



# Merseyside Pension Fund Audit Plan

Year ending 31 March 2024

June 2024



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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.

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# Key matters



## National context

The national and international economic context continues to present challenges for pension funds. Inflationary pressures at home and abroad and wider geo-political issues mean there is volatility in global markets with a consequential impact on the investments held by pension funds.

Triennial valuations for local government pension funds have been published. These valuations, which are as at 31 March 2022, provide updated information regarding the funding position of local government pension funds and set employer contribution rates for the period 2023/24 – 2025/26. For Merseyside Pension Fund, the valuation was undertaken by Mercers, and showed that 31 March 2022 there was a surplus of £631m against the Fund's solvency funding target.

At Merseyside Pension Fund, a small number of employers have opted to make an early payment of their employer contributions and these will be reflected in the Pension Fund's 2023/24 contributions – note employers at MPF paid their contributions upfront for a 3 year period at the beginning of 2023/24.

In November 2023, the Department for Levelling Up, Housing and Communities (DLUHC) published the outcome of their consultation on local government pension scheme investments. The government will now implement proposals which include revised investment strategy statement guidance that funds should transfer all assets to their pool by 31 March 2025, regulation to require funds to set a plan to invest up to 5% of assets in levelling up the UK and revised investment strategy statement guidance to require funds to consider investments to meet the government's ambition of a 10 % allocation to private equity. The Chancellor has also outlined plans that local government pension funds will be invested in pools of £200bn or more by 2040.

DLUHC have also consulted on proposals to require local government pension scheme administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). Climate risk (TCFD) reporting in the LGPS is expected to commence from 1 April 2024, with first reports due in late 2025.

In planning our audit, we have taken account of this national and international context in designing a local audit programme which is tailored to your risks and circumstances.

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# Key matters - continued

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## Audit Reporting Delays

Against a backdrop of ongoing audit reporting delays, in October 2023 PSAA found that only five local government accounts had been signed by the September deadline. In June 2023 the Public Accounts Committee (PAC) also produced a report setting out their concerns over these audit reporting delays. We issued our report [About time?](#) In March 2023 which explored the reasons for delayed publication of audited local authority accounts.

Local authorities which administer local government pension funds are required to publish full pension fund accounts in the same document as their local authority accounts. This requirement means that the audited accounts of the host authority and related fund cannot be finalised until both audits have been completed. This co-dependency has compounded delays in the conclusion of pension fund audits and publication of audited accounts and annual reports.

In our view, to enable a timely sign off of the financial statements, it is critical that draft local authority accounts are prepared to a high standard and are supported by strong working papers.

## Changes in IT systems

In December 2023, the Pension Fund replaced their Oracle general ledger system with a new ledger system, Oracle Fusion, which is a cloud-based system. We have identified the completeness and accuracy of the data migration to the new system as a significant audit risk within page 11 of this Audit Plan.

# Key matters - continued

## Our Responses

- In 2017, PSAA awarded a contract of audit for Merseyside Pension Fund to begin with effect from 2018/19. This contract was re-tendered in 2023 and Grant Thornton have been re-appointed as your auditors. As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out in this Audit Plan has been agreed with Management.
- To ensure close working with our local audited bodies and an efficient audit process, our preference as a firm is to work on site with you and your officers. Please confirm in writing if this is acceptable to you, and that your officers will make themselves available to our audit team. This is also in compliance with our delivery commitments in our contract with PSAA.
- We offer a private meeting with the Chief Executive twice a year, and with the Director of Finance/Investments quarterly as part of our commitment to keep you fully informed on the progress of the audit.
- At an appropriate point within the audit, we would also like to meet informally with the Chair of your Audit and Risk Management Committee, to brief them on the status and progress of the audit work to date.
- We will continue to provide you and your Audit and Risk Management Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit and Risk Management Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretations, to discuss issues with our experts and to facilitate networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- There is an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to ongoing financial pressures. We are required to identify a significant risk with regard to management override of controls.
- We identified a significant audit risk relating to the valuation of level 3 investments, valuation of direct held property and for management override of control, in particular journals, management estimates and transactions outside the course of business.
- We identified a significant audit risk relating to the data migration to the new ledger - Oracle Fusion. Our IT auditors will review whether the Pension Fund's process for ensuring the data migration was complete and accurate and will gain an understanding of the security management, technology acquisition and technology infrastructure. Additionally, we will perform testing of the data migration.

# Introduction and headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Merseyside Pension Fund (‘the Pension Fund’) for those charged with governance.

## Respective responsibilities

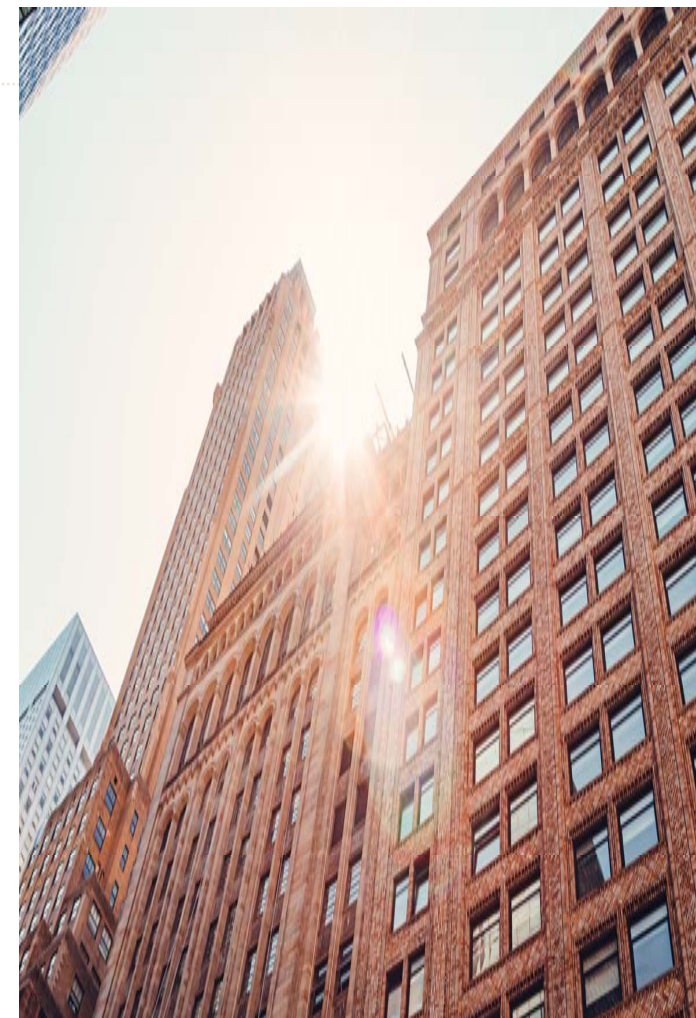
The National Audit Office (‘the NAO’) has issued a document entitled the Code of Audit Practice (‘the Code’). This summarises where the responsibilities of auditors begin and end and what is expected from audited bodies. Our respective responsibilities are also set out in the agreed the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Merseyside Pension Fund. We draw your attention to these documents.

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Pension Fund’s financial statements that have been prepared by management with the oversight of those charged with governance (the Audit & Risk Management Committee).

The audit of the financial statements does not relieve management or the Audit & Risk Management Committee of your responsibilities. It is the responsibility of the Pension Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Pension Fund is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Pension Fund's business and is risk based.



# Introduction and headlines

## Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management over-ride of controls
- Valuation of Level 3 Investments
- Valuation of Directly Held Property
- Incomplete or inaccurate financial information transferred to the new general ledger

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

## Materiality

We have determined planning materiality to be £94m (PY £97m) for the Pension Fund, which equates to 0.90% of your gross investment assets as at 31 January 2024. We have determined a lower specific planning materiality for the Fund Account of £45m (PY £43.8m), which equates to 10% of prior year gross expenditure on the fund account.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. As part of our risk assessment, we have considered the impact of unadjusted prior period errors. We have set performance materiality at 75% of headline materiality (£70.5m).

Clearly trivial has been set at £4.7m (PY £4.85m).

## Audit logistics

Our interim visit will take place during March – April 2024 and our final visit will take place during July – September 2024. Our key deliverables are this Audit Plan and our Audit Findings Report.

Our proposed fee for the audit will be £137,384 (PY: £82,525) for the Pension Fund, subject to the Pension Fund delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input.

Our understanding is that the custodian independently values the Pension Funds Level 1 Investments. For these investments that the custodian independently value, this means we will be able to triangulate valuations included in the financial statements to custodian and investment manager confirmations. For those investments that the custodian does not independently value (level 2 and 3 investments), we are not able to triangulate valuations included in the financial statements to investment manager and custodian confirmations. As a result, we carry out further audit procedures to gain assurance over the valuations of these investments which includes checking the unit price to the market quoted price at the reporting date, using independent sources and checking the number of units held agrees to original supporting documentation from the issuing entity.

See page 9 for further details regarding our approach to auditing the valuation of Level 3 Investments.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

# Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
ISA240 Fraud in Revenue and Expenditure Recognition	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>We have also rebutted the presumption of fraud in expenditure recognition.</p>	<p>Having considered the risk factors set out in ISA 240 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:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Wirral Metropolitan Borough Council mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore, we do not consider this to be a significant risk for Merseyside Pension Fund.</p>
Management over-ride of controls	<p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> </ul>

‘Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.’ (ISA (UK) 315)



# Significant risks identified - continued

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 3 Investments	<p>The Fund values its investments on a quarterly basis to ensure that carrying values are not materially different from fair values at the reporting date.</p> <p>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 (£2,998 million) and the sensitivity of this estimate to changes in key assumptions.</p> <p>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.</p> <p>Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2024.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management’s processes for valuing Level 3 investments</li> <li>• review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the CIPFA Code are met</li> <li>• independently request year-end confirmations from investment managers</li> <li>• for a sample of investments, test 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. Reconcile those values to the values at 31 March 2024 with reference to known movements in the intervening period and</li> <li>• in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• test revaluations made during the year to see if they had been input into the Pension Fund’s financial records</li> <li>• where available review investment manager service auditor report on design effectiveness of internal controls</li> </ul>

Management should expect engagement teams to challenge areas that are complex, significant or highly judgmental. This may be the case for accounting estimates and similar areas. Management should also expect to provide engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies, with reference to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management’s assumptions and request evidence to support those assumptions.

# Significant risks identified - continued

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Valuation of Directly Held Property</p>	<p>The Fund values its directly held property on a quarterly basis to ensure that the carrying value is not materially different from the fair value at the financial statement date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£470 million) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management have engaged the services of an external property valuer to estimate the current value as at 31 March 2024.</p> <p>We therefore identified valuation of directly held property as a significant risk for the audit, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management’s processes and assumptions for the calculation of the estimate, the instructions issued to valuation and the scope of their work</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• write out to them and discuss with the valuer the basis on which the valuation was carried out</li> <li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>• engage our own valuer to assess the instructions to the Fund’s valuer, the Fund’s valuation report and the assumptions that underpin the valuation.</li> <li>• test, on a sample basis, revaluations made to ensure they have been input correctly into the Fund’s financial records</li> <li>• review investment manager service auditor reports on design effectiveness of internal controls where these are available.</li> </ul>

# Significant risks identified - continued

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Incomplete or inaccurate financial information transferred to the new general ledger</p>	<p>In December 2023, the Fund implemented a new general ledger system for the 2023/24 financial year-end. The Fund has moved from Oracle R12 to Oracle Fusion, a cloud-based system.</p> <p>When implementing a new significant accounting system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a risk over the completeness and accuracy of the data transfer from the previous ledger system. There are also potential challenges with control account reconciliations and the availability of detailed transaction reports required for audit testing.</p> <p>We therefore identified the completeness and accuracy of the transfer of financial information to the new general ledger system as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>engage our IT audit specialists to assist with completing an information technology (IT) environment review. This will include gaining an understanding of the changes to any processes and controls within the new system, documenting and evaluating the design and implementation of controls within the new general ledger system; and</li> <li>mapping the closing balances from the previous general ledger to the opening balance position in the new ledger to ensure accuracy and completeness of the financial information.</li> </ul>

# Other matters

## Other work

The Pension Fund is administered by Wirral Metropolitan Borough Council (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements.

Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Pension Fund, such as:

- we read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- we consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2023/24 financial statements, consider and decide upon any objections received in relation to the 2023/24 financial statements;
  - issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
  - application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
  - issuing an advisory notice under Section 29 of the Act.
- we carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

## Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

# 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.

Matter	Description	Planned audit procedures
1	<p><b>Determination</b></p> <p>We have determined financial statement materiality by applying a reasonable measurement percentage to an appropriate benchmark. Materiality at the planning stage of our audit is £94m, which equates to 0.9% of your gross investment assets as at 31 January 2024.</p>	<p>We determine planning materiality in order to:</p> <ul style="list-style-type: none"> <li>– establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements;</li> <li>– assist in establishing the scope of our audit engagement and audit tests;</li> <li>– determine sample sizes and</li> <li>– assist in evaluating the effect of known and likely misstatements in the financial statements.</li> </ul>
2	<p><b>Other factors</b></p> <p>An item does not necessarily have to be large to be considered to have a material effect on the financial statements.</p>	<p>An item may be considered to be material by nature where it may affect instances when greater precision is required.</p> <p>We have determined a lower specific planning materiality for the Fund Account of £45m (PY £43.8m), which equates to 10% of your prior year gross expenditure on the fund account. The lower specific materiality for the fund account will be applied to the audit of all fund account transactions, except for investment transactions, for which materiality for the financial statements as a whole will be applied.</p>

# Our approach to materiality

Matter	Description	Planned audit procedures
3	<p><b>Reassessment of materiality</b></p> <p>Our assessment of materiality is kept under review throughout the audit process.</p>	<p>We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.</p>
4	<p><b>Other communications relating to materiality we will report to the Audit and Risk Management Committee</b></p> <p>Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Risk Management Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p>	<p>We report to the Audit and Risk Management Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.</p> <p>In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £4.7m (PY £4.85m) for the net asset statement and £2.27m for the Fund Account (PY £2.200m). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit &amp; Risk Management Committee to assist it in fulfilling its governance responsibilities.</p>

# 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.

	Amount (£)	Qualitative factors considered
<b>Materiality for the financial statements</b>	£94m	<p>This equates to 0.9% of gross investment assets at 31/1/24. In setting materiality we consider:</p> <ul style="list-style-type: none"> <li>• the ownership structure of the Fund</li> <li>• the control environment of the Fund</li> <li>• the Fund's business environment</li> <li>• whether the Fund has any complex investment arrangements</li> <li>• any other sensitivities that would require materiality to be reduced</li> </ul>
<b>Materiality for the fund account</b>	£45m	This equates to 10% of prior year gross operating costs



# IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Oracle E-Business	Financial reporting	<ul style="list-style-type: none"> <li>Detailed ITGC assessment (design and implementation of controls)</li> </ul>
Oracle Fusion	Financial reporting	<ul style="list-style-type: none"> <li>Detailed ITGC assessment (design and implementation of controls)</li> </ul>
Altair	Member data Contributions and Benefits Payable	<ul style="list-style-type: none"> <li>Detailed ITGC assessment (design and implementation of controls)</li> </ul>

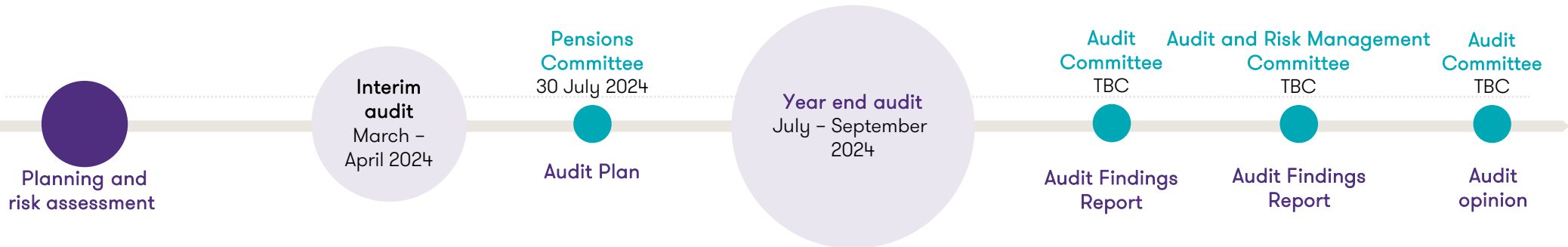


# IT audit strategy

In addition, due to the significant changes during the period, specifically the new system implementation additional audit procedures will be completed to address the additional risks of material misstatement identified.

IT system	Event	Relevant risks	Planned IT audit procedures
Oracle Fusion	New system implementation	Post migration data completeness and accuracy; system functionality operating to design.	<ul style="list-style-type: none"> <li>• Obtain an understanding of the process used for new system implementation</li> <li>• audit of data migration activity and results</li> </ul> <p>Understand the following controls for the Oracle Cloud:</p> <ul style="list-style-type: none"> <li>• security management - user access management arrangements (starters, movers &amp; leavers); password controls.</li> <li>• technology acquisition, development and maintenance - change management arrangements including policy; change authorization, development, testing, and approval arrangements etc.</li> <li>• technology infrastructure - detail of any interface processing, batch job monitoring, incident management etc</li> <li>• new system implementation testing</li> </ul>

# Audit logistics and team



## John Farrar, Key Audit Partner and Engagement Lead

John leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, ensuring the highest professional standards are maintained and a commitment to add value the Fund.



## Stuart Basnett, Engagement Manager

Stuart plans, manages and leads the delivery of the audit, is your key point of contact for your finance team and is your first point of contact for discussing any issues.



## Curtis Wallace, Engagement In-charge

Curtis assists in planning, managing and delivering the audit fieldwork, ensuring that the audit is delivered effectively. He supervises and co-ordinates the day to day running of the audit.

## Audited Entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit, you need to :

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are cleansed, are made available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

# Audit fees and updated Auditing Standards

Audit fees are set by PSAA as part of their national procurement exercise. In 2017 PSAA awarded a contract of audit for Merseyside Pension Fund to begin with effect from in 2018/19. This contract was re-tendered in 2023 and Grant Thornton have been re-appointed as your auditors. The scale fee set out in the PSAA contract for the 2023/24 audit is £111,554.

This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- production of the final auditor's annual report for the previous Audit Year (exception for new clients in 2023/24 only)
- production of the draft audit planning report to Audited Body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed

Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here <https://www.psa.co.uk/appointing-auditors-and-fees/fee-variations-overview/>

## Assumptions

In setting these fees, we have assumed that the Pension Fund will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.

## Updated Auditing Standards

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements (ISA 220). We confirm we will comply with these standards.

# Audit fees

	Proposed fee 2023/24
Merseyside Pension Fund Audit Scale Fee	£111,554
ISA 315 Additional Fee	£7,530
External Valuation Expert (Level 3 Directly-held Property)	£5,000
Implementation of new ledger during the year	£10,000
IAS 19 letters for employer body auditors* (3 bodies external to NAO Code Framework)	£3,300
<b>Total audit fees (excluding VAT)</b>	<b>£137,384</b>

\*Note that fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances to auditors of local government and NHS bodies should be considered work undertaken under the Code of Audit Practice for 2022/23 onwards. Provision of IAS 19 assurances to auditors of any other type of entity remains non-Code work. The additional fee for IAS 19 letters for 2023/24 relates to those bodies not covered by the NAO code.

## Previous year

In 2022/23 the scale fee set by PSAA was £32,462. The actual fee charged for the audit was £82,525.

## Relevant professional standards

In preparing our fees, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

# Independence and non-audit services

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## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

In this context, we disclose that:

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 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund.

# Independence and non-audit services

## Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
<b>Audit related</b>			
IAS 19 Assurance Letters for Admitted Bodies (14 expected however only 3 are external to the NAO Code Framework)	<b>£3,300 (£1,100 per letter)</b>	Self-Interest (because this is a recurring fee)	<p>The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is expected to be £3,300 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further there is no contingent element to this fee. These factors all mitigate the perceived self-interest threat to an acceptable level.</p> <p>The costs of providing IAS 19 assurance have been built into the scale fee for bodies under the NAO code for 2023/24 onwards. As such the additional audit related fee to be charged relates only to those bodies external to the NAO code framework who require assurance. We expect to receive letters from 3 such bodies.</p>
<b>Non-audit related</b>			
None			

# Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

# Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Identification or suspicion of fraud( deliberate manipulation) involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

## Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.



# Escalation policy

The Department for Levelling Up, Housing and Communities are proposing to introduce an audit backstop date on a rolling basis to encourage timelier completion of local government audits in the future.

As your statutory auditor, we understand the importance of appropriately resourcing audits with qualified staff to ensure high quality standards that meet regulatory expectations and national deadlines. It is the Authority's responsibility to produce true and fair accounts in accordance with the CIPFA Code by the 31 May 2024 and respond to audit information requests and queries in a timely manner.

To help ensure that accounts audits can be completed on time in the future, we have introduced an escalation policy. This policy outlines the steps we will take to address any delays in draft accounts or responding to queries and information requests. If there are any delays, the following steps should be followed:

## **Step 1 - Initial Communication with Finance Director (within one working day of statutory deadline for draft accounts or agreed deadline for working papers)**

We will have a conversation with the Finance Director(s) to identify reasons for the delay and review the Authority's plans to address it. We will set clear expectations for improvement.

## **Step 2 - Further Reminder (within two weeks of deadline)**

If the initial conversation does not lead to improvement, we will send a reminder explaining outstanding queries and information requests, the deadline for responding, and the consequences of not responding by the deadline.

## **Step 3 - Escalation to Chief Executive (within one month of deadline)**

If the delay persists, we will escalate the issue to the Chief Executive, including a detailed summary of the situation, steps taken to address the delay, and agreed deadline for responding..

## **Step 4 - Escalation to the Audit and Risk Management Committee (at next available Audit and Risk Management Committee meeting or in writing to Audit and Risk Management Committee Chair within 6 weeks of deadline)**

If senior management is unable to resolve the delay, we will escalate the issue to the audit Committee, including a detailed summary of the situation, steps taken to address the delay, and recommendations for next steps.

## **Step 5 - Consider use of wider powers (within two months of deadline)**

If the delay persists despite all efforts, we will consider using wider powers, e.g. issuing a statutory recommendation. This decision will be made only after all other options have been exhausted. We will consult with an internal risk panel to ensure appropriateness.

By following these steps, we aim to ensure that delays in responding to queries and information requests are addressed in a timely and effective manner, and that we are able to provide timely assurance to key stakeholders including the public on the Authority's financial statements.



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