

By email

Reference: DPF/JG

Date issued: 11 May 2020

Dear Wendy

## Dyfed Pension Fund - Annual Audit Plan 2020 – Impact of COVID-19

The COVID-19 national emergency has had an unprecedented impact on the UK and will significantly impact on public bodies' preparation of the 2019-20 accounts and our audit work, both financial audit and performance audit.

Due to the UK Government's restrictions on movement and anticipated sickness absence levels, we understand that many public bodies will not be able to prepare accounts in line with the timetables set out.

Alongside the delivery of the Auditor General's statutory responsibilities, our priority is to ensure the health, safety and well-being of Audit Wales staff, their families and those of our partners elsewhere in the public service at this incredibly challenging time.

In response to the government advice and subsequent restrictions, we have ceased all our on site work at audited bodies and temporarily closed our own offices. Audit Wales staff are working from home and we will continue to make whatever progress we can whilst working and engaging with you remotely.

In light of this, timetables for audited bodies' preparation of financial statements and other information and our audit work on it will need to be revised.

We commit to ensuring that our audit work will not have a detrimental impact on you at a time when public bodies are stretched and focused on more important matters. Consequently, we need to update our audit plan issued to you on 13<sup>th</sup> March 2020.

# Amendments to the audit plan issued February 2020

## Timetable

We will continue to undertake such remote work as is possible during the COVID-19 national emergency. However, it is likely that in the circumstances, we will be unable to complete our audit work in line with the timetable set out in the 2020 Audit Plan.

We will need to agree an amended timetable for the audit with you. However, as set out above, we do not expect to be in a position to agree a timetable with you until the COVID-19 national emergency has passed.

Therefore, we will report on a timetable for our audit work at a later date.

## Audit risks

As a result of the COVID-19 national emergency, we need to update our assessment of audit risks. The following schedule replaces **Exhibit 2** in the 2020 audit plan.

| Financial audit risks  | Proposed audit response  |
|--|--|
| <b>Significant risks</b>   |  |
| The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].   | My audit team will: <ul style="list-style-type: none"><li>• test the appropriateness of journal entries and other adjustments made in preparing the financial statements;</li><li>• review accounting estimates for biases;</li><li>• evaluate the rationale for any significant transactions outside the normal course of business;</li></ul> |
| <b>Impact of COVID-19</b><br>The COVID-19 national emergency will see a significant delay in the preparation and publication of accounts. There is a risk that the quality of the accounts and supporting working papers eg around estimates and valuations, may be compromised leading to an increased incidence of errors. Quality monitoring arrangements may be compromised due to timing issues and/or resource availability. | My audit team will discuss your closedown process and quality monitoring arrangements with the accounts preparation team and make arrangements to monitor the accounts preparation process. The audit team will help to identify areas where there may be gaps in arrangements.  |

### Other areas of audit attention

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|---|--|
| <p><b>Triennial Valuation</b><br/>The Pension Fund is currently finalising the valuation as at 31 March 2019 with the Actuary.<br/>There is a risk that the outcome of the valuation is not adequately disclosed in the financial statements.</p>   | <p>My audit team will review the triennial valuation report and ensure that the outcomes have been adequately disclosed in the financial statements.</p>   |
| <p><b>McCloud Judgement</b><br/>In 2015 the Government introduced reforms to public sector pensions, meaning most public sector workers were moved into new pension schemes.<br/>In December 2018, the Court of Appeal ruled that the ‘transitional protection’ offered to some members of the judges’ and firefighters’ schemes, as part of the reforms, amounted to unlawful discrimination. On 15 July 2019 the Government announced that they accept that the judgement applies to all of the main public service pension schemes.</p>  | <p>My audit team will:</p> <ul style="list-style-type: none"> <li>• review how the Pension Fund has assessed the impact of the McCloud judgement on the financial statements; and</li> <li>• ensure that where appropriate, this is adequately disclosed in the financial statements.</li> </ul>   |
| <p><b>Guaranteed Minimum Pension (GMP)</b><br/>GMPs were the minimum pensions employers had to provide when they opted their employees out of the State Earnings Related Pensions Scheme (SERPS) between 1978 and 1997, usually through a defined benefit scheme.<br/>GMPs were calculated by reference to state pension age which used to be 60 for women and 65 for men. That made pension payments unequal and contravened the 1990 Barbour judgement.<br/>The 2018 Lloyds Banking Group judgement has provided clarification on whether and how GMPs should be equalised and creates an obligation to equalise GMPs dating back to 1990.<br/>No allowances have previously been made for GMPs in pension liability calculations as HM Treasury made an announcement in 2019 that public service schemes already had a method in place to achieve equalisation. However, further guidance is</p> | <p>My audit team will:</p> <ul style="list-style-type: none"> <li>• review any provision made by the actuary relating to the outstanding GMP issues and monitor progress on the development of guidance and clarification of the potential impact; and</li> <li>• ensure that this is adequately disclosed in the financial statements.</li> </ul> |

anticipated in the coming months, including relating to the calculation of indexation/pension increases on GMPs. There is a risk that appropriate allowances are not made in 2019-20 pension liability calculations for the impact of GMPs.

We will provide further updates as and when necessary. In the meantime, if you have any questions, please contact one of our audit team.

Yours sincerely

Ann Marie Harkin  
Engagement Director