

# City of Westminster Pension Fund Audit Progress Report and Interim Findings

**Year ending 31 March 2022**

October 2022



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## Your key Grant Thornton team members are:

### Joanne Brown

Key Audit Partner

T: 0141 223 0848

E: [Joanne.E.Brown@uk.gt.com](mailto:Joanne.E.Brown@uk.gt.com)

### Matt Dean

Senior Manager

T: 020 7728 3181

E: [matt.dean@uk.gt.com](mailto:matt.dean@uk.gt.com)

### Shashank Agrawal

In-Charge Accountant

E: [Shashank.Agrawal@uk.gt.com](mailto:Shashank.Agrawal@uk.gt.com)

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# 1. 2021/22 deliverables

2021/22 Deliverables	Planned Date	Status
<p><b>Audit Plan</b></p> <p>We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Pension Fund's 2021/22 financial statements. We subsequently issued an Addendum to our Audit Plan in August 2022 to reflect some new risks identified in respect of our planned approach.</p>	March 2022	Complete
<p><b>Audit Progress Report and Interim Findings</b></p> <p>Presented at this Committee.</p>	October 2022	Presented at this meeting
<p><b>Final Audit Findings Report</b></p> <p>The Audit Findings Report to be reported to the Audit Committee.</p>	January 2023	This will be issued alongside the Main Accounts AFR once the Infrastructure issue is resolved. This is likely to be in January 2023 given the proposed Statutory Override in respect of this area will be issued on 25 December 2022.
<p><b>Auditors Report</b></p> <p>This includes the opinion on your financial statements.</p>	January 2023	Not yet due – as above.

## 2. Progress as at 17<sup>th</sup> October

This report summarises the progress to date, key findings and other matters arising from the statutory audit of the City of Westminster Pension Fund

### Background

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 financial statements:

- give a true and fair view of the financial positions of the Group and Local Authorities, income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with each set of audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

The Accounts and Audit Regulations 2015 were amended by SI 2021 No. 263. The Department for Levelling Up, Housing and Communities (DLUHC) previously stated their intention to introduce secondary legislation to extend the deadline for publishing draft accounts to 31 July 2022 and audited local authority accounts to 30 November 2022 for the 2021/22 accounts. This was enacted by the Accounts and Audit (Amendment) Regulations 2022 (SI 2022 No. 708) that came into force on 22 July 2022. Consequently, the deadline for publishing audited local authority accounts for 2021/22 is extended to 30 November 2022 and thereafter changed to 30 September for years up to 2027/28. We received the draft financial statements in advance of this deadline on the 1 June 2022 in line with our agreed timetable with the Council.

### Current status

We would like to take this opportunity to record our appreciation for the assistance provided by management, the finance team and other staff throughout the audit process, which we note is challenging given the factors noted.

Due to this as at 17<sup>th</sup> October 2022, our audit work is largely complete and has taken place under a hybrid working arrangement from July 15<sup>th</sup> to October 2022. The main area that is currently outstanding is our testing of Benefits Payable, on which we experienced some initial challenges that we have been able to overcome and we are just finalising our testing in this area. We are working hard with management to bring the areas that sit outside of this issue to a close by the end of October.

This report pulls together progress to date and emerging issues which we would like to bring to your attention and that have been considered throughout the audit.

As mentioned in the Audit Plan Addendum, we have had to make some changes to our planned audit approach due to the mid-year move of Member Data from Surrey County Council to Hampshire County Council, which will also have a impact on the fees to be charged for this year's audit. This position will also be affected by the additional work needed on Investments due to the absence of triangulation, which we mention in more detail later on in the Report. We will need to discuss and agree these with Management at the end of our engagement before submitting to PSAA for approval.

# 3. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

As communicated in our Audit Plan, dated 6 June 2022, we initially identified the following Significant Risks in respect of the Pension Fund:

- Presumed risk of fraud in Revenue Recognition (ISA (UK) 240)
- Management override of controls (ISA (UK) 240)
- The valuation of Level 3 investment assets

However, as mentioned earlier in the Report, we issued an Audit Plan Addendum in August 2022 which identified the following additional Significant Risk:

- Transfer of data between Member Data Systems

We also identified one other area of focus for our audit, albeit it was not a Significant Risk, which was:

- Change of Actuary by the Council

We also flagged a change in our approach to the testing of Level 2 Investments, due to the absence of triangulation between the Fund Managers and the Custodian in this area.

Aside from this, no additional significant risks have been identified from the testing completed.

## 4. Financial Statements - matters discussed with management

This section provides commentary on the significant matters we have discussed with management to date during the course of the audit.

Significant matter	Commentary	Auditor view and management response
<p><b>Change in Member Data System</b></p>	<p>In November 2021, the Pension Fund took the decision to transfer its Member Administration from its former provider, Surrey County Council, to a new provider, Hampshire County Council. Hampshire CC already provide services to the Pension Fund, such as its General Ledger under the Tri-Borough Arrangements.</p> <p>This system transfer, which sees the Pension Fund move from Altair to Oracle UPM, requires the transfer of all member records held on the outgoing system, which are key to the calculation of a number of pension tasks, such as the pensions due to members upon retirement.</p> <p>Thus there is a risk that if the data transfer does not facilitate a complete and accurate transfer of data, members could be paid incorrect amounts, or could be given an incorrect status on the new system.</p>	<p>We have completed a range of work over the system transfer, with the support of our IT Audit Team, and we have overall assurance over the completeness and accuracy of the data transfer. However some issues with the IT Environment were identified from the work performed and these will be reported in our Audit Findings Report.</p> <p>We also identified that the services provided by Hampshire CC are not covered by an ISAE3402 Control Report, which provides assurance over the operation of relevant controls during the course of the year. Whilst we have been able to obtain sufficient assurance over this area via alternative procedures, obtaining a report in this area would enable the work to be completed more efficiently next year.</p>
<p><b>Testing of Investments</b></p>	<p>As also mentioned in our Audit Plan Addendum, Since the planning stage, we have identified a required change in our audit approach from that we were proposing to take. Normally, a significant element of our assurance over the valuation of the Level 2 Investments included within the Accounts would come from a triangulation exercise between the values included within the Accounts, and those provided independently by the relevant Fund Managers and the Custodian.</p> <p>Following discussions held with the Fund's Custodian, we have confirmed that the Custodian does not independently value any of the Fund's Investments, and that they just take the valuations provided to them by the Fund Managers, which means we do not have sufficient assurance from this exercise. Thus we will need to undertake alternative procedures to gain sufficient assurance over this area.</p>	<p>Again we have been able to obtain sufficient assurance in this area, albeit it has taken longer than previous years due to the need to undertake additional procedures to compensate for the lack of triangulation. These additional procedures include:</p> <ul style="list-style-type: none"> <li>- Detailed testing of purchases and sales in-year back to supporting evidence;</li> <li>- Testing of year end valuations back to independent pricing sources, where available;</li> <li>- The use of indexation to provide assurance over the movement of investments since the date of the Audited Accounts.</li> </ul>

# 5. Materiality



## 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.

We have revised the performance materiality due to the Net Assets of the Pension Fund increasing from that at the planning stage resulting in a review of the appropriateness of the materiality figure.

We detail in the table to the right our determination of materiality for the City of Westminster Pension Fund.

	Planning Amount (£)	Final Accounts Amount (£)	Qualitative factors considered
Materiality for the financial statements	17,500,000	18,700,000	Materiality has been based on 1% of Net Assets available to pay benefits
Performance materiality	13,100,000	14,025,000	This is set at 75% of overall Materiality
Trivial matters	875,000	935,000	Based on 5% of overall materiality.



# Appendix A - Progress on Financial Statement work

Testing Area	Commentary
Journal Entries	Work largely complete, in audit quality review phase.
Going Concern	Work completed, no issues identified.
New System Implementation	Work largely complete, in audit quality review phase. Refer to the previous pages for more detail in this area.
Net Assets Statement Opening Balances	Work completed, no issues identified.
Level 2 Investments	Work largely complete, in audit quality review phase.
Level 3 Investments	Work largely complete, in audit quality review phase.
Cash Deposits	Work completed, no issues identified.
Contributions	Work completed, no issues identified.
Benefits	Work still in progress – testing to be finalised imminently.
Management Expenses	Work largely complete, in audit quality review phase.
Investment Income	Work complete, we have identified that some elements of Income have been accounted for on a cash basis which is not in line with the Code – impact is immaterial.

Testing Area	Commentary
Profit and Loss Disclosures	Work largely complete, in audit quality review phase.
Financial Instruments	Work largely complete, in audit quality review phase. Some minor disclosure amendments have been identified in this area.
Actuarial Disclosures	Work largely complete, in audit quality review phase.
Disclosures – Key Management Personnel	Work largely complete, in audit quality review phase.
Disclosures – Fund Information	Work largely complete, in audit quality review phase. Our testing of Member Data identified a small number of new starters who did not receive the relevant new joiner letter, which will be reported as a control deficiency in the AFR.
Disclosures – Post Balance Sheet Events	Work largely complete, in audit quality review phase.
Disclosures – Investment Notes	Work largely complete, in audit quality review phase.
Contractual Commitments	Work completed, some non-trivial variances identified which will be reported in the AFR.
Laws and Regulations	Work completed, no issues identified.
Litigation and Claims	Work completed, no issues identified.



# Appendix A - Progress on Financial Statement work

Testing Area	Commentary
Related Parties	Work completed, no issues identified.
Accounting Estimates	Work completed, no issues identified.
Annual Report	Work yet to be started – this will be completed in advance of the 1 <sup>st</sup> of December 2022 deadline for publication.

# Audit fees

In 2018, PSAA awarded a contract of audit for the City of Westminster Pension Fund to begin with effect from 2018/19. The fee agreed in the contract was £16,170. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2021/22 audit.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as detailed on page 13 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. As in previous years, we are discussing the extent of fee variations for the audit of the current years' financial statements. These discussions are still ongoing and therefore, at this time, we are not able to provide a proposed fee. We will communicate this to you in a future progress report, once it has been agreed with the Corporate Director of Finance and Assets.

As mentioned earlier in the Report, we have had to undertake additional work in the following areas:

- The transfer of Member Data between Surrey CC and Hampshire CC
- The inability to triangulate Level 2 Investments

	2020/21	2021/22
Scale Fee (excluding VAT)	£16,170	£16,170
Proposed Fee (excluding VAT)	£33,000	TBC

## Assumptions

In setting the fees, we assume that the Council will:

- prepare a good quality set of financial statements, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

## Relevant professional standards

In preparing our fee estimate, we will have regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.



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