

# Annual governance report

Final report as at 24 November 2011

Brent Pension Fund

Audit 2010/11



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## Traffic light explanation

Red  Amber  Green 

# Key messages

**This report summarises the findings from the 2010/11 audit which is now complete. It includes the messages arising from my audit of your financial statements.**

	My findings
Unqualified audit opinion	●
Weaknesses in internal control	●

## Audit opinion and financial statements

- My audit is now complete and I propose to give an unqualified audit opinion on the financial statements.
- The draft financial statements were submitted for audit by the due date, were substantially complete and were supported by good working papers in line with my expectations.
- Exchequer services are responsible for the preparation of the pension fund statements. Whilst the department experienced some

problems during the year due to the introduction of the new Oracle system, the migration of balances to the new system was well controlled and good year end closedown arrangements were in place to ensure financial statements of reasonable quality were produced.

- The financial statements submitted for audit were free from material error. Following submission of the draft financial statements for audit, management identified one non-trivial error which has been adjusted. During the course of my audit I identified some missing or incomplete disclosures which officers have also adjusted.
- Overall I have not identified any significant weaknesses in the pension fund's internal controls.



# Before I complete my audit

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## I confirm to you

My report 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.

### Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

## I ask you to confirm to me

### I ask the Audit Committee to:

- take note of the adjustment to the financial statements which are set out in this report (Appendix 2); and
- approve the letter of representation, provided alongside this report, on behalf of the Council before I issue my opinion.

## Audit fees

I have completed my work on the pension fund audit within the planned fee of £35,000 reported in my opinion audit plan.

# Financial statements

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**I propose to give an unqualified opinion on the pension fund financial statements. The financial statements submitted for audit were free from material error. Following submission of the draft financial statements for audit, management identified one non-trivial error which has been amended. During the course of my audit I identified some disclosure matters that have also been adjusted.**

During the year the pension fund's main financial system was moved onto a Council wide new Oracle system. Officers ensured that the migration of pension fund balances to the new system was properly documented and well controlled. Senior officers monitored the year end closedown procedures to ensure that all control accounts and reconciliations were properly prepared and that good quality working papers were produced to support the financial statements.

## **Opinion on the financial statements**

I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report.

## **Errors in the financial statements**

Following submission of the draft financial statements for audit, management identified the following non-trivial error:

- cash deposits were overstated by £1.169m – this adjustment was required to correctly account for cash transfers between London Borough of Brent and Brent Pension Fund.

During the course of my audit I identified various amendments to the disclosures within the financial statements (further details are set out in the table on page 7).

The Council has amended the pension fund financial statements to correct these errors.

# Financial statements

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

In planning my audit I identified risks and areas of judgement that I have considered as part of my audit.

## Key audit risk and our findings

Key audit risk	Finding
<p><b>1. Transition to International Financial Reporting Standards</b></p> <p>The Council is required to prepare the 2010/11 pension fund financial statements according to International Financial Reporting Standards (IFRS), including a re-statement of 2009/10 balances where applicable.</p> <p>This poses a risk of material misstatement to the pension fund financial statements.</p>	<p>I have:</p> <ul style="list-style-type: none"><li>■ reviewed the Council's approach to the implementation of IFRS; and</li><li>■ tested the accounting entries and disclosures relating to IFRS.</li></ul> <p>The draft financial statements did not include an opening net asset statement as at 1/4/2009 as required under IFRS. The Council has amended the pension fund financial statements to include this.</p> <p>There were no other material differences to the pension fund's financial statements on transition to IFRS. I am satisfied that the pension fund financial statements have been properly compiled according to IFRS.</p>
<p><b>2. Change of financial IT system</b></p> <p>The pension fund has changed its financial IT systems during the year onto a new Oracle system that is used throughout the Council.</p> <p>This poses a risk of material misstatement to the pension fund financial statements.</p>	<p>I have:</p> <ul style="list-style-type: none"><li>■ reviewed the Council's arrangements to implement the new Oracle system throughout the Council; and</li><li>■ tested the migration of balances relating to the pension fund.</li></ul> <p>I am satisfied that, for the pension fund, the transition to the new system has been properly undertaken and that this has not resulted in any material misstatements to</p>

Key audit risk	Finding
<p><b>3. Disclosures in the financial statement</b></p> <p>In the previous year the draft pension fund financial statements some of the disclosures required by the Statement of Recommended Practice (SoRP) were missing or incomplete.</p> <p>This poses a risk of incomplete disclosures in the 2010/11 pension fund financial statements.</p>	<p>the pension fund financial statements.</p> <p>I have reviewed the disclosures in the pension fund financial statements.</p> <p>The draft financial statements were submitted for audit were substantially complete, however disclosures were missing or incomplete in the following areas:</p> <ul style="list-style-type: none"> <li>■ analysis of debtors and creditors by type of body; and</li> <li>■ financial instrument disclosures.</li> </ul> <p>The Council has amended the pension fund financial statements for these items. I am now satisfied that the disclosures within the pension fund financial statements comply with requirements.</p>
<p><b>4. Working papers</b></p> <p>In the previous year some working papers were not easy to follow and delays occurred in obtaining responses to some audit queries raised.</p> <p>There is a risk that this could impact on the timely delivery and quality of the financial statements and a timely audit opinion.</p>	<p>I have reviewed the quality of the draft financial statements and associated working papers.</p> <p>The draft financial statements presented for audit were of reasonable quality and supported by good working papers in line with my expectations.</p>
<p><b>5. Actuarial revaluation</b></p> <p>The pension fund is required to obtain an actuarial valuation of the whole of the fund as at 31 March 2010.</p> <p>There is a risk that the details of the actuarial valuation are not fully disclosed in the pension fund financial statements.</p>	<p>I have reviewed the actuarial revaluation disclosures in the financial statements.</p> <p>I am satisfied that the disclosures within the pension fund financial statements are consistent with the information set out in the actuarial revaluation reports.</p>

# Financial statements

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## Significant weaknesses in internal control

Overall I have not identified any significant weaknesses in internal control.

I am not expressing an opinion on the overall effectiveness of internal control. I have not provided a comprehensive statement of all weaknesses which may exist in internal control, or of all improvements which may be made. I have reported only those matters which have come to my attention because of the audit procedures I have performed.

## Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. Except for the matters regarding disclosures in the financial statements, as set out on page 7, there are no other issues I want to raise with you.

## Significant difficulties encountered during the audit

There were no significant difficulties encountered during the audit.

## Significant matters that were discussed or subject to correspondence with management

There were no significant matters that were discussed or subject to correspondence with management.

## Letter of representation

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



# Appendix 1 – Draft audit report

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## **INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF LONDON BOROUGH OF BRENT [DRAFT]**

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

I have audited the Authority and Group accounting statements of London Borough of Brent for the year ended 31 March 2011 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. These 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 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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

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

As explained more fully in the Statement of the Director of Finance and Corporate Resources’ Responsibilities, the Director of Finance and Corporate Resources is responsible for the preparation of the Authority and Group’s Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice’s Board’s Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting 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 Authority and Group’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority and Group; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## **Opinion on accounting statements**

In my opinion the accounting statements:

- give a true and fair view of the state of London Borough of Brent's affairs as at 31 March 2011 and of its income and expenditure for the year then ended;
- give a true and fair view of the state of the Group's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

## **Opinion on other matters**

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

## **Matters on which I report by exception**

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

## **Opinion on the pension fund accounting statements**

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These 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 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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

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

As explained more fully in the Statement of the Director of Finance and Corporate Resources' Responsibilities, the Director of Finance and Corporate Resources is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting 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 fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## **Opinion on accounting statements**

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

## **Opinion on other matters**

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

## **Conclusion on Authority's 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 to review regularly the adequacy and effectiveness of these arrangements.

### **Auditor's responsibilities**

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

## **Basis of conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## **Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, London Borough of Brent put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

## **Certificate**

I certify that I have completed the audit of the Authority and Group accounts of London Borough of Brent in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

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

[Date]

# Appendix 2 – Amendments to the draft financial statements

Following submission of the draft financial statements for audit, management identified the following misstatement and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

		Fund account		Net asset statement	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Change in market value of investments Investments – cash	To correct the value of cash deposits held at the year end.	1,169			1,169
<b>Total</b>		<b>1,169</b>	<b>-</b>	<b>-</b>	<b>1,169</b>

The above adjustment has had the effect of decreasing the net assets of the fund by £1,169,000.

The net assets of the fund have decreased from £491,528,000 per the draft financial statements to £490,359,000 per final financial statements.



# Appendix 3 – Draft letter of representation

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To: Andrea White

District Auditor  
Audit Commission  
1<sup>st</sup> Floor  
Millbank Tower  
Millbank  
London  
SW1P 4HQ

## **London Borough of Brent and Pension Fund – Audit for the year ended 31 March 2011**

We confirm to the best of our knowledge and belief, having made appropriate enquiries of other officers of the London Borough of Brent, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011 and the associated financial statements of its pension fund.

We acknowledge our responsibility under the relevant statutory authorities for preparing the financial statements which give a true and fair view of the financial position and financial performance of the London Borough of Brent pension fund 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.

### **Uncorrected misstatements**

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are detailed in the appendix.

### **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 relevant 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.

### **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; and
- 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.

### **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 London Borough of Brent pension fund.

The Council 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 fraud or 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 entity'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 [ ] November 2011

Signed .....

Name: Gareth Daniel

Position: Chief Executive

Signed .....

Name: Clive Heaphy

Position: Director of Finance and  
Corporate Resources

Signed .....

Name: Stephen Wood

Position: Chair of the Audit Committee

Date .....

# Appendix 4 – Glossary

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## Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

## Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

## Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

## Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

## Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

## Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

## Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.



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**0844 798 7070**

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- any third party.

