

The Audit Findings for Merseyside Pension Fund

Year ended 31 March 2022

20 September 2022



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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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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Merseyside Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Our audit work was completed on remotely during July-September. Our findings are summarised on pages 4 to 17. There has been a minor adjustment (£5k) to the Fund Account to account for the proposed external audit fees for the year. We have not identified any other adjustments to the financial statements that have resulted in adjustment to the Pension Fund's reported financial position, to date. Audit adjustments, disclosure amendments and misclassification errors are detailed in Appendix B. We have not raised any new recommendation for management as a result of our audit work. Our follow up of recommendations from the prior year's audit are detailed in Appendix A.

We have completed a substantial amount of our audit. However, at the time of writing this report, some audit tasks are still to be completed. Subject to the satisfactory completion of the outstanding items below, there are currently no matters of which we are aware that would require modification of our audit opinion [Appendix D] or material changes to the financial statements. However, this position is subject to the satisfactory completion of the following outstanding matters;

- Receipt of the outstanding external investment confirmations (including 6 responses for the level 3 investments sample) and completing our testing
- Completion of unit price testing for level 1 and 2 investments
- Completion of the testing of a sample of direct property assets
- Results of the work of our specialist valuations team in valuing the derivatives
- Completion of the testing of large/unusual journals posted by management
- Completion of the audit work/sample testing on several non-significant risk areas of the accounts
- Finalisation of responses to Manager/EL reviews of the accounts
- Finalisation and agreement of the hot review with our technical/quality support team
- Final quality reviews of the audit work by the Engagement Leader and Review Partner
- Receipt of signed management representation letter
- Review of the final set of financial statements

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

Subject to the satisfactory completion of the outstanding audit work, our anticipated audit report opinion will be unqualified. An updated audit findings report will be presented to the Wirral MBC Audit & Risk Management Committee, which will confirm the audit opinion which we will be issuing.

2. Financial Statements

Overview of the scope of our audit

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

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

Audit approach

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

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter our audit plan, which was communicated to you at the Pensions Committee meeting on 22 June 2022.

Conclusion

We have completed a substantial amount of our audit. However, at the time of writing this report, some audit tasks are still to be completed. Work remains ongoing as we are working towards completing the audit by the end of September.

Subject to outstanding audit work and queries being resolved appropriately, we anticipate issuing an unqualified audit opinion however, the timing of when we are able to issue the opinion is dependant on when the Administering Authority audit opinion is also ready to be issued. At the time of writing there are several areas of our work which require completing in order for us to finalise the audit, these outstanding items are listed on page 3.

2. Financial Statements



Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan, which was presented to the Pensions Committee on 22 June 2022.

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

Pension Fund Amount (£) Qualitative factors considered

Materiality for the financial statements	96.496m	We have determined materiality for the audit to be £96.496m (equivalent to 0.9% of net assets for the prior year). This is in line with the industry standard and reflects the risks associated with the Fund's financial performance.
Performance materiality	72.372m	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: <ul style="list-style-type: none"> • 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	4.825m	This equates to 5% of materiality. This is our reporting threshold to the Pensions Committee and Wirral's Audit & Risk Management Committee for any errors identified.



2. Financial Statements - Significant risks

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

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

Risks identified in our Audit Plan	Commentary
<p>Management override of controls</p> <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 therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none">• evaluated the design effectiveness of management controls over journals• analysed the journals listing and determined the criteria for selecting high risk unusual journals• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration• gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>At the time of writing this report we are still completing our testing of journals posted by management during the year. Management has provided us with all the required information at this stage. Our audit work to date has not identified any issues in respect of management override of controls.</p>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

ISA 240 Fraud in Revenue and Expenditure Recognition

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

We have also rebutted the presumption of fraud in expenditure recognition.

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including Wirral Council mean that all forms of fraud are seen as unacceptable

Therefore, we do not consider this to be a significant risk for Merseyside Pension Fund.

Valuation of Level 3 Investments

The Fund revalues its investments on a quarterly basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.

By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£2,883 million) and the sensitivity of this estimate to changes in key assumptions.

Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.

Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2022.

We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.

We have:

- evaluated management's processes for valuing Level 3 investments
- reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met
- independently requested year-end confirmations from investment managers
- for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2022 with reference to known movements in the intervening period and
- in the absence of available audited accounts, we have evaluated the competence, capabilities and objectivity of the valuation expert
- tested revaluations made during the year to see if they had been input correctly into the Pension Fund's financial records
- where available reviewed investment manager service auditor report on design effectiveness of internal controls.

Per the Fund's accounting policies, year end values for hard to value assets frequently contain 31 December values adjusted for cash for inclusion in the draft financial statements. As part of our response to the valuation risk the valuation of the level 3 investments is 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 31 March 2022, which we obtain via external confirmation from the external fund managers. We would typically expect to see a number of small variances as a result of this, usually netting out to a relatively small variance. In recent years as a result of Brexit and Covid, these movements have been more volatile. From the work which we have performed to date the difference between the valuation of investments per the Fund's accounts and that per the externally obtained investment confirmations as at 31 March 2022 is £43m. This amount is below performance materiality, however we have asked the Fund to compare the valuations as at 31/3/22 compared to the accounts for all level 3 investments held. Since this is a factual difference it is included in Appendix B of this report as an unadjusted misstatement.

We are still finalising our work on this area. We still need to obtain external confirmations, audited accounts and service auditor control reports for 6 investment fund managers. We also still need to complete our testing on the audited accounts and service auditor control reports. Where a service auditor control report is not provided alternative assurance has been gained – see page 21.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Valuation of Directly Held Property

The Fund revalues 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 statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£568 million) and the sensitivity of this estimate to changes in key assumptions.

Management have engaged the services of a valuer to estimate the current value as at 31 March 2022.

We therefore identified valuation of directly held property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.

Commentary

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- written out to them and discussed with the valuer the basis on which the valuation was carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- engaged our own valuer to assess the instructions to the Fund's valuer, the Fund's valuation report and the assumptions that underpin the valuation. We can confirm that the external valuer appointed is independent of ourselves and the Pension Fund
- tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Fund's financial records
- where available reviewed investment manager service auditor report on design effectiveness of internal controls.

Our audit work on the valuation of directly held property is still ongoing at the time of writing this report. We are still finalising our testing of the valuation of a sample of assets and challenge of the Fund's external valuer. Our audit work to date has not identified any significant issues or misstatements.

2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
IT Control deficiencies Our IT audit specialists have completed a review of the IT General Controls in place in the Oracle EBS and Altair systems at the Council and Pension Fund.	<p>Two significant deficiencies were noted on the review of Oracle EBS which require reporting to TCWG:</p> <p>1) Inadequate control over privileged/ generic accounts within Oracle EBS</p> <p>Risk - The excessive use of accounts with privileged access increases the risk of end-users being able to - change system configuration settings without authorisation and approval - read and modify sensitive data, - create, modify or delete user accounts without authorisation, - delete or disable system audit logs.</p> <p>Recommendation - Management should undertake a review of all user accounts on the Oracle EBS to identify all generic/ privileged accounts. For each account identified management should confirm the</p> <ul style="list-style-type: none">- requirement for the account to be active and be assigned privileged access- which users have access- controls in place to safeguard the account from misuse. <p>Where possible, [privileged - generic] accounts should be removed, and individuals should have their own uniquely identifiable user accounts created to ensure accountability for actions performed. Alternately, management should implement suitable controls to limit access and monitor the usage of these accounts (i.e. through increased use of password vault tools / logging and periodic monitoring of the activities performed). Where monitoring is undertaken this should be formally documented and recorded.</p> <p>Management Response - We note that access to AZN and FND functionality has not been identified on previous audits which have been undertaken. We have checked a number of responsibilities and can confirm that we have a menu exclusion which prevents access to AZN functionality we have also checked and can't find any FND functionality associated with the same responsibilities. We will undertake a review of our responsibilities and any which we identify as having access to AZN or FND functionality where it is not necessary, we will implement similar exclusions to prevent access. We have recently performed an audit on all privileged accounts and either confirmed their access is still required or where appropriate removed unnecessary access or end dated accounts.</p>	<p>We have reviewed the deficiencies and noted that the significant deficiencies relate mostly to generic/privileged user accounts which is not directly related to journal postings but more in relation to system administration/maintenance. We have reviewed the users who have posted journals in the Fund's ledger in year and confirmed that there are none of the users detailed in the IT report. There is no further impact on our audit approach from review of the IT findings.</p>

2. Financial Statements – new issues and risks continued

Issue	Commentary	Auditor view
<p>IT Control deficiencies</p> <p>Our IT audit specialists have completed a review of the IT General Controls in place in the Oracle EBS and Altair systems at the Council and Pension Fund.</p>	<p>2) Inadequate control over privileged/ generic accounts within Oracle EBS Database</p> <p>Risk - Users with administrative privileges at Oracle EBS Database have the ability to bypass system-enforced internal control mechanisms and may compromise the integrity of financial data. The use of generic or shared accounts with high-level privileges increases the risk of unauthorised or inappropriate changes to the application or database. Where unauthorised activities are performed, they will not be traceable to an individual.</p> <p>Recommendation - Management should undertake a review of all user accounts on the Oracle EBS Database to identify all generic/ privileged accounts. For each account identified management should confirm the</p> <ul style="list-style-type: none"> - requirement for the account to be active and be assigned privileged access - which users have access - controls in place to safeguard the account from misuse. <p>Where possible, privileged/ generic accounts should be removed, and individuals should have their own uniquely identifiable user accounts created to ensure accountability for actions performed. Alternatively, management should implement suitable controls to limit access and monitor the usage of these accounts (i.e. through increased use of password vault tools / logging and periodic monitoring of the activities performed). Where monitoring is undertaken this should be formally documented and recorded.</p> <p>Management response</p> <p>We acknowledge that there are a small number of privileged generic accounts which are used by our IT Team to undertake certain roles. Our DBA team use these administration accounts to perform tasks such as starting and stopping databases, managing memory and storage and creating and managing database user accounts. Accounts have been setup and configured as part of the EBS implementation and the account details are embedded within many of the operating processes within the system which make them extremely difficult and high-risk to attempt to remove. As recommended in last years audit review we have recently enabled additional audit logging by setting:-</p> <ul style="list-style-type: none"> • audit_sys_operations to TRUE • audit_trail to DB,EXTENDED <p>This will provide additional audit logging which will show changes made to our system by privileged user accounts.</p>	<p>We have reviewed the deficiencies and noted that the significant deficiencies relate mostly to generic/privileged user accounts which is not directly related to journal postings but more in relation to system administration/maintenance. We have reviewed the users who have posted journals in the Fund's ledger in year and confirmed that there are none of the users detailed in the IT report. There is no further impact on our audit approach from review of the IT findings.</p>

2. Financial Statements – new issues and risks continued

Issue	Commentary	Auditor view
Journal Authorisation Processes	<p>Ability to self-authorise journals in the General Ledger</p> <p>In the course of our work on control environment we have identified that finance team members within the Pension Fund who have the ability upload journals, also technically have the ability to approve the same Journals. This is a function of the Oracle EBS General Ledger system and the way in which it has been developed for use within the Pension Fund and the Council.</p> <p>In practice the self authorisation of journals rarely happens, this is corroborated from the work which we have done in analysing the journals posted by management during the year. There were only a few occasions in year where this did occur and the Fund have demonstrated to us that their compensatory control of reviewing journal posting is effective as they had identified these journals during the year and they have subsequently reversed them and a new journal with clear segregation of duties had been input into the ledger.</p> <p>There have not been any changes to the control environment in year. In the past we had reported this finding in the Council's Audit Findings Report, as the Council designs and administers the General Ledger. However, we have determined it appropriate to report this control deficiency within the Pension Fund's Audit Findings Report also.</p>	<p>As users with access to Oracle can post and approve their own journals, this is required to be recognised as a control deficiency. We do not deem this a significant deficiency as the Pension Fund have sufficient controls in place such as; running monthly reports and reviewing all journals posted in month, which clearly shows who has posted and approved each journal, performing monthly budget monitoring against actual performance and the net asset statement and fund account are reconciled monthly against the journals reports to ensure no omitted journals postings or incorrect journals have been posted.</p> <p>In response to this deficiency we gained an understanding of the compensatory controls in place at the Fund to ensure that all journals are reviewed before posting. We target tested any journals which initially were input and approved by the same staff member. We also assessed the whether the authorisation procedures were correctly followed for each journal that was selected for testing.</p> <p>The results of this testing remain ongoing, however no issues have been identified to date.</p>

2. Financial Statements – key judgements and estimates

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

Item	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – £2,883m	<p>The Pension Fund has investments in unquoted equity and pooled investments that in total are valued on the Net Asset Statement as at 31 March 2022 at £2,883m.</p> <p>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.</p> <p>The value of the investments has increased by £338m in 2021-22, largely due to significant positive changes in the market value of the investments, primarily as a result of the markets continuing to regain lost growth as a result of the Covid-19 Pandemic in prior years. However, the majority of this growth was attained in the first three quarters of the year with the impact of the Russian invasion of Ukraine impacting markets as at 31 March 2022 and reducing growth.</p>	<p>Management determine the values of level 3 investments through placing reliance on the expertise of investment managers.</p> <p>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.</p> <p>Management have disclosed, within Note 5 of the accounts, the uncertainty related to level 3 investments (absolute return funds and private equity) as well as providing a supporting sensitivity analysis within Note 15 to allow the reader to understand the potential impact on the accounts should the value of those estimates change.</p> <p>Per the Fund's accounting policies, year end values for hard to value assets frequently contain 31 December values adjusted for cash for inclusion in the draft financial statements. As part of our response to the valuation risk the valuation of the level 3 investments is 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 31 March 2022, which we obtain via external confirmation from the external fund managers. We would typically expect to see a number of small variances as a result of this, usually netting out to a relatively small variance. In recent years as a result of Brexit and Covid, these movements have been more volatile. From the work which we have performed to date the difference between the valuation of investments per the Fund's accounts and that per the externally obtained investment confirmations as at 31 March 2022 is £43m. This amount is below performance materiality, however we have asked the Fund to compare the valuations as at 31/3/22 compared to the accounts for all level 3 investments held. Since this is a factual difference it is included in Appendix B of this report as an unadjusted misstatement.</p> <p>We are still finalising our work on this area. We still need to obtain external confirmations, audited accounts and service auditor control reports for 6 investment fund managers. We also still need to complete our testing on the audited accounts and service auditor control reports. Where a service auditor control report is not provided alternative assurance has been gained – see page 21.</p>	Light Purple

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Item	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £1,939m	<p>The Pension Fund have investments in unquoted bonds, pooled investments and derivatives that in total are valued on the Net Asset Statement as at 31 March 2022 at £2,2,331m. The Fund also held investment liabilities of £391m as at 31 March 2022. The net position was £1,939m.</p> <p>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.</p> <p>The net value of the investments has increased by £193m in 2021-22, largely due to net additions and an increase in market value.</p>	<p>Management determine the value of Level 2 Investments through placing reliance on the expertise of the various fund managers.</p> <p>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. This work remains ongoing but no issues have been identified to date.</p> <p>We have also consulted with our specialist valuations team in determining the appropriateness of the valuation of the derivative investments. Our valuations team are performing their own valuation of a sample of the derivatives. As at the time of writing our report we are still awaiting their findings.</p>	Light Purple
Directly held Investment Property - £568m	<p>The Pension Fund has investments in directly held investment properties that in total are valued on the Net Asset Statement as at 31 March 2022 at £568m.</p> <p>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 31/3/22.</p> <p>The value of the investments have increased by £104m in 2021/22, this was largely as a result of increases in the fair value of the properties on revaluation as at 31/3/22. Included in the above movement in valuation is also a net increase of £6m on the portfolio valuation as a result of purchases and sales throughout the financial year.</p>	<p>Management determine the value of Level 3 direct property investments through placing reliance on the expertise of the property valuer.</p> <p>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 investment properties. We have also evaluated the assumptions used in the calculation of the estimate as well as the source evidence they relied upon.</p> <p>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.</p> <p>As with our prior year audit, we engaged our own auditors expert to assess the instructions provided to the valuer in comparison to the requirements from CIPFA / IFRS / RICS and also to assess the valuation methodology and approach, resulting assumptions adopted and any other relevant points.</p> <p>We did not identify any issues with the approach or assumptions adopted by the Fund's external property valuer.</p>	Light Purple

Assessment

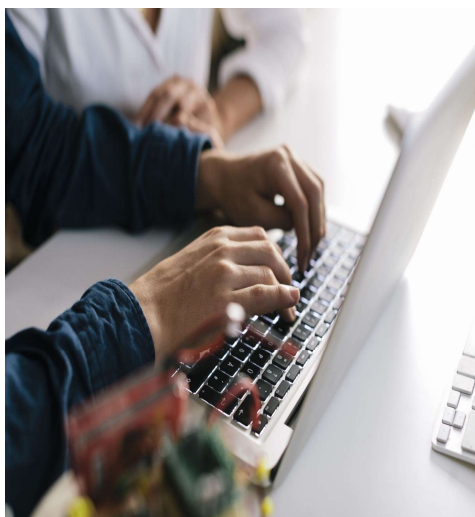
- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Pensions Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed. It is noted that declarations of interest have yet to be received from one member of the Pensions Committee. We are however satisfied that the fund has appropriate procedures in place to obtain and monitor declarations.
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 separately in the Pensions Committee papers. We have not requested any additional specific representations from management.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested direct confirmations from the Fund's bankers, custodian and all main mandate fund managers, plus a sample of managers of alternative investments. We are still awaiting confirmations from a number of fund managers in our level 3 investments sample – see page 7.
Accounting practices	<p>We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements. Updates have been made to disclosures as a result of findings noted from our Technical team's hot review of the accounts to improve the disclosures and their readability.</p> <p>For key management personnel we have noted that the Fund has used contributions as an estimate for post-employment benefits. This area is subject to discussion within the sector but the CIPFA example accounts do note that assuming that most key personnel identified will belong to the LGPS or other defined benefit pension schemes, disclosure of employer contributions payable in the period will not generally represent an accurate basis for estimating post-employment benefits. We are satisfied that readers will not be misled by the current disclosures but have discussed with management and this is an area that will be kept under review.</p>
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided. We note that management provided us with a set of draft financial statements one month in advance of the national deadline for preparing accounts. We thank management for their assistance in ensuring the smooth execution of the audit.

2. Financial Statements - other communication requirements



Our responsibility

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

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none">• the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities• for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none">• the nature of the Pension Fund and the environment in which it operates• the Pension Fund's financial reporting framework• the Pension Fund's system of internal control for identifying events or conditions relevant to going concern• management's going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none">• a material uncertainty related to going concern has not been identified• management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Disclosures	No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix C.
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our ‘consistency’ opinion on the Pension Fund’s Annual Report with the opinion on the accounts.



3. Independence and ethics

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 confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

Details of fees charged are detailed in Appendix C.

Transparency

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

3. Independence and ethics

Audit and non-audit services

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

Service	Fees £	Threats identified	Safeguards
Audit related			
IAS19 procedures for other bodies admitted to the pension fund	£20,000 (£5,000 base Fee plus £1,000 for each set of audit procedures - 15 Expected)	Self-Interest (because this is a recurring fee) Self-review Management	<p>The fee for this work is recurring but not significant compared to the audit of the financial statements of £48,000 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.</p> <p>These factors all mitigate the perceived self-interest threat to an acceptable level. The Fund has accrued for a fee of £20,000 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 .</p> <p>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</p> <p>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.</p>
Non-audit Related			
None			

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

Appendices

A. Follow up of prior year recommendations

We identified the following issue in the audit of Merseyside Pension Fund's 2020/21 financial statements, which resulted in a recommendation being reported in our 2020/21 Audit Findings report. We are pleased to report that management have addressed our prior year recommendation.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>2020-21 Audit Findings Report</p> <p>During our audit of level 3 investments, it was identified that service auditor control reports are not obtained and reviewed by management for all investment managers used. Management assert that initial Due Diligence and ongoing discussions between Merseyside Pension Fund and the Investment Managers takes place which covers the controls in operation. As part of quarterly valuation processes, management also review internal controls for any outlier investment manager valuations on a sample basis. Management also obtain reports from investment managers on an exception basis where there has been a failure with internal controls.</p> <p>There is a risk that controls in place at investment fund managers may have changed since the point in time which the initial Due Diligence was undertaken and that it is best practice to ensure that there is documented evidence confirming that investment fund managers are maintaining effective controls over the valuation of Merseyside Pension Fund’s assets. There are compensating controls in place which reduce this risk; however, they do not cover all investment managers. Therefore, gaps in assurance remain.</p> <p>It is recommended that Management obtain and review a service auditor controls report for each investment manager as part of the financial statements' closedown procedures. Where investment managers do not have a service auditor control report covering the audited period, Management should obtain sufficient alternative evidence to satisfy themselves that appropriate controls were in operation for the period.</p> <p>Management response</p> <p>Management recognise there is a potential gap in assurance. We will discuss with the external auditors on how best to address the issue due to the number of investment fund managers which are used by the Fund and the potential impact on the Pension Fund’s resources. A further update on progress made will be included on future External Audit reports presented to the Pensions Committee.</p>	<p>Merseyside Pension Fund have over 200 level 3 investment fund managers. A significant proportion of these are not required to obtain a service auditor report due to their size. We have therefore, held discussions with management during the year to understand the updated arrangements in place with regards to gaining assurance that controls at external fund managers are operating effectively.</p> <p>There are numerous meetings which take place on monthly and quarterly bases where portfolio managers within MPF meet with the investment fund managers to discuss and review performance at the investment funds. As part of this exercise, MPF assess internal controls (on sample basis – from those identified in the quarterly reports) in place; particularly around valuation processes and methodologies to assure themselves that the control environment around the valuation process is working, robust and up to date. Explanations around large Net Asset Value write ups/downs are sought, discussed internally, and compared against industry benchmarks and across internal portfolios.</p> <p>Also, every investment fund has its own Fair Value Pricing Committee (or similar forum) which provides a discussion forum for their internal investment teams and the independent valuers to agree write up/down of NAV of a specific investment. As part of MPF’s monitoring, they regularly ask for updates on these discussions held at the FVPC forum. The minutes and updates from these valuation discussions are also shared with the Limited Partners Advisory Committees (LPACs) where there are large movements in NAVs and on advisory boards where MPF has an LPAC seat these minutes and updates are also reviewed by an MPF representative.</p> <p>As part of our level 3 investments testing this year there were 18 investment funds where they did not provide us with a service auditor controls report. For each of these investments we have reviewed the documented engagement which MPF have had with the investment fund throughout the year to satisfy themselves that appropriate controls in relation to the valuation of assets are in place.</p> <p>As at the time of writing this report this work is yet to be finalised.</p>

- Assessment**
- ✓ Action completed
 - X Not yet addressed

B. 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

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

Impact of unadjusted misstatements

All unadjusted 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 2022.

Detail	Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
Level 3 Investments Per the Fund's accounting policies, year end values for hard to value assets frequently contain 31 December values adjusted for cash for inclusion in the draft financial statements. As part of our response to the valuation risk the valuation of the level 3 investments is 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 31 March 2022, which we obtain via external confirmation from the external fund managers. We would typically expect to see a number of small variances as a result of this, usually netting out to a relatively small variance. In recent years as a result of Brexit and Covid, these movements have been more volatile. From the work which we have performed to date the difference between the valuation of investments per the Fund's accounts and that per the externally obtained investment confirmations as at 31 March 2022 is £43m. This amount is below performance materiality, however we have asked the Fund to compare the valuations as at 31/3/22 compared to the accounts for all level 3 investments held. Since this is a factual difference it is included in Appendix B of this report as an unadjusted misstatement. We are still finalising our work on this area, the value of the unadjusted misstatement may change once the further work to review all level 3 investment valuations has been completed.	£43m	£43m	£43m	Value is below performance materiality
Overall impact	£43m	£43m	£43m	

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 2020/21 financial statements.

B. 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	Adjusted?
Note 24 Additional Voluntary Contribution (AVC's) Investments At time of finalising the 2020-21 audited accounts the Fund was still awaiting information from third parties in order to finalise the Additional Voluntary Contributions note. As such no figure was included for prudential in the 2020-21 AVC's note. The information for 2020-21 was received during the year and so management have restated the prior year figures in the draft 2021-22 accounts. Similarly, at the time of preparing the draft accounts, figures for Prudential were not yet available however they have since been received and management have updated the 2021-22 AVC's note in the revised financial statements.	✓
Annual Report As part of our review of the Annual Report, a number of minor presentation and disclosure amendments have been made to the revised Annual Report.	✓
Disclosure changes As a result of the review of the accounts by the Manager, EL and our technical team as part of the hot review, a number of disclosure improvements have been made. Amendments have been made to: Note 3 – Significant Accounting Policies – amendments made to investment management costs policy Note 5 - Estimation Uncertainty – amendments made to ensure the disclosure covers all asset classes with material uncertainty Note 15 – Basis of Fair Value – updates made to the basis of valuation descriptions and key sensitivities Note 17 – Nature and extent of risks from Financial Instruments – extra narrative added to detail how interest rate risk and currency risk are managed Note 17b – Credit risk – extra disclosure added regarding cash held with fund managers	✓
Note 8 – Transfers In During the year, the fund had a material transfer in. This has been disclosed in the table at Note 8 of the draft accounts. However, additional narrative has now been added to enhance the disclosure as this is a material and one-off transaction.	✓

C. Fees

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

Audit fees	Proposed fee	Final fee
Pension Fund Audit	£48,000	£48,000
Total audit fees (excluding VAT)	£48,000	£48,000

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
IAS19 Assurance Letters (£5,000 base fee + £1,000 per letter – 15 expected)	£20,000	£20,000
Total non-audit fees (excluding VAT)	£20,000	£20,000

Audit Fee per the draft financial statements is £43k. The audit fee has been calculated based upon an estimated fee for the year of £51,249 (basis of estimation is final 20/21 audit fee) plus £12,250 in respect of IAS 19 letters (based on PY fees) less £20,240 of rebates received from central government.

The difference between gross total audit fees for the year charged in the Pension Fund's Fund account (per the draft accounts) of £63k and the total fees to the left of £68k is £5k. This will be amended for in the final version of the Pension Fund's financial statements.

C. Fees

Detailed below is the reconciliation of the scale fee, set by PSAA in 2018, and the final audit fee to be charged for the financial year which reflects the increased scope and challenge required to be performed in our 2021/22 audit.

Scale fee published by PSAA	£28,399
<i>Increases to scale fee for additional work not considered when the scale fee was originally set by PSAA</i>	
Raising the bar – increased FRC Challenge	£1,875
Reduction in materiality due to audit complexity	£2,188
Enhanced audit procedures for Directly held property	£2,188
Enhanced audit procedures for Investments	£1,750
Appointment of Auditor Expert for Directly held property	£3,500
Increased audit requirements of revised ISAs 540	£3,600
Additional work on journals posted by management	£2,000
Additional work on derivative investments/liabilities	£2,500
Total audit fees (excluding VAT)	£48,000

D. Audit opinion

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

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

Opinion

We have audited the financial statements of Merseyside Pension Fund (the 'Pension Fund') administered by Wirral Metropolitan Borough Council (the 'Authority') for the year ended 31 March 2022 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 2021/22.

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 2022 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 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the Pension Fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

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

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

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

Other information

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

In connection with our audit of the Pension Fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Pension Fund's financial statements, or our knowledge of the Pension Fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Pension Fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice (2020) published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom

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D. Audit opinion

2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- We enquired of senior officers and the Pensions Committee, concerning the Authority's policies and procedures relating to:
 - the identification, evaluation and compliance with laws and regulations;
 - the detection and response to the risks of fraud; and
 - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Pensions Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:

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- Journals, in particular with regard to manual journals, those journals over 20x materiality, journals posted after the year end date which have an impact on the Fund's financial position, as well as any journals made by infrequent posters, senior management personnel or self-approved.
- The appropriateness of assumptions applied by management in determining significant accounting estimates, such as the valuation of level 2 and 3 investments as well as the valuation of directly held investment properties.

Our audit procedures involved:

- evaluation of the design effectiveness of controls that the Chief Finance Officer has in place to prevent and detect fraud;
- journal entry testing, with a focus on manually posted journals, those journals over 20x materiality, journals posted after the year end date which have an impact on the Fund's financial position, as well as any journals made by infrequent posters, senior management personnel or self-approved.
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of level 2 and 3 investments and directly held investment property.
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to the valuation of level 2 and 3 investments and directly held investment property.
- Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
 - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
 - knowledge of the local government pensions sector
 - understanding of the legal and regulatory requirements specific to the Pension Fund including:
 - the provisions of the applicable legislation
 - guidance issued by CIPFA, LASAAC and SOLACE
 - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

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D. Audit opinion

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]

Sarah Ironmonger, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor
Manchester

[Date]

