



The Audit Findings for Merseyside Pension Fund

Year ended 31 March 2013

30 August 2013

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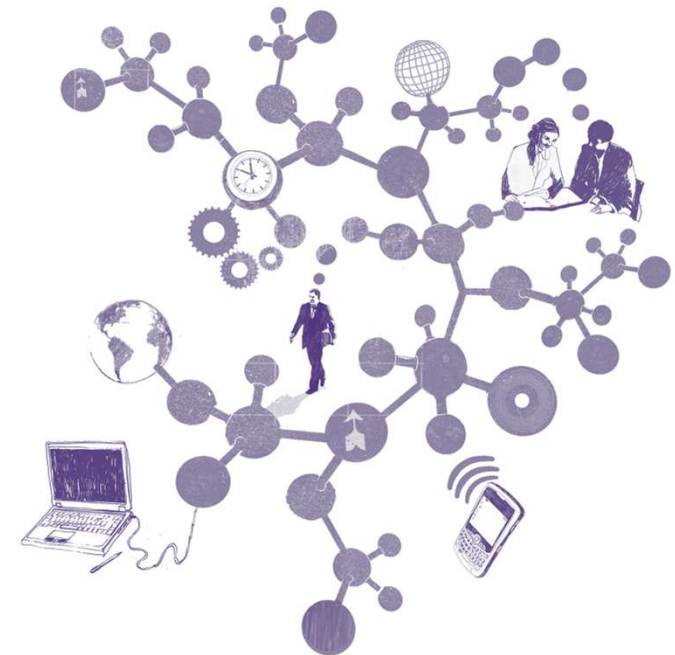
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

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.

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We anticipate providing an unqualified opinion on the Fund's financial statements

Executive summary

Purpose of this report

This report highlights the key issues arising from the audit of Merseyside Pension Fund's ('the Fund') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Fund's financial statements present a true and fair view of the financial position, the financial transactions of the fund during the year and that they have been properly prepared in accordance with the Code of Practice on Local Authority Accounting.

Introduction

In the conduct of our audit we have not had to alter or change our audit plan, which we communicated to you in our Audit Plan dated 30 May 2013. Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion

We received draft financial statements and accompanying working papers at the start of our audit.

Key audit and financial reporting issues

Financial statements opinion

We have identified one unadjusted error in the financial statements. Property rental income in the fund account is understated by £3.194m, and the total net assets of the fund are also understated by £3.194m. If the accounts were to be amended for this error then the total net assets of the fund would increase from £5.819bn to £5.822bn.

We have made amendments to the disclosures in note 13c and note 14c, and a small number of other minor adjustments to improve the presentation of the financial statements. Management have updated note 22 (AVCs) following receipt of audited financial statements from providers. The disclosures of key management personnel in note 21 have been amended to meet the reporting requirements of the Code. None of these amendments have an impact on the financial position of the fund.

We anticipate providing an unqualified opinion on the Fund's financial statements. The key messages arising from our audit of the Fund's financial statements are:

- the financial statements and supporting working papers were prepared to a good standard.
- we received prompt and full responses to our requests for additional information during the course of the audit.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
August 2013

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

We have identified one unadjusted error in the financial statements. Property rental income in the fund account is understated by £3.194m, and the total net assets of the fund are also understated by £3.194m.

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan dated 30 May 2013, and presented to the Audit and Risk Management Committee on 10 June 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 10 June 2013.

Audit opinion

We anticipate that we will provide the Fund with an unmodified opinion. Our audit opinion is set out in Appendix A.

Unadjusted misstatements

We have identified one unadjusted error in the financial statements. Property rental income in the fund account is understated by £3.194m, and the total net assets of the fund are also understated by £3.194m. The error has arisen due to rental income being incorrectly recognised as a receipt in advance within current liabilities in the net assets statement, rather than being recognised as income within the 2012/13 fund account. If the accounts were to be amended for this error then the total net assets of the fund would increase from £5.819bn to £5.822bn.

Audit adjustments

The disclosures of key management personnel in note 21 have been amended to meet the reporting requirements of the Code. Under paragraph 3.9.4.3 of the Code of Practice on Local Authority Accounting in the United Kingdom (the 'code'), local authority pension fund accounts are required to disclose officer remuneration as set out in section 3.4 of the Code. The draft financial statements of Merseyside Pension Fund did not disclose officer remuneration either as required by IAS24 or as set out in the Code. Note 21 has now been amended to include disclosure of the key management personnel of the Pension Fund as required by the Code.

Financial Instrument Disclosures

The financial instrument disclosures in notes 14 and 15 to the Pension Fund Accounts have been prepared to follow the model accounts provided by CIPFA. The financial instrument disclosures in the CIPFA model accounts do not meet all the requirements of IAS39 (Financial Instruments: Recognition and Measurement) and IFRS7 (Financial Instruments: Disclosures). As a result, the financial instrument disclosures in notes 14 and 15 are not fully compliant with the requirements of IAS39 and IFRS7. Management have agreed to review the disclosures for 2013/14.

Audit findings against significant risks

"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 detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition .</p>	<ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions 	<p>Our audit work has not identified any issues in respect of improper revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls.</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.




Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Investments</p>	<ul style="list-style-type: none"> Investments not valid Investments activity not valid Fair value measurement not correct 	<ul style="list-style-type: none"> We have reviewed the reconciliation between information provided by the fund managers, the custodian and the pension fund's own records. We have reviewed the in year change of custodian and obtained assurance over the accuracy and completeness of the transfer of assets. We have reviewed the appointment of passive management services and subsequent transfer of £1.4bn of assets in the year. We have tested the valuation of a sample of individual investments 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). 	<p>Our audit procedures have gained adequate assurance over the existence, valuation and completeness of investment balances and investment activity during the year.</p> <p>We were able to use the work of Internal Audit to inform our review of the change of custodian during the year. We have gained assurance that the change in custodian is complete and accurate. Our review of Internal Audit's work has identified some recommendations for improvements to the documentation of work performed.</p> <p>We have gained assurance over the completeness and accuracy of the transfer of £1.4bn between fund managers.</p> <p>Testing of the valuation of a sample of individual investments has concluded that quoted investments have been valued based on published prices; that the valuation of unquoted investments is based on an appropriate valuation methodology, supported by fund manager statements and audited accounts; and that pooled investment valuations are supported by independent price quotes and confirmations from fund managers.</p>
<p>Benefit Payments</p>	<ul style="list-style-type: none"> Benefits improperly computed/claims liability understated 	<ul style="list-style-type: none"> We have tested a sample of individual transfers, pensions in payment, and lump sum benefits to ensure that benefits have been correctly calculated, all the appropriate documentation is correctly filed and internal control procedures have been followed. We have undertaken analytical review of 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>We have gained assurance that pension payments, lump sum payments and transfers have been accurately calculated and properly reflected in the financial statements.</p> <p>Pensions paid during the year are in line with expectations based on changes in pensioner numbers and the inflationary uplift to pensions paid.</p>

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Contributions	<ul style="list-style-type: none"> Recorded contributions not correct 	<ul style="list-style-type: none"> We have tested the process and controls the pension fund operates to ensure that it receives all expected contributions from member bodies. We have rationalised 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>We have gained assurance that the fund has appropriate processes and controls in place to ensure that it receives all expected contributions from member bodies.</p> <p>Our testing of contributions received has concluded that contributions are complete, and in line with expectations based on member body payrolls and numbers of active members.</p>
AXISe to Altair	<ul style="list-style-type: none"> The AXISe system (pensions payroll and membership administration system) changed in year to Altair. 	<ul style="list-style-type: none"> We have obtained assurance that the new system is operating effectively, and generating correct information for inclusion within the financial statements. We have reviewed the data migration process from AXISe to Altair, assessing the nature of the software upgrade and adequacy of the controls put in place . 	<p>Our testing of pensions paid has obtained assurance that the upgraded software system is operating effectively.</p> <p>Our review of the upgrade process has concluded that the fund had adequate controls in place to ensure the accuracy and completeness of data during the migration.</p>
Change in Bank	<ul style="list-style-type: none"> The pension fund has changed its main provider of banking services from RBS to Lloyds TSB 	<ul style="list-style-type: none"> We have reviewed and tested bank reconciliations before and after the date of transfer of banks; and We have obtained direct confirmation from both RBS and Lloyds to confirm the assets held on behalf of the pension fund. 	<p>Our testing has concluded that the cash and bank balances of the fund are correctly stated.</p>

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Contributions are accounted for on an accruals basis. Income from equities is accounted for when the related investment is quoted ex dividend. Income from pooled investment vehicles and interest on short term deposits has been accounted for on an accruals basis. Distributions from private equity and alternative investments are treated as return of capital until the book value is nil then treated as income on an accruals basis. Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year. 	<ul style="list-style-type: none"> The fund's accounting policies for revenue recognition are appropriate to the accounting framework and are adequately disclosed. There is limited judgement involved in the fund's revenue recognition policies. The recognition of unrealised profits/losses on the change in market value of investments during the year exposes the fund to variations in the net asset value of the fund. This is in line with expected accounting practice and is reflected in the fund's investment management strategy. 	
Judgements and estimates	<ul style="list-style-type: none"> The fund has significant unquoted investments within private equity, infrastructure, property and other alternative investments. These are valued within the financial statements using valuations from the managers of the respective assets. The value of unquoted assets as at 31 March 2013 was £1,121 million (£1,021 million at 31 March 2012). 	<ul style="list-style-type: none"> The fund undertakes due diligence to ensure that managers undertake these valuations in accordance with accounting standards and best practice. We have reviewed the valuation for a sample of unquoted investments. This work has concluded that the valuations are based on an appropriate methodology, supported by fund manager statements and audited accounts. 	
Other accounting policies	<ul style="list-style-type: none"> The Fund's accounting policies are in accordance with the requirements of the Code of Practice on Local Authority Accounting 	<ul style="list-style-type: none"> We have reviewed the Fund's policies against the requirements of the Code of Practice on Local Authority Accounting and do not have any comments to make. 	

Assessment

 Marginal accounting policy which could potentially attract attention from regulators

 Accounting policy appropriate but scope for improved disclosure

 Accounting policy appropriate and disclosures sufficient

Unadjusted misstatements

The table below provides details of adjustments identified during the audit but which have not been made within the final set of financial statements. The Audit and Risk Management Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Pension Fund Revenue account £'000	Net asset statement £'000	Reason for not adjusting
1 Property rental income of £3.194m has been incorrectly recognised as a receipt in advance within current liabilities in the net assets statement, rather than being recognised as income within the 2012/13 fund account. The effect of the misstatement is that both property rental income and the total net assets of the fund are understated by £3.194m. If this error were to be amended then the total net assets of the fund would increase from £5.819bn to £5.822bn.	+ 3,194	+ 3,194	Management do not consider the error to be material to the total fund assets of £5.819bn. The income will be accounted for the 2013/14 financial year.
Overall impact	£3,194	£3,194	

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	n/a	Investment Assets – Note 13c Analysis of Derivatives	The second table in note 13c (Forward Currency Contracts) has been amended to remove disclosure of contracts that were closed during the year, and which therefore have no outstanding asset or liability at 31 March 2013.
2 Disclosure	n/a	Investment Assets – Note 14c Fair value of financial instruments and liabilities	The 2012/13 carrying value of financial assets at fair value through profit and loss has been amended to include an additional £50.734m of other investment balances that were excluded in error.
3 Disclosure	n/a	Net Asset Statement – Note 15 Financial Instruments	The disclosures in note 15b for credit risk have been expanded to disclose the source of the credit ratings.
4 Disclosure	n/a	Related Party Transactions – Note 21 Key Management Personnel	The draft financial statements of Merseyside Pension Fund did not disclose officer remuneration either as required by IAS24 or as set out in the Code. Note 21 has now been amended to include disclosure of the key management personnel of the Pension Fund as required by the Code.

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have raised the risk of fraud with the Audit and Risk Management Committee and are awaiting a response. We have been made aware of matters relating to the transfer of funds to overseas funds not authorised by HMRC. The values involved in this matter are not significant to our audit and do not have implications for our audit opinion. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Fund.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.

Section 3: Fees, non audit services and independence

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04. Communication of audit matters

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

Fees, non audit services and independence

We confirm below our final fees charged for the audit .

Fees

	Per Audit plan £	Actual fees £
Fund audit	36,882	36,882
Total audit fees	36,882	36,882

Fees for other services

Service	Fees £
Indicative fees for the provision of IAS19 assurances to admitted body auditors (TBC)	3,633

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.

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

Section 5: Communication of audit matters

01. Executive summary

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International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance

Communication of audit matters to 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.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report 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).

We have been appointed as the 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 Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these responsibilities.

	Audit Plan	Audit Findings
Our communication plan		
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 issues 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		✓
Compliance with laws and regulations		✓
Expected unmodified auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Audit opinion

We anticipate that we will provide the Fund with an unmodified audit report

STATEMENT OF ACCOUNTS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MERSEYSIDE PENSION FUND

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Merseyside Pension Fund for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Merseyside Pension Fund in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Interim Director of Finance and auditor

As explained more fully in the Statement of the Interim Director of Finance's Responsibilities, the Interim Director of Finance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Interim Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Opinion on the pension fund financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Michael Thomas

Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Royal Liver Building
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XX September 2013

ANNUAL REPORT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MERSEYSIDE PENSION FUND

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Merseyside Pension Fund for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Merseyside Pension Fund in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Interim Director of Finance and auditor

As explained more fully in the Statement of the Interim Director of Finance's Responsibilities, the Interim Director of Finance is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Interim Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matters

In our opinion, the information given in the pension fund annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if, in our opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. We have nothing to report in this respect.

Opinion on the pension fund financial statements

In our opinion the pension fund's financial statements:

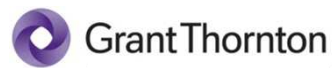
- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Michael Thomas

Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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XX September 2013



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