



The Audit Findings for City of Westminster Council Pension Fund

Year ended 31 March 2020

July 2020



Contents



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

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Headlines

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

Covid-19

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Pension Fund including remote working and challenges with the valuation of year end investments. 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 financial statements to 30 November 2020.

The Pension Fund were able to provide us with financial statements on 27 April 2020 well in advance of the deadline.

We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 17 April 2020. In that addendum we reported an additional financial statement risk in respect of Covid-19. Further detail is set out on page 6.

Throughout March and April we held regular meetings with your key finance staff to discuss the impact of Covid-19 on the Pension Fund. We also discussed the financial implications in terms of Investment valuations and going concern. This assisted you in complying with the required accounting standards and ensuring your disclosures complied with the Code of Practice on Local Authority Accounting 2019-20.

The Pension Fund finance team were well set up for remote working and there were no changes in key financial processes that impacted on our approach to the audit. Restrictions for non-essential travel has meant both teams have had to be flexible in approaches to sharing information. We agreed to use video calling to watch the finance team run the required reports ensuing we got assurance over the completeness and accuracy of information produced by the Pension Fund. We made more use of conference calls and emails to resolve audit queries. Inevitably in these circumstances resolving audit queries takes a little longer than a face to face discussion. Both teams utilised a query log to track and resolve outstanding items. Regular meetings were held with senior finance staff to highlight key outstanding issues and findings to date ensuring that the audit process was as smooth as possible

The Pension Fund were able to provide us with financial statements on 27 April 2020 well in advance of the deadline. There were some delays in the audit team being given remote access to the Pension Administration System at Surrey County Council which delayed our member data and pensions payable testing.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of City of Westminster 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>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 was completed remotely during May to July 2020. Our findings are summarised on pages 5 to 14. We have not identified any adjustment to the Pension Fund's reported financial position. Audit adjustments are detailed in Appendix A.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion Appendix C, subject to the following outstanding matters;</p> <ul style="list-style-type: none"> • receipt of management representation letter; • final review of the Annual Report; and • review of the final set of financial statements. <p>Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting the material uncertainties caused by Covid-19 in the valuation of Pension Fund Property investments held by Hermes £61.5m, Standard Life £68.6m and Infrastructure assets of £20.6m held by Pantheon Global Infrastructure. The Emphasis of Matter is not a modified or qualified opinion and will just point readers of the accounts to the Pension Fund accounts Note 5 Assumptions made about the future and other major sources of uncertainty where the Pension Fund has disclosed more details on the uncertainty.</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 and the Audit and Performance Committee.

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

Audit approach

Our audit approach was based on a thorough understanding of the 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.
- 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 5 February 2020, to reflect our response to the Covid-19 pandemic. We were able to undertake our testing on the Pension Fund remotely as we had planned.

| | Pension Fund (£) |
|--|-------------------------|
| Materiality for the financial statements | 13,000,000 |
| Performance materiality | 9,750,000 |
| Trivial matters | 650,000 |

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Performance Committee meeting in August 2020, 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.

We have revised the materiality level down from £14m in the Audit Plan to £13m to take account of the fall in investment values at the year end caused by Covid-19.

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.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

We have undertaken the following work in relation to this risk:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the pension fund's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. The draft financial statements were provided on 27 April 2020;
- 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 through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as the investment valuations;
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and
- discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.

We were able to gain appropriate audit evidence through working remotely and the pensions team provided timely responses to audit queries. Our anticipated audit opinion will be unqualified including an Emphasis of Matter paragraph, highlighting the material uncertainties caused by Covid-19 disclosed by the Pension Fund Investment Managers in their valuation of Property and Infrastructure investments.

The material uncertainty impacts on property investments held by Hermes £61.5m, Standard Life £68.6m and Infrastructure assets of £20.6m held by Pantheon Global Infrastructure. The Emphasis of Matter is not a modified or qualified opinion and will just point readers of the accounts to the Pension Fund accounts Note 5 Assumptions made about the future and other major sources of uncertainty where the Pension Fund has disclosed more details on the uncertainty.

Significant audit risks

Risks identified in our Audit Plan

Auditor commentary

Fraudulent revenue and expenditure recognition

Having considered the risk factors set out in ISA240 and the nature of the revenue streams, 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 the Pension Fund, mean that all forms of fraud are seen as unacceptable.

Therefore, we do not consider this to be a significant risk for the Fund.

In addition, in accordance with PN10, the audit team have considered the risk of fraudulent manipulation of expenditure. We do not consider that this is a significant risk for the Pension Fund, after consideration of the following:

- The staff preparing and approving the accounts are consistent with those in previous years.
- There have been no changes in accounting processes and controls in the year.
- There have been no significant unexplained movements in funding position.
- There have been no changes in the methodology for calculation of estimates.
- There have been no instances of adjustments being posted by a senior finance officer without independent authorisation.

Management override of controls

We have undertaken the following work in relation to this risk:

- review of entity controls;
- review of accounting estimates, judgements and decisions made by management; and
- review of unusual significant 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

The valuation of Level 3 investments is incorrect

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 (£77 million) and the sensitivity of this estimate to changes in key assumptions

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

Management utilise the services of investment managers 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

Auditor commentary

We have undertaken the following work in relation to this risk:

- gained an understanding of the Fund's process for valuing level 3 investments and evaluated the design of the associated controls;
- reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investment;
- independently verified the Hermes Property Unit Trust valuation to independent market data;
- Obtained audited financial statements for the Hermes Property Unit Trust (March 2020) and Pantheon Infrastructure Fund (December 2019) and compared the audited fund valuation with the Fund Manager capital statements at the same period. For Pantheon we checked any cash movements between December 2019 and March 2020;
- Obtained the valuations for the level 3 investments at the end of June 2020. Pantheon investments had increased by £2.4m and Hermes Property had decreased by £0.5m.
- reviewed the custodian independent valuation of Hermes Property Unit Trust;
- considered the competence, expertise and objectivity of any management experts used; and
- verified the investment balances to the fund manager and custodian reports

We are satisfied that the valuation of level 3 investments are not materially misstated. The Fund has disclosed the material uncertainty caused by Covid-19 on the valuation of property and infrastructure assets in Note 5 to the pension fund financial statements. We have included an emphasis of matter in relation to the uncertainty in valuation of property and infrastructure assets resulting from Covid-19 within our audit opinion.

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 reviewed the Fund's funding position and cash flows

Auditor commentary

- The Pension Fund has more than sufficient assets to meet its liabilities as they fall due over the next 12 months. Local Government Pension schemes are effectively underwritten by the tax payer with deficits financed by increased contributions agreed with the actuary that are financed through Council, Admitted and Scheduled bodies contributions.
- There is no plan by the Ministry of Housing, Communities and Local Government to wind up the City of Westminster Council Pension Scheme.
- The Pension Fund continues to operate as usual in 2020/21. Contributions and investment income continue to be received as expected.
- The Council has approved at full Council, a plan to pay off its entire Pension Fund deficit in a shorter period than originally planned.. We are satisfied with the approach adopted which has been developed with legal, financial and actuarial advice.

Work performed

Detail audit work performed on management's assessment

Auditor commentary

- We have reviewed managements assessment that the financial statements are prepared on a going concern basis.
- We are satisfied that there are sufficient assets to meet liabilities as they fall due. The last triennial actuarial valuation as at 31 March 2019 also demonstrated an improvement in the funding level to 99%.
- The Council have paid £31.5m deficit funding contributions into the pension fund in 2019/20.
- We note that he fund continues to operate as usual.

Concluding comments

Auditor commentary

- We have assessed that the Pension Fund Financial Statements are prepared on a Going Concern basis.

Significant findings – matters discussed with management

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

| Significant matter | Commentary | Auditor view |
|---|---|--|
| <p>Orbis Internal Audit Report of Surrey Pension Fund Administration 2018/19.</p> | <p>The day to day pensions administration is outsourced to Surrey County Council. The latest internal audit review of the pension administration resulted in a minimal assurance opinion. This opinion means that controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.</p> <p>The report includes the following significant findings:</p> <ul style="list-style-type: none"> • Previous year recommendations not being implemented • The scale of changes required to improve the day to day operations and overall performance are challenging. • There are significant levels of backlog in tasks and there are data quality issues in the Pension Administration (Altair) system. • A culture that maintains inefficient ways of working (paper based information, a lack of accountability, absence of performance management etc.) is embedded. This needs to be changed to smarter ways of working by introducing streamlined procedures using technological solutions, and ensure that staff are responsible and accountable for their work. In short, a root and branch review of the whole PAS operation is needed. | <p>We have not placed any reliance on the controls at Surrey County Council Pension Fund and have undertaken our own substantive testing on member data and pensions payable.</p> <p>We have not identified any errors in the Pensions Payments in the City of Westminster Pension Fund.</p> <p>Management at the Council have undertaken their own cleansing data exercise. In addition City of Westminster Council Pension Fund commissioned a third party supplier to carry out a detailed analysis on the funds data late in 2019. Following the results of that analysis the fund has agreed a project to deal with approximately 1200 status 2 cases (cases that still need to be processed). Westminster City Council officers will be managing the contract directly and this should be completed in approximately 4 months. This has not impacted on the contributions and pensions payable figures paid into and out of the fund,</p> <p>The fund continues to work with Surrey County Council and push for service improvement updates. The Covid-19 pandemic has delayed progress whilst the administration service had to adapt to working at home which was not standard operating model previously. The Westminster City Council Pension Officer has bi weekly updates with the pension administration team and senior management on progress on cleansing and reducing the backlog of individual cases.</p> <p>Our Member data testing of 20 leavers to the Fund identified one case that has been outsourced to a company assisting Surrey County Council. There was no information on the Members file to support the leaver. However, we are satisfied that the Member had ceased paying contributions into the fund.</p> <p>We have raised the data quality issues independently to the Fund actuary, to assess the potential impact this could have on the whole fund valuation under IAS26. The actuary had been aware of the issue and had modelled it into their valuations, and concluded that, on review of records, the potential impact on the valuation is well below our materiality levels.</p> |

Significant findings – key estimates and judgements

| Accounting area | Summary of management's policy | Auditor commentary | Assessment |
|----------------------------|---|---|---|
| Level 3 investments | <p>The Pension Fund contains the Hermes Pooled Investment Property Fund £61.4m</p> <p>Management have reviewed the year end valuations provided by the Fund Managers including the audited financial statements.</p> <p>These investments are traded on an open exchange/market, but the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management have reviewed the fund manager statements and year end audited financial accounts dated 25 March 2020.</p> <p>The value of the investment within the Hermes Pooled Property Fund has decreased by £925k in 2019-20 largely due to the impact of Covid-19.</p> | <p>Hermes – Pooled Property Fund</p> <ul style="list-style-type: none"> Properties are valued using observable data however when pricing, adjustments are made for net capital current assets which is complex. The valuation attached to the underlying properties in the pool is complex, and uncertain, given the impact of Covid-19 on property markets. We have reviewed Hermes audited financial statements as at 25 March 2020 which include a material uncertainty from the fund's independent valuers. The valuer stated "valuations are reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of these properties under frequent review". This is as a result of cross industry agreement with the other valuation firms and RICS. The Fund has disclosed the material uncertainty caused by Covid-19 on the valuation of property and infrastructure assets in Note 5 to the pension fund financial statements. We have included an emphasis of matter in relation to the uncertainty in valuation of property and infrastructure assets resulting from Covid-19 within our audit opinion. The Fund Manager and the Custodian both value the fund. We compared the independent valuations as at 31 March 2020 which had a difference of £690k which is far below our materiality level. We compared the valuation provided to the audited financial statements at the end of March 2020 and identified a difference of £747k which is also far below our materiality level. We compared the unit value of the fund to that quoted by the financial times at 31 March 2020 and there were no differences identified. We are satisfied that the estimate is fairly stated. The accounting policies are reasonable and the disclosures within the financial statements are appropriate. <p>We are therefore satisfied that the estimate of the Hermes valuation is materially fairly stated.</p> |  Green |

Assessment

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

Significant findings – key estimates and judgements

| Accounting area | Summary of management's policy | Auditor commentary | Assessment |
|----------------------------|---|---|---|
| Level 3 investments | <p>The Pension Fund contains investments in Pantheon Pooled infrastructure investments £20.6m</p> <p>Management have reviewed the year end valuations provided by the Fund Managers including the audited financial statements dated 31 December 2019..</p> <p>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</p> <p>The value of the investment within the Pantheon Property Fund has increased by £6.2m in 2019-20 largely due to increased drawdowns. The Pantheon value has decreased by approximately £3.7m from 31 December to 31 March 2020 which is the impact of Covid-19.</p> | <p>Pantheon</p> <ul style="list-style-type: none"> Assets are valued at Fair Value in line with the International Private Equity and Venture Capital Valuation ("IPEV") Guidelines. The inputs used to value the investments when using the market approach may include, but are not limited to, prices and other relevant information generated by the market transactions, type of security, size of the position, purchase price, purchases of the same or similar securities by other investors, marketability, foreign exchange rates, degree of liquidity, restrictions on the disposition, latest round of financing data, completed or pending third-party transactions in the underlying investment or comparable issuers, current financial position and operating results among other factors. The underlying investments are all in infrastructure covering energy, telecom, transport, and water & environmental services as well as aerospace and defence, healthcare, technology, information technology, and other government industries. The Pantheon audited accounts as at 31 December 2019 were reviewed and they were unqualified. We have compared the audited financial statements as at 31 December with the capital statement at the same date which identified a trivial difference. This gives us assurance that the estimation techniques are appropriate. We reviewed the Pantheon capital statement as at 31 March 2020 and obtained explanation for the downward revaluation which is caused by Covid-19. We have reviewed the fund managers assumption that there is a material uncertainty within their 31 March 2020 valuation during the ongoing Covid-19 pandemic, the true market value could be as much as 12.2% greater or lesser than reflected in the statement of accounts. The Fund has disclosed the material uncertainty caused by Covid-19 on the valuation of property and infrastructure assets in Note 5 to the pension fund financial statements. We have included an emphasis of matter in relation to the uncertainty in valuation of property and infrastructure resulting from Covid-19 within our audit opinion. We have reviewed the accounting policies and valuation techniques stipulated within the financial statements and these are in line with expectations and other infrastructure funds. <p>We are therefore satisfied that the estimate of the Pantheon valuation is materially fairly stated.</p> |  Green |

Assessment

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

Significant findings – key estimates and judgements

| Accounting area | Summary of management's policy | Auditor commentary | Assessment |
|---------------------------|---|---|---|
| Level 2 investment | <p>The Pension Fund have investments in Pooled Equity Funds, Pooled Bonds Funds, Pooled Multi Credit Funds and a Pooled Long Lease Fund.</p> <p>The underlying investments are traded on an open exchange/market although the pooled valuation of the investment is subjective.</p> <p>The Fund obtains valuations from the fund manager and an independent confirmation from the custodian to ensure that valuations are materially fairly stated.</p> | <ul style="list-style-type: none"> • We have reviewed the estimation process for the Level 2 investments and are satisfied that these are in line with industry standards. • We have compared the valuations provided by the fund managers with the custodian and are satisfied that there are no significant differences in the valuations. • We focussed our attention on the pooled property fund with Standard Life. The external valuers have stated that “The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a “Global Pandemic” on the 11th March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes to fully inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement. Our valuations are therefore reported on the basis of ‘material valuation uncertainty’ as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty, and a higher degree of caution, should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market we recommend that the valuation of the properties are kept under frequent review.” The Fund has disclosed the material uncertainty caused by Covid-19 on the valuation of property and infrastructure assets in Note 5 to the pension fund financial statements. We have included an emphasis of matter in relation to the uncertainty in valuation of property and infrastructure assets resulting from Covid-19 within our audit opinion. |  Green |
| | | <p>We are therefore satisfied that the estimate of Level 2 investments valuation is materially fairly stated.</p> | |

Assessment

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

Other matters for communication

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

| Issue | Auditor commentary |
|---|--|
| Matters in relation to fraud | We have previously discussed the risk of fraud with the Audit and Performance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures |
| Matters in relation to related parties | We are not aware of any related parties or related party transactions which have not been disclosed. |
| 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 included in the Audit and Performance Committee papers. |
| Confirmation requests from third parties | We requested from management permission to send confirmation requests to your custodian, fund managers and banks. This permission was granted and the requests were sent. |
| Disclosures | We have requested that the Fund strengthened note 5 Assumptions made about the future and other major sources of uncertainty to include the impact of Covid-19. |
| 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 the same day we give our audit opinion. |

Independence and ethics

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

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

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

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 Trust. No non-audit services were identified which were charged relating to the 2019-20 financial year

Details of fees charged are detailed in Appendix B

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 and unadjusted misstatements

There are no unadjusted or adjusted misstatements that impact on the Pension Fund's financial statements.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

| Disclosure omission | Detail | Auditor recommendations | Adjusted? |
|--|---|--|-----------|
| Disclosure Note 5 Assumptions made about the future and other major sources of uncertainty | The uncertainties caused by Covid-19 in relation to the valuation of infrastructure and pooled property investments required enhancing. | Management has agreed the amendment. | ✓ |
| Other presentational and disclosure issues | The Fund have also amended all other minor and presentational issues highlighted in the audit. | Management have agreed to make the required amendments | ✓ |

Fees

We confirm below our final fees charged for the audit.

| Audit fees | Proposed fee | Final fee |
|--------------|--------------|-----------|
| Pension Fund | 25,000 | TBC |

The Public Sector Audit appointments scale fee is £16,170 and this is the fee disclosed within the financial statements.

Across all suppliers, and sectors (public and private), the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, as well as to undertake additional and more robust testing. As a firm, we are absolutely committed to meeting the expectations of the FRC and other key stakeholders with regard to audit quality and public sector financial reporting. To ensure the increased regulatory focus and expectations are fully met we have been required to increase our fees on all London Borough Pension Funds to £25,000.

The Fund are currently disputing the increase and are disclosing £16,170 within their financial statements. The final fee is due to be settled by Public Sector Audit Appointments.

We understand that PSAA has approved in principle the planned fee of £25k, but this is subject to their final review.

There are no fees for non-audit or audited related services have been undertaken for the Pension Fund.

Audit opinion

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

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

Opinion

We have audited the financial statements of City of Westminster Pension Fund (the 'pension fund') administered by Westminster City Council (the 'Authority') for the year ended 31 March 2020 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 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 Executive Director – Finance and 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 Executive Director – Finance and Resources use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Executive Director – Finance and 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 Executive Director – Finance and 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 property and infrastructure investments

We draw attention to Note 5 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's property investments as at 31 March 2020. As, disclosed in note 5 to the financial statements, the ongoing impact of the Covid-19 pandemic has created uncertainty surrounding illiquid asset values. As such, the Pension Fund property and infrastructure allocations as at 31 March 2020 are difficult to value according to preferred accounting policy. Professional Valuers have not been actively valuing many similar sized assets in the market due to the current lockdown environment, as such values have been rolled over from Period 11 with an adjustment and may be inaccurate to the true 31 March position. A material valuation uncertainty was therefore disclosed in the pension fund's property and infrastructure valuation reports. Our opinion is not modified in respect of this matter.

Other information

The Executive Director – Finance and Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement, other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's and group's financial statements. Our opinion on the pension fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Statement of Accounts, [the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

Matters on which we are required to report by exception

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

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

Audit opinion

Responsibilities of the Authority, the Executive Director – Finance and Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, 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 Executive Director – Finance and Resources. The Executive Director – Finance and 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 Executive Director – Finance and 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 Executive Director – Finance and Resources is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited.

Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

London

X August 2020



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