



DRAFT Audit Completion Report

West Yorkshire Pension Fund
Year ending 31 March 2019



West Yorkshire Pension Fund



MAZARS

CONTENTS

1. Executive summary
2. Significant findings
3. Internal control recommendations
4. Summary of misstatements

Appendix A – Draft management representation letter

Appendix B – Draft audit report

Appendix C – Draft consistency report

Appendix D – Independence

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited.

Reports and letters prepared by appointed auditors and addressed to the Pension Fund are prepared for the sole use of the Pension Fund and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

Members of the Governance & Audit Committee
City of Bradford Metropolitan District Council
City Hall
Centenary Square
Bradford
BD1 1HY

31 July 2019

Dear Members

West Yorkshire Pension Fund Audit Completion Report – Year ended 31 March 2019

We are pleased to present our Audit Completion Report for the year ended 31 March 2019. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks, key audit matters and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 14 March 2019. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0191 383 6300.

Yours faithfully

Signed: {{_es_:signer1:signature}}

Cameron Waddell
Partner
For and on behalf of Mazars LLP

1. EXECUTIVE SUMMARY

Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of the West Yorkshire Pension Fund for the year ended 31 March 2019, and forms the basis for discussion at the Governance & Audit Committee meeting on 31 July 2019.

The detailed scope of our work as your appointed auditor for 2018/19 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Section 2 of this report outlines the detailed findings from our work on the financial statements. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of control.
- Valuation of unquoted investments.

Purpose of this report and principal conclusions

As we outline on the following page, our work is substantially complete and, subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

Consistency Report

We anticipate concluding that the Pension Fund financial statements within the Pension Fund's Annual Report are consistent with the Pension Fund financial statements within the Statement of Accounts of the Council. Our draft consistency report is provided in Appendix C.





Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Pension Fund and to consider any objection made to the accounts. No such objections have been raised in relation to the Pension Fund.




1. EXECUTIVE SUMMARY (CONTINUED)

Status of our audit work

We have substantially completed our work on the financial statements for the year ended 31 March 2019. At the time of preparing this report the following matters remain outstanding:

| Audit area | Status | Description of outstanding matters |
|-------------------------------|---|---|
| Fraud and related parties |  | Our review of journals and related party transactions is ongoing. |
| Unquoted investments |  | We are waiting for two third party confirmations from fund managers to complete our audit of unquoted investments. |
| IAS19 Assurance |  | We are unable to issue final assurance until the confirmation referred to above are received |
| Closure procedures and review |  | We will complete our standard closure procedures, including review of the amended financial statements and consideration of post balance sheet events. |
| Consistency opinion |  | We have not yet received the revised annual report and have not therefore undertaken a comparison between the revised Pension Fund financial statements within the Statement of Accounts of the Council with the revised Pension Fund financial statements within the Pension Fund's Annual Report. |

Status

-  Likely to result in material adjustment or significant change to disclosures within the financial statements
-  Potential to result in material adjustment or significant change to disclosures within the financial statements
-  Not considered likely to result in material adjustment or change to disclosures within the financial statements

We will provide the Governance and Audit Committee with an update in relation to these outstanding matters in a follow-up letter, prior to signing the auditor's report.

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in March 2019. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

At the planning stage of the audit we set overall materiality at £147.0m using a benchmark of 1% of net assets available to pay benefits, and set a specific materiality for the fund account of £52.3m using a benchmark of 10% of benefits payable. Our final assessment of overall materiality, based on the final financial statements is £143.6m, and our final specific materiality for the fund account is £53.8m, using the same benchmarks. We set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee) at £4.3m based on 3% of overall materiality.

Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make, together with an update on any prior year recommendations.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Governance and Audit Committee in a follow-up letter.

2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 7 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Fund's financial statements that required special audit consideration. Although we report identified key audit matters and significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new key audit matters and significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

| Significant risk | Description of the risk |
|---------------------------------|--|
| Management override of controls | In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits. |
| | How we addressed this risk We addressed this risk by performing audit work in the following areas: <ul style="list-style-type: none">• accounting estimates impacting on amounts included in the financial statements;• consideration of identified significant transactions outside the normal course of business; and• journals recorded in the general ledger and other adjustments made in preparation of the financial statements. |
| | Audit conclusion Based on work completed to date, our work has provided us with the assurance we sought and has not highlighted any material issues to bring to your attention. |

2. SIGNIFICANT FINDINGS (CONTINUED)

| Significant risk | Description of the risk |
|---|--|
| Valuation of unquoted investments for which a market price is not readily available | As at 31 March 2019, the fair value of investments which were not quoted on an active market was £2.1bn, which accounted for 14.5% of the Fund's net investment assets. As prices for these investments are not quoted in active markets, the values used in the accounts are those provided by fund managers. This results in an increased risk of material misstatement. |

How we addressed this risk

In addition to our standard programme of work in this area we have:

- agreed the valuation to supporting documentation including investment manager valuation statements and cash flows for any adjustments made to the investment manager valuation;
- agreed the investment manager valuation to audited accounts. Where these were not available, we agreed the investment manager valuation to other independent supporting documentation;
- where audited accounts were available, we checked that they were supported by a clear opinion; and
- where available, we reviewed any independent control assurance reports and confirmed that they did not highlight any risks of material misstatement

Audit conclusion

Our work in this area is ongoing. The work completed to date has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

Key areas of management judgement

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. We have not identified any such judgements.

2. SIGNIFICANT FINDINGS (CONTINUED)

Qualitative aspects of the entity's accounting practices

We have reviewed the Pension Fund's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Pension Fund's circumstances.

Draft accounts were received from the Pension Fund on 31 May 2019 and were of a satisfactory quality.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2018/19 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. No such objections have been raised in relation to the Pension Fund.

3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

| Priority ranking | Description | Number of issues |
|-------------------|--|------------------|
| 1 (high) | In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately. | 0 |
| 2 (medium) | In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future. | 0 |
| 3 (low) | In our view, internal control should be strengthened in these additional areas when practicable. | 0 |

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Follow up of previous internal control points

We set out below an update on internal control points raised in the prior year.

Description of deficiency

As part of the audit, we identified that there were a number journals, albeit a small percentage of total journals, containing no narrative description.

Potential effects

The exclusion of a narrative description makes it more difficult to determine the reason for a journal posting. This increases the risk for fraudulent activity being undetected.

Recommendation

It is recommended that journals are regularly reviewed to ensure that reasonable journal descriptions are included for all posted entries.

2018/19 update

Journals have a description and reference field for free text. The reference field is completed for all journals.



4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £4.3m.

The table below outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

There have been no misstatements that have been adjusted by management during the course of the audit to date.

Unadjusted misstatements 2018/19

| | Fund Account | | Net Assets Statement | |
|---|--------------|---------------|----------------------|---------|
| | Dr (£m) | Cr (£m) | Dr (£m) | Cr (£m) |
| 1 Dr: Investment Assets Cr: Profit and losses on disposal of and changes in the market value of investments | | 4.707 | 4.707 | |
| This is the extrapolated difference between the fair value of Index Linked bonds within the accounts compared to the fair value source by the auditors. The actual difference on the sampled items was £0.623m. | | | | |
| 2 Dr: Investment asset Cr: Profit and losses on disposals of and changes in the market value of investments | | 34.800 | 34.800 | |
| This is the extrapolated difference between the fair value of unquoted private equity investments within the accounts compared to the fair value source by the auditors. The actual difference on the sampled items was £20.066m. | | | | |
| Total unadjusted misstatements to date | | 39.507 | 39.507 | |

Disclosure amendments

The following disclosure amendments were made:

Note 3 Accounting policies: Amendment to financial assets note to reflect classification required by IFRS9.

Note 3 Accounting policies: Updates to policies on currency translation and investment acquisition costs.

Note 6 Contribution split by type of contribution: Note amended to reflect correct classification of contributions received.

Note 18 Fair value of financial instruments and note 19 Financial instruments classification: Amended to reflect classification required by IFRS9.

General: A number of other changes have been made to the financial statements not requiring individual analysis.

Unadjusted disclosure amendment

Note 17b Stocklending: The value of stock on loan in the accounts is £2.6bn. There is an extrapolated difference of £6.8m between the fair value of stock on loan within the accounts compared to the fair value source by the auditors. The actual difference on the sampled items was £0.846m.

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

Mazars LLP
5th Floor
3 Wellington Place
Leeds
LS1 4AP

July 2019

Dear Cameron

West Yorkshire Pension Fund - audit for year ended 31 March 2019

This representation letter is provided in connection with your audit of the financial statements of the West Yorkshire Pension Fund ('the Pension Fund') for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code).

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code.

My responsibility to provide and disclose relevant information

I have provided you with:

- 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 material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Pension Fund you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Director of Finance (S151 Officer) that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material affect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Pension Fund and Committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Pension Fund's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Pension Fund in making accounting estimates, including those measured at fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

Executive summary

Significant findings

Internal control
recommendations

Summary of misstatements

Appendices

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

Contingencies - continued

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Pension Fund have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom. The Pension Fund has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Director of Finance (S151 Officer) for the design, implementation and maintenance of internal control to prevent and detect fraud and error. I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Pension Fund involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Pension Fund's statement of accounts communicated by employees, former employees, analysts, regulators or others.

Assets

I confirm that all assets held are free from liens, charges or any other encumbrance.

Related party transactions

I confirm that all related party relationships, transactions and balances have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

I have disclosed to you the identity of the Pension Fund's related parties and all related party relationships and transactions of which I am aware.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Specific representation on unquoted investments

Unquoted investments are included in the net assets statement at the value estimated by the general partner managing each fund in accordance with the guidelines used by the industry, and based on the latest information to hand at the time of the valuation. I am satisfied, based on the knowledge I have, with the valuations, and am not aware of any subsequent events that would have a material impact on the estimated value of the unquoted investments.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements as included in the auditor's draft Audit Completion Report are immaterial, both individually and in aggregate, to the statement of accounts as a whole.

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed. Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Pension Fund will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Yours sincerely

Director of Finance (S151 Officer)

Date.....

APPENDIX B DRAFT AUDITOR'S REPORT

To be added on completion



APPENDIX B

DRAFT AUDITOR'S REPORT (CONTINUED)

To be added on completion



APPENDIX B

DRAFT AUDITOR'S REPORT (CONTINUED)

To be added on completion



APPENDIX B

DRAFT AUDITOR'S REPORT (CONTINUED)

To be added on completion



APPENDIX C

DRAFT CONSISTENCY REPORT

Independent Auditor's Statement to the Members of City of Bradford Metropolitan District Council on the Pension Fund Financial Statements included within West Yorkshire Pension Fund Annual Report

We have examined the Pension Fund financial statements for the year ended 31 March 2019 included within the West Yorkshire Pension Fund annual report, which comprise the Fund Account, the Net Assets Statement and the related notes.

Opinion

In our opinion, the Pension Fund financial statements are consistent with the audited financial statements of City of Bradford Metropolitan District Council for the year ended 31 March 2019 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Respective responsibilities of the Director of Finance (S151 Officer) and the auditor

As explained more fully in the Statement of the Director of Finance (S151 Officer), the Director of Finance (S151 Officer) is responsible for the preparation of the Pension Fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to the Members of City of Bradford Metropolitan District Council as a body, whether the Pension Fund financial statements within the Pension Fund annual report are consistent with the financial statements of City of Bradford Metropolitan District Council.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the Pension Fund financial statements contained within the audited financial statements of City of Bradford Metropolitan District Council describes the basis of our opinions on the financial statements.

Use of this auditor's statement

This report is made solely to the members of City of Bradford Metropolitan District Council, as a body, in accordance with Part 5 paragraph 20(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 work has been undertaken so that we might state to the members of City of Bradford Metropolitan District Council those matters we are required to state to them and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than City of Bradford Metropolitan District Council and City of Bradford Metropolitan District Council's members as a body, for our audit work, for this statement, or for the opinions we have formed.

Cameron Waddell
For and on behalf of Mazars LLP

5th Floor
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31 July 2019

Executive summary

Significant findings

Internal control
recommendations

Summary of misstatements

Appendices

APPENDIX D INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

CONTACT

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