and the requests were sent. All requests were returned with positive confirmation.
6	**Disclosures**	• Our review found no material omissions in the Councils and Pension Fund financial statements
7	**Audit evidence and explanations/significant difficulties**	• All information and explanations requested from management for the Council and the Pension Fund were provided.

Other responsibilities of the Council under the Code

	Issue	Commentary
1	**Other information**	We are required to give an opinion on whether the other information published together with the Councils audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix D
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until the 1st December 2019 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.
3	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold of £500m we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. Note that work is not yet completed, plans are in place to complete this work in August to meet the submission deadline of 13 September 2019
4	**Certification of the closure of the audit**	We are unable to certify the closure of the 2018/19 audit of Warwickshire County Council, this is due to outstanding consideration of an objection to the 2017-18 accounts, review of the pension fund annual report and completion of our WGA procedures.

Value for Money

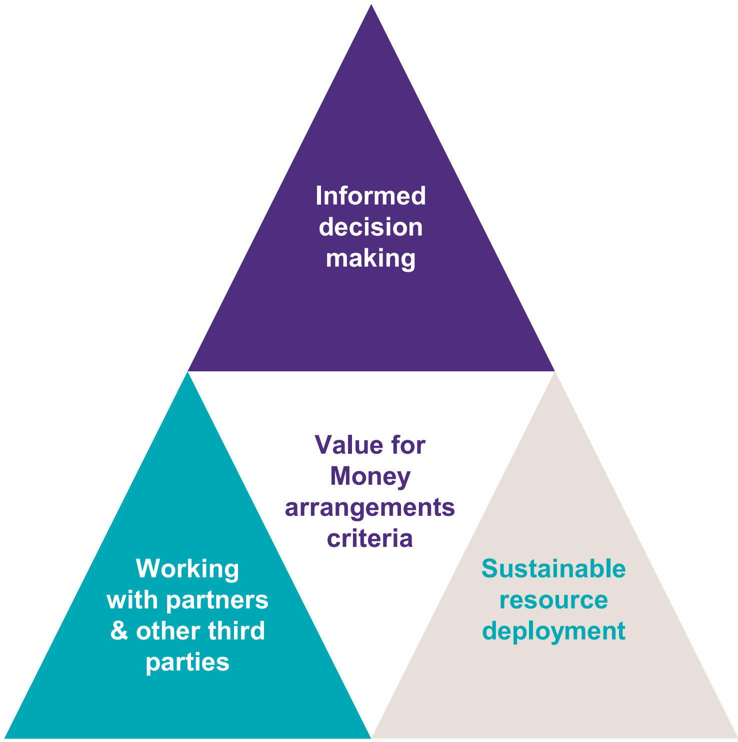
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in January/February 2019 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated March 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risk that we identified in the Council's arrangements in relation to financial sustainability and delivery of the medium term financial plan. In arriving at our conclusion, our main considerations were:

- Outturn in the period to planned budget
- Ability to set a balances budget for the 2019/20 financial period; and
- Plans for future following the end of the current One Organisational Plan

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on page 21.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix D.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
1 **Financial Sustainability** The Council are in the final year of their 'One Organisational Plan' and while they have a strong track record of delivering in year budgets and savings targets, this remains a significant risk in 2018/19 against the backdrop of a challenging Local Government landscape. This risk relates to the sub-criteria of Sustainable Resource Deployment.	In 2018/19: • 56% or 35 key business measures achieved target while 37% or 23 of these are behind target. • The reported underspend at 31 March 2019 is £14.213m equivalent to 2.89% of the council's annual revenue budget. This figure compares favourably to forecast underspend of £1.651m. • In regard to savings, the council delivered £1.3m in 2018/19 ahead of schedule • On an individual directorate level, overspends were identified, Cabinet has agreed that these will be funded from general reserves • Financial performance is reported to the Cabinet for monitoring and scrutiny on a quarterly basis The 2019/ 20 budget process: • The Council has set a balance budget of £298.377m for 2019/20. This includes savings to be generated of £14.221m. • The assumptions in the 2019/20 budget appear reasonable and in line with our expectation MTFP: • The Council have undertaken a significant amount of work in 2018/19 in relation to the transformation programme which will lay the foundations for the medium term outlook • We note that while resources continue to increase so do the cost pressures and rise in demand. This creates a cumulative £30m gap in the budget by 2025. • The proposition is that this will be met by savings over the lifetime of the MTFP of which a number of options have been put forward by directorates • The Council predict healthy cash balances during the period as loan repayments are made and borrowing decreases	**Auditor view** We are satisfied that overall the Council have adequate arrangements in place to ensure the ongoing financial sustainability of the organisation. This includes achievement of the 2018/19 financial plan and therefore demonstrating an ability to manage resources in order to meet targets set, as well as having the appropriate mechanisms in place to develop robust medium term strategies based on reasonable underlying assumptions. In addition to this, the financial position per the balance sheet of the council at 31/03/2019 is strong and compares favourably to peers in the sector and therefore gives further comfort over financial sustainability. We note the fact that the MTFP is underpinned by a number of assumptions and also includes the achievement of challenging savings targets. Although the Authority have a strong track record in this area, this remains a significant risk to overall financial sustainability in what are increasingly uncertain times. We will continue to monitor this going forward

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C

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. The following non-audit services were identified which were charged from the beginning of the financial year to the current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension return	5,200	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,250 in comparison to the total fee for the audit of £72,795 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
CFO Insights	10,000	Self-Interest (because this is a recurring fee)	A £30,000 for a three year subscription to CFO insights (£10,000 per year) was paid by the Council in 2018/19. This is a recurring fee and therefore a self interest threat exists. However, the level of this recurring fee taken on its own is not considered to be a significant threat to independence as the fee for this work in comparison to the total fee for the audit (£72,795) for the Council and in particular to Grant Thornton UK LLP overall turnover. Furthermore, the work relates to non-audit related services for which there is a fixed fee and no contingent element to the fee. These factors are deemed to adequately mitigate the perceived self interest threat to an acceptable level.

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

Follow up of prior year recommendations

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	**Internal financial reporting** We considered the Council's internal financial reporting and noted that committee reports report quarterly against the revised budget position, which is considered good practice. We noted the Council's introduction of monthly finance and performance dashboards, which include the original baseline budget, as an improvement to the clarity of reporting, and recommended that the Council should consider extending this to the revenue and capital reporting as part of its annual reporting process.	To aid transparency in reporting as part of the outturn report an appendix is now included reflecting the position against the baseline budget. The Council is at the beginning of its transformation programme and work will continue to ensure reporting evolves to meet the requirements of the Council as this progresses.

Assessment

✓ Action completed

X Not yet addressed

Audit Adjustments - Council

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 2019.

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1	**Adjustment to the firefighters pension scheme in respect of the McCloud judgement and GMP equalisation**	12,500	(12,500)	Nil
	Overall impact	**£12,500**	**(£12,500)**	**£Nil**

Impact of unadjusted misstatements

All unadjusted 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 2019.

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1	**Adjustment to the Local Government pension scheme in respect of the McCloud judgement and GMP equalisation**	8,797	(8,797)	Nil
	Overall impact	**£8,797**	**(£8,797)**	**£Nil**

Audit Adjustments – Council (continued)

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	Amendment	Adjusted?
Accounting policies	Reference to the use of the financial instrument revaluation reserve to offset volatility in assets held at FVPL was not included in the financial instruments accounting policy	✓
Accounting policies	Accounting policy for schools and schools assets did not include explanation of how these assets are derecognised in the accounts	✓
Prior period adjustment	The disclosure requirements per Code para 3.4.2.31 for a prior period adjustment were not fully met in the draft accounts	✓
Investment properties	The analysis of investments properties by fair value hierarchy incorrectly included a transfer of amounts to level 3 in the hierarchy. This should have been classified as level 2	✓
Pension fund – nature of assets table	The breakdown of assets by nature included in the pensions note did not agree to actuarial reports provided by Hymans Robertson	✓
Audit fees	The disclosure of fees payable to the external auditor was not split accordingly by amounts payable for audit services and amounts payable for non-audit services	✓
Contingent Liabilities	The contingent liabilities disclosure did not include reflection of potential liability in relation to the McCloud judgment and GMP equalisation	✓
Investment Properties	Analysis of fair value of investment properties included transfers in to level 3 (unobservable inputs) where this should have been level 2	✓
Financial instruments	The disclosure of financial assets and liabilities included some old terminology and narrative which was required to be enhanced	✓
Various	As a result of audit procedures performed, we have identified a number of minor changes to the disclosures within the financial statements	✓

Audit Adjustments – Pension Fund

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/ unadjusted misstatements

As a result of audit procedures undertaken, we have not identified any misstatement for adjustment for the year ending 31 March 2019.

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	Amendment	Adjusted?
Accounting policies	The accounting policies per the draft accounts did not include a policy for the pooling of investments arrangement with the Border to Coast Pension Partnership	✓
Significant judgment in applying accounting policies	The disclosure of significant judgments in applying accounting policies did not include a judgment in relation to the valuation of equity held in Border to Coast Pension Partnership	✓
Actuarial present value of promised retirement benefits	The disclosure of the actuarial present value of promised retirement benefits did not include allowance for the impact of the McCloud judgment and GMP equalisation	✓
Related party transactions – Key Management Personnel	The disclosure of key management personnel included in the draft accounts did not include the previous Head of Finance in their capacity as s151 officer despite being in post until January 2019	✓
Related party transactions – Key Management Personnel	The disclosure of Key Management Personnel employee benefits should be calculated on an IAS 19 basis rather than CETV per Code requirement reference 3.9.4.2. The principle is that these reflect in year cost recognised by the reporting entity. Management have determined not to adjust and we have requested a representation within the Letter of Representation on this matter.	X
Various	As a result of audit procedures performed, we have identified a number of minor changes to the disclosures within the financial statements	✓

Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit Fees

	Proposed fee	Final fee
Council Audit*	£72,795	£TBC
Pension Fund Audit**	£18,397	£TBC
Total audit fees (excluding VAT)	**£91,192**	**£TBC**

The fees reconcile to the financial statements.

* We are currently in discussion with officers in regard to the potential for fee variations based on the additional work undertaken in a number of areas driven by regulatory change that has been imposed since our initial fee tender, or other issues which arise on an ad-hoc basis such as McCloud and GMP Equalisation.

** We are required to undertake work for other auditors in respect of providing assurance on information used by actuaries when undertaking IAS 19 assurance to other auditors, we seek fee variations to meet the cost of this work which is estimated to be in the region of £500-£750 per letter, subject to consultation with PSAA.

Non Audit Fees

Fees for other services	Fees £'000
Audit related services: • Certification of Teachers Pension Return	5,200
Non-audit services: • CFO Insights	10,000
	£15,200

Audit opinion – Warwickshire County Council

We anticipate we will provide the Council with an unmodified audit report

Independent auditor's report to the members of Warwickshire County Council
Report on the Audit of the Financial Statements
Opinion
We have audited the financial statements of Warwickshire County Council (the 'Authority') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and notes to the financial statements, including the statement of accounting policies, and include the firefighters' pension fund financial statements comprising the Fund Account, the Firefighters' Pension Fund Net Assets Statement and notes to Firefighters' Pension Fund Statements 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 position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- 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 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 Strategic Director of Resources use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Strategic Director of Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information
The Strategic Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement, other than the financial statements and our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority 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 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.

Other information we are required to report on by exception under the Code of Audit Practice
Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice
In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Audit opinion – Warwickshire County Council (continued)

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 Strategic Director Resources and Those Charged with Governance for the financial statements
As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 8, 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 Strategic Director of Resources. The Strategic Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the 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 Strategic Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Strategic Director of Resources is responsible for assessing the Authority'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 Authority will no longer be provided.

The Audit & Standards 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 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.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources
Conclusion
On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Responsibilities of the Authority
The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources
We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Audit opinion – Warwickshire County Council (continued)

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit
We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2019. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2019. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2019 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of an objection brought to our attention by a local authority elector under Section 27 of the Local Audit and Accountability Act 2014. We are satisfied that this matter does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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.

Grant Patterson, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

26 July 2019

Audit opinion – Warwickshire Pension Fund

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

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

Opinion

We have audited the financial statements of Warwickshire Pension Fund (the 'pension fund') administered by Warwickshire County Council (the 'Authority') for the year ended 31 March 2019 which comprise the Warwickshire Pension Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 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 Strategic Director of Resources use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Strategic Director of Resources 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 Strategic Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement, 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 Narrative Report and the Annual Governance Statement 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

Audit opinion Warwickshire Pension Fund continued

- 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 Strategic Director of Resources and Those Charged with Governance for the financial statements
As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 6, 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 Strategic Director of Resources. The Strategic Director of Resources 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 Strategic Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund's financial statements, the Strategic Director of Resources 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 & Standards 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.

Grant Patterson, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor
Birmingham
26 July 2019

Grant Thornton

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