



The Audit Findings for Warwickshire Pension Fund

Year ended 31 March 2020

27 October 2020



Contents



Your key Grant Thornton
team members are:

Grant Patterson

Key Audit Partner

T: 0121 232 5296

E: grant.b.patterson@uk.gt.com

Jim McLarnon

Manager

T: 0121 232 5219

E: james.a.mclarnon@uk.gt.com

Lena Grant-Pearce

Assistant Manager

T: 0121 232 5397

E: ellena.grant-pearce@uk.gt.com

Section

| | Page |
|----------------------------|------|
| 1. Headlines | 3 |
| 2. Financial statements | 4 |
| 3. Independence and ethics | 13 |

Appendices

- A. Audit adjustments
- B. Fees
- C. Audit Opinion
- D. Management Letter of Representation

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

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

Headlines

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 2020 for those charged with governance.

| | | |
|------------------------------------|---|---|
| <p>Covid-19</p> | <p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Pension Fund.</p> <p>The Fund have had to contend with risks in relation to the possibility of delayed contributions, volatile returns on investments, disruptions to administration of the Fund and prioritising the health and safety of staff and members.</p> <p>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020</p> | <p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 27 April 2020 and presented this to the Audit & Standards Committee on 20 July 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19. Further detail is set out on page 5.</p> <p>Restrictions for non-essential travel has meant both Pension Fund and audit staff have had to adapt to new remote access working arrangements. This has been driven primarily by the use of technology and regular communication between the teams. We have both utilised video calling, screen sharing and other means to the fullest of our ability in order to carry out audit procedures and verify the completeness and accuracy of information.</p> <p>The draft financial statements were published and provided to the audit team on 26 June 2020 and the audit has been conducted on a remote basis. Fortunately, both the audit team and Council finance team have avoided any significant challenges through staff illness and lack of availability.</p> |
| <p>Financial Statements</p> | <p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements:</p> <ul style="list-style-type: none"> • give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. | <p>Our audit work has been completed remotely during July and August and continues into September. Our findings are summarised on pages 4 to 12. We have identified no adjustments to the financial statements that have resulted in an adjustment to the Pension Fund's reported financial position in the draft financial statements. Other audit adjustments are detailed in Appendix A.</p> <p>Our work is complete and there are no matters of which we are aware that would require modification of our audit opinion in Appendix C or material changes to the financial statements.</p> <p>Our anticipated audit report opinion will be unqualified but we are proposing the inclusion of an Emphasis of Matter paragraph highlighting the valuation material uncertainty disclosures associated with the Fund's two pooled property funds as a result of Covid-19. This would not affect our opinion that the statements give a true and fair view of the Fund's financial position and its income and expenditure for the year. Such a paragraph is added to indicate a matter which is disclosed appropriately in the Fund's financial statements but which we consider is fundamental to a readers' understanding of the financial statements.</p> |

Acknowledgements

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

Audit approach

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have had to alter our audit plan, as communicated to you on 20 July 2020, to reflect our response to the Covid-19 pandemic. This included obtaining an understanding of the impact of the pandemic on the organisation and considering how this manifests in the financial statements for the period. In particular, we have increased focus on asset valuations, use of the going concern assumption, classification of assets in the fair value hierarchy and narrative disclosure.

Conclusion

We have completed our audit of your financial statements and we anticipate issuing an unqualified audit opinion, as detailed in Appendix C.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan.

| | Pension Fund Amount (£) | Factors considered |
|--|-------------------------|---|
| Materiality for the financial statements | £20m | We determined materiality for the audit to be 1% of prior year net assets. This benchmark is considered the most appropriate based on the nature of the Pension Fund. |
| Performance materiality | £15m | Performance materiality drives the extent of our testing and this was set at 75% of financial statement materiality. Our consideration of performance materiality is based upon a number of factors: <ul style="list-style-type: none"> • We are not aware of a history of deficiencies in the control environment. • There has not historically been a large number or significant misstatements arising; and • Senior management and key reporting personnel has remained stable from the prior year audit |
| Trivial matters | £1m | Triviality is the threshold at which we will communicate misstatements to the Audit & Standards Committee. |

Significant audit risks

Risks identified in our Audit Plan

Covid-19

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

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

Auditor commentary

We worked with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations which ultimately remained the same.

We liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose

We have:

- Evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic.
- Evaluated whether sufficient audit evidence could be obtained in the absence of physical verification of assets through remote technology
- Evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations
- Evaluated management's assumptions that underpin the revised MTFS and the impact on management's going concern assessment

Our audit work has not identified any specific issues in respect of Covid-19. However, as noted on page 9 we are proposing the inclusion of an Emphasis of Matter paragraph highlighting the valuation material uncertainty disclosures associated with the Fund's two pooled property funds as a result of Covid-19. Our opinion is not modified in this respect.

Significant audit risks

Risks identified in our Audit Plan

The revenue cycle includes fraudulent transactions (rebutted)

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including Warwickshire Pension Fund, mean that all forms of fraud are seen as unacceptable

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 Fund faces external scrutiny of its spending and stewardship of funds 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, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

We have not altered our assessment as reported in the audit plan and therefore have no issues to report in 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.

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
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our audit work has not identified any issues in respect of management override of controls

Significant audit risks

Risks identified in our Audit Plan

Valuation of Level 3 Investments (Annual revaluation)

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

By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.

Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2020.

We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

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
- independently requested year-end confirmations from investment managers and the custodian
- for all level 3 investment, 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 2020 with reference to known movements in the intervening period
- we have evaluated the competence, capabilities and objectivity of the valuation expert in addition to the assurance gained from the audited accounts of the investment fund, and
- reviewed investment manager service auditor report on design effectiveness of internal controls.

Apart from the matter below, no other issues have been identified.

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

- Alcentra (Private Debt): The valuation received from the Fund Manager is £29.5m the custodian figure is £29.9m which is a difference of £0.4m.
- Standard Life Capital (Infrastructure): The valuation received from the Fund Manager is £22.9m the custodian figure is £22.3m which is a difference of £0.6m.
- Partners Group (infrastructure): The valuation received from the Fund Manager is £40.4m the custodian figure is £41.9m which is a difference of £1.5m.
- HarbourVest (Private Equity) - The Fund Manager confirmation figure is in USD and EUROS - The figure included by the Custodian is £119.8m. Our review of the independent Fund Manager confirmation and applying exchange rates provides an estimate of £126.3m. The difference between these figures is £6.5m


Taking these four differences together shows that the management estimate of investment values at year end is £5.2m less than more recently updated information. There are also differences on some Level 1 and Level 2 investments where the management estimate of investment values at year end is £1m more than more recently updated information. The net position is therefore £4.2m less than recently updated information. Given that our headline materiality is £20m, we are comfortable that these differences do not present of a risk of material misstatement of the fair value of your investments. Management has determined not to adjust for these. The differences referenced above do not indicate any weakness in management's arrangements for estimating investment values at year end.

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 |
|--|---|---|
| <p>McCloud</p> <p>In July 2020, The Ministry of Housing, Communities & Local Government (MHCLG) published its consultation on reforms to public sector pension schemes, this included the proposed remedy to address the discrimination caused by previous protections offered for those closer to retirement age.</p> | <p>We have discussed the potential impact of the McCloud remedy with management in consultation with management's expert, Hymans Robertson LLP.</p> <p>An allowance for McCloud has already been included in the IAS 26 valuation as at 31 March 2020 and management have demonstrated that when compared to the potential restitution put forward in the consultation, the difference would be immaterial at £3m.</p> <p>Management have proposed therefore that no adjustment is made to the financial statements however disclosure will be included to highlight the matter to readers of the accounts.</p> | <p>We are comfortable with the approach management have adopted and agree that additional disclosure will aid transparency.</p> <p>The consultation is expected to close in October 2020 and the outcome of this will be confirmed subsequent, as such based on our understanding and the evidence provided, we are satisfied that the impact of this will not be material to the financial statements.</p> |
| <p>Goodwin</p> <p>In addition to the above, the Goodwin case also examines alleged discrimination in the Teachers' Pension Scheme and we are aware that the Government Actuary Department (GAD) have been commissioned to prepare a report which considers this at a national level. The NAO are seeking clearance from MHCLG for this report to be shared.</p> | <p>As above, management are satisfied that the potential impact of Goodwin is immaterial to the valuation of the Fund as at 31 March 2020 as it is expected to be 0.1% to 0.2% of total liabilities (approximately £5m) however it is too early to understand the remedy. This has been supported by the actuary who concur with this view.</p> <p>Management have proposed therefore that no adjustment is made to the financial statements however disclosure will be included to highlight the matter to readers of the accounts.</p> | <p>The Tribunal decision was on 30 June and Chief Secretary to the Secretary's Statement was on 20 July (link). As these clarify the legal position our view is that the event is potentially an adjusting post balance sheet event.</p> <p>Management are not proposing to amend the accounts further. We are satisfied that additional disclosure will aid transparency and through our audit work we have obtained sufficient assurance that the increased liability will not be material to the financial statements.</p> |
| <p>Technical review</p> <p>The technical review process is a key element of our quality and risk management procedures and clients within the review population such as the Pension Fund are subject to review every three years on a rotational basis.</p> | <p>As a result of the review undertaken in 2019/20, we identified no fundamental issues in the draft financial statements. The matters identified have been discussed with management and where appropriate, the necessary amendments to the financial statements have been processed.</p> | <p>We are satisfied that management have responded accordingly to findings of the technical review.</p> |


Significant findings – key estimates and judgements

| Accounting area | Summary of management's policy | Auditor commentary | Assessment |
|----------------------------|--|--|---|
| Level 2 investments | <p>The Pension Fund investments in level 2 are totalled on the balance sheet as at 31 March 2020 at £1,582.4m. The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management has employed a custodian and expert fund managers who have the necessary experience and technical expertise to ensure the correct valuation of these investments in the year end accounts. The fund are also supported by investment advisors who are independent from the fund managers who can advise on the performance of this type of investments. The performance of these investments are scrutinised by the pension committee. The value of the investment has increased by £188.2m, and in total Level 2 investments now make up 78% of the fund.</p> | <p>The fund has a material balance of investments 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 chooses to rely on the valuation provided by the fund manager.</p> <p>Similar to our approach for level 3 investments, we have;</p> <ul style="list-style-type: none"> Assessed management's expert, reviewing their competence, expertise and objectivity where appropriate, Considered the valuation techniques used against industry practice – concluding the methodology applied in calculating these estimates is consistent with peers and industry practice Satisfied ourselves in respect of the appropriateness of the underlying information used to determine the estimate is reasonable and based on the best information available to management Reviewed the adequacy of disclosure of estimate in the financial statements and consider it adequate <p>It should be noted however that a material valuation uncertainty has been included in the valuation of two level 2 investments in pooled property funds (Schroders and Threadneedle) with a combined value of £217.4m at 31 March 2020. This has been disclosed in Note 5: <i>Assumptions made about the future and other major sources of estimation uncertainty</i>. These funds make up 11% of the Fund and we are therefore proposing an Emphasis of Matter paragraph highlighting the valuation material uncertainty disclosures as a result of Covid-19. This would not affect our opinion that the statements give a true and fair view of the Fund's financial position and its income and expenditure for the year. Such a paragraph is added to indicate a matter which is disclosed appropriately in the Fund's financial statements but which we consider is fundamental to a readers' understanding of the financial statements.</p> |  Green |

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 estimates and judgements

| Accounting area | Summary of management's policy | Auditor commentary | Assessment |
|----------------------------|---|---|---|
| Level 3 investments | The Pension Fund has investments in infrastructure, Private Debt and unquoted equity investments that in total are valued on the balance sheet as at 31 March 2020 at £271.1m. These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management has employed expert fund managers who have the necessary experience and technical expertise to ensure the correct valuation of these investments in the year end accounts. The fund are also supported by investment advisors who are independent from the fund managers who can advise on the performance of this type of investments. The performance of these investments are scrutinised by the pension committee. The value of the investment has increased by £60.5m, however level 3 investments still only account for 13% of the fund. | <p>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 chooses to rely on the valuation provided by the fund manager.</p> <p>As outlined in our testing of the valuation of level 3 investments we have:</p> <ul style="list-style-type: none"> Assessed management's expert, reviewing their competence, expertise and objectivity where appropriate, Considered the valuation techniques used against industry practice – concluding the methodology applied in calculating these estimates is consistent with peers and industry practice Satisfied ourselves in respect of the appropriateness of the underlying information used to determine the estimate is reasonable and based on the best information available to management Reviewed the adequacy of disclosure of estimate in the financial statements and consider it adequate |  Green |

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 – going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management's assessment process

Management have assessed the 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 balance as at 31 March 2020 and at the last formal valuation was 92% funded
- A detailed investment and funding strategy are in place
- A cashflow management strategy has been outlined to ensure the Fund remains solvent

Auditor commentary

Whilst the Fund's financial statements are prepared in accordance with CIPFA's Code of Local Authority Accounting the PRAG Pension SORP provides a helpful additional guidance for defined benefit schemes in noting that even where a scheme is significantly underfunded it should continue to be treated as a going concern for accounting purposes unless a decision has been made to wind up the scheme. As noted the Scheme is currently 92% funded and has sufficient funds to continue meeting benefit payments for the medium to long term. In respect of any such decision for wind up the LGPS is a statutory scheme that can only be wound up by Government and there are currently no intentions to wind up the Warwickshire Pension Fund.

Work performed

We have reviewed management's assessment of the going concern assumption and basis of preparation of the financial statements

We have reviewed management's assessment and note the following key findings:

- Cash flow continues to be monitored on a daily basis and per Q1 2020/21 performance management reporting, operational outflows are balanced by inflows of contributions and other income. The value of the fund also shows signs of recovery following a dip experiences when the market was under significant stress due to Covid-19.
- The actuary Hymans Robertson, who act as management's expert, have developed a comprehensive cash flow management strategy based around scenarios whereby District Councils either do or don't make early pension contributions prepayments. In all scenarios, there is potential for negative cash flows and this is a matter of timing dependent on whether contributions are paid monthly or upfront.
- While this is not necessarily indicative of a going concern issue, the Pension Fund should act on the various mechanisms put forward by the actuary to ensure cash buffers remain consistent and additional income is generated where possible with the contributions received and investments held.
- A thorough understanding of liquidity and hence the ability to realise investments will ensure help ensure solvency and avoid the need to make forced sales of assets

Concluding comments

- Overall, we are satisfied that the preparation of the financial statements using the going concern principal is reasonable and sufficient disclosure has been made in the financial statements of this, no additional disclosures have been required as a result of Covid-19
- Based on the above comments, we anticipate being able to issue an unmodified opinion.

Other matters for communication

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

| Issue | Auditor commentary |
|---|--|
| Matters in relation to fraud | We have previously discussed the risk of fraud with the Audit & Standards Committee. We have not been made aware of any material incidents in the period and no other issues have been identified during the course of our audit procedures. |
| Matters in relation to related parties | We are not aware of any related parties or related party transactions which have not been disclosed. |
| Matters in relation to laws and regulations | You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. |
| Written representations | A letter of representation has been requested from the Pension Fund, which is appended. A letter of representation has been requested from the Council, which is appended. We have requested specific representations in respect of the 'material valuation uncertainty' disclosures (referred to on page 9) and management's proposals not to make adjustments for the matters reported on pages 7, 8 and 16. |
| Confirmation requests from third parties | We requested from management permission to send confirmation requests to bodies with which the Pension Fund hold cash and cash equivalent balances and investments. This permission was granted and the requests were sent, of these requests all were returned with positive confirmation. |
| Disclosures | Our review found no material omissions in the financial statements, we have made a number of proposed amendments to disclosures in the financial statements which are detailed in the appendix A. |
| Audit evidence and explanations/significant difficulties | All information and explanations requested from management was provided. |
| Matters on which we report by exception | We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Funds Annual Report on 13 October 2020. |

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

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

Details of fees charged are detailed in Appendix B

Independence and ethics

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following non-audit services were identified which were charged from the beginning of the financial year to 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 | | | |
| Provision of IAS 19 Assurances to Scheme Employer auditors | 7,000 | Self Interest | This is a recurring fee and therefore poses a potential self-interest threat. However, the level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work of £7,000, in comparison to the total fee for the audit of £22,647 and in particular to GTUK's turnover overall. Further, the work is on audit related services. 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. |
| | | Self review | We have not prepared the financial information on which our assurances will be used by the requesting auditor to form an opinion on as part of their opinion on the financial statements of the admitted body. Any decisions relating to changing controls over financial information or edits required to financial information arising from our findings will be a decision made by informed management. |
| | | Management | <p>The scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow.</p> <p>We may make recommendations to the Pension Fund in respect of control weaknesses, in the same way as we would in an audit of financial statements. The Pension Fund has officers in place who understand the operation of systems and can challenge our recommendations as appropriate. They have sufficient authority or report to the s151 Officer who can make informed decisions in respect of our findings.</p> |

These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Standards Committee. None of the services provided are subject to contingent fees.

Appendix A

Audit adjustments

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

Impact of adjusted/ unadjusted misstatements

As a result of audit procedures undertaken, we have not identified any misstatement for adjustment for the year ending 31 March 2020. As a result of audit procedures performed, we have not identified any adjusted misstatements in the accounts. As noted on pages 7 and 9 management have considered the impact of the proposed McCloud restitution and Goodwin judgment upon the Fund's pension liability and the differences in asset valuations as the result of more recent updated information being available and have determined not to adjust for these matters as they are immaterial to the results of the Fund's financial position at the year-end.

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 area | Auditor recommendations | Adjusted? |
|--|--|-----------|
| Events after the reporting date | A non-adjusting post balance sheet event should be included in relation to the restructure of share capital in the Border to Coast Pension Partnership Limited. Following discussions with management it was agreed that non-adjusting post balance sheet events should be enhanced in respect of the impact of Covid-19. | ✓ |
| Border to Coast | As B2C constitutes a joint venture of the Pension Fund, disclosure in the accounts should include the nature of and changes in the risks associated with its interest in B2C in line with IFRS 12. | ✓ |
| Key management personnel remuneration | Key management personnel remuneration disclosure should be updated to include the short term employee benefits of the Strategic Director for Resources and Assistant Director of Finance. | ✓ |
| Contractual Commitments | <p>Review of working papers to support the calculation of contractual commitments at 31 March 2020 identified minor errors in exchange rate applied and figures picked up. The difference between the amount disclosed of £302.6m and actual commitments is £1.8m.</p> <p>Management response</p> <p>Amount is immaterial therefore no adjustment to disclosure proposed.</p> | X |
| Net Assets Statement | A disclosure outlining how the fund account for pension fund liabilities should be included below the net assets statement in line with the CIPFA model accounts. | ✓ |
| Critical judgments in applying accounting policies | <p>The judgment made by the Pension Fund in relation to unquoted PE investments was not clearly articulated in the draft disclosure.</p> <p>Judgment in relation to McCloud should be revised to ensure consistency with note 28 of the accounts</p> | ✓ |
| Nature and extent of risks arising from financial instruments | Sensitivity analysis should be included in relation to interest rate risk in line with other risk disclosures and requirements of the Code. | ✓ |
| Actuarial present value of promised retirement benefits | The net liability figure as at 31 March 2020 was missing from draft disclosure. | ✓ |

Appendix B

Fees

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

| Audit fees | Proposed fee | Final fee |
|---|---------------------|------------------|
| Pension Fund | £22,647 | £22,647 |
| Total audit fees (excluding VAT) | £22,647 | £22,647 |

| Non-audit fees for other services | Proposed fee | Final fee |
|--|---------------------|------------------|
| Provision of IAS 19 Assurances to Scheme Employer auditors | £7,000 | £7,000 |
| Total non- audit fees (excluding VAT) | £7,000 | £7,000 |

The fees reconcile to Note 14 of the financial statements through the following reconciling items:

- **Fees per the financial statements - £18,397**
- Audit fee variation 2019/20 - £4,250
- Non-audit fees - £7,000
- **Total fees per above - £29,647**

Audit opinion

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 2020 which comprise the Warwickshire Pension Fund Account, the Net Assets Statement and notes to the Warwickshire Pension Fund Accounts for the year ended 31 March 2020, 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 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and of the amount and disposition at that date of the fund's assets and liabilities.
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

The impact of macro-economic uncertainties on our audit

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

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

Conclusions relating to going concern

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

- the Strategic Director for 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 for 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.

Audit opinion

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

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

Emphasis of Matter – effects of Covid-19 on the valuation of pooled property funds

We draw attention to *Note 5: Assumptions made about the future and other major sources of estimation uncertainty* of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Fund's two pooled property funds as at 31 March 2020. The property funds' valuers have stated that there is a material uncertainty about the valuations as a result of Covid-19. The Fund has decided to use the valuer's estimates as the best available estimates of the values of the Fund's assets as at 31 March 2020, but these estimates are subject to greater uncertainty than in previous years. Our opinion is not modified in respect of this matter.

Other information

The Strategic Director for Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts (sections B and D), the Narrative Report (section A) and the Annual Governance Statement (section C), 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 (sections B and D), the Narrative Report (section A) and the Annual Governance Statement (section C) for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

Matters on which we are required to report by exception

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

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

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

As explained more fully in the Statement of Responsibilities set out on page 7 in Section D, 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 for Resources.

Audit opinion

The Strategic Director for 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 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Strategic Director for 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 for 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 Authority is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process. In this authority the Audit & Standards Committee is charged with assisting it in meeting these responsibilities.

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

27 October 2020

Management letter of representation

Grant Thornton UK LLP

The Colmore Building

20 Colmore Circus

Birmingham

B4 6AT

13 October 2020

Dear Sirs

Warwickshire Pension Fund Financial Statements for the year ended 31 March 2020

This representation letter is provided in connection with the audit of the financial statements of Warwickshire Pension Fund for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

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

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

- i. We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.
- ii. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iii. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- iv. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements.
- v. Except as disclosed in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Fund has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- vi. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- vii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

Management letter of representation

- viii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- ix. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes with the exception of one immaterial disclosure change and therefore are free of material misstatements, including omissions.
- x. We have considered the matters included in your Audit Findings Report in respect of:
 - a. the impact of the proposed McCloud restitution and Goodwin judgment upon the Fund's pensions liability,
 - b. the differences in asset valuations as the result of more recent updated information being available, and
 - c. the value of contractual commitments

We have not adjusted the financial statements for these matters brought to our attention as they are immaterial to the results of the Fund and its financial position at the year-end and in respect of investment valuations there are no indications of weakness in management's arrangements for estimating investment values at year end. The financial statements are free of material misstatements, including omissions.
- xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiii. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Fund's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Fund's needs. We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

- xiv. As disclosed in note 5 to the financial statements, due to the uncertainty in the financial markets caused by the current Coronavirus pandemic, there is an increased risk that the valuation of the Fund's Level 2 pooled property investments may be affected and the valuations may not fully take into account the impact of Covid-19 pandemic.

Information Provided

- i. We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. access to persons within the Fund via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.
- ii. We have communicated to you all deficiencies in internal control of which management is aware.
- iii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- iv. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- v. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund, and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.

Management letter of representation

- vi. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- vii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered
- viii. There were two breaches reported to The Pensions Regulator in respect of administration activity during the year, but these do not impact on the Accounts. There were no or reports of issues to other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.
- ix. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.
- x. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.
- xi. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval

The approval of this letter of representation was minuted by the Audit & Standards Committee at its meeting on 28 September 2020.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of the Fund



© 2020 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.