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Informing the audit risk assessment for Warwickshire Pension Fund 2019/20

Grant Patterson
Director
T 0121 232 5296
E Grant.B.Patterson@uk.gt.com

James McLarnon
Manager
T 0121 232 5219
E James.A.Mclarnon@uk.gt.com



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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Warwickshire County Council and Pension Fund's external auditors and Warwickshire County Council and Pension Fund's Audit & Standards Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit & Standards Committee under auditing standards.

Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Audit & Standards Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Audit & Standards Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit & Standards Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit & Standards Committee and supports the Audit & Standards Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit & Standards Committee's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Going Concern,
- Related Parties, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Warwickshire County Council and Pension Fund's management. The Audit & Standards Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?</p>	<p>Cost transparency will play a key part this year. Ensuring users of our accounts have clear and transparent information.</p> <p>Border to Coast Pension Partnership - the fund has transitioned further assets to the pool this year.</p> <p>Covid-19 - its impact on asset values and the difficulty in determining it's impact on some types of asset class.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Warwickshire Pension Fund?</p> <p>Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>Yes, we consider the accounting policies appropriate.</p> <p>No.</p>
<p>3. Is there any use of financial instruments, including derivatives?</p>	<p>Financial Instruments form part of the Pension Fund's investments. The nature of these are determined by the Fund Managers and Custodian.</p>
<p>4. Is Are you aware of any significant transaction outside the normal course of business?</p>	<p>Fund launches and transitions in respect of Border to Coast Pension Partnership.</p>

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	The only non-current assets are investments. The value of investments fluctuate by their nature.
6. Are you aware of any guarantee contracts?	Fund Managers may use financial instruments.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	None
8. Other than in house solicitors, can you provide details of those solicitors utilised by Warwickshire Pension Fund during the year. Please indicate where they are working on open litigation or contingencies from prior years?	External solicitors were used to provide advice on a potential early payment of pension fund contributions in 2020/21.
9. Have any of Warwickshire Pension Fund's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Mercers have provided some work regarding potential early employer pension fund contribution prepayments in 2020/21 .

Fraud

Issue

Matters in relation to fraud

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit & Standards Committee and management. Management, with the oversight of the Audit & Standards Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit & Standards Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Warwickshire County Council and Pension Fund's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit & Standards Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit & Standards Committee oversees the above processes. We are also required to make inquiries of both management and the Audit & Standards Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Warwickshire County Council and Pension Fund's management.

Fraud risk assessment

Question	Management response
<p>1. Have Warwickshire Pension Fund assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do Warwickshire Pension Fund's risk management processes link to financial reporting?</p>	<p>The pension fund produces a statement of accounts following accounting policies designed to ensure fair and consistent reporting of the financial position.</p> <p>Internal Audit Reviews will pick up risks concerning fraud, which provide assurance on the internal controls and systems which are used to deliver the accounts.</p> <p>The Pension Fund Investment Sub Committee sign off a risk register and business plan annually.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>A key risk is fund manager fraudulent activity. A key control around this is using Hymans Robertson as a consultant as they report on any identified issues (e.g. email alerts) and maintain a buy/sell list. Hymans Robertson have not reported any significant risks within the fund managers used.</p> <p>Risk are also mitigated through the use of an external custodian which creates a strong division of duties and means a high degree of collusion would be required to action and conceal any fraudulent activity.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Warwickshire Pension Fund as a whole or within specific departments since 1 April 2019?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Breaches of the law in respect of pensions administration activity. These are reported to the Local Pension Board, and where appropriate to the Pensions Regulator.</p> <p>Through reports taken to the Pension Fund Investment Sub Committee and the Local Pension Board (such as the risk register), and the Audit and Standards Committee (internal audit reports).</p>

Fraud risk assessment

Question	Management response
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Warwickshire Pension Fund where fraud is more likely to occur?</p>	<p>No</p> <p>The Pension Fund maintains a risk register.</p> <p>No</p>
<p>5. What processes do Warwickshire Pension Fund have in place to identify and respond to risks of fraud?</p>	<p>Policies and procedures are published on the Intranet covering theft and fraud and the process staff should follow if they suspect anything. These procedures also state the escalation procedure if required.</p>
<p>6. How would you assess the overall control environment for Warwickshire Pension Fund, including: the process for reviewing the effectiveness the system of internal control; internal controls, including segregation of duties; exist and work effectively?</p> <p>If not where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>Controls mirror the County Council - assurance is supported through Internal Audit reviews.</p> <p>Internal Audit have/will have carried out 4 audits in 2019/20. These covered 2 Pensions Administration audits and 2 Investment Management audits (focused on pooling).</p> <p>Risks are reported to the Pension Investments Sub Committee.</p> <p>Governance matters are reported to the Local Pension Board including the reporting of internal audit activity and findings.</p> <p>External Audit provide an Annual Audit Letter to the Committee highlighting any areas of concern and recommendations following the annual audit of accounts.</p> <p>None</p>

Fraud risk assessment

Question	Management response
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>Potential for misreporting is mitigated by processes and robust controls in place. The following groups report based on industry standards adopted:</p> <ul style="list-style-type: none"> • Managers – report based on guidelines • Custodian controls • Accounting protocols <p>Furthermore the pension fund investment sub committee has 2 Independent Investment Advisers and this mitigates any potential misreporting.</p>
<p>8. How do Warwickshire Pension Fund communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>This is communicated through the policies and procedures published on the Intranet.</p> <p>The Council's Core behaviours encourage staff to report any fraudulent/otherwise unacceptable Behaviour. The values and behaviours includes being trustworthy, accountable, help people and communities to find their own solutions, and being high performing and customer focused.</p> <p>Council has a fraud response plan where staff can report any suspected or discovered fraud.</p> <p>Staff can raise any concerns and business practice and ethical behaviour can be reinforced.</p> <p>No</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Pension Fund Officers within Investment team.</p> <p>A signatory protocol is in place that ensured division of duties, and periodic internal audit assignments review the application of controls and their effectiveness.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud</p>	<p>No</p> <p>These risks are mitigated by robust procurement procedures. There is an employee code of conduct</p>

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit & Standards Committee?</p> <p>How does the Audit & Standards Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>Policies and procedures are published on the Intranet and these procedures also state the escalation procedure if required.</p> <p>The council has a Whistleblowing policy which is intended to promote a culture of openness and transparency.</p> <p>Oversight is exercised through Internal Audit assignments and the Local Pension Board.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>No</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No reports have been made of this nature.</p>

Law and regulations

Issue

Matters in relation to laws and regulations

ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit & Standards Committee, is responsible for ensuring that Warwickshire County Council and Pension Fund's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit & Standards Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Warwickshire Pension Fund have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to Warwickshire Pension Fund's regulatory environment that may have a significant impact on Warwickshire County Council and Pension Fund's financial statements?</p>	<p>The Monitoring Officer and the S151 officer provides assurance that laws and regulations have been complied with. Furthermore our advisers provide assurance and we also commission specialist advice where required.</p> <p>A Pension Fund governance review has been carried out and reported to Local Pension Board in 2019 comparing practice with Pension Regulator requirements. An action plan is in place and is being progressed.</p> <p>No</p>
<p>2. How is the Audit & Standards Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Through a risk based programme of internal audit work.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?</p>	<p>No</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>The national McCloud issue.</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does Warwickshire Pension Fund have in place to identify, evaluate and account for litigation or claims?	The Pension Fund have the support of an internal legal team within the Administrating Authority, and the option to commission external specialist legal opinion, advice, and support where necessary.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	None noted.

Going Concern

Issue

Matters in relation to going concern

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Question	Management response
<p>1. Has the management team carried out an assessment of the going concern basis for preparing the financial statements for Warwickshire Pension Fund? What was the outcome of that assessment?</p>	<p>A triennial valuation is carried out by the fund actuaries every three years to determine the funding position of the fund and to calculate the contributions required by employers to establish a fully funded position.</p> <p>Reports are presented to the Pension Fund Investment Sub Committee every quarter to report the financial position of the fund.</p> <p>The funding position improved significantly from 2016 to 2019. Since the valuation figures were finalised Covid-19 has since then had an impact but the current long term investment strategy is deemed to remain appropriate and in the short term operational and investment related cashflow requirements have been reviewed and are being met.</p>
<p>2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with Warwickshire Pension Fund's Business Plan and the financial information provided to Warwickshire Pension Fund throughout the year?</p>	<p>Yes</p>

Going concern considerations

Question	Management response
<p>3. Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?</p>	<p>All policies and changes to them are reported to the either the Local Pension Board, Pension Fund Investments Sub Committee or Staff and Pension Committee.</p> <p>The business plan is a high level document that does not detail all the statutory and policy issues.</p> <p>The Funding Strategy Statement and Investment Strategy Statement have regard to the relevant statutes and policies.</p>
<p>4. Have there been any significant issues raised with the Audit & Standards Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).</p>	<p>Internal Audit reports for both Pension Administration and Pension Investment teams provided limited assurance opinions. A second audit in both the administration and investment areas will provide further insight.</p>
<p>5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?</p>	<p>A triennial valuation is carried out by the fund actuaries every three years to determine the funding position of the fund and to calculate the contributions required by employers to establish a fully funded position.</p> <p>Reports are presented to the Pension Fund Investment Sub Committee every quarter to assure the fund continues as a going concern.</p> <p>The fund is forecast to experience negative cashflow from contributing employers at a point in the future and this will be managed within the funds cash balances. The fund commissioned a strategic cashflow review from its adviser.</p>

Going concern considerations

Question	Management response
<p>6. Does Warwickshire Pension Fund have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of Warwickshire County Council and Pension Fund's objectives? If not, what action is being taken to obtain those skills?</p>	<p>A recent restructure has increased the capacity within the pension fund administration team and investment team.</p> <p>The effectiveness of this will be reviewed over time.</p>
<p>7. Does Warwickshire Pension Fund have procedures in place to assess their ability to continue as a going concern?</p>	<p>Yes – the triennial valuation and regular monitoring of investments and operations.</p>
<p>8. Is management aware of the existence of events or conditions that may cast doubt on Warwickshire Pension Fund's ability to continue as a going concern?</p>	<p>No.</p>

Going concern considerations

Question	Management response
<p>9. Are arrangements in place to report the going concern assessment to the Audit & Standards Committee ? How has the Audit & Standards Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?</p>	<p>The annual accounts are presented on a going concern basis and are reported to Audit and Standards in draft form.</p> <p>The external audit report provides some assurance over the going concern basis as does the internal audit programme of work.</p>

Related Parties

Issue

Matters in relation to Related Parties

Local Authorities are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the authority (i.e. subsidiaries);
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the authority;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from Warwickshire County Council and Pension Fund's perspective but material from a related party viewpoint then Warwickshire County Council and Pension Fund must disclose it.

ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Relating Parties

Question	Management response
1. What controls does Warwickshire Pension Fund have in place to identify, account for and disclose related party transactions and relationships ?	Key officers complete a disclosure form detailing their interests.

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

Local Authorities apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how Warwickshire County Council and Pension Fund identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that Warwickshire County Council and Pension Fund is using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

We would ask the Audit & Standards Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates

Question	Management response
1. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	Covid-19 and the impact it has had on financial asset volatility is a circumstance that the accounts need to deal with however the accounting estimates and judgements made are considered reasonable.
2. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes, we consider them reasonable.
3. How is the Audit & Standards Committee provided with assurance that the arrangements for accounting estimates are adequate ?	The accounting policies and notes included in the Statement of Accounts provide transparency. External Audit provide assurance

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property plant & equipment valuations	See County Council				
Estimated remaining useful lives of PPE	See County Council				

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and Amortisation	See County Council				
Impairments	See County Council				
Measurement of Financial Instruments	The values of investments are determined at fair value.	Investment team/Custodian	Custodian Fund Managers		No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	See County Council				
Bad Debt Provision	See County Council				

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	We use standard accruals accounting – accruals are based on expenses incurred that have not yet been paid.	Monthly review of ledger and financial systems to identify goods/services received but not paid for.	No	N/A	No.
Non Adjusting events – events after the balance sheet date	Monthly management accounts prepared would flag any adjusting/non-adjusting events.	See left	N/A	N/A	N/A

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension Fund (LGPS) Actuarial gains/losses	The actuarial gains and losses figures are calculated by the actuarial expert Hymans.	The Authority is the administering body.	The Authority are provided with an actuarial report by Hymans (LGPS).	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No.
Private Equity/Infrastructure/ Private Debt	Private Equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The custodian applies a roll-forward valuation based on the 31st December 2019 statements. This is compared to the year-end statement.	Custodian/Fund Manager	Multiple	No



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