

Audit plan

Merseyside Pension Fund

Audit 2011/12



Contents

- Introduction.....3
- Accounting statements and Pension Fund Annual Report4
- Key milestones and deadlines8
- The audit team9
- Independence and quality10
- Fees11
- Appendix 1 – Independence and objectivity13
- Appendix 2 – Basis for fee.....15
- Appendix 3 – Glossary.....16

Introduction

This plan sets out the work for the 2011/12 audit. The plan is based on the Audit Commission's risk-based approach to audit planning.

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 you.

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.

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

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

My audit of the accounting statements does not relieve management or the Audit and Risk Management Committee, as those charged with governance, of their responsibilities.

Accounting statements and Pension Fund Annual Report

I will carry out the audit of the accounting statements included within the Authority's Statement of Accounts in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I also report on the accounting statements included in the Pension Fund Annual Report. I am required to issue audit reports giving my opinion on whether the accounting statements give a true and fair view.

Materiality

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

Identifying audit risks

I need to understand the Pension Fund to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying the business risks facing the Fund, including assessing your own risk management arrangements;
- considering the financial performance of the 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 Fund's information systems.

Identification of audit risks

I have considered the additional risks that are relevant to the audit of the accounting statements. At this stage I have not identified any significant risks, but there are a number of specific audit risks that may have an impact on the Pension Funds financial statements. I have set these out below.

Table 1: **Specific risks**

Risk	Audit response
<p><u>Scheme contributions</u></p> <p>The Pension Fund receives contributions in respect of equal pay settlements made by admitted bodies. Some but not all admitted bodies have made contributions in respect of equal pay. There is a risk this may lead to a material misstatement of contributions income in the financial statements.</p>	<p>Review of management's arrangements for ensuring that reasonable contributions have been made in respect of equal pay.</p> <p>Tests of detail on management's correspondence with admitted bodies and the calculation of contributions received.</p>
<p><u>Investment valuations</u></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>The Pension Fund's accounting policies describe the valuation methodology used for unquoted investments, including hedge funds and private equity .These are in line with the valuations provided by the independent administrators, or where these are not available, at the investment managers' valuation.</p> <p>As reported in my 2010/11 Annual Governance report and supplement, unquoted investments, primarily private equity, were undervalued by £13m because out of date valuations were used.</p>	<p>Review the Pension Fund's due diligence procedures for the valuation of investments, including its review and consideration of AAF 01/06, SAS 70 controls reports from investment managers.</p> <p>Substantively test unquoted investments to ensure the most up to date valuations have been applied to the investment ledger. Consider the controls in place to ensure this is done.</p> <p>To supplement the year end valuations provided for the unquoted investments, we will agree audited financial statements to individual investments.</p>

Risk	Audit response
<p><u>Impact of redundancies on capacity within the Pension Fund</u></p> <p>I am aware that Wirral Council and the Pension Fund have undergone a redundancy process in 2010/11 and 2011/12. This may affect the capacity of the finance team to deliver materially correct statements within agreed timescales.</p>	<p>Maintain close dialogue with the Pension Fund to keep informed of significant changes in resources.</p> <p>Review progress against implementing revised structures and separation of duties within the revised finance structure.</p> <p>Monitor progress on closedown as appropriate.</p>

Testing strategy

My audit involves:

- testing of the operation of controls;
- reliance on the work of other auditors;
- reliance on the work of experts; and
- substantive tests of detail of transactions and amounts.

At this stage I am not planning to rely upon Internal Audits work due to the timing and the nature of the work being carried out.

The nature and timing of my proposed work is as follows.

Table 2: **Testing**

	Reliance on the work of other auditors	Reliance on work of experts	Controls testing	Substantive testing
Interim visit			Completeness and accuracy of information on pensions liabilities provided to the actuary.	Identification of Investments where direct confirmations are to be requested. Early substantive testing of fund account entries if

	Reliance on the work of other auditors	Reliance on work of experts	Controls testing	Substantive testing
				practical.
Final visit	SAS70 reports - fund managers and custodians	Pensions liabilities – Mercers and PWC as my consulting actuary. Valuation of direct property investments – Colliers Valuation of illiquid investments (expert TBC)	Year-end feeder system reconciliations	All material fund account and investment balances and amounts. Key disclosures in the financial statements.

I will agree with you a schedule of working papers required to support the entries in the accounting statements.

Pension Fund Annual Report

I will also review and report on the accounting statements included in the Pension Fund’s Annual Report prepared under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

Key milestones and deadlines

The Pension Fund is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinions on the accounting statements included in the Statement of Accounts and the Pension Fund Annual Report by 30 September 2012.

Table 3: **Proposed timetable and planned outputs**

Activity	Date	Output
Opinion: controls and early substantive testing	Jan – June 2012	None
Opinion: receipt of accounts and all supporting working papers	30 June 2012	None
Opinion: substantive testing	June – September 2012	Annual Governance Report (draft to officers by end August 2012 and agreed to mid September 2012).
Present Annual Governance Report at the Pensions Committee and Audit and Risk Management Committee	September 2012 (date TBC)	Annual Governance Report (draft to officers by end August 2012 and agreed to mid September 2012).
Issue opinion on accounting statements included in the Statement of Accounts	By 30 September 2012	Auditor's report
Issue opinion on accounting statements included in the Pension Fund Annual Report	By 30 September 2012	Auditor's report

The audit team

The key members of the audit team for the 2011/12 audit are as follows.

Table 4: **Audit team**

Name	Contact details	Responsibilities
Michael Thomas District Auditor	m-thomas@audit-commission.gov.uk 0844 798 6146	Responsible for the overall delivery of the audit including quality of reports, signing the opinion and liaison with the Chief Executive, Deputy Chief Executive and Director of Finance.
Liz Temple-Murray Audit Manager	l-temple-murray@audit-commission.gov.uk 0844 798 4838	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.
Caroline Davies Audit Manager	caroline-davies@audit-commission.gov.uk 0844 798 2623	Manages, quality assures and coordinates the different elements of the Pension Fund audit work. Key point of contact for the Head of Pension Fund.
Chris Blakemore Team Leader	c-blakemore@audit-commission.gov.uk 0844 798 3568	Leads fieldwork. Key point of contact for and liaison with the Group Accountant, Fund accountants and Internal Audit.

Independence and quality

Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

Quality of service

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 – Standards & Technical, 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 to do what he can to resolve the position.

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).

Fees

The scale fee for the audit is £59,181, as set out in my letter of 13 April 2011.

The audit fee

The Audit Commission has set a scale audit fee of £59,181.

The scale fee reflects:

- the Audit Commission's decision not to increase fees in line with inflation; and
- a reduction following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

My letter dated 13 April 2011 also identified an audit risk in regards to the proposed system change from AXIS pensions administration and pensions payroll system to the Altair pensions administration and pensions payroll system. I advised you of extra work I would need to carry out to test the integrity of the data in the new system and controls. I advised that I would charge an extra fee of £1,785 for this work.

I understand that the systems change is now not scheduled for 2011/12. You will not therefore be charged for this work.

Assumptions

In setting the fee, I have made the assumptions set out at Appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Deputy Chief Executive and Director of Finance and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. I have identified the following actions that you could take.

- Improved quality and timeliness of working papers.
- Timing/focus of internal audit work.
- Improved quality and timeliness of responses to audit queries, particularly relating to investments.

Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

Table 5: **Independence and objectivity**

Area	Requirement	How we comply
Business, employment and personal relationships	<p>Appointed auditors and their staff should avoid 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.</p> <p>The appointed auditor and senior members of the audit team must not take part in political activity for 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.</p>	All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	<p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>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.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p>	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.

Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards

Appendix 2 – Basis for fee

Assumptions

In setting the fee, I have assumed the following.

- The risk in relation to the audit of the accounting statements is not significantly different to that identified in this audit plan.
- Internal controls are operating effectively.
- Internal Audit meets professional standards.
- The Authority provides:
 - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by 30 June 2012;
 - the full text of the Pension Fund Annual Report by 01 August 2012, final version by 10 September 2012,
 - other information requested within agreed timescales;
 - prompt responses to requests for information throughout the audit; and
 - prompt responses to draft reports.

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

Appendix 3 – Glossary

Accounting statements

The Pension Fund accounts included within the annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Fund in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Annual Governance Statement

The annual report on the Fund's systems of internal control that supports the achievement of the Fund's policies aims and objectives.

Annual Governance Report

The auditor's report on matters arising from the audit of the accounting statements presented to the Audit and Governance Committee before the auditor issues their opinion.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out an auditor under 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.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated 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 that contain basic principles and essential procedures with which auditors must 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 issued by the Audit Commission and approved by Parliament.

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 relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Internal control

The whole system of controls, financial and otherwise, that the Pension Fund establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the accounting 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 may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

Pension Fund Annual Report

The annual report, including accounting statements, that the Pension Fund must publish under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

Those charged with governance

Those entrusted with the supervision, control and direction of the Pension Fund. This term includes the members of the Authority and the Audit and Risk Management Committee.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

© Audit Commission 2011.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

