

# Annual governance report

Brent Pension Fund

Audit 2011/12



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# Key messages

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**This report summarises the findings from my 2011/12 audit of the Pension Fund financial statements which is substantially complete.**

## Financial statements

Subject to the completion of my final review and closure procedures, as at 30 August 2012, I expect to issue an unqualified audit opinion on the Council's pension fund statements by 30 September 2012. The accounts were completed by the due date and were supported by good supporting working papers and audit trails. During the course of my audit I identified an internal control weakness over general ledger journals that I wish to bring to your attention. I have also identified that year end procedures could be strengthened to help mitigate against the knowledge of the pension fund being overly concentrated in one officer.

## Annual Report

I have reviewed the financial statements included in the annual report prepared by the Fund and confirm they are consistent with the pension fund statements I have audited. I expect to issue my report on the financial statements included in the Annual Report by 30 September 2012.

## Closing remarks

Despite the internal control issues identified, there were a limited number of errors and queries raised during the course in my audit which reflects a good standard of working papers supporting the accounts and a good working relationship between officers and my audit team. I would like to thank officers for their help and support throughout the audit.

# Before I give my opinion

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**My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit 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 am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me that I am required by auditing and ethical standards to report to you.

## **Next steps**

I ask the Audit Committee to approve the letter of representation (Appendix 2), for the Pension Fund before I issue my opinion.

# Financial statements

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**The Pension Fund's financial statements are an important means for the Pension Fund to account for its stewardship of public funds. As Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements.**

## **Opinion on the financial statements**

My audit is substantially complete. I plan to issue my audit report, including an unqualified opinion on the pension fund financial statements by 30 September 2012. My opinion on the pension fund statements will be contained within my report and opinion on the Council's main financial statements. I also plan to issue an unqualified opinion on the financial statements included within the Pension Fund Annual Report. Appendix 1 contains copies of my draft audit reports.

## **Errors in the draft financial statements**

During my audit I identified a few errors that management agreed to correct. These matters, individually and collectively, are not material and resulted in a change to the classification of debtors, and a change in the value of investments. These errors result in the net assets of the fund being reduced by £294,281, and the revenue position of the fund being increased by £2,800. This low level of errors shows a good quality accounts preparation. I identified no non-trivial errors that management declined to amend.

## **Significant risks and my findings**

I reported to you in my February 2012 Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In July 2012 I updated the Audit Committee on a further significant risk that arose during my continuing planning. In Table 1 below I report to you my findings against all of these risks.

Table 1: Risks and findings

Risk	Finding
<p><b>Fair value of unquoted investments</b></p> <p>The Pension Fund holds a material value of unquoted investments. Unquoted investments include private equity, hedge funds and fund of funds. Underlying investments can be complex or illiquid investments, and their valuation may include the use of estimates or a management expert. Given the volatility in financial markets valuing unquoted investments is a risk.</p>	<p>I reviewed the Fund's arrangements for gaining valuations for its unquoted investments.</p> <p>I received year-end reports from the investments' fund managers alongside audited accounts (where available) and reports prepared by the fund managers' external auditors on their internal controls (known as SAS70 reports).</p> <p>I carried out procedures to confirm that I was able to draw assurance from the work of other auditors.</p> <p>The audited accounts and control reports identified no significant weaknesses within the fund managers' operations.</p> <p>I am satisfied the Fund has fairly stated its unquoted investments and have no matters to report.</p>
<p><b>IAS19: Defined benefit pension liability</b></p> <p>The defined benefit pension liability (IAS19) is a material item in the financial statements. It is valued at fair value, represented by the obligation for future pensions offset by the value of investments held. The valuation is an estimate, therefore inherently subjective. An actuary is used to determine fair values for IAS19 at year end.</p> <p>Give the significant monetary values, even relatively modest changes in the assumptions and variables informing the valuation can have a material impact on the financial statements. Therefore, there is a risk of a material error due to the size and nature of the values presented for IAS19.</p>	<p>I reviewed the Fund's arrangements and controls over establishing the liability, including arrangements for instructing the actuary and providing relevant information.</p> <p>I reviewed the key assumptions made by the actuary in forming the liability valuation, in doing so relying on information provided by my own actuarial expert (PWC).</p> <p>I confirmed the report of the actuary to underlying data and the Fund's financial statements.</p> <p>Based on the work completed, I am satisfied the Fund has fairly stated its defined benefit pension liability and have no matters to report.</p>
<p><b>Transfer of pensions administrator during 2011/12</b></p> <p>The pension fund administrator changed in October 2011 from the London Pension Fund Authority (LPFA) to Capita. The pension fund</p>	<p>I reviewed and tested management arrangements and controls over the data transfer from LPFA to Capita. I received and reviewed a report by Capita's auditors on their internal controls (a SAS70 report). I carried out</p>

## Risk

administrator calculates the value of pension benefits and processes all pension contributions made. If this data did not transfer correctly from the LPFA to Capita, then there is a risk this could result in a material error in the benefits or contributions balances.

## Finding

procedures to confirm I could draw assurance from the work of Capita's auditor.

I performed tests of detail on pension benefits and contributions.

Based on the work completed, I am satisfied the Fund's data transferred accurately between administrators and have no matters to report.

## Significant weaknesses in internal control

It is the responsibility of the Pension Fund to develop and implement systems of internal financial control and to put in place proper arrangements to oversee their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Pension Fund has put adequate arrangements in place to satisfy itself the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Pension Fund only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have identified one weaknesses in internal control that I wish to bring to your attention;

- Controls over journals were found to not be operating effectively throughout the full financial year. Out of a sample of 20 journals tested by Internal Audit during the year, 4 were both prepared and authorised by the same officer. This raises the risk that erroneous or unauthorised amounts can be input into the general ledger. This weakness was reported in an Internal Audit report to the Audit Committee on 27 June 2012. As a result, I carried out detailed testing on all material year end journals to obtain sufficient assurance over their validity.

## Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Pension Fund's financial reporting process including.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to communicate to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

During the course of my audit it became apparent that the knowledge of the fund and its investments was largely concentrated in one key member of staff, the former Head of Exchequer who has now retired. Other pension fund staff lacked sufficient overall knowledge and understanding of the Council's investments and how they are reflected in the accounts to answer audit queries quickly and efficiently. Consequently, the completion of the audit took longer than anticipated.

**R1** Document year end procedures required to reflect investments in the Council's pension fund accounts.

I have no other matters I wish to report.

## **Pension Fund Annual Report**

The Pension Fund prepared its Annual Report in line with the accounts deadline. I have my reviewed this and can confirm financial statements within the Annual Report are consistent with the Statements that I have audited. I expect to report on the financial statements included in the Annual Report by 30 September 2012.

## **Fees**

I reported my planned audit fee of £35,000 in my February 2012 Audit Plan. The Audit Commission has paid the Council a rebate of £2,800 to reflect its internal efficiency savings, reducing the net amount payable to the Audit Commission to £32,200.

I will complete the audit within this planned fee.



# Appendix 1 – Draft independent auditor’s reports

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## Report on the Pension Fund financial statements included within the Authority’s statement of accounts

### Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 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 2011/12.

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 Services and auditor

As explained more fully in the Statement of the Director of Finance and Corporate Services’ Responsibilities, the Director of Finance and Corporate Services is responsible for the preparation of the Authority’s Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices 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 financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant

accounting estimates made by the Director of Finance and Corporate Services; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword and the annual report 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 financial statements**

In my 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 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012 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 and the content of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Andrea White  
District Auditor

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

[XXXDate]

## Report on the Pension Fund financial statements published with the Pension Fund Annual Report

### Opinion on the pension fund accounting statements

I have audited the pension fund financial statements for the year ended 31 March 2012 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 2011/12.

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 of Audited Bodies published by the Audit Commission in March 2010.

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

As explained more fully in the Statement of the Director of Finance and Corporate Services' Responsibilities, the Director of Finance and Corporate Services is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices 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 financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and Corporate Services; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report 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 financial statements**

In my 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 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

## **Opinion on other matters**

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

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

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

Andrea White  
District Auditor

Audit Commission  
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Millbank  
London  
SW1P 4HQ

[XXXDate]

# Appendix 2 – Draft letter of management representation

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## Brent Pension Fund - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers, the following representations given to you in connection with your audit of the Pension Fund's financial statements for the year ended 31 March 2012.

### Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Pension Fund, for the completeness of the information provided to you, and for making accurate representations to you.

### Supporting records

I have made available all relevant information and access to persons within the Pension Fund for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Pension Fund.

### Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my 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;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and

- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

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

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Pension Fund has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

### **Accounting estimates including fair values**

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

### **Related party transactions**

I confirm that I have disclosed the identity of the Pension Fund's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

### **Subsequent events**

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Brent Pension Fund

I confirm that the this letter has been discussed and agreed by the Audit Committee on XXXDATE

Signed

Name

Position

Date

# Appendix 3 – Glossary

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## **Annual Governance Report**

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

## **Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

## **Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

## **Financial statements**

The annual statement of accounts that the Pension Fund is required to prepare, which report the financial performance and financial position of the Pension Fund in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

## **Internal control**

The whole system of controls, financial and otherwise, that the Pension Fund establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative 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.

## **Pension Fund Annual Report**

The annual report, including financial statements, that the Pension Fund must publish under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

## **Significance**

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

## **Those charged with governance**

Those entrusted with the supervision, control and direction of the Pension Fund. This term includes the members of the Authority, [the Pension Panel] and the Audit Committee.



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- any director/member or officer in their individual capacity; or
- any third party.

