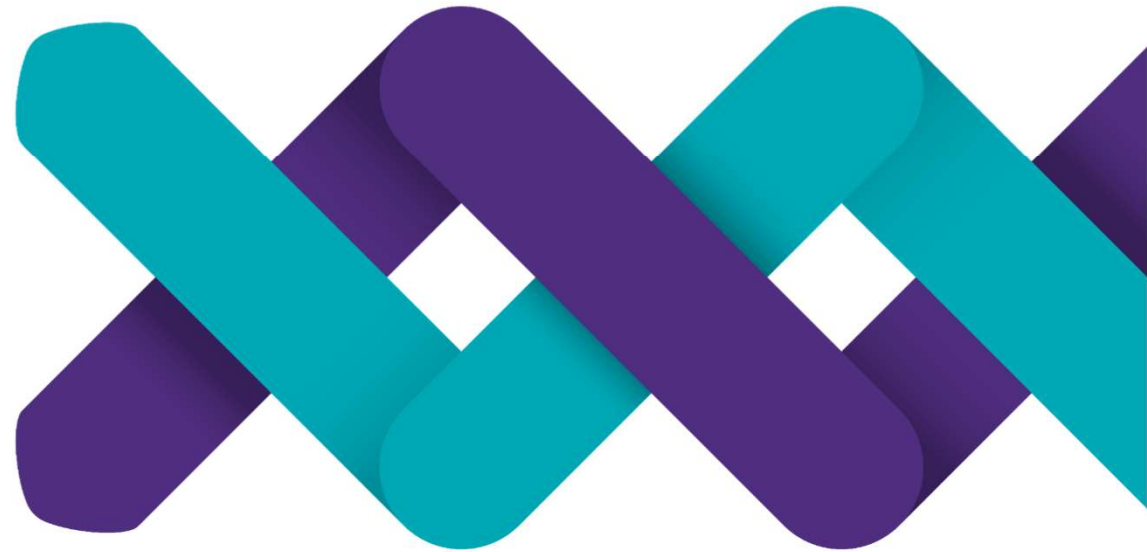


# External Audit Plan Update

## Merseyside Pension Fund

Year ending 31 March 2020

12 May 2020



# Introduction & headlines

## Purpose

This document provides an update to the planned scope and timing of the statutory audit of Merseyside Pension Fund ('the Fund') as reported in our Audit Plan dated March 2020, for those charged with governance.

## The current environment

In addition to the audit risks communicated to those charged with governance in our Audit Plan dated March 2020, recent events have led us to update our planning risk assessment and reconsider our audit approach to reflect the unprecedented global response to the Covid-19 pandemic. The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remains highly uncertain. For our public sector audited bodies, we appreciate the significant responsibility and burden your staff have to ensure vital public services are provided. The Fund will also be specifically facing a number of tough challenges around covenant strengths, funding, investment, governance and communications to members. As far we can, our aim is to work with you in these unprecedented times, ensuring up to date communication and flexibility where possible in our audit procedures.

## Impact on our audit

Management and those charged with governance 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. We understand that the Fund is aiming to share with us draft financial statements by 31 July 2020 and we will liaise with management should changes to our agreed delivery timescales be necessary. We continue to be responsible for forming and expressing an opinion on the Fund's financial statements.

In order to fulfil our responsibilities under International Auditing Standards (ISA's (UK)) we have revisited our planning risk assessment. We may also need to consider implementing changes to the procedures we had planned and reported in our Audit Plan to reflect current restrictions to working practices, such as the application of technology to allow remote working. Additionally, it has been confirmed since our Audit Plan was issued that the implementation of IFRS 16 has been delayed for the public sector until 2021/22 – we expect the impact of IFRS 16 on the Fund to be minimal and we are anticipating that CIPFA will disapply the disclosures required under IAS 8 in 2019/20 but will keep the area under review.

## Changes to our audit approach

To date we have:

- Identified a new significant financial statement risk, as described overleaf
- Reviewed the materiality levels we determined for the audit. We did not identify any changes to our materiality assessment as a result of the specific risk identified due to Covid-19 at this time but we will keep matters under review (see next bullet).
- We anticipate revisiting headline materiality - which is determined at the planning stage using net assets as a benchmark and is currently £88.8m as reported in our Audit Plan dated March 2020 - due to the volatility observed in global markets in the first quarter of 2020. We will not be able to confirm any revised value (if appropriate) until we have received draft financial statements owing to the high level of uncertainty. In the event that materiality is revised we will communicate this to those charged with governance and confirm within our Audit Findings Report.

## Conclusion

We will ensure any further changes in our audit approach and procedures are communicated with management and reported in our Audit Findings Report. We wish to thank management for their timely collaboration in this difficult time.

# Significant risk identified – COVID-19 pandemic

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.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p><b>Covid-19</b></p>	<p>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;</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• 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</li> <li>• 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.</li> <li>• 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</li> <li>• 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.</li> </ul> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Work with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach</li> <li>• Liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise</li> <li>• Evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic. Including management's assessment of the impact of Covid-19 upon employer covenants and forecast cashflows.</li> <li>• Evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely</li> <li>• Evaluate whether sufficient audit evidence can be obtained to corroborate management's fair value hierarchy disclosure</li> <li>• Evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as Level 3 asset valuations, including direct property - dependent on the level of volatility, we may need the assistance of our own internal valuation expert to obtain the required assurance.</li> <li>• Discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence</li> </ul>

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 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 your business or any 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.

