

# The Audit Plan for Merseyside Local Government Pension Scheme

**Year ended 31 March 2014**

Plan dated March 2014

**Mike Thomas**

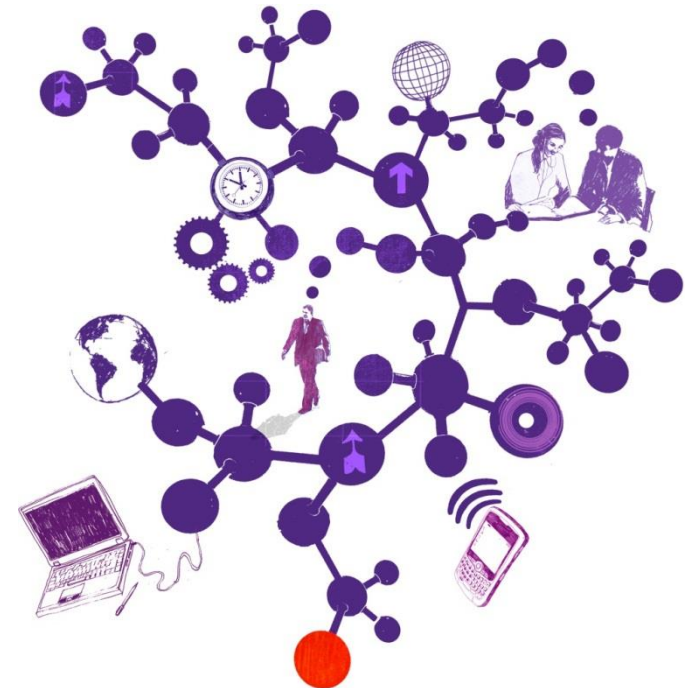
Director  
T 0161 214 6368  
E [Mike.Thomas@uk.gt.com](mailto:Mike.Thomas@uk.gt.com)

**Fiona Blatcher**

Associate Director  
T 0161 234 6393  
E [fiona.c.blatcher@uk.gt.com](mailto:fiona.c.blatcher@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 Fund 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.

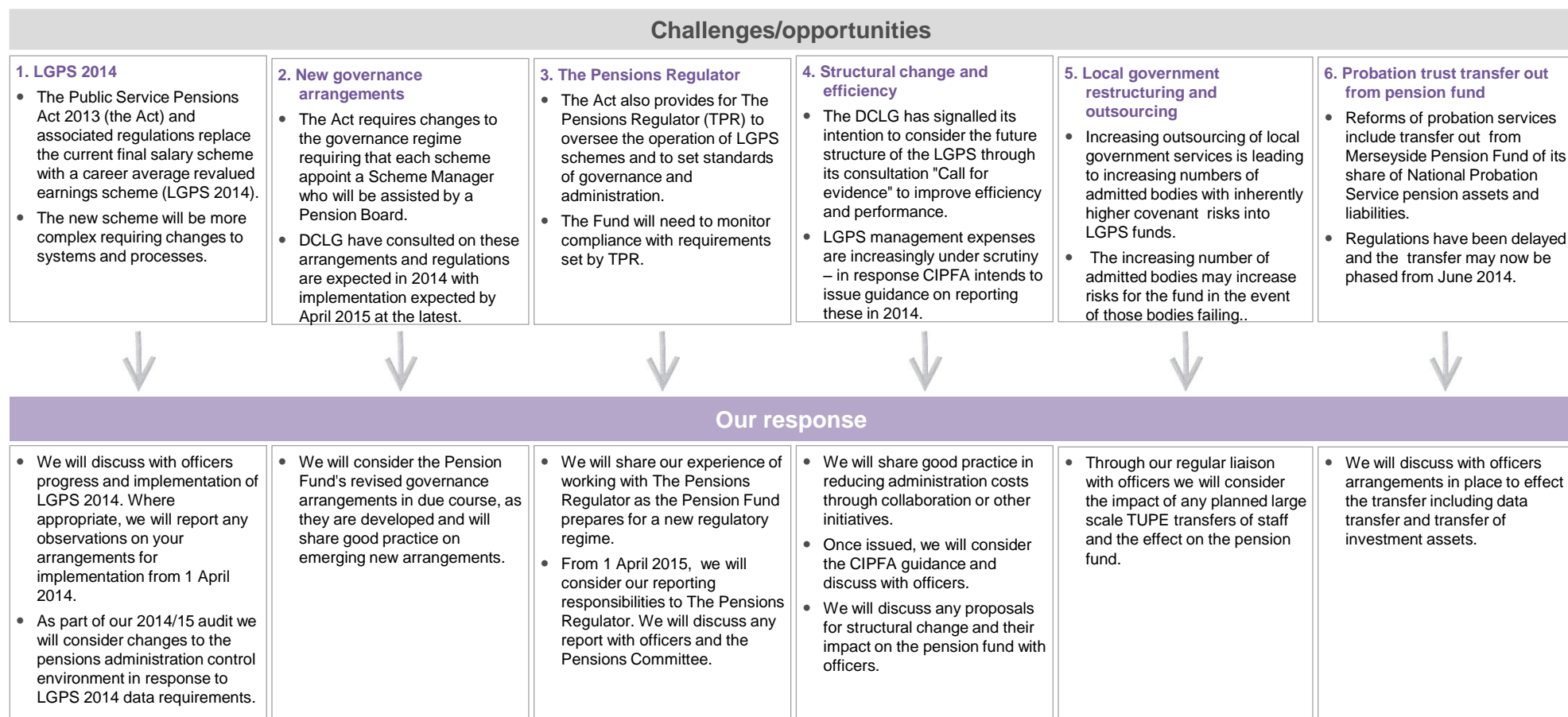
---

# Contents

<b>Section</b>	<b>Page</b>
1. Understanding your business	4
2. Developments relevant to your Pension Fund and the audit	5
3. Our audit approach	6
4. Significant risks identified	7
5. Other risks	8
6. Logistics and our team	9
7. Fees and independence	10
8. Communication of audit matters with those charged with governance	12

# 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.



# Developments relevant to your Pension Fund 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

There are no significant changes to the Pension Fund financial reporting framework as set out in the CIPFA Code of Practice for Local Authority Accounting (the Code) for the year ending 31 March 2014.

### 2. Workload pressures

Planning and implementing of the Career Average Revalued Earnings scheme (CARE), effective from 1 April 2014, will impact on the workload of the pensions administration team. This alongside further developments in relation to governance may impact on the capacity to maintain benefit administration performance levels.

### 3. Triennial valuation

Following the 31 March 2013 actuarial valuation the scheme is in the process of considering the level of additional employer deficit contributions required and how to fund them.

### 4. Financial Pressures – Pension fund

Nationally, pension funds are increasingly disinvesting from investment assets to fund cash flow demands on benefit and leaver payments that are not covered by contributions and investment income. Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of investment markets.

## Our response

We will review compliance of the Pension Fund financial statements with the requirements of the Code through our substantive testing.

We will discuss and agree any actions needed in respect of presentational issues arising from last year's audit during our interim work in March 2014.

We will discuss the impact of the changes through our regular meetings with management.

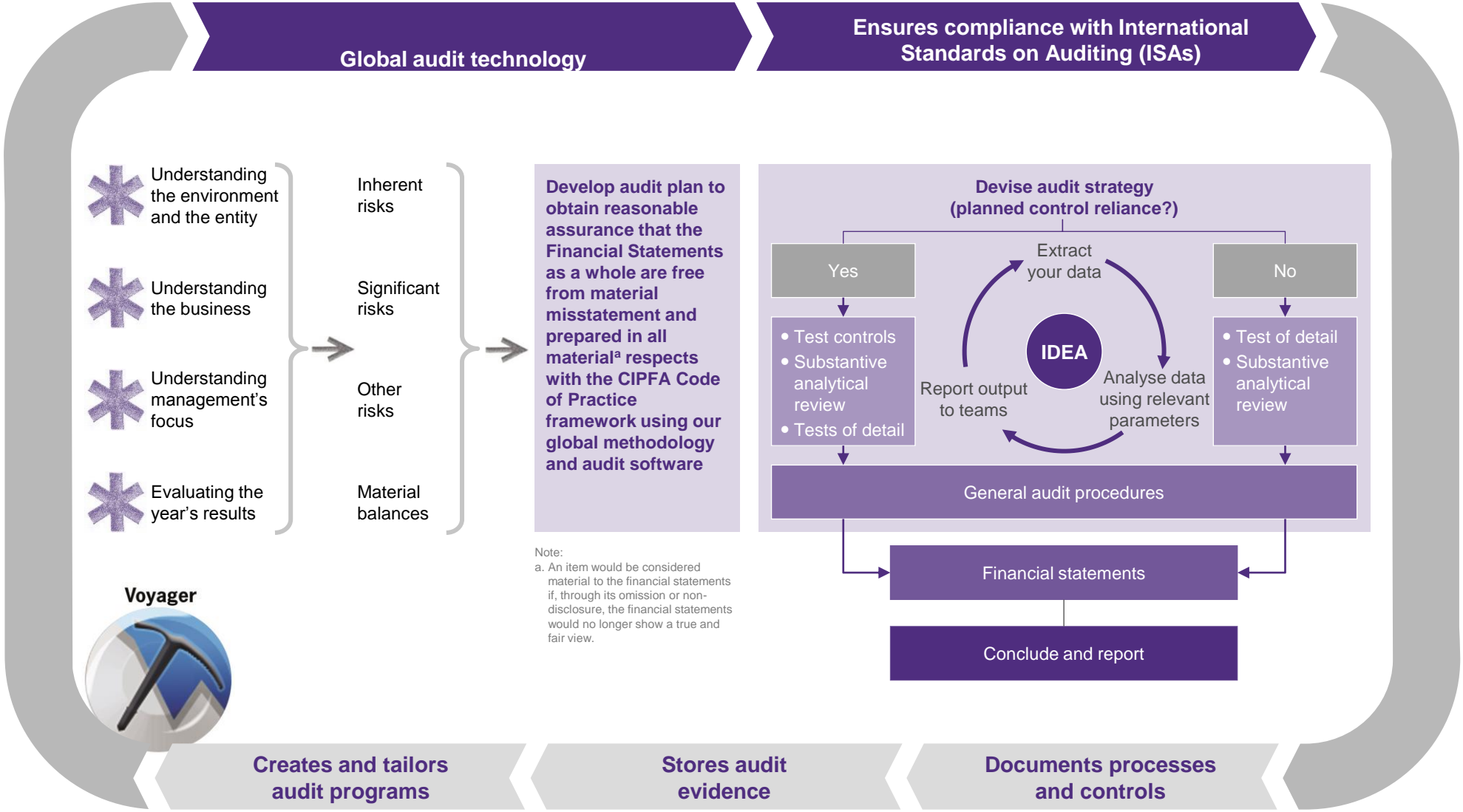
We will plan our audit and agree timetables with officers, including pension administrative staff to ensure that the audit of the pension fund causes minimal disruption.

We will maintain regular dialogue with management to assess the impact this has on the administration of the pension fund and any required disclosures in the 2013/14 pension fund financial statements.

We will monitor any changes to the Pension fund investment strategy through our regular meetings with management. We acknowledge the Pension Fund anticipates no short term need to disinvest to fund payments.

We will consider the impact of changes on the nature of investments held by the pension fund and adjust our testing strategy as appropriate.

# Our audit approach



# 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 may be misstated due to the improper recognition of revenue.	<p>We have rebutted this presumption and therefore do not consider this to be a significant risk for Merseyside Local Government Pension Scheme since:</p> <ul style="list-style-type: none"> <li>• The nature of the Pension Fund's revenue is in many respects relatively predictable and does not generally involve cash transactions.</li> <li>• The split of responsibilities between the Pension Fund, its Fund Managers and the Custodian, provides a clear separation of duties reducing the risk around investment income.</li> <li>• Revenue contributions are made by direct salary deductions and direct bank transfers from admitted /scheduled bodies and are supported by separately sent schedules and are directly attributable to gross pay making any improper recognition unlikely.</li> <li>• Transfers into the scheme are all supported by an independent actuarial valuation of the amount which should be transferred and which is subject to agreement between the transferring and receiving funds.</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 journal entries</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).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other reasonably possible risks	Description	Planned audit procedure
Investments	Investments not valid Investments activity not valid Alternative Investments not valid* Fair value measurement not correct	We will seek independent verification of year end holdings and in-year purchases and sales from the fund managers and the custodian. We will ensure these are reflected correctly in the reconciliation between the fund managers, custodian's and the Pension Fund's own records and seek explanations for any variances. We will test the valuation of a sample of the individual investments held by the Fund at the year end. For unquoted investments this will include critically assessing the assumptions and basis for the underlying estimation of such investment values. For property investments we will complete procedures to enable us to rely upon the valuation produced by the pension fund's independent property valuer. The existence and ownership of investments will be confirmed directly with the independent custodian, property valuer and by agreement to relevant documentation.
Benefit Payments	Benefits improperly calculated/claims liability understated	We will perform tests of controls over new pensions in payment and associated lump sum benefits. We will plan to rely on the work completed by internal audit in this respect as much as possible.  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. We will compare the movements on membership statistics to material transactions in the accounting records.

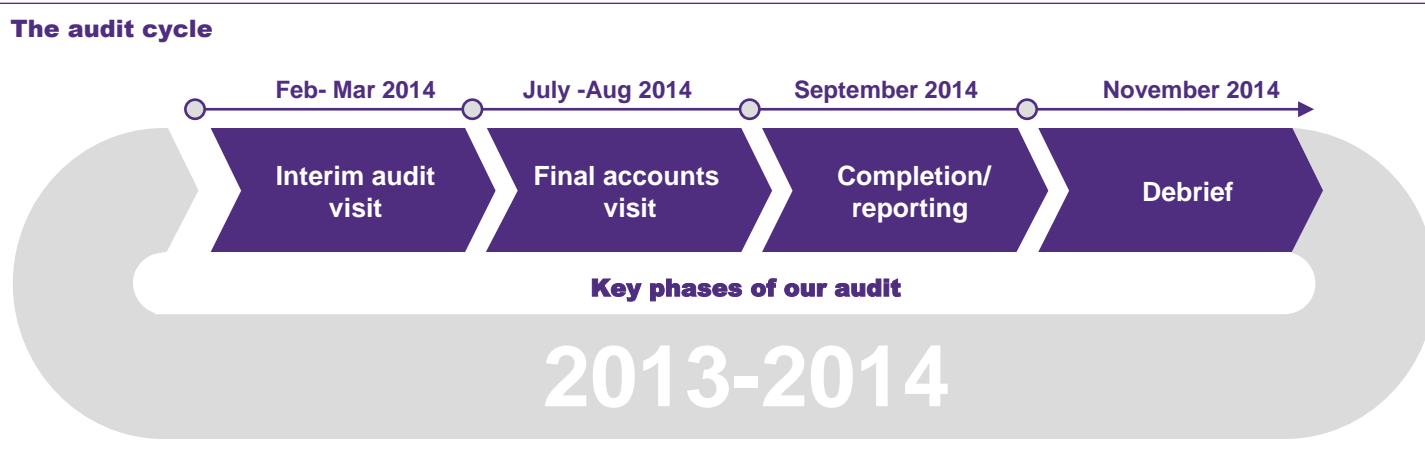


# Other risks

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
Contributions	Recorded contributions not correct	We will perform a test of controls on the Administering Authority's contributions monitoring and reconciliation procedures to gain assurance that these controls are operating effectively.  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.
Member Data	Member data not correct Regulatory, legal and scheme rules/ requirements not met	We will confirm and test the system of controls and reconciliations covering the determination of member eligibility, the input of data into the Pensions Administration System and the maintenance of member records.  We will examine the reconciliation of membership numbers for each category of member to previous year's figures via retirements, leavers and starters.

# Logistics and our team



Date	Activity
February/ March 2014	Planning
February 2014	Interim site visit
March 2014	Presentation of the Audit Plan to Audit and Risk Management Committee and Pension Committee
July - August 2014	Year end fieldwork
September 2014	Audit Findings clearance meeting with Finance staff
September 2014	Presentation of the Audit Findings to Audit and Risk Management Committee and Pension Committee
September 2014	Opinion issued

**Mike Thomas**

Director  
 T 0161 214 6368  
 E Mike.Thomas@uk.gt.com

**Chris Blakemore**

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

**Fiona Blatcher**

Associate Director  
 T 0161 234 6393  
 E fiona.c.blatcher@uk.gt.com

# Fees and independence

## Fees

	£
Pension Fund	39,062

## 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

## Fees for other services

Service	£
IAS19 certification	2,100

## Independence and ethics

Ethical standards and International Standards on Auditing (ISA) 260 require us to give you full and fair disclosure of matters relating to our independence. There are no independence issues to disclose to you.

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.

	Audit plan	Audit findings
<b>Our communication plan</b>		
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		✓



© 2014 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)**