

Audit Commission Progress Report

Merseyside Pension Fund

Audit 2009/10

Date **June 2010**

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Key messages

- 1 This report provides members of the Pensions and the Audit and Risk Management Committees with an update of our ongoing work at the Pension Fund and informs you of the risks arising from the audit under International Standards on Auditing (United Kingdom and Ireland) 300. The key messages to draw to members' attention are:

Fees

- 2 Audit fees for 2010/11 will be £54,065 (paragraph 12)
- 3 Audit fees for 2009/10 were originally £70,900 but have been revised and will be £54,065 (paragraph 16)

Opinion 2009/10

- 4 We have completed our work on updating our knowledge and documenting the main financial systems. There are no significant issues that we wish to bring to the notice of members (paragraph 19).
- 5 We have completed our work reviewing the arrangements put in place by the Fund to ensure that balances are correctly transferred from the outgoing AXISe system to the new Oracle system and have tested these balances. There are no significant issues we wish to bring to the attention of members (paragraph 21).
- 6 Specific opinion risks have not changed since our opinion plan in January (paragraph 28).
- 7 The opinion plan is on target. We have updated the milestones and deadlines to show progress on the opinion audit (paragraph 31 and Table 4).

Audit team and key contacts

- 8 The table for key member contacts has been updated to reflect the new administration and committee appointments (paragraph 35 and Table 6)
- 9 We have highlighted the Pensions and Audit and Risk Management Committees' responsibilities for receiving our Annual Governance Report and approving the audited accounts at the meetings on 27 and 28 September 2010 (paragraph 37).

Audit Plan

- 10** We issued the Opinion audit plan for 2009/10 in December 2009 and this was presented to members in January 2010. This plan set out the audit work we proposed to undertake in relation to the audit of Merseyside Pension Fund's (MPF's) financial statements.
- 11** This report updates members on the progress of the audit to date, and informs you of the risks arising from the audit, under International Standard on Auditing (United Kingdom and Ireland) 300. This standard requires us to:
- identify the risk of material misstatements in your accounts;
 - plan audit procedures to address these risks; and
 - ensure that the audit complies with all relevant auditing standards.

Audit fee 2010/11

- 12** The letter with the proposed fee for 2010/11 is being presented to this Committee for consideration. The indicative fee for the audit is £54,065.

Audit fee 2009/10

- 13** We presented the 2009/10 fee letter to members in June 2009 and this was confirmed in the detailed Opinion Plan presented to members in January 2010. In the original audit plan, the proposed fee of £70,900 for the opinion audit was based on the indicative scale for a multi employer Pension Fund set by the Audit Commission.
- 14** The Audit Commission has recently carried out a review of the costs of the 2008/09 audits. Based on the review findings, the Audit Commission Board has now approved a scale fee formula to be applied to Pension fund audits from the 2009/10 audit year (the current audit).
- 15** The calculation of the revised fee for MPF is shown in the table below and is made up of a fixed and a variable element. The variable element of the scale fee is calculated by reference to the 2008/09 closing net assets balance in the audited fund account.
- 16** We are also required to consider if there are any local audit risks that we need to address during our audit. To recognise the additional work carried out in the year to review the system change to Oracle replacing AXISe we propose an additional fee of £1,400. This brings the total proposed fee for 2009/10 to £54,065. This represents a significant reduction to the fee of £70,900 which was included in my original fee letter.
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Table 1 Calculation of revised MPF indicative scale fee 2009/10

The indicative scale fee for 2009/10 is now £54,065 (fee letter proposal £70,900)

| | | MPF |
|---|----------|----------------------------------|
| Fixed element | £33,300 | £33,300 |
| Variable element (applied to net assets 08/09) | 0.00055% | £3,521bn x 0.00055% = £19,365 |
| Total indicative scale fee | | £52,665 |
| Local risk based fee | | £1,400 |
| Total revised fee 2009/10 | | £54,065 |

The above figures exclude VAT

Opinion 2009/10

- 17** The District Auditor is required to issue an audit report by 30 September 2010 giving his opinion on whether the Pension Funds accounts give a true and fair view of the financial position as at 31 March 2010. Our Opinion Plan presented to members in January 2010 sets out in more detail the audit work we propose to carry out in relation to the audit of the financial statements 2009/10 for Merseyside Pension Fund. We have also updated the timetable and the table of audit risks below.
- 18** Our work is split into the following elements:
- updating and documenting our knowledge of the main financial systems;
 - interim controls testing, including reviewing the implementation of the new General Ledger;
 - work under the Audit Commissions' FRS17 protocol; and
 - audit of the financial statements.

Knowledge of the main financial systems and controls testing

- 19** We have completed our work on updating our knowledge and documenting the main financial systems. There are no significant issues that we wish to bring to the notice of members.

Review of the implementation of the new General Ledger

- 20** A new general ledger accounting system was implemented at Merseyside Pension Fund in 2009/10. We identified the inherent risk that the balances may not be accurately transferred between systems and that effective controls may not be in place in the new system
- 21** We have completed our work reviewing the arrangements put in place by the Fund to ensure that balances are correctly transferred from the outgoing AXISe system to the new Oracle system and have tested these balances. There are no significant issues we wish to bring to the attention of members.
- 22** Our work assessing the adequacy of controls in place in the new system and testing of the effectiveness of those controls is in progress. We will report on the outcome of this work in our report to the Pensions and Audit and Risk Management Committees in September 2010.
-

Audit Commission FRS17 protocol

- 23 Admitted bodies are required to make entries in their accounts in respect of accrued pension liabilities under Financial Reporting Standard (FRS)17. To avoid other auditors of admitted bodies (within the Audit commission regime) asking for the same information of the pension fund the Audit Commission has nominated the appointed auditors of pension funds to undertake a programme of work set out in an approved protocol and report to those admitted body auditors on their findings by giving 'letters of assurance'.
- 24 The specified programme of work includes:
- reviewing the actuary's analysis of the Fund's assets to establish whether the asset values attributed to the admitted bodies concerned are consistent with the total scheme assets considered in the audit of the Fund's accounts; and
 - making enquiries of the actuary in relation to their work in calculating FRS17 assets and liabilities.
- 25 Our work under this protocol has commenced in May and will continue throughout the audit of the financial statements.

Audit of the financial statements

- 26 Our audit of the approved statements will commence shortly.
- 27 Our Opinion Audit Plan presented to members in January 2010 identified the specific risks appropriate to the current opinion audit. We stated that we would assess the appropriateness of these risks and update as the audit progresses.
- 28 The following table sets out these risks appropriate to the current opinion audit. The specific opinion risks identified for MPF have not changed since our opinion plan in January.

Table 2 Specific risks

Specific opinion risks identified for Merseyside Pension Fund have not changed since our opinion plan in January.

| Risk Area | Assertions | Audit response |
|--|---|---|
| Investment Ledgers A new investments ledger maintained by the State Street Bank, the Fund's global custodian, was introduced with effect from 1st April 2008. However, for the preparation of the 2008/09 accounts the Fund's officers relied on a combination of the SSB Investment Ledger and data from the former Shareholder Investment Ledger | Completeness Valuation and Allocation | We will review the arrangements in place for the operation of the investment ledger and monitor the progress made by the Fund in resolving the issues which necessitated the use of two systems. We will test the entries in the accounts for material |

| Risk Area | Assertions | Audit response |
|---|---|---|
| <p>system.</p> <p>Shareholder continues to be relied on for alternatives, ventures and property.</p> <p>Risk that sourcing the accounts from two investment ledger systems operating in parallel will lead to inaccuracy, duplication or omission from the financial statements.</p> | | <p>duplications or omissions.</p> |
| <p>New General Ledger</p> <p>A new general ledger accounting system was implemented at Merseyside Pension Fund with effect from 1st October 2009.</p> <p>Risk that the balances are not accurately transferred between systems</p> <p>Risk that effective controls will not be in place in the new system</p> | <p>Accuracy</p> <p>Completeness</p> <p>Classification</p> <p>Valuation and Allocation</p> | <p>We will review:</p> <ul style="list-style-type: none"> • the arrangements put in place by the Fund to ensure that balances are correctly transferred from the outgoing AXISE system to the new Oracle system and, • the adequacy of controls in place in the new system and testing of the effectiveness of those controls as necessary. |
| <p>2008/09 errors</p> <p>A total of 16 (non trivial) errors and adjustments were identified and corrected during the 2008/09 audit, including 5 material errors arising from the misclassification of cash held by investment managers and sums due to and from stockbrokers. We also identified 4 errors in the disclosure notes, one of which was a material adjustment.</p> <p>The material corrections related to errors in the application of the new Statement of Recommended Practice for Pension Fund accounts introduced for the 2008/09 accounts which was not properly applied by the Fund.</p> | <p>All</p> | <p>The errors identified in 2008/09 will be specifically considered in 2009/10</p> <p>We will review the arrangements for verifying the accounts are SORP compliant.</p> |
| <p>Related party transactions</p> <p>The 2008/09 audit identified a failure by a member to provide the necessary related party disclosure declaration.</p> | <p>Completeness</p> | <p>Ongoing discussions with Pension Fund officers to regarding procedures in place to obtain related party</p> |

Opinion 2009/10

| Risk Area | Assertions | Audit response |
|--|---------------------------------|---|
| <p>Risk of non disclosure of politically sensitive related party relationships or transactions.</p> | | <p>disclosures from members and officers with related party relationships</p> <p>Audit procedures will be put in place for a timely review the required declarations.</p> |
| <p>Economic climate</p> <p>Increased risk of fraudulent financial reporting due to the current economic climate and increased financial pressures</p> | <p>All</p> | <p>Ongoing discussion with senior Pension Fund officers regarding controls that mitigate the risk of fraud.</p> <p>Letters of Assurance to be obtained from those charged with governance.</p> <p>Ongoing monitoring of the Pension Fund's investment management and performance arrangements.</p> <p>Completion of a fraud Risk Assessment</p> <p>Review of the Letter of representation</p> |
| <p>Closedown and audit timetable</p> <p>The Pension Fund and Council must produce its accounts by the end of June and we have planned for most of our work to be completed during July 2010.</p> <p>Consequently, a delay in producing either the accounts or necessary supporting working papers will impact on our ability to complete the audit by the deadline and report to members.</p> | <p>All</p> | <p>Early and ongoing liaison with MPF officers.</p> |
| <p>Valuation of Unquoted Investments</p> <p>A significant proportion of the pension fund's investments (in excess of £2bn) are held in unlisted investments such as pooled investment vehicles and limited partnerships.</p> <p>The valuation of such investments is complex as they not quoted or exchange traded.</p> <p>Risk in the current financial environment that the valuation of such</p> | <p>Valuation and Allocation</p> | <p>Early liaison with to obtain evidence as to how MPF assures itself that valuations of unquoted investments are reliable across the various portfolios (private equity, alternative investments and property, bond and other pooled investments).</p> |

| Risk Area | Assertions | Audit response |
|--|------------------|--|
| investments could be misstated. | | |
| <p>LGPS Management and Investment of Funds Regulations 2009</p> <p>The regulations came into force on 1 January 2010.</p> <p>Key changes include the banking arrangements between Administering Authorities and Pension Funds, and limits on investments.</p> | Governance issue | Review MPFs arrangements to ensure stated limits and banking requirements as set out in the regulations have been implemented. |

Materiality

29 The Audit Commission has revised the materiality for the audit of Pension funds for the 2009/10 audit. We will now use one materiality level for both the Net assets statement and the Fund account. This will have the effect of increasing the amount of testing in the Net assets statement and reducing that of the Fund account.

30 We have discussed the revised approach with officers at MPF.

Update to opinion plan

31 The tables below updates our opinion plan for members and shows progress on the audit is as planned.

Table 3 Planned outputs

The planned outputs from the opinion audit are set out below

| Planned output | Indicative date | Update and progress |
|---|-------------------------|---|
| Opinion audit plans | 31 December 2009 | Completed |
| Update to opinion audit plans and feedback on interim audits (if appropriate) | March 2010 June 2010 | No issues to bring to members attention |
| Annual governance reports | 30 September 2010 | For ARMC 28 September 2010 |
| Auditor's reports giving an opinion on the financial statements | 30 September 2010 | As planned |

Table 4 Key milestones and deadlines

The audit is progressing as planned and committee dates have been confirmed

| Task | Deadline | Update and progress |
|---|--|---|
| Agreement of Opinion Plan with officers | Draft by early December 2009 Final by end December 2009 | Completed |
| Progress meetings - pre statements | quarterly | Ongoing |
| Presentation of Opinion Plan to members Finance to present covering report including explanation of the final accounts process and the respective roles of Pensions and Audit and Risk Management Committees | Pensions Committee 13 January 2010 (papers by 21 December 2009) ARMC 18 January 2010 (papers by 29 December 2009) | Completed |
| ISA+315 work - understanding the entity | January 2010 | Completed |
| Pre statements control and early substantive testing | February/March 2010 | Completed |
| Planning of and arrangements for FRS17 assurance work | March 2010 | Completed |
| Pre statements testing of Investment Valuation and initial FRS17 assurance work | Late May/early June 2010 | In progress |
| Working papers provided to auditors | By 16 June 2010 | Expected on target |
| Receipt of pre audit accounts by members and auditor | By 16 June 2010 | Expected on target |
| Pensions Committee to challenge accounts and make recommendations to ARMC | Before ARMC meeting (by 30 June 2010) | Pensions Committee meeting planned for 28 June 2010 |
| ARMC to challenge and approve Council accounts, including Annual Governance Statement and Pension Fund Statements. | By 30 June 2010 (papers out by 16 June) | ARMC meeting planned for 30 June 2010 |
| Start of detailed post statements testing | late June 2010 | Expected on target |
| Post statements progress meetings | fortnightly | Expected on target |
| Completion of fieldwork on | mid August 2010 | Expected on target |

| Task | Deadline | Update and progress |
|--|--|--|
| statements | | |
| Agreement of Errors and Uncertainties | 20 August 2010 | Expected on target |
| Draft Annual Governance Report from Audit Commission to officers | 3 September 2010 | Expected on target |
| Meeting with officers to agree final AGR (AGR will highlight any ongoing issues that will be updated at meetings with members) | Meetings by 8 September 2010 Final AGRs by 13 September 2010 | Expected on target Any ongoing issues at 13 September will be highlighted in the reports. |
| Final version of Annual Report available for audit review | 17 September 2010 | Expected on target |
| Pensions Committee - to consider the Pension Fund AGR and any action plan, any amendments to statements and the Letter of Representation - to make recommendations to ARMC | Before ARMC meeting below (by 30 September 2010) Papers out by 13 September | Now confirmed for 27 September 2010 |
| ARMC to receive Annual Governance Report, including any verbal update on outstanding issues. Finance to present covering report and post audited statements. | By 30 September 2010 Papers out by 13 September 2010 | Now confirmed for 28 September 2010 |
| Final check of post-audit statements and annual report | By 30 September 2010 | Expected on target |
| Issue of opinion by District Auditor | By 30 September 2010 | Expected on target |
| Annual Report published | By 30 September 2010 | Expected on target |

The Audit Team

- 32** The key members of the audit team for the 2009/10 audit have not changed from that set out in our opinion plan. The current team is shown in the table below.
- 33** We can confirm that the audit is being carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence and there are no conflicts to report to members.

Table 5 Audit team

The key members of the audit team have not changed

| Name | Contact details | Responsibilities |
|--|--|---|
| <p>Mike Thomas District Auditor</p> | <p>m-thomas@audit-commission.gov.uk 0844 7987043 or 07879 667712</p> | <p>Overall delivery and reporting of the audits of the Wirral Council and Merseyside Pension Fund including quality and outputs. Signing the opinions, conclusion and certificate. Liaison with the Director of Finance and Chief Executive.</p> |
| <p>Liz Temple Murray Audit Manager</p> | <p>l-temple-murray@audit-commission.gov.uk 0151 666 3483</p> | <p>Manages, quality assures and coordinates the different elements of the audit work on Wirral Council (including liaison with the Pension Fund Lead Audit Manager). Key point of contact for the Director of Finance, Head of Finance, Head of Pensions and Chair of the Audit and Risk Management Committee. Annual Governance Report for Wirral Council.</p> |
| <p>Caroline Davies Audit Manager (from January 2010)</p> | <p>caroline-davies@audit-commission.gov.uk 0151 666 3481</p> | <p>Supports the Audit Manager on Wirral Council. Manages, quality assures and coordinates the different elements of the audit work on Merseyside Pension Fund, including FRS17. Key point of contact for the Head of Pensions, the Financial Controller and the Chair of the Pensions Committee. Annual Governance Report for Merseyside Pension Fund.</p> |

| Name | Contact details | Responsibilities |
|-----------------------------------|---|--|
| Danny Baxter Audit Team Leader | d-baxter@audit-commission.gov.uk 0151 666 3486 | Leads fieldwork and audit team on opinion and FRS17 work. Key point of contact for and liaison with the Head of Pensions and the Financial Controller. |

34 Wirral Council key officer contacts for the audit are set out in the table below. The key officer contacts have not changed.

Table 6 Wirral Council and Merseyside Pension Fund key officer contacts

The key officer contacts have not changed.

| Name | Contact details | Responsibilities |
|---|---|---|
| Stephen Maddox Chief Executive | stephenmaddox@wirral.gov.uk 0151 691 8589 | Accountable Officer Governance framework and signing the Annual Governance Statement. |
| Ian Coleman Director of Finance | iancoleman@wirral.gov.uk 0151 666 3056 | Section 151 Officer Preparation and certification of accounts that present a true and fair view of the financial position of the Council and Merseyside Pension Fund at 31 March 2010. Agreement of final AGR. |
| Bill Norman Director of Law, Asset Management and HR | billnorman@wirral.gov.uk 0151 691 8498 | Monitoring Officer Considering the legality of transactions. |
| Peter Wallach Head of Pensions | peterwallach@wirral.gov.uk 0151 242 1309 | Preparation and quality assurance of accounts that present a true and fair view of the financial position of Merseyside Pension Fund at 31 March 2010. Agreement of draft AGR for Merseyside Pension Fund. |
| Gerard Moore Financial Controller | gerardmoore@wirral.gov.uk 0151 242 1307 | Preparation of accounts and coordination and liaison during the audit. |
| Dave Garry Chief Internal Auditor | | Review of and assurance on risk management, corporate |

The Audit Team

| Name | Contact details | Responsibilities |
|------|-----------------|-----------------------------------|
| | | governance and financial control. |

35 Wirral Council key member contacts for the audit are set out in the table below. The key member contacts have changed under the new administration.

Table 7 Wirral Council key member contacts

Key members involved in the audit have changed under the new administration

| Name | Contact details | Responsibilities |
|---|--|--|
| Councillor Jeff Green Leader of the Council | jeffgreen@wirral.gov.uk | Governance framework and signing the Annual Governance Statement |
| Councillor Simon Mountney Chair of the Audit & Risk Management Committee | simonmountney@wirral.gov.uk | Approves and signs the accounts on behalf of the Council |
| Councillor Geoffrey Watt Chair of Pensions Committee | geoffreywatt@wirral.gov.uk | Makes recommendations for the Chair of ARMC to approve and sign the accounts and the Letter of representation. |

36 In addition, all members of the Audit & Risk Management Committee are responsible for:

- The approval of the Pension Funds statement of accounts
- The responsibilities of the Council under section 151 of the Local Government Act 1972 to make proper provision for its financial affairs.

37 At the meetings in September members will need to consider the post audit financial statements and our Annual Governance Report for MPF which set out the key issues that you should consider before we complete the audit. Members will be required to:

- consider the matters raised in the report before approving the financial statements (Pensions Committee and ARMC)
- take note of any adjustments to the financial statements set out in the reports (Pensions Committee and ARMC)
- agree to adjust any errors in the financial statements which management has declined to amend or set out the reasons for not amending the errors (Pensions

Committee consider and make any recommendation for adjustments to ARMC; ARMC to agree to adjust)

- approve the letters of representation on behalf of the Council before the District Auditor issues his opinion (Pensions Committee to consider and recommend to ARMC; ARMC to approve); and
- agree the Council's response to the proposed action plan (Pensions Committee to consider and recommend to ARMC; ARMC to agree).

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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