West Sussex Pension Fund

Audit planning report update

Year ended 31 March 2020

25 June 2020

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Regulation, Audit and Accounts Committee
West Sussex County Council
County Hall
West Street
Chichester
PO19 1RQ

Dear Committee Members

Audit planning report update
Year ended 31 March 2020

This report provides the Regulation, Audit and Accounts Committee with an update to our risk identification for the 2019/20 audit, reflecting the changes in risks identified in the current year.

In our audit planning report presented at the 23 March 2020 Regulation, Audit and Accounts Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. Following the coronavirus outbreak we have re-assessed our audit scope and strategy. We provide an update to the significant accounting and auditing matters, and audit approach outlined in the Audit Planning Report.

Section 1 - changes to audit risks
Section 2 – changes to audit scope

If you have any queries in respect of this report, please contact me.

Yours faithfully

Helen Thompson
For and on behalf of Ernst & Young LLP
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01 Audit risks

Our response to significant risks

We set out the new significant risk identified for the current year subsequent to the issue of our Audit Planning Report, together with the rationale and expected audit approach.

Valuation of directly owned property investment assets

Financial statement impact

Misstatements that occur in relation to valuation could affect the year end carrying value of directly owned property (31 March 2020, £366,125k)

What is the risk?

Asset and liability valuations are classified into three levels in the Pension Fund's financial statements according to the quality and reliability of information used to determine fair values. Investment assets at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Level 3 assets are therefore inherently more difficult to value, and for the Fund include material directly owned investment property.

Valuation of directly owned property

We had previously treated the valuation of property investments as an area of high inherent risk and therefore an area of audit focus in our Audit Plan. Subsequent to issuing our Plan the Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 (C-19) on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Fund's external valuer of its directly owned property investments.

In light of the market volatility brought about by C-19, and the inclusion of a material uncertainty paragraph in the external valuer's report we have determined that the valuation of directly owned property should be treated as a significant risk in our audit approach.

What will we do?

We will:

- Consider the work performed by the Fund's property valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Sample test key asset information used by the valuer in performing its valuation (e.g. floor plans to support valuations based on price per square metre) and challenge the key assumptions used by the valuer.
- Test accounting entries have been correctly processed in the financial statements.

Additional procedures necessary to address the risks created by C-19:

We will:

- Ensure the appropriate disclosure has been made in the accounts concerning the material uncertainty.
- Commission EY Real Estates, our internal specialists on asset valuations, to consider the valuation approach in more detail for a sample of assets.

02 Scope of our audit

Impact of Covid-19 and materiality

Other potential impacts of Covid-19

The ongoing disruption to daily life and the economy as a result of the C-19 virus will have some impact upon the financial statements. We have not identified further significant risks or areas of audit focus related to C-19 other than the additional significant risk set out previously as part of this audit plan update, but wish to highlight some of the ways in which C-19 could impact the financial statements. Over-and-above the areas already considered these may include, but not be limited to:

- Going concern and post balance sheet event disclosures – management's assessment of whether the Fund is a going concern will need to consider the impact of the current conditions on the financial sustainability of the Fund including, but not limited to:
    - the impact on the carrying value of Fund assets;
    - the continued ability of scheduled and admitted bodies to pay contributions;
    - the level of reliance on investment income to pay benefits; and
    - the ease and speed with which investment assets can be converted to cash if necessary to support liquidity.

  Additional narrative disclosure will be required on the future principal risks and uncertainties, including the known impact on investment values in 2020/21 to date. Given the relatively strong financial position of the Fund, as evidenced by the 2019 triennial valuation, our existing knowledge of Fund liquidity and the composition of its investments, we do not consider this to be a significant risk.
- Private equity assets – the Fund holds a material value of private equity investment assets (£90.7 million at 31 March 2020) which, like directly owned property assets, are also categorised and disclosed as Level 3 in the fair value hierarchy. The previous approach taken by the Fund to value these assets has needed to change because of market volatility brought about by C-19 in the final quarter of 2019/20. We will need to consider the revised valuation approach taken by the Fund and relevant fund managers to gain assurance that the impact of C-19 on investment values has been properly accounted for in the financial statements.

In addition to the impact on the financial statements themselves, the disruption caused by C-19 may impact on our ability to complete the audit as efficiently as normal. For example, it may be more difficult than usual to access the supporting documentation necessary to support our audit procedures. There will also be additional audit procedures we have to perform to respond to the additional risks caused by the factors noted above.

The changes to audit risks and audit approach will change the level of work we perform. This will impact the audit fee. We will agree changes to the audit fee with management and report back to the Regulation, Audit and Accounts Committee in our Audit Results Report.

Materiality

We have considered the materiality levels we reported to you in our Audit Planning Report, and whether any change to our materiality is required in light of C-19. Following this consideration we remain satisfied that the basis for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report remains appropriate. but will update materiality based on the draft financial statements received for audit and report our updated materiality levels as part of our Audit Results Report.