



# The Audit Plan for Merseyside Pension Fund

---

**Year ended 31 March 2013**

25 March 2013

**Mike Thomas**

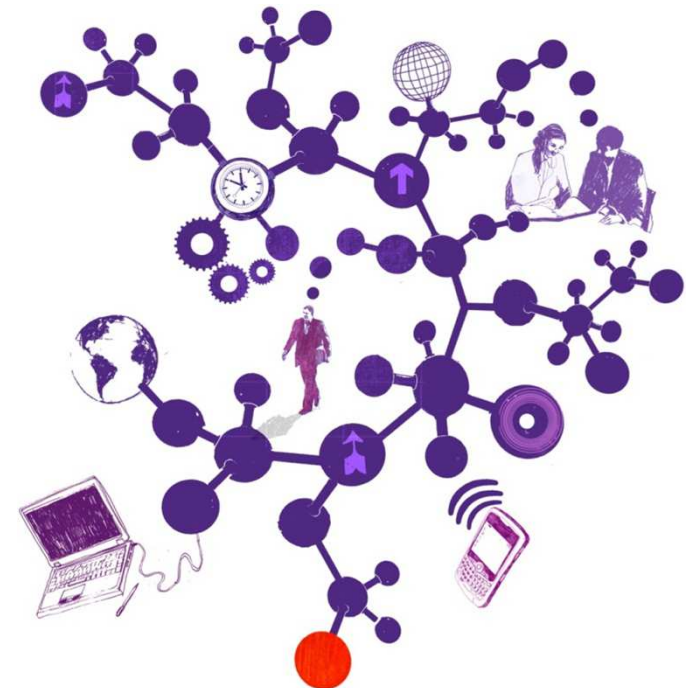
Director  
T 0161 214 6368  
E [mike.thomas@uk.gt.com](mailto:mike.thomas@uk.gt.com)

**Caroline Davies**

Manager  
T 0161 214 6394  
E [caroline.davies@uk.gt.com](mailto:caroline.davies@uk.gt.com)

**Chris Blakemore**

Executive  
T 0161 214 6397  
E [chris.blakemore@uk.gt.com](mailto:chris.blakemore@uk.gt.com)



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.


---

# Contents

<b>Section</b>	<b>Page</b>
1. Understanding your business	4
2. Developments relevant to your business and the audit	5
3. Our audit approach	6
4. An audit focused on risks	7
5. Significant risks identified	9
6. Other risks	10
7. Results of interim work	12
8. Logistics and our team	14
9. Fees and independence	15
10. Communication of audit matters with those charged with governance	16
<b>Appendices</b>	
A. Action plan	18

# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Pension fund is facing. We set out a summary of our understanding below.

Challenges/opportunities			
<p><b>1. Change in custodian</b></p> <ul style="list-style-type: none"> <li>The Pension Fund has appointed a new custodian, Northern Trust, in 2012/13. All holdings/records under the safeguard of State Street transferred to Northern Trust in year. There is a risk of inaccurate transfer of assets which may lead to misstatement in the financial statements.</li> </ul>	<p><b>2. Axise to Altair</b></p> <ul style="list-style-type: none"> <li>The pensions administration system Axise is being upgraded to Altair in the year.</li> </ul>	<p><b>3. Appointment of passive management services.</b></p> <ul style="list-style-type: none"> <li>MPF have appointed a provider of passive management services. This has led to a £1.4bn movement of asset class in the year.</li> </ul>	<p><b>4. Change in bank</b></p> <ul style="list-style-type: none"> <li>The pension fund has changed its provider of banking services from RBS to Lloyds TSB.</li> </ul>
			
Our response			
<ul style="list-style-type: none"> <li>We will review and test the pension funds reconciliations of the assets before and after the date of transfer.</li> <li>We will have regards to the custodian's project plans, and review to assess adherence to the plans.</li> <li>We will obtain direct confirmation from state street to confirm they no longer hold assets for the pension fund, to gain assurance that securities are transferred to Northern Trust.</li> <li>We will, where possible, rely upon the work of internal audit. we will re-perform their work as appropriate and in accordance with ISA 610.</li> </ul>	<ul style="list-style-type: none"> <li>We will gain assurance that the new system is operating effectively, and generates correct information for inclusion within the financial statements.</li> <li>We need review the data migration from Axise to Altair, reviewing reconciliations and prior and post system change to ensure the records held in the new system are accurate.</li> <li>We will seek to place reliance on the work of internal audit in regards to this area of risk, wherever possible.</li> </ul>	<ul style="list-style-type: none"> <li>We will substantively test the assets to ensure that all assets were transferred that classification and valuation are materially accurate at year end.</li> </ul>	<ul style="list-style-type: none"> <li>We will review and test the pension funds reconciliations before and after the date of transfer of banks.</li> <li>We will obtain direct confirmation from RBS to confirm that balances have been transferred to Lloyds TSB.</li> </ul>

# Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

## Developments and other requirements

### 1. Financial reporting

- CIPFA publication of a revised set of example accounts for pension funds in 2013.

### 2. LGPS 2014

- Planning for the impact of the implementation of career average re-valued earnings scheme (CARE) from 1 April 2014.

### 3. Financial Pressures – scheduled and admitted bodies

- Managing pensions administration where contributing bodies are offering early retirement and redundancies placing additional workload on the pension fund in dealing with severance arrangements.

### 4. Financial Pressures – Pension fund

- Pension funds are increasingly requiring to withdraw from assets to fund the demand on benefits payable that are not covered by contributions in year. Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of investment markets.

### 5. Triennial valuation

- Demands on pension funds' time in terms of administering the information to pass to the actuary and regular dialogue with the actuary.

## Our response

- We will ensure that the Pension Fund complies with the requirements of the CIPFA Code of Practice through our substantive testing

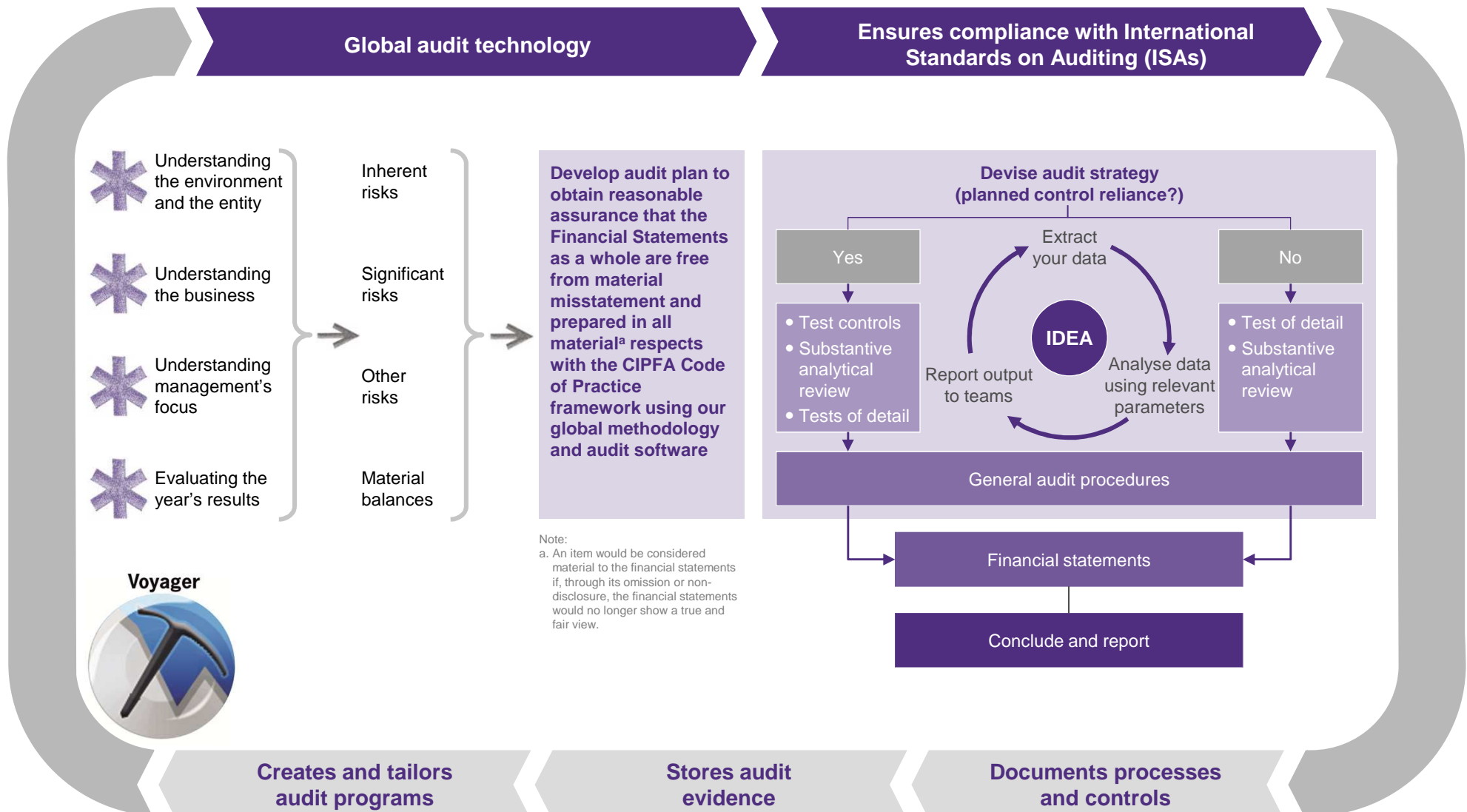
- We will discuss the impact of the changes with the Pension Fund through our regular meetings with senior management and those charged with governance, providing a view where appropriate.

- We will maintain regular dialogue with management to assess the impact this may have on the administration of the Pension fund. We will raise any concerns with those charged with governance.

- We will monitor the changes being made to the pension fund investment strategy through our regular discussions with senior management and those charged with governance.
- We will consider the impact of changes on the nature of investments held by the pension fund and adjust our testing strategy as appropriate.

- We will maintain regular dialogue with management to assess the impact this may have on the administration of the Pension fund. We will raise any concerns with those charged with governance.

# Our audit approach



## An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

**Significant** – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

**Other** – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

**None** – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Planned control reliance?	Substantive testing?
Contributions receivable	Yes	Scheme Contributions	Medium	Other	Recorded contributions not correct	Yes	✓
Transfers in	Yes	Transfers in to the scheme	Low	None		No	✓ If material
Pensions payable	Yes	Benefit payments	Medium	Other	Benefits improperly computed/claims liability understated	Yes	✓
Payments to and on account of leavers	Yes	Benefit payments	Low	None		No	✓ If material
Administrative expenses	No	Administrative expenses	Low	None		No	X
Investment income	Yes	Investments	Medium	Other	Investment activity not valid	No	✓

## An audit focused on risks (continued)

	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Planned controls assurance?	Substantive testing?
Profit and loss on disposal of investments and changes in value of investments	Yes	Investments	Medium	Other	Investment activity not valid	No	✓
Taxes on income	No	Investments	Low	None		No	×
Investment management expenses	No	Investments	Low	None		No	X
Investments	Yes	Investments	Medium	Other	Investments not valid Fair value measurement not correct	No	✓
Current assets	No	Scheme Contributions, investments and cash	Low	None		No	X
Current liabilities	No	Benefit payments, investments	Low	None		No	x



---

## Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgemental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgemental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
<b>Revenue</b>	Under ISA 240 there is a presumed risk that revenue (which for the purposes of Merseyside Pension Fund we have considered as investment income, transfers into the scheme and contributions) may be misstated due to the improper recognition of revenue.	<ul style="list-style-type: none"><li>• Review and testing of revenue recognition policies for both contributions and investment income; and</li><li>• Performance of sample testing on material contribution and investment income streams.</li></ul>
<b>Management over-ride of controls</b>	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<ul style="list-style-type: none"><li>• Review of accounting estimates, judgements and decisions made by management;</li><li>• Testing of journals entries; and</li><li>• Review of unusual significant transactions.</li></ul>

## Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

Other reasonably possible risks	Description	Planned audit procedure
Investments	Investments not valid Investments activity not valid Fair value measurement not correct	<p>We will review the reconciliation between information provided by the fund managers, the custodian and the pension fund's own records and seek explanations for any variances. We will have particular regard to the in year change of custodian and seek to gain assurance over the accuracy and completeness of the transfer of assets.</p> <p>We will also have particular regard to the appointment of passive management services and subsequent transfer of £1.4bn of assets in the year.</p> <p>We will select a sample of the individual investments held by the Scheme at the year end and then test the valuation of the sample by agreeing prices to third party sources where published (quoted investments) or by critically assessing the assumptions used in the valuation (unquoted investments and direct property investments). The existence of investments will be confirmed directly with independent custodians or by agreement to legal documentation.</p> <p>We will test a sample of sales and disposals during the year back to detailed information provided by the custodian and fund managers.</p>
Benefit Payments	Benefits improperly computed/claims liability understated	<p>We will select a sample of individual transfers, pensions in payment (new and existing), lump sum benefits and refunds which are tested by reference to the member files. This testing is designed to ensure that all the appropriate documentation is correctly filed and internal control procedures operated by Merseyside Pension Fund have been followed.</p> <p>We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year together with comparing pensions paid on a monthly basis to ensure that any unusual trends are satisfactorily explained.</p> <p>The movements on membership statistics will also be compared to transactions in the accounting records.</p>
Contributions	Recorded contributions not correct.	<p>We will test the controls the pension fund operates to ensure that it receives all expected contributions from member bodies.</p> <p>We will rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.</p>

## Other risks continued

Other reasonably possible risks	Description	Planned audit procedure
AXISe to Altair	The funds AXISe system (pensions payroll and membership administration system) is being changed in year to Altair.	<ul style="list-style-type: none"> <li>• We will gain assurance that the new system is operating effectively, and generates correct information for inclusion within the financial statements.;</li> <li>• We need review the data migration from AXISe to Altair, reviewing reconciliations and prior and post system change to ensure the records held in the new system are accurate; and</li> <li>• We will seek to place reliance on the work of internal audit in regards to this area of risk, wherever possible.</li> </ul>
Change in bank	The pension fund has changed its provider of banking services from RBS to Lloyds TSB	<ul style="list-style-type: none"> <li>• We will review and test the pension funds reconciliations before and after the date of transfer of banks; and</li> <li>• We will obtain direct confirmation from RBS to confirm they no longer hold assets of the pension fund.</li> </ul>

# Results of interim audit work

## Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we have considered:

- the effectiveness of the internal audit function
- internal audit's work on the Pension fund's key financial systems
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- a review of Information Technology (IT) controls

	Work performed	Conclusion/ Summary
<b>Internal audit</b>	We are reviewing internal audit's overall arrangements against the CIPFA Code of Practice. Where the arrangements are deemed to be adequate, we can gain assurance from the overall work undertaken by internal audit and can conclude that the service itself is contributing positively to the internal control environment and overall governance arrangements within the Pension Fund.	The Internal Audit Service has been subject to significant changes during the year. For the first part of the year we would assess that the Internal Audit service has not provided an independent and satisfactory service to the Pension Fund and we can not take assurance from their work in contributing to an effective internal control environment at the Pension Fund. We are now assessing the new arrangements and plan to seek to rely on its more recent work, both to achieve an efficient audit strategy and also to inform our assessment of the new arrangements.
<b>Walkthrough testing</b>	Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements.	<p>With the exception of year end processes, we have walked through all material systems that we consider present a risk of material misstatements.</p> <p>Whilst no significant issues were noted, and in-year internal controls were observed to have been implemented in accordance with our documented understanding, we have identified the following control weaknesses which we wish to report to you:</p> <ul style="list-style-type: none"> <li>❑ We have evidenced that bank reconciliations are being carried out. However, the reconciliation selected for review was not signed or dated. Therefore we cannot confirm the timeliness of review. The Pension Fund must ensure that it signs and dates reconciliations, in accordance with its policies and procedures.</li> </ul>

---

## Results of interim audit work (continued)

	<b>Work performed</b>	<b>Conclusion/ Summary</b>
<b>Review of information technology (IT) controls</b>	Our information systems specialist will perform a high level review of the general IT control environment covering both the administering authority (Wirral Council) and Merseyside Pension Fund, as part of the overall review of the internal controls system. We will also follow up the issues that have been raised in the previous year. We will conclude whether there are any material weaknesses which are likely to adversely impact on the Pension Fund's financial statements.	This work is in progress.
<b>Journal entry controls</b>	We have reviewed the Pension Fund's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Pension Fund's control environment or financial statements.	We intend to undertake detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review. No issues have currently been identified that require to be reported.

# Logistics and our team



Date	Activity
February/March 2013	Interim site work
25 March 2013	The audit plan presented to the Pensions Committee
10 June 2013	The audit plan presented to Audit Committee
1 July 2013	Year end fieldwork commences
TBC	Audit findings clearance meeting
TBC	Pensions Committee meeting to report our findings
TBC	Audit Committee meeting to report our findings
TBC	Issue opinion of the financial statement and annual report

## Our team

**Mike Thomas**  
**Director**  
 T 0161 214 6368  
 M 07880 456 173  
 E mike.thomas@uk.gt.com

**Caroline Davies**  
**Manager**  
 T 0161 214 6394  
 M 07880 456 162  
 E caroline.davies@uk.gt.com

**Chris Blakemore**  
**Executive**  
 T 0161 214 6397  
 E chris.blakemore@uk.gt.com

# Fees and independence

## Fees

	£
Pension fund audit	36,580

## Fees for other services

Service	Fees £
Additional work as a result of the extra risks identified.	TBC

### Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Pension fund and its activities have not changed significantly
- The Pension fund will make available management and accounting staff to help us locate information and to provide explanations

### Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

# Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to those charged with governance.

## Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council and Pension fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Pension Fund's key risks when reaching our conclusions under the Code.

The audit of the Pension fund's financial statements does not relieve management or those charged with governance of their responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



---

# Appendices

# Action plan

## Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
	We have evidenced that bank reconciliations are being carried out. However, the reconciliation selected for review was not signed or dated. Therefore we cannot confirm the timeliness of review. The Pension Fund must ensure that it signs and dates reconciliations , in accordance with its policies and procedures.	M	Bank reconciliations are undertaken on a monthly basis. However, MPF will ensure all future bank reconciliations are signed and dated to evidence this.	Immediately. Peter Wallach



© 2013 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

**[grant-thornton.co.uk](http://grant-thornton.co.uk)**