

# Annual Governance Report

London Borough of Brent Pension Fund

Audit 2008/09

September 2009

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# Contents

<b>Key messages</b>	<b>4</b>
<b>Next steps</b>	<b>5</b>
<b>Financial statements</b>	<b>6</b>
<b>Appendix 1 – Independent auditor’s report to Members of the London Borough of Brent Council</b>	<b>8</b>
<b>Appendix 2 – Adjusted amendments to the accounts</b>	<b>13</b>
<b>Appendix 3 – Draft letter of representation</b>	<b>14</b>

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## Status of our reports

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

- any director/member or officer in their individual capacity; or
  - any third party.
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## 2008/09 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2008/09.

A draft of the report was discussed and agreed with the Director of Finance and Corporate Resources on 9 September 2009 and has been updated since as issues have been resolved.

The report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements;
- approve the letter of representation on behalf of the Council before I issue my opinion (Appendix 2); and

Yours faithfully

Andrea White  
District Auditor  
24 September 2009

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# Key messages

This report summarises the findings from the 2008/09 audit which is substantially complete. It includes the messages arising from my audit of your financial statements.

Financial Statements	Results	Page
Unqualified audit opinion	Yes	6
Financial statements free from material error	Yes	6
Adequate internal control environment	Yes	6

## Audit opinion

- 1 My audit is now substantially complete and, subject to the satisfactory conclusion of outstanding audit procedures, I expect to issue an unqualified opinion on the financial statements subsequent to approval of the final statements by the Council. The text of the draft opinion is included at Appendix 1.
- 2 The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December 2009. As the authority has not yet prepared the Annual Report I have not yet been able to read the other information to be published with those financial statements and I have not issued my report on those financial statements. Until I have done so, I am unable to certify that I have completed the audit.

## Financial statements

- 3 The financial statements and notes submitted for audit were complete. A good audit trail was provided to support the financial statements. There were some minor disclosure errors identified during the course of the audit which were subsequently amended by management.

## Audit Fee

- 4 The total indicative fee set in my 2008/09 Audit Plan issued in March 2009 was £38,000. The actual fee charged was in line with expectations.

# Next steps

**This report identifies the key messages that you should consider before I issue my opinion on the pension fund's accounts, which forms part of my report on the Council's financial statements. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.**

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**5** I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 7);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3).

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# Financial statements

The Pension Fund's Accounts are an important means by which the Fund accounts for its stewardship of public funds. The Council has a final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements.

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## Opinion on the financial statements

- 6 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report. Please note that Appendix 1 is my full report on the Council's financial statements, which incorporates the opinion on the Pension Fund. Those sections pertinent to the Pension Fund are on pages 10 and 11.
- 7 My work on unquoted investments is substantially complete but not yet finalised. I expect to conclude my work in this area shortly and will report any significant additional findings to the Council and to the Audit Committee.
- 8 I cannot formally conclude the audit and issue a certificate as the Annual Report on the Pension Fund has not been prepared. In addition I am unable to issue a certificate due to outstanding legal proceedings. I will consider whether to exercise my formal audit powers upon conclusion of my audit. I am satisfied that these matters do not have a material effect on the 2008/09 financial statements.

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## Materiality

- 9 In undertaking my audit I planned and carried out my audit applying the concept of materiality. As part of my audit I am required to obtain reasonable assurance that the financial statements are free from material misstatement. A material item within the financial statements is one which would affect the reader's view of the accounts.

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## Errors in the financial statements

- 10 The financial statements submitted for audit were complete. We noted the following errors on the financial statements:
  - **Note 6 – reclassification of lump sum benefits.** There was a reclassification of £46,000 of lump sum benefits between scheduled bodies and Brent Council.
  - **Note 10 – opening balances.** Equities from one fund manager had been disclosed at mid price rather than bid-price and therefore were not in line with the SORP. The adjustment resulted in an amendment of £202,000.

The above errors have been amended in the financial statements. Details of the amendments are included in Appendix 2.

## Financial statements

### Material weaknesses in internal control

11 I have not identified any material weaknesses in internal control.

### Letter of representation

12 Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation I seek to obtain from you.

### Key areas of judgement and audit risk

13 Areas of judgement and specific audit risk were considered during the course of the audit. Our findings are set out in Table 1.

**Table 1** Key areas of judgement and audit risk

Issue or risk	Finding
<b>Contributions</b> With effect from 1 April 2008, employees' contributions to the LGPS are on a tiered basis with differing rates depending on the band in which their pensionable pay for the previous year fell. There is a risk that contributions will not be being deducted and collected at the right rates.	The Council has put adequate arrangements in place for the deduction of contributions. Audit work concluded that contributions are presented fairly in the financial statements.
<b>Investments</b> The volatility in world financial markets impacts upon the value of the Pension Fund's investments holdings. There are risks around accurate recording at the year end.	The Council has accurately recorded year end investments holdings in its pension fund.
<b>Annual Report</b> New regulations require the preparation of an annual report for the Pension Fund incorporating the annual accounts.	The Council intends of producing and publishing an annual report for the Pension Fund by 30 November 2009. The Council have produced a draft Governance Statement.
<b>Statement of Recommended Practice (SORP)</b> The Pension SORP requires a new valuation method for investments with effect from 2008/09.	The Council materially complied with the Pension SORP and has reflected investments at bid rather than mid-market value, with one exception. (see paragraph 9 for details).

# Appendix 1 – Independent auditor’s report to Members of the London Borough of Brent Council

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## **Opinion on the Authority accounting statements**

I have audited the Authority and Group accounting statements and related notes of the London Borough of Brent for the year ended 31 March 2009 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account the Collection Fund and the related notes.. The Authority and Group accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of the London Borough of Brent in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

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## **Respective responsibilities of the Director of Finance and Corporate Resources and auditor**

The Director of Finance and Corporate Resources’ responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the Authority and Group accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Authority and Group accounting statements present fairly, in accordance with relevant legal and regulatory



## Appendix 1 – Independent auditor’s report to Members of the London Borough of Brent Council

requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial position of the Group and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the Authority and Group accounting statements and related notes and consider whether it is consistent with the audited Authority and Group accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority and Group accounting statements and related notes. My responsibilities do not extend to any other information.

### Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority and Group accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority and Group accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority and Group accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Authority and Group accounting statements and related notes.

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### Opinion

In my opinion:

## Appendix 1 – Independent auditor’s report to Members of the London Borough of Brent Council

- The Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended; and
- The Group financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Group as at 31 March 2009 and its income and expenditure for the year then ended.

### Opinion on the pension fund accounts

I have audited the pension fund accounts for the year ended 31 March 2009 under the Audit Commission Act 1998. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of (name of authority) in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

### Respective responsibilities of the Director of Finance and Corporate Resources and auditor

The Director of Finance and Corporate Resources responsibilities for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the pension fund accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the pension fund during the year and the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I read other information published with the pension fund accounts and related notes and consider whether it is consistent with the audited pension fund accounts. This other information comprises the Explanatory Foreword published in the financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounts and related notes. My responsibilities do not extend to any other information.

## **Appendix 1 – Independent auditor’s report to Members of the London Borough of Brent Council**

### **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounts and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounts and related notes.

### **Opinion**

In my opinion the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund’s assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

### **Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### **Authority’s responsibilities**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

#### **Auditor’s responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing

economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, I am satisfied that, in all significant respects, the Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2009.

### **Delay in certification of completion of the audit**

I am required to give an opinion on the financial statements of the pension fund included in the Pension Fund Annual Report of Brent pension fund. The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December 2009. As the authority has not yet prepared the Annual Report I have not yet been able to read the other information to be published with those financial statements and I have not issued my report on those financial statements. Until I have done so, I am unable to certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission. Due to outstanding legal proceedings I cannot formally conclude the audit and issue my certificate. I will consider whether to exercise my formal audit powers upon conclusion of my audit. I am satisfied that these matters do not have a material effect on the 2008/09 financial statements.

Andrea White  
District Auditor  
Audit Commission  
1st Floor, Millbank Tower  
Millbank  
London  
SW1P 4HQ  
DATE

# Appendix 2 – Adjusted amendments to the accounts

The following misstatements were identified during the course of my audit and the financial statements have been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities.

**Table 2 Adjustments to the Pension Fund**

Adjusted misstatements	Nature of adjustment	Fund Account		Net Asset Statement	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Note 6: Lump sum benefits – Brent	Reclassification of lump sum benefits between Brent and scheduled bodies	46			
Note 6: Lump sum benefits – Scheduled bodies			46		
Note 10: Opening balances equities (£202k)	Adjusted to Bid price from Mid price				202

Audit Commission

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# Appendix 3 – Draft letter of representation

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To: Andrea White  
Audit Commission  
Millbank Tower  
1<sup>st</sup> Floor  
Millbank  
London  
SW1P 4HQ

## **London Borough of Brent Pension Fund - Audit for the year ended 31 March 2009**

We confirm to the best of our knowledge and belief, having made appropriate enquiries of other officers of London Borough of Brent Pension Fund, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2009 and the associated financial statements of its pension fund.

We acknowledge our responsibility under the relevant statutory authorities for preparing the financial statements which present fairly and for making accurate representations to you.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

### ***Supporting records***

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Members meetings, have been made available to you.

### ***Related party transactions***

We confirm the completeness of the information provided regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

## Appendix 3 – Draft letter of representation

### *Contingent assets and contingent liabilities*

There are no other contingent assets or contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties, other than those already disclosed in the financial statements.

### *Law, regulations, contractual arrangements and codes of practice*

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The body has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

### *Irregularities*

We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

We also confirm that we have disclosed:

- our knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.

**Post balance sheet events**

Since the date of approval of the financial statements by Members of the Council, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

**Compensating arrangements**

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

We confirm that this letter has been discussed and agreed by the Audit Committee on 24 September 2009.

Signed .....  
Name Duncan McLeod  
Position: Director of Finance and Corporate Services  
Date .....

Signed .....  
Name Gareth Daniel  
Position: Chief Executive  
Date .....

Signed .....  
Name Councillor Cummins  
Position: Chair of the Audit Committee  
Date .....



## Appendix 3 – Draft letter of representation