The Audit Findings for Merseyside Pension Fund

Year ended 31 March 2021

10 January 2021

Contents

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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.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Merseyside Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

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 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.

Our audit was completed remotely during June to October. Our findings are summarised on pages 4 to 16. We have identified one adjustment to the financial statements which has resulted in a £136m increase to the Pension Fund's reported Net Asset position, this is as a result of more up-to-date information now being available. Audit adjustments are detailed in Appendix A. We have identified one recommendation for management as a result of our audit work completed to date – see Appendix B.

Our work is complete and there are no matters of which we are aware that would require modification of our audit opinion [Appendix D] or material changes to the financial statements. However, our audit remains open until the Administering Authority audit is also ready to be signed off. To conclude the audit, we require;

- Receipt of signed management representation letter
- Review of the final set of signed financial statements
- Updating our review of subsequent events to the date of the audit opinion

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

2. Financial Statements

Overview of the scope of our audit

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

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

Audit approach

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

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls;
- 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 not had to alter our audit plan, which was communicated to you on 22 June 2021 for any new risks.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

Conclusion

Our work is complete and there are no matters of which we are aware that would require modification of our audit opinion [Appendix D] or material changes to the financial statements. To conclude the audit, we require;

- Receipt of signed management representation letter
- Review of the final set of signed financial statements
- Updating our review of subsequent events to the date of the audit opinion

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

2. Financial Statements

Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan on 22 June 2021.

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

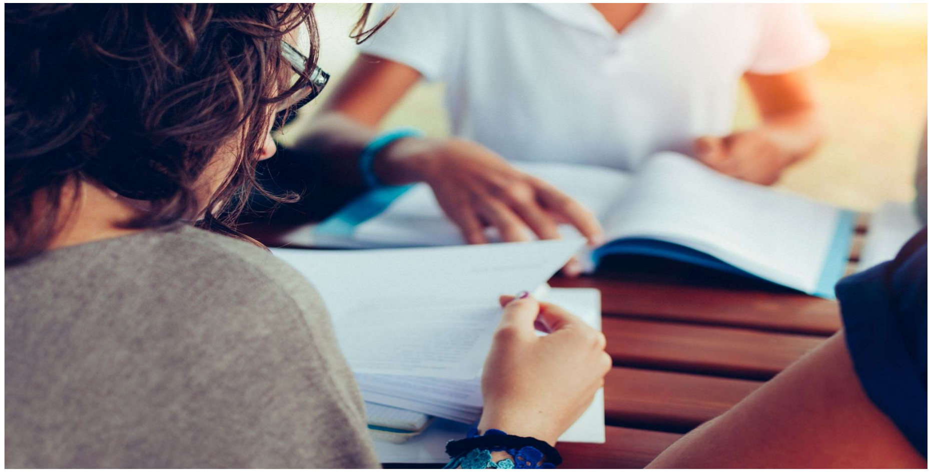
	Amount (£)	Qualitative factors considered
Materiality for the financial statements	87.735m	We have determined materiality for the audit to be £87.735m (equivalent to 0.9% of net assets for the prior year). This is in line with the industry standard and reflects the risks associated with the Fund's financial performance.
Performance materiality	65.801m	Performance materiality drives the extent of our testing and this was set at 75% of financial statement materiality. Our consideration of performance materiality is based upon a number of factors: • We are not aware of a history of deficiencies in the control environment • There has not historically been a large number or significant misstatements arising; and • Senior management and key reporting personnel has remained stable from the prior year audit
Trivial matters	4.386m	This equates to 5% of materiality. This is our reporting threshold to the Pensions Committee and Wirral's Audit & Risk Management Committee for any errors identified.

2. 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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Fund faces external scrutiny of its spending and stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work has not identified any issues in respect of management override of controls.



2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
ISA 240 Fraud in Revenue and Expenditure Recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. We have also rebutted the presumption of fraud in expenditure recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Wirral Council mean that all forms of fraud are seen as unacceptable Therefore, we do not consider this to be a significant risk for Merseyside Pension Fund.
Valuation of Level 3 Investments The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£2,062 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 2021. All of the level 3 investments held by the Fund are internally managed. We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated management's processes for valuing Level 3 investments • reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met • independently requested year-end confirmations from investment managers • for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2021 with reference to known movements in the intervening period and • in the absence of available audited accounts, we have evaluated the competence, capabilities and objectivity of the valuation expert • tested revaluations made during the year to see if they had been input correctly into the Pension Fund's financial records • where available reviewed investment manager service auditor report on design effectiveness of internal controls. Our sample testing of level 3 investments indicated that the balance per the accounts is understated by £98m. This is principally a function of the timing of the production of financial statements. Per the Fund's accounting policies, year end values for hard to value assets frequently contain 31 December values adjusted for cash which are then assessed by the auditor to ensure that the carrying value per the financial statements is not materially different from the fair value as at the audit date. We would typically expect to see a number of small variances as a result of this, usually netting out to a below trivial (and therefore non reportable) variance. The higher than usual variance is indicative of the wider uncertainty in the markets experienced during the year as markets responded to the pandemic. The Fund has obtained updated values (as at 31 March 2021) for all level 3 investments from the custodian and management have amended the financial statements. This has resulted in an increase to the value of investments of £135.920m. We have gained sufficient and appropriate assurance over the completeness and accuracy of this amendment. We have also raised a recommendation for management in relation to obtaining and reviewing investment manager service auditor reports – please see appendix B for further details.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Directly Held Property The Fund revalues its directly held property on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£472 million) and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of a valuer to estimate the current value as at 31 March 2021. We therefore identified valuation of directly held property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written out to them and discussed with the valuer the basis on which the valuation was carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • engaged our own valuer to assess the instructions to the Fund's valuer, the Fund's valuation report and the assumptions that underpin the valuation • tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Fund's financial records • where available reviewed investment manager service auditor report on design effectiveness of internal controls. **Our audit work has not identified any significant issues or misstatements. We have gained sufficient appropriate assurance that direct property is fairly stated in the Fund's financial statements.**

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Area	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments	The Pension Fund has investments in unquoted equity and pooled investments that in total are valued on the balance sheet as at 31 March 2021 at £2,399m. 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 rely on the valuations provided by the general partners to the private equity funds which the Fund invests in. The value of the investments has increased by £338m in 2020-21, largely due significant positive changes in the market value of the investments, primarily as a result of the markets regaining lost growth from 2019-20 as a result of the Covid-19 Pandemic.	Management determine the values of level 3 investments through placing reliance on the expertise of investment managers. As such we have sought confirmations of year end valuations from all main mandate managers. We have also tested a sample of level 3 investments to audited accounts to determine if the values estimated are reasonable and within our acceptable tolerances based on our expectation derived from the audited accounts. Management have disclosed, within Note 5 of the accounts, the uncertainty related to level 3 investments (absolute return funds and private equity) as well as providing a supporting sensitivity analysis within Note 15 to allow the reader to understand the potential impact on the accounts should the value of those estimates change. Our sample testing of level 3 investments indicated that the balance per the accounts is understated by £98m. This is principally a function of the timing of the production of financial statements. Per the Fund's accounting policies, year end values for hard to value assets frequently contain 31 December values adjusted for cash which are then assessed by the auditor to ensure that the carrying value per the financial statements is not materially different from the fair value as at the audit date. We would typically expect to see a number of small variances as a result of this, usually netting out to a below trivial (and therefore non reportable) variance. The higher than usual variance is indicative of the wider uncertainty in the markets experienced during the year as markets responded to the pandemic. The Fund has obtained updated values (as at 31 March 2021) for all level 3 investments from the custodian and management have amended the financial statements. This has resulted in an increase to the value of investments of £135.920m. We have gained sufficient and appropriate assurance over the completeness and accuracy of this amendment.	Dark Purple

Assessment

- Dark Purple We identified a material misstatement with the estimate
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

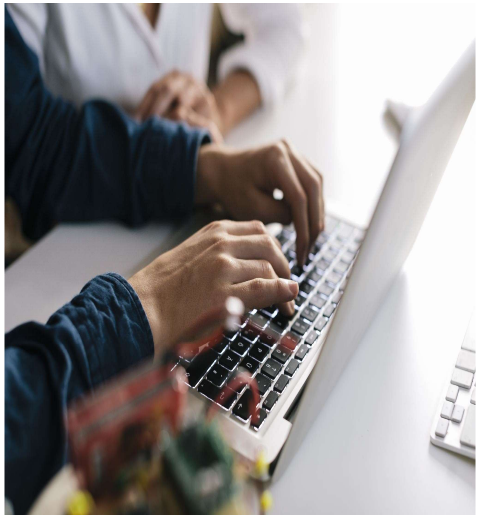
Area	Summary of management's approach	Audit Comments	Assessment
Valuation of Direct Property	The Pension Fund has investments in directly held investment properties that in total are valued on the balance sheet as at 31 March 2021 at £464m. In order to determine the value, management engage independent RICs qualified valuers, Savills, to calculate the fair value of the properties on the basis of their Market Value. All of the properties held by the Fund were valued as at 31/3/21. The value of the investments have decreased by £8m in 2019/20, largely due to the fall in market value of certain assets (£33m), such as retail assets. This fall in value has been offset by a net £25 increase in the direct property holdings as a result of acquisitions in year. Last year's valuation report was prepared on the basis of a 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. This is not the case for this years' valuation report as property markets have started to function again, with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value. Accordingly, the 2020-21 valuation is not be reported as being subject to 'material valuation uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards.	Management determine the value of Level 3 direct property investments through placing reliance on the expertise of the property valuer. As such we have sought confirmations of year end valuations from the valuer as well as corresponding with them to understand and assess their skills, competence and independence from the Fund in valuing the property. We have also evaluated the assumptions used in the calculation of the estimate as well as the source evidence they relied upon. We compared movements in individual asset values to movements in market indices and challenged management on any movements which were outside of our expected range. As with our prior year audit, we engaged our own auditors expert to assess the instructions provided to the valuer in comparison to the requirements from CIPFA / IFRS / RICS and also to assess the valuation methodology and approach, resulting assumptions adopted and any other relevant points.	Light Purple
Level 2 investments	The Pension Fund have investments in unquoted bonds, pooled investments and derivatives that in total are valued on the balance sheet as at 31 March 2021 at £2,189m. The Fund also held investment liabilities of £442m as at 31 March 2021. The net position was £1,746m. The investments can not be easily reconciled to valuations recorded on an open exchange / market as the valuation of the investments involves some subjectivity. In order to determine the value, management rely on the information which they are given from the various fund managers. The net value of the investments has increased by £77m in 2020/21, largely due to net additions and an increase in market value.	Management determine the value of Level 2 Investments through placing reliance on the expertise of the various fund managers. As such we have sought confirmations of year end valuations from all main mandate managers and also tested a sample of unit values used to value level 2 investments to externally quoted information sources, or where not quoted, to unit values provided by the investment manager's own independent custodian. We have also consulted with our specialist valuations team in determining the appropriateness of the valuation of the derivative investments. Our valuations team are performing their own valuation of a sample of the derivatives. The gross variance for the assets is £9.52m and the gross variance on the liabilities is £5.333m. The main reason for the variances is due to differences in the pricing methodologies applied by our internal valuations team and the investment fund manager. Both of the gross variances are below Performance Materiality and so we therefore have assurance that the derivatives valuation estimate in the Fund's accounts is materially correct	Light Purple

2. Financial Statements - other communication requirements

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	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Pensions Committee. We have not been made aware of any 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. It is noted that declarations of interest have yet to be received from two members of the Pensions Committee.
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 was included separately in the Pensions Committee papers. We have not requested any additional specific representations from management

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested direct confirmations from the Fund's bankers, custodian and all main mandate fund managers, plus a sample of managers of alternative investments. All confirmations have been received in relation to valuation statements and audited accounts. We did not receive all of the requested controls reports so we have amended our audit response to account for this.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements. Minor updates were made to the accounting policies as a result of our review to align them with the most recent requirements detailed in the CIPFA LGPS Example Accounts. For key management personnel we have noted that the Fund has used contributions as an estimate for post-employment benefits. This area is subject to discussion within the sector but the CIPFA example accounts do note that assuming that most key personnel identified will belong to the LGPS or other defined benefit pension schemes, disclosure of employer contributions payable in the period will not generally represent an accurate basis for estimating post-employment benefits. We are satisfied that readers will not be misled by the current disclosures but have discussed with management and this is an area that will be kept under review.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements

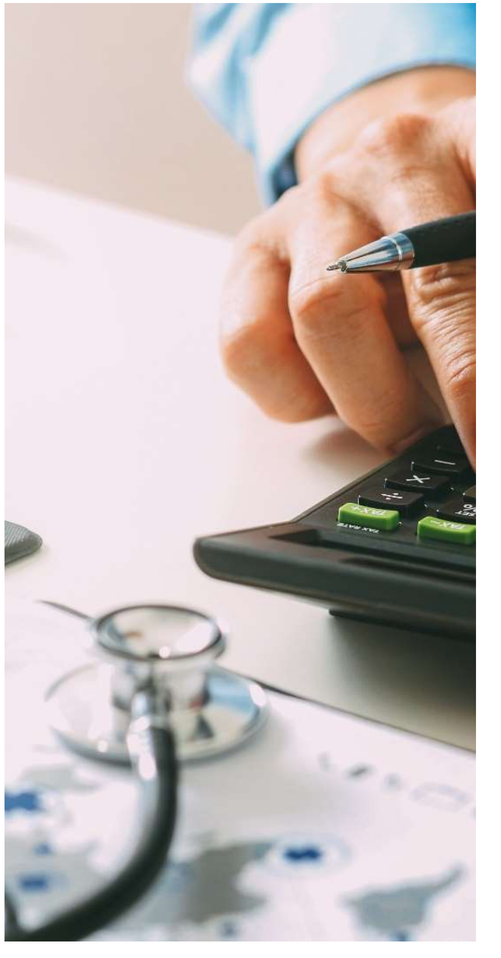
Our responsibility

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).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Pension Fund and the environment in which it operates • the Pension Fund's financial reporting framework • the Pension Fund's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Disclosures	No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix D.
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 Fund’s Annual Report with the opinion on the accounts.



3. Independence and ethics

There is one independence issue that we need to report. Chris Blakemore, who is the Assistant Manager working on the audit, has a long association with Merseyside Pension Fund. He has been part of the Pension Fund's audit team for 13 years. His first year involvement in audit was when the audit was undertaken by the Audit Commission but he has remained part of the team in every year since the audit moved to Grant Thornton in 2012. His long association creates a familiarity threat as defined by the FRC's Ethical Standards. To safeguard against this threat, the main day-to-day supervision is at manager level rather than the typical audit in-charge level and, therefore, with the amount of direction from the manager including, for example, sampling approach and selection, would safeguard any familiarity of Chris on this assignment. He is an audit in-charge by level in the department and not his role on this particular audit. We believe that these safeguards sufficiently minimise the independence risk

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

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

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

Details of fees charged are detailed in Appendix C.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

3. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following non-audit services were identified.

Service	Fees £	Threats identified	Safeguards
Audit related			
IAS19 procedures for other bodies admitted to the pension fund	£12,250 (£875 for each set of audit procedures - 14 received)	Self-Interest (because this is a recurring fee)	The fee for this work is recurring but not significant compared to the audit of the financial statements of £46,249 and in particular relative to Grant Thornton UK LLP's turnover overall. The fee is fixed based on the number of admitted bodies. Further, the work is on audit related services and integrated with the testing undertaken as part of the audit. These factors all mitigate the perceived self-interest threat to an acceptable level. The Fund has accrued for a fee of £12,250 for IAS 19 work. The amount to be recharged is to be confirmed but we are satisfied that the amount disclosed in the accounts would only differ from that which would be recharged by an insignificant amount .
		Self-review	We have not prepared the financial information on which our assurances will be used by the requesting auditor. Any decisions whether to change controls over, or edits required to, financial information arising from our findings will be a matter for informed management
		Management	We may make recommendations to the Pension Fund in respect of control weaknesses, in the same way as we would in an audit of financial statements. Informed management understand the operation of systems and can challenge our recommendations as appropriate.
Non-audit Related			
None			

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

Appendices

A. Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000
Level 3 Investments Our sample testing of level 3 investments indicated that the balance per the accounts is understated by £98m. This is principally a function of the timing of the production of financial statements. Per the Fund's accounting policies, year end values for hard to value assets frequently contain 31 December values adjusted for cash which are then assessed by the auditor to ensure that the carrying value per the financial statements is not materially different from the fair value as at the audit date. We would typically expect to see a number of small variances as a result of this, usually netting out to a below trivial (and therefore non reportable) variance. The higher than usual variance is indicative of the wider uncertainty in the markets experienced during the year as markets responded to the pandemic. The Fund has obtained updated values (as at 31 March 2021) for all level 3 investments from the custodian and management have amended the financial statements. This has resulted in an increase to the value of investments of £135.920m. We have gained sufficient and appropriate assurance over the completeness and accuracy of this amendment.	£135,920	£135,920	£135,920
Overall impact	£135,920	£135,920	£135,920

A. Audit Adjustments

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	Auditor recommendations	Adjusted?
Derivatives restatement The Net Asset Statement 2019-20 figures for derivatives have been restated to reflect the fact that they were presented net rather than gross in the prior year accounts. Per the CIPFA Code Para 7.3.2.8 - bodies should disclose the gross value of those recognised financial assets and financial liabilities. The impact of this is that Derivative Contracts on the Net Asset Statement have been increased by £79.2m with a reciprocal increase to Investment Liabilities. This results in a net nil impact overall on the total net assets of the Fund. As part of the work performed by the fund to assess the above amendment, the Fund also reviewed Note 13 of the accounts in line with the PRAG guidance for the presentation of the Investments Reconciliation Table. In line with para 5.7 of the PRAG guidance this table should show derivatives presented net rather than gross "to facilitate reconciliation". Since the 2019-20 table was already presented net there are no changes required for that disclosure. However, the fund has adjusted the 2020-21 disclosure to show the derivatives on a net basis in this note.	Management have amended the accounts to reflect the appropriate reporting requirements.	✓
Note 24 Additional Voluntary Contribution Investments At time of writing the Fund are still awaiting information from third parties in order to finalise the Additional Voluntary Contributions note.	This will be updated for the final version of the accounts.	✓
Key Management Personnel For key management personnel we have noted that the Fund has used contributions as an estimate for post-employment benefits. This area is subject to discussion within the sector but the CIPFA example accounts do note that assuming that most key personnel identified will belong to the LGPS or other defined benefit pension schemes, disclosure of employer contributions payable in the period will not generally represent an accurate basis for estimating post-employment benefits.	We are satisfied that readers will not be misled by the current disclosures but have discussed with management and this is an area that will be kept under review.	X
Interest & Currency Risk Sensitivity Analysis Per the CIPFA LGPS Example Accounts, a sensitivity analysis is required for each type of market risk to which it is exposed at the reporting date, showing how the Fund Account and Net Asset Statement would have been affected by changes in the relevant risk variable that were reasonably possible at that date. This has not been provided for interest rate risk or currency risk disclosures. Management state "the Fund's main policy for controlling risk is through diversification of asset allocation and therefore when considering risk though exposure to financial instruments the focus is on the volatility of returns from different asset classes and the correlation between asset classes. The Fund's exposure to nominal bonds is very modest. The Fund consider interest rate risk in relation to liabilities and therefore funding level. This is covered by Aon in Investment Monitoring Working Party reports and in the accounts through the actuarial report."	We accept management's response though note the disclosure is not fully in line with CIPFA LGPS Example Accounts requirements.	X
Minor Disclosure improvements Our audit identified a small number of minor disclosures which have been updated to align with the recommended disclosures made in the CIPFA LGPS example accounts: - Amendments made to Investment Manager Costs and Valuation of Investments accounting polices to reflect the latest guidance/requirements per the CIPFA LGPS model accounts - Note 2 has been updated to include reference to Accounting Standards issued but not yet adopted - Minor amendments have been made to improve the readability of the Annual Report - Related Party disclosures for Wirral Council Charges have been updated from £4.0 million. (2019/20 £3.9 million) to £3.9m and (2019/20 £4m).	Management have amended the accounts	✓

A. Audit Adjustments

Impact of unadjusted misstatements

At the time of writing this report, there have been no unadjusted misstatements identified.

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit, as reported in our 2019/20 Audit Findings Report to Those Charged with Governance, which had not been made within the final set of 2019/20 financial statements. We are satisfied that this issue has no ongoing impact for the 2020/21 audit.

Detail	Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
Valuation of level 3 investments Our testing of level 3 investments indicated that the balance was overstated due to the Fund using valuations as at 31/12/19 (the latest available at the time of preparing the accounts) for some investments and not valuations as at 31/3/2020. The value of the overstatement error is £16.021m. Since this amount relates only to investment valuations included in our sample we have extrapolated the potential difference across the remainder of the level 3 investments balance which identified a possible extrapolated difference of £30.741m. As the figure is an extrapolation it is not possible to adjust for it and management have determined not to undertake additional work to quantify exact differences on the basis that the difference is not material.	(£30,741)	(£30,741)	(£30,741)	This was an extrapolation based on sample testing of Level 3 assets intended as an indicative value to aid members' understanding of the financial statements as opposed to a precise proposed adjustment. Overall, our assessment was that the financial statements were not materially misstated and therefore no adjusting entry is required.
Overall impact	(£30,741)	(£30,741)	(£30,741)	

B. Action plan – Audit of Financial Statements

We have identified one recommendation for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
	During our audit of level 3 investments, it was identified that service auditor control reports are not obtained and reviewed by management for all investment managers used. Management assert that initial Due Diligence and ongoing discussions between Merseyside Pension Fund and the Investment Managers takes place which covers the controls in operation. As part of quarterly valuation processes, management also review internal controls for any outlier investment manager valuations on a sample basis. Management also obtain reports from investment managers on an exception basis where there has been a failure with internal controls. There is a risk that controls in place at investment fund managers may have changed since the point in time which the initial Due Diligence was undertaken and that it is best practice to ensure that there is documented evidence confirming that investment fund managers are maintaining effective controls over the valuation of Merseyside Pension Fund's assets. There are compensating controls in place which reduce this risk; however, they do not cover all investment managers. Therefore, gaps in assurance remain.	It is recommended that Management obtain and review a service auditor controls report for each investment manager as part of the financial statements closedown procedures. Where investment managers do not have a service auditor control report covering the audited period, Management should obtain sufficient alternative evidence to satisfy themselves that appropriate controls were in operation for the period. **Management response** Management recognise there is a potential gap in assurance. We will discuss with the external auditors on how best to address the issue due to the number of investment fund managers which are used by the Fund and the potential impact on the Pension Fund's resources. A further update on progress made will be included on future External Audit reports presented to the Pensions Committee.

Controls

- High – Significant effect on financial statements
- Medium – Potential effect on financial statements
- Low – Best practice

C. Fees

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

Audit fees	Proposed fee	Final fee
Pension Fund Audit	£46,249	£51,249
Total audit fees (excluding VAT)	£46,249	£51,249

Non-audit fees for other services	Proposed fee	Final fee
IAS19 Assurance Letters (£875 per letter – 14 expected)	£12,250	£12,250
Total non-audit fees (excluding VAT)	£12,250	£12,250

The proposed fee reconcile to the financial statements.

The additional fees included in the final fee relate to costs associated with engaging our internal valuations team to provide assurance over the valuation of derivatives held by the Fund. The cost of this is £2,000. We also incurred additional costs due to the time spent chasing up Fund Managers to provide us with information requested. The cost of this is £3,000.

PSAA wrote to s.151 officers in August 2021 to inform them of an additional £5.6m of funding being made to local government bodies for the additional costs of 2019/20 external audits. Merseyside Pension Fund will be receiving £5,600 of this allocation.

In addition, the Ministry of Housing, Communities & Local Government is distributing a further £15m in relation to 2020/21 external audit fee costs. Merseyside Pension Fund is due to receive £14,640 of this allocation.

D. Draft Audit opinion

Our draft audit opinion is included below. We anticipate we will provide the Pension Fund with an unmodified audit report

Independent auditor's report to the members of Wirral Metropolitan Borough Council on the pension fund financial statements of Merseyside Pension Fund

Opinion

We have audited the financial statements of Merseyside Pension Fund (the 'Pension Fund') administered by Wirral Metropolitan Borough Council (the 'Authority') for the year ended 31 March 2021 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 2020/21.

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 2021 and of the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay promised retirement benefits after the end of the fund year;

• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; 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, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. 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.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Chief Finance Officer with respect to going concern are described in the 'Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements' section of this report.

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Pension Fund's financial statements, our auditor's report thereon, and our auditor's report on the Authority's financial statements. Our opinion on the Pension Fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

D. Draft Audit opinion

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 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 the 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 (2020) 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, for the financial year for which the financial statements are prepared is consistent with the Pension Fund 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 in relation to the Pension Fund.

Responsibilities of the Authority, the Chief Finance Officer 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 Chief Finance Officer. The Chief Finance Officer 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 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer 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 Chief Finance Officer 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 & Risk Management Committee is Those Charged with Governance for the Pension Fund. 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.

D. Draft Audit opinion

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

• We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

• We enquired of senior officers and the Pensions Committee, concerning the Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;

- the detection and response to the risks of fraud; and

- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

- We enquired of senior officers, internal audit and the Pensions Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

- We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:

- Journals, in particular with regard to manual journals, posted after the year end date which have an impact on the Trust's financial position, as well as any journals made by infrequent posters or senior management personnel

- The appropriateness of assumptions applied by management in determining significant accounting estimates, such as the valuation of level 2 and 3 investments as well as the valuation of directly held investment properties.

• Our audit procedures involved:

- evaluation of the design effectiveness of controls that the Chief Finance Officer has in place to prevent and detect fraud;

- journal entry testing, with a focus on manually posted journals such as accruals, journals posted which have a significant impact on the financial position, journals which were posted by infrequent or unusual users, journals posted after the year-end, journals which are individually material, and any journals posted by senior financial reporting personnel;

- challenging assumptions and judgements made by management in its significant accounting estimates in respect of level 2 and 3 investments and directly held investment property.

- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

• These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

• The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to the valuation of level 2 and 3 investments and directly held investment property.

• Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation

- knowledge of the local government pensions sector

- understanding of the legal and regulatory requirements specific to the Pension Fund including:

- the provisions of the applicable legislation

D. Draft Audit opinion

- guidance issued by CIPFA, LASAAC and SOLACE

- the applicable statutory provisions.

• In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.

- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

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.

[Signature]

Andrew Smith, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Manchester

[Date]

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