The Audit Findings for Merseyside Pension Fund

Year ended 31 March 2020

9 November 2020

Contents

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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 2020. The Audit & Risk Management Committee of Wirral Council are who we have determined are those charged with governance but and the Pensions Committee is a sub-group whom we have determined we are required to communicate with.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on public services. For Merseyside Pension Fund however the impact on the normal operations of the Fund has not been overly significant. There have been no significant increases in staff sickness and the Fund were able to prepare the draft accounts by 31 July 2020, well in advance of the national deadline. It is noted however that all non-critical formal committee meetings at the Fund and the Administering Authority were cancelled due to Covid-19 with the fund's governance arrangements being monitored via delegated powers and informal committee briefings. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.	We issued our original Audit Plan in March 2020. We have updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an Audit Plan Addendum dated 12 May 2020. In that addendum we reported an additional financial statement level risk in respect of Covid -19. Further detail is set out on page 5. Restrictions for non-essential travel has meant both Pension Fund and audit staff have had to adapt to new working arrangements such remote accessing financial systems, video calling and gaining assurance over the completeness and accuracy of information produced by the entity remotely.
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 work was completed remotely during August - October. Our findings are summarised on pages 4 to 12. We have identified an adjustment to the financial statements which resulted in a £5.8m adjustment to the Pension Fund's reported financial position. Audit adjustments are detailed in Appendix A. Our work is substantially complete and there are no matters of which we are aware at this time that would require modification of our audit opinion (Appendix C) or material changes to the financial statements, subject to appropriate resolution of the outstanding matters and work-in-progress areas of the audit detailed on page 4. In addition to the list on page 4 we will also: • need to complete a review of the final set of financial statements and annual report, and • require receipt of the signed management representation letter Our anticipated audit report opinion will be unqualified but we are proposing the inclusion of an Emphasis of Matter paragraph highlighting asset valuation material uncertainties. This would not affect our opinion that the statements give a true and fair view of the Fund's financial position and its income and expenditure for the year. Such a paragraph is added to indicate a matter which is disclosed appropriately in the Fund's financial statements but which we consider is fundamental to a readers' understanding of the financial statements.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

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

As auditors 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; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have had to alter our audit plan, as communicated to you on 12 May 2020, to reflect our response to the Covid-19 pandemic, as follows;

- We added the impact of Covid-19 as a significant risk to our audit
- 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.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Wirral Council Audit & Risk Management Committee meeting ion 23 November 2020, as detailed in (Appendix C). These outstanding items include:

- Completion of our procedures over the valuation of all fair value levels of investments (particularly level 3's which is a significant risk)
- Receipt of responses from our technical team on the valuation and presentation of derivatives
- Completion of procedures on minor disclosure notes
- Final review of the file by the Review Partner
- Updating our post balance sheet events to the date of the opinion.

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.

	Pension Fund (£)	Qualitative factors considered
Materiality for the financial statements	£88.8m	We have determined materiality for the audit to be £88.8m (equivalent to 1% 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	£66.6m	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	£4.441m	This equates to 5% of materiality. This is our reporting threshold to the Pension Fund Committee and Wirral's Audit & Risk Committee for any errors identified.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid–19	We worked with management to understand the implications which the response to the Covid-19 pandemic has had on the organisation's ability to prepare the financial statements and update financial forecasts, and assessed the implications for our materiality calculations which ultimately remained the same. We also liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose. In response to this risk we: • worked with management to understand the implications the response to the Covid-19 pandemic had on the pension fund's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 31 July 2020; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as the asset valuations; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • engaged the use of an auditor's experts to assist with our assessment of the disclosure of directly held property valuations. As detailed against the other affected significant risk areas, we extended and enhanced audit procedures in areas considered to be particularly at risk, such as Level 3 asset valuations and Directly Held Property as a sub sector of the same. We also enhanced our procedures around Information Produced by the Entity (IPE) to ensure that technology such as screen sharing and video calls were utilised to gain additional assurances over reports produced by the entity where lockdown restrictions meant we could not be physically present or in relation to prime documents where there may have been considered a risk of manipulation. As referred to in more detail under the valuation of directly held property significant risk, the Fund's direct property valuers have declared a *'material uncertainty*' in relation to their valuation as at 31 March 2020. The Fund have appropriately disclosed this material uncertainty in Note 5 of the accounts as well as providing a sensitivity analysis to allow users of the accounts to assess the potential impact that changes in the valuation of these assets can have on the net assets of the fund. We are therefore proposing the inclusion of an Emphasis of Matter paragraph highlighting the valuation material uncertainty disclosures associated with the Fund's direct property holdings as a result of Covid-19. Our opinion is not modified in this respect.
The revenue cycle includes fraudulent transactions (rebutted)	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 as the Administering Authority of Merseyside Pension Fund, mean that all forms of fraud are seen as unacceptable. Our assessment in this area has not changed during the course of audit work performed on the 2019/20 draft financial statements. Therefore we do not consider this to be a significant risk for Merseyside Pension Fund. Whilst not a significant risk, as part of our audit work we did undertake work on material revenue items. Our work did not identify any matters that would indicate our rebuttal was incorrect.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Management over-ride of controls	In response to this risk 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 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. As a result of the pandemic and remote working arrangements, additional scrutiny was applied to IPE (as previously described) and we ensured that journals designed to affect financial performance at year end were included in our sample. We do not have any concerns to report in this area.
Valuation of Directly Held Property	In response to this risk we have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • independently requested year-end confirmations from investment managers, evaluated the competence, capabilities and objectivity of the valuation expert • discussed with the valuer the basis on which the valuations were carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Fund's valuer's report and the assumptions that underpin the valuation. • tested, on a sample basis, revaluations made during the year to ensure they had been input correctly into the Fund's financial records. • in addition to the stated procedures per our audit plan, in response to wider market uncertainty relating to property valuations, we have engaged an auditor's expert (in this case, a firm of RICS qualified surveyors) 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. As a result of the Covid-19 pandemic, the Fund's valuers have declared a 'material uncertainty' in relation to their valuation as at 31 March 2020. This is in response to the global impact of Covid-19 generating an unprecedented set of circumstances on which Savills have had to base their valuation, and as a result they declared that a higher degree of caution should be attached to the valuation than would normally be the case. This material uncertainty is being declared by the majority of RICS compliant valuers nationally and is not specific to the Fund. The Fund have made appropriate reference to this 'material uncertainty' within Note 5 to the accounts. They have assessed the potential impact to the Fund and have provided a sensitivity analysis to allow users of the accounts to assess the potential impact that changes in the valuation of these assets can have on the net assets of the fund. We are therefore proposing the inclusion of an Emphasis of Matter paragraph highlighting the valuation material uncertainty disclosures within the Fund's financial statements associated with the Fund's direct property as a result of Covid-19. Our opinion is not modified in this respect.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of Level 3 Investments	In response to this risk 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 were 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 agreed these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2020 with reference to known movements in the intervening period • 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 testing of level 3 investments indicated that the balance was overstated. This is principally a function of the timing of the production of financial statements and the particular challenges faced in the markets in March 2020. 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 at the balance sheet date, but is not a material difference and does not indicate any weakness in management's arrangements for estimating investment values at year end. The factual overstatement error identified in our sample testing is £16.021m. We have extrapolated this error across the remainder of the population which was not tested and determined an extrapolated uncertainty 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. Further detail can be found in Appendix A. Management has disclosed within Note 5 of the accounts the impact that Covid-19 has caused in adding a further degree of uncertainty to the year end values recorded in the financial statements. Management also confirmed that the investment managers for the funds have factored an adjustment for Covid-19 into their valuations. **Our audit work to date has not identified any other issues in respect of the valuation of Level 3 investments. At the time of writing this report there are four investments (value £61.871m) for which we are unlikely to obtain audited accounts for. We are therefore in discussion with the Fund over alternative audit procedures which we need to perform to gain assurance over the valuation of these investments.**

Significant findings – going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary	Auditor commentary
Management's assessment process Officers have a reasonable expectation that the services provided by the Fund will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. Management have provided us with a forecast Fund Account including income, expenditure and asset values for the next 3 years. This forecast includes an assessment of: • the estimated impact of Covid-19 on income streams • the impact of the updated contributions rates as a result of the 2019 triennial valuation	• Whilst the Fund’s financial statements are prepared in accordance with CIPFA’s Code of Local Authority Accounting the PRAG Pension SORP provides helpful additional guidance for defined benefit schemes in noting that even where a scheme is significantly underfunded it should continue to be treated as a going concern for accounting purposes unless a decision has been made to wind up the scheme. As noted the Scheme is currently 101% funded on a solvency basis based upon the latest triennial valuation and has sufficient funds to continue meeting benefit payments for the medium to long term (see below). In respect of any such decision for wind up the LGPS is a statutory scheme that can only be wound up by Government and there are currently no intentions to wind up the Merseyside Pension Fund. • Management’s forecasts supporting the use of the going concern basis, prepared by the Fund’s Head of Finance & Risk, were sufficiently detailed and based on appropriate assumptions.
Work performed We have assessed the judgment made by management as well as the forecasted financial information which they have provided us. We challenged the assumptions applied by management in the forecasts and applied sensitivity analysis to those assumptions to consider the effect of estimation uncertainty on those assumptions. Our findings support the Fund’s assessment that the use of the going concern basis of preparation is appropriate.	• The Net Assets of the Fund at 31/3/20 were £8.6bn. This is approximately 23 times the annual benefit payments due. • The Fund has £4.053bn of Level 1 assets. These assets are liquid and can be accessed quickly for cashflow purposes if required. • The Local Government Pension Scheme is a statutory scheme and there are no events or conditions that would indicate the winding up of the scheme. • No material uncertainties related to going concern were identified • No issues have been identified from the work performed
Concluding comments	The Fund have included, within Note 6 of the accounts, a non-adjusting post balance sheet event in relation to the impact of Covid-19 on the fund and the uncertainties it presents. The use of the going concern basis is appropriate and therefore our audit opinion is unmodified in this respect.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	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 2020 at £1,898m. 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 £206m in 2019/20, largely due to the net impact of acquisitions exceeding disposals and net losses on investments. Management has disclosed within note 5 of the accounts the impact that Covid-19 has caused in adding a further degree of uncertainty to the year end values recorded in the financial statements.	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 to allow the reader to understand the potential impact on the accounts should the value of those estimates change. **Our work on level 3 investments is still ongoing. At the time of writing this report we still need to conduct alternative procedures where audited accounts are not available for a small number of investments.**	● Green
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 2020 at £1,663m. 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 value of the investment has decreased by £107m in 2019/20, largely due to net disposals and a fall 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 technical team in determining the appropriateness of the valuation of the derivative investments. At the time of writing we are still awaiting their feedback. We have identified two issues to date with regards to level 2 investments. Firstly, derivative swaps positions of £5.843m was incorrectly omitted from the draft accounts. Secondly, the purchases and sales of derivatives within Note 13 was prepared on a net rather than gross basis. Both of these items will be amended in the final set of accounts, see appendix A for further detail. **At the time of writing we are still finalising our work on level 2 investments.**	● Green

Assessment

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

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
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 2020 at £472m. 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 31/3/20. The value of the investments have decreased by £49.8m in 2019/20, largely due to the net impact of purchases and sales, and also a fall in market value. The valuers report has been prepared on the basis of a 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. The Fund have appropriately referred to this within note 5 of the accounts and have provided a sensitivity analysis to allow users of the accounts to assess the potential impact that changes in the valuation of these assets can have on the net assets of the fund.	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 a result of the added uncertainty caused by Covid-19 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.	● Green

Assessment

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

Other matters for communication

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

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Pensions and Audit and Risk Management Committees. 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. The Fund has included within note 23, disclosures relating to MPF fund managers with roles on investment boards who do not technically meet the definition of a related party under IAS 24. However, the Fund have disclosed the nature of these relationships and related transactions for transparency.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Pension Fund, which is included in the Pension Fund Committee Papers. We have requested specific representations in respect of the 'material valuation uncertainty' disclosures (referred to on pages 6 and 10) and management's proposals not to make adjustments for the matters reported on page 7.
Confirmation requests from third parties	We requested direct confirmations from the custodian and all main mandate fund managers, plus a sample of managers of alternative investments. As detailed on page 9, we have received confirmations/audited accounts from most managers and management are assisting us to chase those confirmations that remain outstanding.
Disclosures	Our review found no material omissions in the financial statements. 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 mislead 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.
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.

Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix B.

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.

	Fees £	Threats identified	Safeguards
Audit related			
IAS19 procedures for other bodies admitted to the pension fund	£875 per letter (13 expected)	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 £34,049 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 £9,800 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 Pension Fund Committee None of the services provided are subject to contingent fees.

Appendix 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 2020.

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000
Valuation of Level 2 Derivative Investments The draft accounts incorrectly omitted derivative total return swap investments of £5.843m from the Net Asset Statement and related Investment Notes. Management have confirmed that the accounts will be amended to take account of these investments.	£5,843	£5,843	£5,843
Overall impact	**£5,843**	**£5,843**	**£5,843**

Impact of prior year unadjusted misstatements

There were no adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Wirral Council Audit and Risk Management Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Pension Fund Account £'000	Net Asset Statement £'000	Impact on total net assets £'000	Management's 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)	As detailed earlier in the report, this is 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 is that the financial statements are not materially misstated and therefore no adjusting entry is required.
Overall impact	**(£30,741)**	**(£30,741)**	**(£30,741)**	

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/amendment	Auditor recommendations	Adjusted?
General disclosures throughout the accounts Our review and audit of the draft accounts identified a small number of presentational changes to enhance the clarity of the accounts for the reader.	We have shared the areas for presentational amendments and these have been reflected in the revised accounts. We also accept that management provided the accounts to us a month before the deadline so we could commence our audit and so limited the time available for managements own reviews of the accounts for presentational matters.	✓
Covid-19 and Estimation Uncertainty disclosures Our review of the draft accounts and reference to the FRC's Thematic Review of the Financial Reporting effects of Covid-19 identified areas of the accounts where enhanced disclosures could be made to allow the user of the accounts to greater understand the impact of Covid-19 on the Fund's accounts.	We shared the areas for improvement with management. Further disclosure has been added to the revised accounts within the Post Balance Sheet Events note, and the Estimation Uncertainty note.	✓
Note 13 Investments The Investments note in the draft accounts included amounts for purchases and sales of derivative investments at the net value. These items should be included in the note as gross value. The impact of this is an understatement of purchases and sales of £338.356m. The purchases and sales recorded within note 13 of the draft accounts also included some transactions which were transfers between portfolios as opposed to settled purchase/sales trades. These items should not be recorded as purchases and sales within this note. The impact of this is an adjustment to both figures of £167.737m.	Management have confirmed that they will amend the accounts for both of the issues identified.	✓
Note 13b Analysis of Derivatives Related to the adjusted misstatement detailed on page 13, further disclosures are needed for the derivative swaps which were not accounted for by the fund in the draft accounts.	Management are amending the accounts to add in the additional disclosures required.	✓

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	£34,049	£38,249
Total audit fees (excluding VAT)	**£34,049**	**£TBC***

***We have amended our approach communicated to you in our audit plan to address the risk to the valuation of direct property as a result of the impact of Covid-19. As such we have engaged our own valuation expert to assist us in gaining assurance over the valuation of your directly held investment properties. The cost to the audit of this change in approach is expected to be £4,200.**

The proposed fees reconcile to the financial statements. The Fund have accrued £34k for audit fees and £10k for audit related non-audit fees based on our audit plan and will account for the additional fees that arise in the subsequent year, we are happy that this does not materially mispresent the position in your financial statements.

Non-audit fees for other services	Proposed fee	Final fee
IAS19 procedures for other bodies admitted to the pension fun	£875 per letter	TBC
Total non- audit fees (excluding VAT)		**£TBC**

Appendix C

Audit opinion

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 2020 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:
• give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and of the amount and disposition at that date of the fund's assets and liabilities, 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 2019/20; and
• have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the pension fund financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Director of Resources and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties. However, no audit should be expected to predict the unknowable factors or all possible future implications for a fund associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
• the Director of Resources' use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
• the Director of Resources' has not disclosed in the pension fund's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

In our evaluation of the Director of Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the pension fund financial statements shall be prepared on a going concern basis, we considered the risks associated with the fund's operating model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the fund's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the fund will continue in operation.

Emphasis of Matter - effects of Covid-19 on the valuation of property investments

We draw attention to Note 5 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's property investments as at 31 March 2020. As, disclosed in Note 5 to the financial statements, the outbreak of Covid-19 has impacted global financial markets and market activity has been impacted. A material valuation uncertainty was therefore disclosed in the pension fund's property valuation reports and consequently, less certainty, and a higher degree of caution should be attached to their valuation than normally would be the case. Our opinion is not modified in respect of this matter.

Other information

The Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report, and the Annual Governance Statement, other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's 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.

Appendix C

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's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

Matters on which we are required to report by exception

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

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

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

As explained more fully in the Statement of Responsibilities, 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 Director of Resources. The Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund's financial statements, the Director of Resources is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

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

Birmingham

[Date]

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