

The Audit Findings for Merseyside Pension Fund

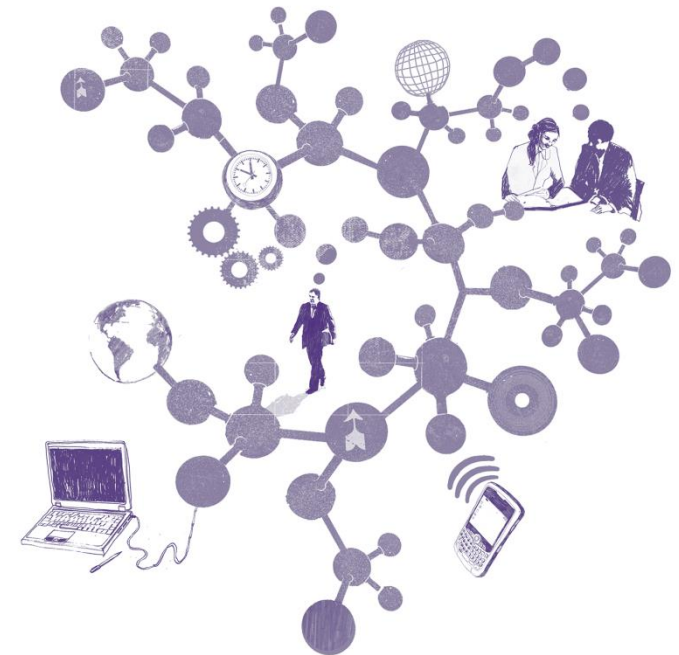
Year ended 31 March 2015

1 September 2015

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Audit and Risk Management Committee
Wirral Council
Wallasey Town Hall
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1 September 2015

Dear Members

Audit Findings for Merseyside Pension Fund for the year ending 31 March 2015

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Merseyside Pension Fund, the Audit and Risk Management Committee of Wirral Council), as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with Management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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.

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

Yours sincerely

Fiona Blatcher

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Section 1: Executive summary

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We anticipate providing an unqualified opinion on the accounts of Merseyside Pension Fund.

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Merseyside Pension Fund's (the Fund) financial statements for the year ended 31 March 2015. 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 260 (ISA UK&I).

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 and expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated March 2015.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Our audit is substantially complete although we are finalising our work in the following areas:

- receipt of outstanding information from fund managers and completion of testing on alternative investments
- Confirmation of ownership for a sample of property assets
- Confirmation of the Probation transfer value from the actuary
- completion of final specialist partner review

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

We will review the Annual Report on completion of the accounts audit and then issue our separate audit statement on the pension fund annual report together with our audit certificate.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion in respect of the Fund's financial statements.

The key messages arising from our audit of the Fund's financial statements are:

- the accounts were prepared to a good standard and supported by appropriate working papers.
- Officers have responded promptly to requests for additional information.

We have not identified any adjustments affecting the Fund's reported financial position. We have agreed with officers some minor adjustments to improve the presentation of the financial statements. Further details are set out in section two of this report.

During the year officers have been working on a number of key projects including the transfer of assets and liabilities relating to the Probation Trust, new governance arrangements and the implementation of career average pensions. Especially in this context, the positive outcome from the audit of the accounts is a significant achievement.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 report these to the Council as the administering authority.

Findings

During our audit, officers made us aware of a small number of transactions and balances relating to duplicate payments on three occasions. These payments had been identified and corrected by the finance team, monies have been recovered and controls have now been strengthened. We are satisfied that the issues leading to these duplicate payments is not likely to have resulted in a material misstatement for the purposes of our opinion on the accounts. It was pleasing to see that the Fund's own normal control processes identified the existence of the duplicate payments and enabled corrective action.

Further details are provided within section two of this report.

The way forward

Matters arising from the financial statements audit have been discussed with the Head of the Pension Fund and the finance team.

For 2014/15, CIPFA produced guidance to encourage more consistent and transparent reporting of management costs within LGPS fund accounts. There has been a wide range of practice from funds in the extent to which they have implemented this guidance in their 2014/15 accounts. In particular the identification and reporting of certain investment management costs is particularly complex and dependent on the availability of information from fund managers and custodians. We note that the Pension Fund is not yet fully applying the CIPFA guidance on reporting management costs, in relation to investment management costs. We understand through our discussions with officers that work is in progress to obtain the relevant information at a transactional level where possible to apply this guidance from 1 April 2015. As part of this exercise, appropriate regard is being had to the potential impact on the fund's current reconciliation processes and agreements with third parties.

Acknowledgment

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
1 September 2015

Section 2: Audit findings

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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 the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Risk Management Committee on 18 March 2015. We also set out the adjustments to the financial statements arising 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 18 March 2015.

Audit opinion

We provide two opinions on the Pension Fund, as follows:

- an audit opinion on the Pension Fund financial statements included in the Council's Statement of Accounts
- an opinion on the Pension Fund financial statements included in the Pension Fund Annual Report, which confirms if these financial statements are consistent with the financial statements in the Statement of Accounts

Our proposed audit opinion on the Pension Fund financial statements in the Statement of Accounts is set out in Appendix A.

We also propose to give an unqualified consistency with opinion on the financial statements in the Annual Report.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 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 (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>We rebutted this presumption during the interim phase of the audit, and this was communicated to members as part of the audit plan.</p>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA (UK&I) 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 • review of journal controls and journal 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 and testing of journal entries 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 judgments.</p>
3.	<p>Level 3 Investments</p> <p>Due to the nature of these investments, there is a risk that the valuation is incorrect since they require a significant degree of judgement to reach an appropriate valuation at year end.</p>	<ul style="list-style-type: none"> • We have gained an understanding of the controls put in place by management to ensure the valuation of level 3 investments is not materially misstated at year end, and have assessed whether these controls have been implemented as expected and whether they are sufficient to mitigate the risk of material misstatement • For a sample of investments, we have tested valuations by obtaining and reviewing audited accounts at the latest date for individual investments and agreed these to the fund manager reports at that date. • We have reviewed the nature and basis of estimated values within the underlying accounts. 	<p>We are still awaiting information from some fund managers to complete our work in this area, but our work completed to date has not identified any areas of material misstatement.</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. Recommendations, together with management responses, are attached at Appendix A.




Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investment values – Level 2 investments	Valuation is incorrect. (Valuation net)	<ul style="list-style-type: none"> We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and obtained explanations for variances, We have tested a sample of level 2 investments to independent information from the custodian or fund managers on units and on unit prices. For direct property investments, we have agreed values in total to the valuer's report and undertaken procedures to place reliance on the valuer as an expert. 	Our audit work has not identified any significant issues in relation to the risks identified
Investment Income	Investment activity not valid. Investment income not accurate. (Accuracy)	<ul style="list-style-type: none"> We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and obtained explanations for variances. We have tested a sample of investment income. We completed a predictive analytical review of income due from different types of investments For direct property investments, we have undertaken analytical procedures to rationalise income against a list of properties for expected rental income. 	Our audit work has not identified any significant issues in relation to the risks identified
Investment purchases and sales	Investment activity not valid. (Valuation gross).	<ul style="list-style-type: none"> We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and obtained explanations for variances We have tested a sample of purchases and sales. 	Our audit work has not identified any significant issues in relation to the risks identified

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Contributions	Recorded contributions not correct (Occurrence)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • tested a sample of both normal and deficit funding contributions • undertaken analytical procedures 	Our audit work has not identified any significant issues in relation to the risk identified.
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • tested key controls • tested a sample of lump sum payments and new pensioner payments • undertaken analytical procedures 	Our audit work has not identified any significant issues in relation to the risk identified.
Member Data	Member data not correct. (Rights and Obligations)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over member data • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • tested a sample of changes to member data during the year 	Our audit work has not identified any significant issues in relation to the risk identified.

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 Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Normal contributions are accounted for on an accruals basis, and employer deficit funding is accounted for on the due date set by the scheme actuary or on receipt if earlier than the due date. Income from equities is accounted for when the related investment is quoted e dividend. Income from pooled investment vehicles and on short term deposits is accounted for on an accruals basis. Distributions from private equity are treated as a return of capital until the book value is nil and then treated as income on an accruals basis. 	<ul style="list-style-type: none"> The revenue recognition policies are appropriate to the accounting framework and are adequately disclosed in the accounting policies. 	 Green
Estimates and judgements	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> Valuation of unquoted investments within private equity, infrastructure property and other alternative investments. 	<ul style="list-style-type: none"> We have undertaken testing on a sample of unquoted investments to assess the appropriateness of the valuation. The key estimates and judgements relating to the valuation of unquoted investments are appropriate to the accounting framework and are disclosed within the accounting policies. The potential financial statement impact of different assumptions is adequately disclosed in Note 15 to the accounts. 	 Green
Other accounting policies	<p>We have reviewed the Fund's policies against the requirements of the CIPFA Code and accounting standards.</p>	<p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention</p>	 Green

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

Other communication requirements

We set out below details of other matters which we 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 previously discussed the risk of fraud with the Audit and Risk Management Committee. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit.
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 letter of representation has been requested from the Fund.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no non-trivial 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.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested direct confirmations from the custodian and all main mandate fund managers, plus a sample of managers for alternative investments, for investment balances, income and purchases and sales. We have received confirmations from most managers and management are assisting us to chase those confirmations that remain outstanding.
7.	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.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Investments, Contributions, Benefits and Member Data as set out on pages 10-11 above.

Officers have made us aware of the following matters related to internal control and we report them here for completeness.

	Assessment	Issue and risk	Conclusion
1	●	<ul style="list-style-type: none"> During our audit, officers made us aware of a small number of transactions and balances relating to duplicate payments. The duplicate payments related to three different occasions and different circumstances, but highlight a potential risk of losses to the fund. 	<ul style="list-style-type: none"> In each case, the duplicate payments were identified by the Pension Fund as part of the reconciliation and review process, and all monies have been recovered. The finance team have reviewed the reasons for the overpayments and have strengthened controls in each area.

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Misclassification and 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 Misclassification	£3,360	Net Assets Statement – Equities and Other Investment Balances	Our testing of equities identified £3,360k that should be classed as Other Investment Balances and an amendment has been made to correct this presentation. Equities have been reduced by £3,360k and Other Investment balances increased by £3,360k. Amendments have also been made to the classification of this amount in a number of other disclosures within notes 13 and 14.
2 Disclosure	n/a	Note 13a	The description of investments with a value of £2.052bn has been amended to 'Other Unitised Investments' to more accurately describe the nature of the these investments.
3 Disclosure	n/a	Various	We have agreed a number of other minor changes to improve the overall presentation and disclosure in the financial statements.

Section 3: Fees, non-audit services and independence

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Fees, non-audit services and independence

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit Fees

	Per Audit plan £	Actual fees £
Pension fund scale fee	36,882	36,882
Agreed fee variation	2,180	2,180
Total audit fees	39,062	39,062

Fees for other services

Service	Fees £
Non audit related services	
Services relating to the appointment of a Chair of the Local Pensions Board	1,418

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 Financial Reporting Council'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 4: Communication of audit matters

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Communication of audit matters to those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) 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 Council'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 Council 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 Council 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 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 we will provide the Council with an unmodified audit report on the Pension Fund

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WIRRAL COUNCIL ON THE PENSION FUND FINANCIAL STATEMENTS

We have audited the pension fund financial statements of Wirral Council for the year ended 31 March 2015 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 2014/15.

This report is made solely to the members of Wirral Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. 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 Head of Financial Services and the auditor

As explained more fully in the Statement of the Head of Financial Services' Responsibilities, the Head of Financial Services is responsible for the preparation of the Authority's Statement of Accounts, which include 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 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also 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 pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Financial Services and the overall presentation of the pension fund financial statements.

In addition, we read all the financial and non-financial information in the explanatory foreword and financial report to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2015 and of the amount and disposition of the fund's assets and liabilities as at 31 March 2015, other than liabilities to pay pensions and benefits after the end of the fund year; and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters

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

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

4 Hardman Square
Spinningfields
Manchester
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X September 2015

Independent auditor's statement to the members of Wirral Council on the pension fund financial statements included in the pension fund annual report

We have examined the pension fund financial statements of Wirral Council for the year ended 31 March 2015 under the Audit Commission Act 1998, which comprise the fund account, the net assets statement and the related notes.

This statement is made solely to the members of Wirral Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our work has been undertaken so that we might state to the members of the authority those matters we are required to state to them in an auditor's statement and for no other purpose. 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 work, for this report, or for the opinions we have formed.

Respective responsibilities of the Section 151 Officer and the auditor

As explained more fully in the Statement of the Section 151 Officer Responsibilities, the Section 151 Officer is responsible for the preparation of the Statement of Accounts of Wirral Council, which include the pension fund financial statements, in accordance with applicable law, proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view.

Our responsibility is to state to you our opinion on the consistency of the pension fund financial statements included in the pension fund annual report with the pension fund financial statements included in the Statement of Accounts of Wirral Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

In addition we read the other information contained in the pension fund annual report and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists of only the Chairs Introduction, Management Report, Membership Statistics, Investment report, Financial Performance and The Consulting Actuary's Statement.

We conducted our work in accordance with guidance issued by the Audit Commission. Our report on the administering authority's annual Statement of Accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included within the annual Statement of Accounts of Wirral Council for the year ended 31 March 2015 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

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X September 2015



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