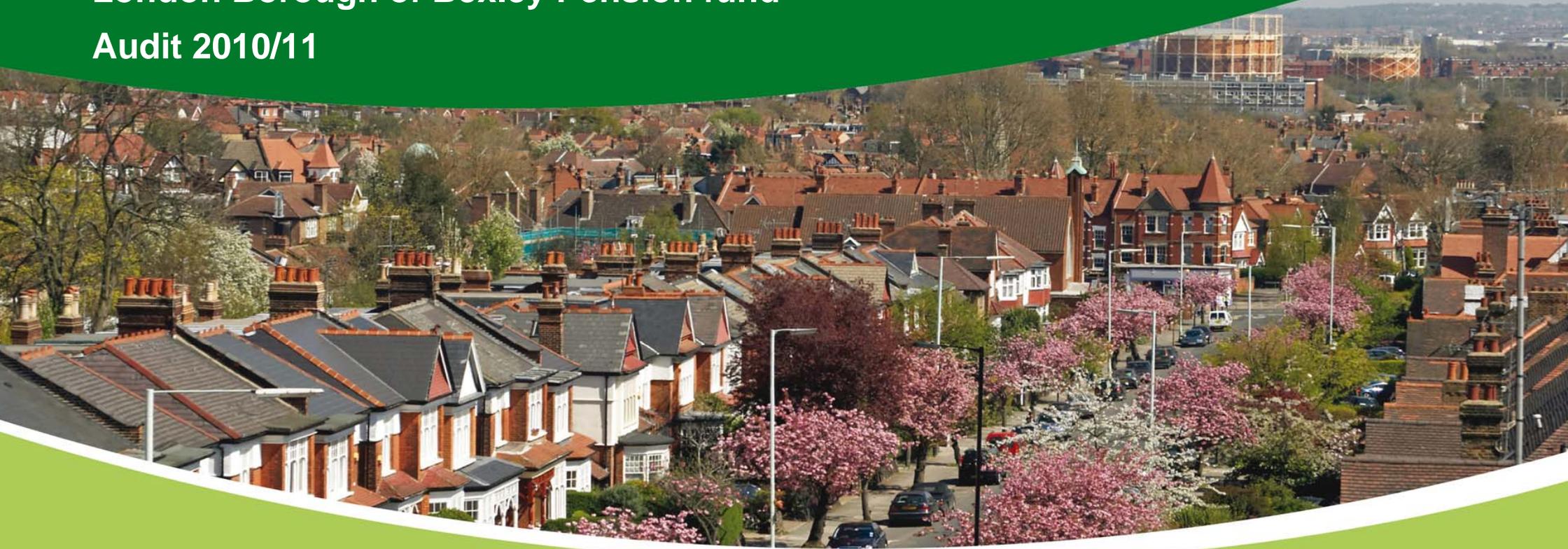


Annual governance report

London Borough of Bexley 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 substantially complete. It includes the messages arising from my audit of your financial statements.

My findings

Unqualified audit opinion



Audit opinion and financial statements

My work is now substantially complete. Subject to the remaining items noted on page 5 and the completion of final review procedures I plan to issue an audit report on the Council's financial statements that includes an unqualified opinion on the pension fund financial statements.

Subject finalising my review of the pension fund annual report I also plan to issue an unqualified opinion on the financial statements included in the pension fund annual report. Appendix 1 (attached as a separate document) contains a copy of my draft audit report on the pension fund annual report.

My team received good cooperation from officers to enable me to complete my audit within the agreed timeframe. I wish to thank the staff for their co-operation during the audit.

Before I complete my audit

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 Pension Fund during 2010/11.

I ask you to confirm to me

I ask the Audit Committee to:

- consider the matters raised in the report before the General Purpose Committee approves the financial statements (pages 5 to 7);
 - take note of the adjustments to the financial statements which are set out in this report (Appendix 2); and
 - consider the letter of representation before it is approved and before I issue my opinion and conclusion (Appendix 4 to follow in a separate attachment).
-

Financial statements

Subject to the remaining items noted below and the completion of final review procedures I plan to issue an audit report on the Council's financial statements that includes an unqualified opinion on the pension fund financial statements

Opinion on the financial statements

Subject to satisfactory clearance of my review procedures, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 (attached as a separate document) contains a copy of my draft report.

I have also received the draft pension fund annual report and I am finalising my review. I expect to conclude on these areas shortly and I will report any significant findings to the Audit Committee.

Errors in the financial statements (Appendix 2)

The pension fund financial statements submitted for audit were substantially complete. The Council had not disclosed an analysis of financial instruments, nor the opening net asset statement for 2009 which is required under the transition to IFRS. Both of these material disclosure notes were added to the final draft of the financial statements.

The Council also added one further material disclosure (comparator for actuarial present value of promised retirement benefits).and made two non trivial adjustments to the notes within the statements. There was no impact on the net asset statement, nor the fund account for these amendments.

Financial statements

The Pension Fund financial statements are important means by which the Council 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.

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

Key audit risk and findings

Key audit risk	Finding
<p>1. Separate bank accounts required for the Fund</p> <p>Under revisions to legislation, the Fund must from 1 April 2011 have a separate and dedicated bank account rather than have its funds within the Council's banking arrangements. This increases the risk particularly with the year-end closing cash balance that will become the opening balance within a separate bank account.</p>	<p>The Council has set up a new bank account for the pension fund to be used from 1 April 2011 in line with the legislation.</p>
<p>2. International Financial Reporting Standards (IFRS)</p> <p>Some presentational and classification changes will be required due to the implementation of IFRS.</p>	<p>I reviewed the disclosures required under IFRS. The Council has correctly disclosed the present value of funded benefits which is a new requirement for 2010/11 under International Accounting Standard (IAS) 26.</p> <p>However I found that the Council had not disclosed the net asset statement for 2009 which is a requirement under the transition to IFRS.</p> <p>The Council also updated the accounts during the audit to include an analysis of financial instruments required under the International Financial Reporting Standards, along with related disclosures.</p>
<p>3. Fair value of investments</p>	<p>During the audit I obtained external confirmation for the value of investments disclosed</p>

Key audit risk

There is an inherent risk that investments disclosed in the net asset statement are not disclosed at fair value.

3. Unquoted investments

The valuation of unquoted investments is potentially a very complex area. The pension fund has a material amount of unquoted investments. There are risks around accurate valuation at year end.

Finding

in the net asset statement. I found that the investments disclosed were materially correct.

I reviewed the fair value of the unquoted investments disclosed in the accounts. I have no issues to report in this area.

Financial statements

Significant weaknesses in internal control

I have reviewed your control environment and I have no material weaknesses to report. These weaknesses are only those I identified during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

Financial statements

Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statement disclosures. There are no matters that I wish to bring to your attention.

Financial statements

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. Refer to Appendix 4 (attachment to follow) for a draft copy of this letter.

Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Table 1: Amendments made to statement or note (value)

Adjusted mis-statement (notes)	Nature of adjustment	Value of amendment £000
<p>Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26.</p> <p>The Council had not disclosed the comparator for this note due to a formatting error</p>	<p>The Council disclosed the comparator in the final version of the accounts.</p>	<p>532,000 (formatting correction only)</p>
<p>Note 11: Management expenses</p> <p>The Council had not separately disclosed the level of fees netted off within the pooled fund valuations</p>	<p>The Council disclosed an estimate for this value in the final version of the accounts.</p>	<p>749</p>
<p>Note 8: Investment income</p> <p>The Council had incorrectly classified income as being from a</p>	<p>The Council amended the accounts to show this income as being from index-linked investments</p>	<p>29</p>

fixed interest investment.

Table 2: **Amendment made to statement or note (change to text or omission)**

Statement or note	Amendment made to the text or statement
Net asset statement	The Council had omitted the 2009 net asset statement which is a requirement under IFRS. The Council has made this amendment in the final version of the accounts.
Financial instruments note	The Council did not disclose an analysis of financial instruments held within the pension fund, nor the related disclosures. The Council has made this amendment in the final version of the accounts.
Investments note	The Council made a minor amendment to text to show all investments as being categorised between UK, Overseas, Quoted and Unquoted.

Appendix 3 – Glossary

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.

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- any third party.

