

**Our reference** MPF fee 2010/11

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Mr I Coleman  
Director of Finance  
Merseyside Pension Fund  
Treasury Building  
Cleveland Street  
Birkenhead  
Wirral  
CH41 6BU

**Direct line** 0844 798 7043  
**Email** m-thomas@audit-  
commission.gov.uk

## **Merseyside Pension Fund Annual Audit fee 2010/11**

I am writing to confirm the audit work that we propose to undertake for the 2010/11 financial year at Merseyside Pension Fund (MPF) and to set out the fee implications. Our proposed fee for 2010/11 is £54,065

The audit of MPF is now treated as a separate audit, recognising its importance in the functioning of local government. This requires me to issue a separate plan for the audit of the fund's accounts and a separate auditor's report to those charged with governance for the fund, the Audit and Risk Management Committee and to the Pension's Committee. I do not form a value for money conclusion for the pension fund. The proposed work and fee reflects our risk-based approach to audit planning as set out in the Code of Audit Practice.

As I have not yet completed my audit for 2009/10, the audit planning process for 2010/11 including my audit risk assessment will continue as the year progresses and audit fees will be reviewed and updated as necessary.

The Commission published its Work Programme and Scales of Fees for 2010/11 and indicative fee proposals for 2011/12 and 2012/13 in October 2009. It deferred setting the 2010/11 fee scales for local government pension funds, pending a review of the costs of the 2008/09 audits.

This review is now complete, and in the light of the analysis, the Audit Commission Board has approved a scale fee formula to be applied to both large multi-employer and small multi-employer funds with effect from the 2009/10 audit year. For large multi-employer funds, the formula results in an average scale fee of £47,000, compared to a previous single scale fee of £70,900, a reduction of some 33 per cent. There is a variable element of the scale fee formula, which applies to the closing net assets of the scheme reported in the latest audited Fund Account. The 2010/11 variable element of the scale fee is calculated by reference to the 2008/09 closing net assets balance in the audited fund account.

The new statutory scale of fees is:

<b>Fund type</b>	<b>2009/10 scale fees</b>	<b>2010/11 scale fees</b>
<i>Multiple employer funds</i>		
fixed element	£33,300	£33,300
variable element (applied to net assets)	0.00055%	0.00055%

Based upon the formula the total indicative fee for the MPF audit for 2010/11 would be £52,665 (exclusive of VAT) which is slightly above the average of £47,000 due to the size of the fund.

For 2010/11, the Audit Commission will absorb the extra audit costs arising from the transition to IFRS within the current fee envelope. The Commission will keep the scale of fees under review and will carry out a further analysis of the costs of 2009/10 pension fund audits. This analysis will help to determine any updated fee scale for 2010/11.

We will issue a separate detailed plan for the audit of the financial statements in December 2010 or early 2011. At this stage of the planning process we have identified the following audit risks in relation to our opinion on the financial statements for 2010/11.

<b>Risk area</b>	<b>Planned work</b>
<p>The Fund will complete a Triennial Actuarial Valuation Review reflecting the position of the Fund at 31 March 2010. Whilst this is not a direct audit opinion risk, it is a key issue as regards the ongoing governance of the Fund.</p> <p>Results of the triennial actuarial valuation will impact on the 2010/11 audit year.</p> <p>There are risks of increased deficits leading to additional costs from increased employer contributions.</p>	<p>Review of the results of the actuarial valuation and the MPFs response to changes in valuation.</p>
<p>MPF have planned to replace its current system used to monitor and control internally managed investments (Shareholder) to the OpenAir system in 2010/11. This system replacement was initially planned for 2009/10.</p> <p>There is a risk that the balances will not be accurately transferred between systems; and a risk that effective controls are not in place in the new system.</p>	<p>We will review:</p> <ul style="list-style-type: none"> <li>• the arrangements put in place by the Fund to ensure that balances are correctly transferred from the outgoing Shareholder system to the new OpenAir system; and</li> <li>• the adequacy of controls in place in the new system and testing of the effectiveness of those controls as necessary.</li> </ul>

To recognise the additional work proposed to review of the system change from Shareholder to OpenAir we propose an additional fee of £1,400. This brings the total proposed fee for 2010/11 to **£54,065**.

The above fee excludes any work requested by you that the Commission may agree to undertake using its advice and assistance powers.

I will issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 1.

The key members of the audit team are:

Audit Manager	–	Caroline Davies/Liz Temple-Murray	0151 666 3481/3483
Team Leader	–	Martin Nuttall	0151 666 3244

This letter will be presented to the members of the Audit and Risk Management Committee in its capacity as those charged with Governance. In considering this letter the Committee should make reference to the new Audit Commission Code of Audit Practice 2010 and to the Statement of Responsibilities of Auditors and Audited Bodies. Copies have been attached to the Wirral Council audit update report, June 2010 and can be found on the Commission's website.

I am committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact the Head of Operations, Terry Carter on 0844 798 7150.

Yours sincerely

Mike Thomas  
*District Auditor*

**cc** Councillor Simon Mountney, Chair of Audit and Risk Management Committee  
Councillor Geoffrey Watt, Chair of the Pensions Committee  
Peter Wallach, Head of Pensions  
Gerard Moore, Financial Controller