

Audit opinion plan

Merseyside Pension Fund

Audit 2010/11

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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Introduction

This plan sets out the audit work that I propose to undertake for the audit of financial statements in 2010/11.

1 The plan is based on the Audit Commission's risk-based approach to audit planning, which assesses:

- current national risks relevant to your local circumstances; and
- your local risks.

2 I will discuss and agree this plan, and any reports arising from the audit, with the Pensions Committee. However, as the pension fund accounts remain part of the financial statements of Wirral Council as a whole, the Audit and Risk Management Committee will retain ultimate responsibility for receiving, considering and agreeing the audit plans, as well as receiving and considering any reports arising from the audit.

3 The audit planning process for 2010/11, including the risk assessment, will continue as the year progresses and the information and fees in this plan will be kept under review and updated as necessary.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.

4 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

5 I comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

6 Specifically, the work of auditors on pension fund accounts is defined by the Auditing Practices Board practice note 15 on the audit of pension fund accounts.

Fee for the audit

The indicative fee for the audit is £54,065.

7 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales for 2010/11.

8 The fee for the audit is £54,065, as indicated in my letter of 14 June 2010 (Appendix 6).

9 In setting the fee, I have assumed that:

- the level of risk in relation to the audit of accounts is consistent with that for 2009/10;
- no significant audit risks are identified;
- good quality, accurate working papers are available at the start of the financial statements audit;
- the Pension Fund has a sound control environment; and
- the auditor is provided with complete and materially accurate financial statements.

10 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, I will discuss this first with the Director of Finance and I will issue supplements to the plan to record any revisions to the risk and the impact on the fee.

11 Further information on the basis for the fee is set out at Appendix 1.

Specific actions Merseyside Pension Fund could take to reduce its audit fees

12 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, I will work with staff to identify any specific actions that the Pension Fund could take and to provide ongoing audit support.

Joint working protocol

13 My main objective as your appointed auditor is to plan and carry out an efficient opinion audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). I adopt a risk-based approach to planning the audit, and my audit work focuses on the risks that are relevant to my audit responsibilities under the Code.

14 I recognise that to achieve these objectives, we need to work together effectively. We need good communication throughout the year to identify and resolve issues early and be flexible enough to manage developments as they arise. I have attached a document at appendix 3 which reflects my commitment to promote productive joint working between my audit team and your finance team.

Auditors report on the financial statements

I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).

15 I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Pension Fund as at 31 March 2011.

16 I am also required to review the pension fund annual report in accordance with the Local Government Pension Scheme (LGPS) regulations 1997.

Materiality

17 I will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying opinion audit risks

18 I need to understand fully the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. I do this by:

- identifying the business risks facing the Pension Fund, including assessing your own risk management arrangements;
- considering the financial performance of the Pension Fund;
- assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Pension Funds information systems.

Identification of specific risks

I have considered the additional risks that are appropriate to the current opinion audit and have set these out below.

19 ISA260 (UK&I) (Communication with those charged with governance) requires that I discuss issues of risk with you and set out how I propose to address significant risks. At this stage of the audit I have not identified any significant risks. However I have identified a number of specific risks and have set out below my proposed response to these risks. I will review these risks as the audit progresses and communicate any changes to you.

Table 1: **Specific risks identified**

Risk area	Audit response
<p>The Fund has completed a Triennial Actuarial Valuation Review reflecting the position of the Fund at 31 March 2010.</p> <p>Whilst this is not a direct audit opinion risk, it is a key issue as regards the ongoing governance of the Fund. There are risks of increased deficits leading to additional costs from increased employer contributions.</p>	<p>Review the results of the actuarial valuation and MPF's response to changes in valuation.</p>
<p>MPF has planned to replace its current system used to monitor and control internally managed investments (Shareholder) to the OpenAir system in 2010/11.</p> <p>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>I 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 Shareholder system to the new OpenAir system; and■ the adequacy of controls in place in the new system and testing of the effectiveness of those controls as necessary. <p>Rely on Internal Audit testing of the transfer of balances.</p>
<p>I am aware that Wirral Council is undergoing a voluntary redundancy process whereby a significant number of employees will leave in 2010/11. If impacting on MPF this may affect the capacity of the finance team to deliver materially correct statements within timescales.</p>	<p>Maintain close dialogue with the PF to keep informed of significant changes in resources. Monitor progress on closedown as appropriate.</p>

Risk area	Audit response
<p>From 2010/11 the Pension Fund is required to adopt the International Financial Reporting and Accounting Standards (IFRS) Code. The Code sets out the proper accounting practices that bodies must follow and requires some additional disclosures for 2010/11.</p>	<p>Review the progress of MPF implementing the new requirements of the IFRS Code.</p>
<p>We are aware that contributing bodies to the pension fund are under financial pressure and in many cases are offering voluntary early retirement, voluntary redundancy and possibly may need to make compulsory redundancies in the near future.</p> <p>This may place additional workload on the Pensions team in dealing with the large volume of severance arrangements.</p>	<p>Substantively test lump sums, augmentations, specifically considering cut off and completeness.</p>
<p>The Pension Fund did not carry out reconciliations between the values in AXISe Pensions Payroll and membership administration systems to those in the General Ledger in 2009/10. These are essential procedures which are intended to give the Pension Fund assurance that transactions recorded in the fund account are correctly stated as well as providing controls assurance over receipts and payments in a number of key areas.</p>	<p>Substantively test the reconciliation in 2010/11.</p>
<p>Regulation 42(2) of the Local Government Pension Scheme Regulations 2008 requires employer authorities to pay employee contributions to the administering authority within 19 days of the end of the month to which they relate. Our review of contributions receipts from employers in 2009/10 found that whilst most bodies pay on time, some smaller bodies missed these deadlines regularly, therefore breaching the regulations.</p>	<p>Review compliance of employers in regards to the Regulations.</p>
<p>The Pensions Statement of Recommended Practice (SORP) requires the valuation of investments to be at market value or where the value is not readily ascertainable, at the Fund's estimate of 'fair value'.</p>	<p>Review the Pension Fund's due diligence procedures for the valuation of investments, including their review and consideration of AAF 01/06, SAS 70 controls reports from investment managers.</p>

Risk area	Audit response
<p>The Pension Fund's accounting policies describe the methodology used for these investments as 'at manager's valuation' and the process followed for both alternatives and private equity relies on valuations reports provided by the investment managers and/or administrators.</p> <p>It is essential that the preparers of the pension fund financial statements are satisfied that the valuations provided by these specialists comply with the requirements of the SORP.</p> <p>Guidance issued by Pensions Research Advisory Group (PRAG) provides a framework of due diligence for preparers of Pension Fund statements when considering the valuation of investments.</p>	
<p>The Pension Fund's private equity valuation process relies on monitoring undertaken by Capital Dynamics Ltd under an arrangement dating back to 1991. Our review in 2009/10 of the contract identified that the contract is out of date and does not specify the valuation work.</p>	<p>Review the Capital Dynamics contract to ensure the services are specified, to give the PF assurance on the legal status of the contractual arrangements and the scope of the service provided.</p>
<p>The Pension Fund's receipts and payments were overstated by £12 million in 2009/10 due to the incorrect inclusion of Compensatory added years (CAYs).</p> <p>CAYs are awarded under the Local Government Regulations 2000 and therefore fall outside of the LGPS.</p> <p>The LGPS (Misc) Regulations 2009 now permit employers to convert compensatory added years into pension service, however there has to be a resolution by the employing authority to do this conversion by 31 March 2012.</p> <p>This error was unadjusted in 2009/10. ISA (UK&I) 450 (Evaluation of misstatements identified during the audit) now requires me to communicate to you the effect of uncorrected misstatements related to prior periods (appendix 4). When determining whether uncorrected misstatements are material, I am now required to consider the effect of uncorrected misstatements related to prior periods.</p>	<p>Review the Pension Funds treatment of CAYs in 2010/11. Test any CAYs remaining within receipts and payments to ensure there are appropriate resolutions obtained from the employing authority.</p>

Testing strategy

On the basis of risks identified above I will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.

20 I can carry out the testing both before and after the draft financial statements have been produced (pre- and post-statement testing).

21 Wherever possible, I will complete some substantive testing earlier in the year before the financial statements are available for audit. I have identified the following areas where substantive testing could be carried out early.

- Review of accounting policies.
- Contributions.
- Investments – ownership and valuation.
- Year-end feeder system reconciliations.

22 Where I identify other possible early testing, I will discuss it with officers.

23 Wherever possible, I will seek to rely on the work of Internal Audit to help meet my responsibilities.

24 I will also seek to rely on the work of other auditors and experts, as appropriate, to meet my responsibilities. For 2010/11, I plan to rely on the work of other auditors in the following areas.

- Contributions - admitted body auditors.
- Membership data - admitted body auditors.

25 I also plan to rely on the work of experts in the following areas:

- Actuarial valuation – Mercers.
- Property valuation – Colliers.
- Investment valuations - various unquoted.
- Rights and obligations of investments - Custodian State Street.

Key milestones and deadlines

The Pension Fund is required to prepare the financial statements by 30 June 2011. I am required to complete the audit and issue the opinion by 30 September 2011.

26 The key stages in producing and auditing the financial statements are at Table 2.

27 I will agree with you a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers.

28 Every week, during the audit, the audit team will meet with the key contact and review the status of all queries. I can arrange meetings at a different frequency depending on the need and the number of issues arising.

Table 2: **Agreed timetable**

This timetable will be kept up to date and members will be informed of any significant changes.

Activity	Date
Agreement of Opinion Plan with officers	Draft by early December 2010 Final by end December 2010
Progress meetings - pre statements	Quarterly
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 11 January 2011 ARMC 17 January 2011.
ISA+315 work - understanding the entity	From November 2010
Pre statements control and early substantive testing	February/March 2011
Planning of and arrangements for FRS17 assurance work	March 2011
Pre statements testing of initial FRS17 assurance work and investment valuation	Late May/early June 2011
Working papers provided to auditors	Mid June 2011
Receipt of pre audit accounts by Pensions Committee, Audit and Risk Management Committee and auditor	20 June 2011

Activity	Date
Pensions Committee to challenge accounts and make recommendations to ARMC	Before ARMC meeting (by 30 June 2011)
ARMC to challenge and approve Council accounts, including Annual Governance Statement and Pension Fund Statements.	By 30 June 2011
Start of detailed post statements testing	June 2011
Post statements progress meetings	Weekly
Completion of fieldwork on statements	Mid August 2011
Agreement of Errors and Uncertainties	19 August 2011
Draft MPF Annual Report provided to auditors	19 August 2011
Draft Annual Governance Report from Audit Commission to officers	5 September 2011
Meeting with officers to agree final AGRs (AGRs will highlight any outstanding issues that will be updated at meetings with members)	Meetings by 7 September 2011 Final AGRs to officers and members by 12 September 2011
Final version of Annual Report available for audit agreement	16 September 2011
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 2011)
ARMC - to consider Annual Governance Report, including any verbal update on outstanding issues	By 30 September 2011
Final check of post-audit statements and annual report	By 30 September 2011
Issue of opinion by District Auditor	By 30 September 2011

The audit team and key contacts

Table 3 shows the key members of the audit team for the 2010/11 audit.

Table 3: **Audit team**

Name	Contact details	Responsibilities
Michael Thomas District Auditor	m-thomas@audit-commission.gov.uk 0844 798 7043	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Director of Finance and Chief Executive.
Caroline Davies Audit Manager	caroline-davies@audit-commission.gov.uk 0151 666 3481	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.
Liz Temple-Murray Audit Manager	l-temple-murray@audit-commission.gov.uk 0151 666 3483	Manages, quality assures and coordinates the different elements of the audit work on Wirral Council. Key point of contact for the Director of Finance and the Chair of the Audit and Risk Management Committee. Annual Governance Report for Wirral Council.
Chris Blakemore Audit Team Leader	c-blakemore@audit-commission.gov.uk 0151 666 3486	Leads fieldwork on opinion and FRS17 work. Key point of contact for and liaison with the Head of Pensions and the Financial Controller.

Independence and objectivity

29 I am not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which I am required by auditing and ethical standards to communicate to you.

30 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 2.

Sustainability

31 The Audit Commission is committed to promoting sustainability in our working practices and I will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.

Quality of service

32 I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and do what he can to resolve the position.

33 If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Planned outputs

34 My team will discuss and agree reports with the right officers before issuing them to the Pensions and Audit and Risk Management Committees as appropriate.

Table 4: **Planned outputs**

Planned output	Indicative date
Opinion plan	December 2010
Working paper requirements (officers)	January 2011
Updates to opinion plan/progress reports	As required
Annual governance report	30 September 2011
Auditor's report giving an opinion on the financial statements	30 September 2011

Key officer contacts

35 The key officer contacts for Wirral Council and Merseyside Pension Fund are set out in the table below.

Table 5:

Name	Contact details	Responsibilities
Jim Wilkie Acting Chief Executive	jimwilkie@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 2011. 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 2011. 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	davegarry@wirral.gov.uk	Review of and assurance on risk management, corporate governance and financial control.

Key member contacts

36 The key member contacts and the roles of respective members are set out in the table below.

Table 6:

Name	Contact details	Responsibilities
Councillor Jeff Green Leader of the Council	jeffgreen@wirral.gov.uk	Governance framework and signing the Annual Governance Statement.
Simon Mountney Chair of the Audit & Risk Management Committee	simonmountney@wirral.gov.uk	Approves and signs the accounts on behalf of the Council.
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.

Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Pension Fund with reference to:

- my cumulative knowledge of the Pension Fund;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
- interviews with Pension Fund officers; and
- liaison with Internal Audit.

Assumptions

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2009/10;
- you will inform me of significant developments impacting on the audit;
- Internal Audit carries out agreed work and meets the appropriate professional standards;
- you provide:
 - good quality working papers and records to support the financial statements by mid June 2011;
 - information asked for within agreed timescales;
 - prompt responses to draft reports; and
- there is no allowance for extra work needed to address questions or objections raised by local government electors.

Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

Appendix 2 Independence and objectivity

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit and Risk management Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (i.e. work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to

carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit Plan as being 'additional work' and charged for separately from the normal audit fee.

- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional safeguards in the last two years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.
- The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Appendix 3 Working together

Introduction

1 My main objective as your appointed auditor is to plan and carry out an efficient opinion audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). I adopt a risk-based approach to planning the audit, and my audit work focuses on the risks that are relevant to my audit responsibilities under the Code. I issue an audit opinion on whether your financial statements fairly state your financial position and transactions for the year ended 31 March 2011.

2 I recognise that to achieve these objectives, we need to work together effectively. We need good communication throughout the year to identify and resolve issues early and be flexible enough to manage developments as they arise. This document reflects my commitment to promote productive joint working between my audit team and your finance team.

Audit approach

3 To support effective joint working I want you understand my approach to delivering your audit. The table below shows a summary of my approach and my proposed timetable.

Table 7: **Summary of my audit approach**

I adopt a two-stage approach

Stage	Procedures	Timing
1. Pre-statements	Documenting and walking through your material information systems. Testing the key controls within these systems, including where possible, reviewing the work of internal audit. Evaluating your control environment including assessing general information technology (IT) controls. Carrying out testing before the year-end on material balances that you expect to be included in the financial statements.	From November 2010 to April 2011
2. Post-statements	Testing the material balances and notes within your approved financial statements.	From May 2011 to September 2011

4 I expect my team to work closely with you throughout the opinion audit. Table 2 (paragraph 25) of the Audit plan shows the meetings and key milestones scheduled throughout the year.

Pre-statements audit

Documenting and walking through your systems

5 I use the pre-statements stage of the audit to gain an understanding of the information systems that you use to produce the material figures within the financial statements. I am required to do this by auditing standards - ISAs (International Standards on Auditing in the UK and Ireland). However, this understanding enables me to focus my audit on relevant matters. It also enables me to highlight to you any significant weaknesses in how these systems produce materially accurate figures for the financial statements.

6 To achieve this I document my understanding of your material information systems and undertake a 'walk through test'. The walk through test entails tracing a single transaction through the system, from initiation to completion. I am required by auditing standards to do this each year. However, where I have gained an understanding of a system in one year and you have confirmed that there have been no changes to that system I simply walk through the system to confirm my understanding.

Identifying and testing key controls

7 Having documented my understanding of your material information systems I then consider the controls within each system that are key to ensuring the outputs are materially accurate. I call these key controls.

8 Testing that these key controls are operating effectively provides me with assurance that there is a reduced risk that your financial statements are free from material error. It also enables me to report to you any deficiencies in your system of internal control.

9 Wherever possible I will seek to rely on the work undertaken by internal audit in respect of your key controls. My team meets regularly with internal audit to discuss the scope and timing of our respective audit plans. This includes, identifying the key controls within each material information system. If I do seek to place reliance on internal audit I will review and evaluate their work.

Control environment and Information Technology (IT) controls

10 I consider the strength of your control environment and general IT controls in assessing if your financial statements are free from material misstatement.

11 As part of the pre-statements audit, I consider and document the control environment in which you operate. For example, I will discuss with management, the Pensions Committee and the Audit and Risk Management Committee (as those charged with governance) the arrangements that the Council has in place for issues including fraud, governance and complying with laws and regulations.

12 In addition, I also evaluate and test your general IT controls, such as access controls within your material information systems.

Early testing of material balances and notes

13 I am aware that the post-statements stage of my audit falls during a busy period for your finance team. Therefore, I know that you are keen that I reduce, as far as possible, the extent of audit work I need to carry out on your financial statements at that time.

14 During the pre-statements audit, I will agree with your finance team, any aspects of your financial statements that will be known before the year end. I have made reference to some of these in paragraph 21.

Post-statements audit

15 At the post statements stage of the audit I focus my work on testing of the material balances and notes within your financial statements. The extent of this testing is determined in part by the results of the pre-statements testing.

16 My assessment will also take into account a number of factors including the materiality of the item, political sensitivity, known problems from previous years, any findings from Internal Audit and any changes in accounting practice and SORP. As a result the work undertaken and requests for further information may differ to previous years. However, I will ensure that I provide the finance team with an outline timetable of when auditors will be reviewing which aspects of the financial statements.

Obtaining external confirmations

17 There will be instances where the most appropriate effective method of obtaining audit evidence is by obtaining external confirmations. External confirmations are most commonly used with regards to the confirmation of balances. Examples of where I use them include:

- Bank balances and other information from bankers.
- Investments.
- Property title deeds held externally, for example by solicitors or financiers.

18 You will need to give permission to these third parties to release information which will be requested by me in due course.

Reporting

19 I am required by auditing standards to report the results of my work to the Audit and Risk Management Committee as those charged with governance. I do this in the Annual Governance Report. This report will include the significant findings identified from my audit work. I will also provide the Annual Governance Report to the Pensions Committee for it to consider the issues arising during the audit and for it to make any recommendations to those charged with governance.

What I expect from you

20 I have outlined to you my audit approach so that you know what to expect from me and my audit team. To deliver an effective and efficient audit our respective teams need to work collaboratively. The following paragraphs outline my expectations from you.

- access to key finance staff;
- notification of when key staff are unavailable;
- fast resolution of audit queries and issues (this would ordinarily be within 2 working days);
- relevant and available working papers in accordance with your closedown timetable. Working papers should be:
 - cross referenced to all accounting systems and other sources of information where possible - any judgements should be supported by reference to the appropriate accounting standards;
 - clearly labelled and headed;
 - accompanied by clear audit trails to individual transactions making up the balance;
 - signed and dated; and
 - ideally provided in an electronic format.

21 I recommend that you include all balances over £23million in the working paper files, with supporting documentation for any transactions over £20 million. As part of the post statements audit I may request further information for 'drilling down' into transaction listings for testing. Finance staff should ensure that this information is retained and is readily available.

22 I also recommend that you provide these working papers at the beginning of the post statements audit. This will reduce the time that finance staff have to spend dealing with audit queries. Any delays in the provision of adequate working papers or in the resolution of queries will impact on the audit programme and may lead to a delay in issuing the opinion and the fee that I have agreed for the audit.

What can you expect from me and my team

23 You can expect the following:

- a set of working paper guidelines for the post statements audit;
- a schedule of all audit errors and uncertainties arising from my work;
- regular audit liaison to discuss matters arising from the audit; and
- during the post statements audit, weekly liaison from the team leader/audit manager to discuss the progress of the audit, unresolved queries etc using a weekly report to track agreed actions.

24 My team and I will raise matters of urgency promptly. If issues may have an adverse impact on the audit opinion or the Annual Governance Report we will make this explicit.

25 I have proposed a timetable (table 2 paragraph 28) to enable me to issue an Annual Governance Report to the Director of Finance, the Pensions Committee and the Audit and Risk Management Committee by 30 September 2011. This will allow sufficient time for the Council to respond to any matters.

Way forward

26 I have prepared this protocol to improve the way my audit is delivered and reduce the load on your finance team in preparing the financial statements and responding to auditor queries. I recommend that you share this protocol with finance staff who are responsible for compiling working papers and responding to audit requirements.

27 If you have any queries about the working papers requested, or the contents within this protocol, please contact Caroline Davies or Liz Temple-Murray.

Appendix 4 2010/11 Opinion audit - changes you can expect to see

International Standards on Auditing

- 1 As your appointed auditor, the audit of the financial statements I deliver to you is governed by a framework established by International Standards on Auditing (ISAs). These standards prescribe the basic principles and essential procedures, with the related guidance, which govern my professional conduct as your auditor.
- 2 As with all guidance and frameworks, auditing standards are frequently revised and updated, often in a piecemeal fashion. However, in 2009 the auditing professional completed a comprehensive project to enhance the clarity of all the ISAs. This is known as the Clarity Project.
- 3 One of the main objectives of the Clarity Project was to promote greater consistency of application between auditors. This has been done by reducing the ambiguity within existing ISAs and improving their overall readability and understandability.
- 4 The new clarified framework will apply to my audit of your 2010/11 financial statements. Because of the new standards, you can expect to see some changes in the way my audit team delivers your audit and the information they request from you. The purpose of this document is to highlight to you the main changes and how they will impact you.
- 5 In summary the main changes you will see relate to:
 - Journals;
 - Related Party Transactions;
 - Accounting Estimates; and
 - Reporting deficiencies in internal control.
 - Evaluation of misstatements

Impact of the main changes

Journals

- 6 ISA (UK&I) 330 (The Auditor's response to assessed risks), requires me to review all material year-end adjustment journals. I can do this by using interrogation tools such as CAATs (Computer aided audit techniques), IDea software or excel, depending on the compatibility of your general ledger software. My Audit Manager will discuss a suitable approach to this work soon.

Related party transactions

7 ISA (UK&I) 550 (Related parties) requires me to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. I will also review minutes and correspondence for evidence of related party transactions and carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Accounting estimates

8 ISA (UK&I) 540 (Auditing Accounting Estimates, Including Fair Value Accounting Estimates, And Related Disclosures) requires me to look at your accounting estimates in detail. As part of my audit I will request a list of these from you. I will need to know in particular:

- the process you use to make your accounting estimates;
- the controls you use to identify them;
- whether you use an expert to assist you in making the accounting estimates;
- whether any alternative estimates have been discussed and why they have been rejected;
- how you assess the degree of estimation uncertainty (this is the level of uncertainty arising because the estimate cannot be precise or exact) ;
and
- the prior year's accounting estimates outcomes, and whether there has been a change in the method of calculation for the current year.

Deficiencies in internal control

9 ISA (UK&I) 265 (Communicating Deficiencies In Internal Control To Those Charged With Governance And Management) is a new standard.

10 If I identify a deficiency in any of your internal controls during the audit, I will undertake further audit testing to decide whether the deficiency is significant. If I decide the deficiency is significant, I will report it in writing to the Pensions Committee and the Audit and Risk Management Committee as those charged with governance.

Evaluation of misstatements

11 ISA (UK&I) 450 (Evaluation of misstatements identified during the audit) requires me to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements. I will also communicate to you the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, balances or disclosures, and the financial statements as a whole.

12 When determining whether uncorrected misstatements are material, I am now required to consider the effect of uncorrected misstatements related to prior periods.

Appendix 5 Glossary

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB, which contain basic principles and essential procedures with which auditors are required to comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

Internal control

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality (and significance)

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

Those charged with governance

Those charged with governance are defined in auditing standards as ‘those persons entrusted with the supervision, control and direction of an entity’.

Appendix 6 Fees letter

Our reference MPF fee 2010/11

14 June 2010

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

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Email

0844 798 7043
m-thomas@audit-
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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:

Fund type	2009/10 scale fees	2010/11 scale fees
Multiple employer funds		
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.

Risk area	Planned work
<p>The Fund will complete a Triennial Actuarial Valuation Review reflecting the position of the Fund at 31 March 2010.</p> <p>Whilst this is not a direct audit opinion risk, it is a key issue as regards the ongoing governance of the Fund. Results of the triennial actuarial valuation will impact on the 2010/11 audit year. 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.</p> <p>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"> ■ 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 ■ the adequacy of controls in place in the new system and testing of the effectiveness of those controls as necessary.
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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

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0844 798 7070

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- any director/member or officer in their individual capacity; or
- any third party.



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