

# Annual Governance Report

Essex Pension Fund

Audit 2008/09

September 2009

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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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Members of the Audit Committee

## **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 Chief Financial Officer 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 (pages 6 to 8);
- take note of the adjustments to the Pension Fund accounts which are set out in this report (Appendix 2);
- agree to adjust the errors in the Pension Fund accounts I have identified, which management has declined to amend or set out the reasons for not amending the errors; (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 5).

Yours sincerely

Paul King

District Auditor

September 2009

# 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	4
Financial statements free from material error	Yes	6
Adequate internal control environment	Yes	7

## Audit opinion

- We plan to issue an unmodified report including an unqualified opinion on the financial statements.

## Financial statements

- The financial statements were submitted for audit on time and largely complete. The working papers supporting the financial statements were received in accordance with the agreed timescale and were of a good quality. We would like to thank the officers for the preparation of good working papers and for responding to audit queries on a timely basis.
- The timing of the M99 reconciliation process has meant that there is an uncertainty about the figures in the Fund Account for the employees and employers contributions, and consequently the debtors and creditors figures in the Net Assets Statement. These amounts are non-trivial however as they are still subject to agreement with the employing bodies, the Authority does not propose to amend the financial statements.

## Audit Fees

- I reported in my 2008/09 Audit and Inspection Plan for Essex County Council that the audit fee for the Pension Fund would be £69,800. I am satisfied that the original fee estimate for the Pension Fund opinion audit was appropriate and no adjustment is therefore required to the fee.

# 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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**4** I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 8);
- take note of the adjustments to the Pension Fund accounts which are set out in this report (Appendix 2);
- agree to adjust the errors in the Pension Fund accounts I have identified which management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 5).

# Financial statements

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

## Opinion on the financial statements

- 5 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report on the Council's financial statements that includes an unqualified opinion on the Pension Fund's accounts. Appendix 1 contains a copy of my draft audit report.

## Adjusted errors in the financial statements

- 6 I have identified errors in the financial statements (other than those of a trivial nature) and reported these to management.
- 7 Management has agreed to adjust the financial statements for the errors identified in Appendix 2. One error is non-trivial and was brought to our attention by the Council during our audit. The error is £480,000 and relates to managed funds in the Net Assets Statement. The error was identified as a result of receiving late direct confirmation from two private equity fund managers. The overall impact is to decrease the value of the Managed Fund investments in the Net Assets Statement and therefore increase the Change in Market Value figure in the Fund Account.

### Recommendation

- R1** The Authority should try to obtain all direct confirmations from fund managers before preparing the financial statements.

## Unadjusted errors in the financial statements

- 8 There are two unadjusted errors in the financial statements arising as a result of the year-end 'M99' reconciliation process. This process is designed to identify any discrepancies in the employer and employee contributions in the Fund Account. We are assured that this reconciliation process is effective because although it has identified some non-trivial amounts, the amounts are relatively small and therefore we are assured that there is not a significant underlying problem. The resulting debtor and creditors following on from this are still being discussed with the employing bodies and therefore the Pension Fund is not in a position to confirm the amounts or amend either the Net Assets Statement or the Fund Account.

## Financial statements

### Recommendation

**R2** The Authority should undertake the M99 reconciliation process early enough to allow the correct figures to be entered into the financial statements.

### Material weaknesses in internal control

- 9** Internal Audit identified during their review of the Pension Fund that the Authority was not receiving copies of the SAS 70 / AAF 01/06 controls assurance reports from the Fund Managers on a timely basis.
- 10** Internal Audit's review of the membership of the new Pension Fund Board identified that at present eight of the ten members (excluding observers and advisors) are County Councillors despite the Council contributing approximately 40% of the annual income to the fund. Four positions have been established for non County-Council representatives, to represent Essex Police Authority, Essex Fire Authority, a Unitary Authority representative and the Essex Leaders group but two of these have been filled by County Councillors. This restricts the input of non-administering authority representation into the governance arrangements.

### Recommendation

**R3** Review SAS 70 reports when they are received and ensure issues are followed up as appropriate. A log should be maintained to ensure that all required reports are received on an annual basis. By spreading the task across the year this should also reduce the burden during the year end closedown process.

**R4** Reconsider the membership of the Pension Fund Board with reference to the representation of non administering authority members.

### Letter of representation

- 11** 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

- 12** In planning the audit specific risks were identified and areas of judgement were considered as part of the audit. The findings are set out in Table 1.

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

Issue or risk	Finding
The key risk was the issue about the cash	The cash balance was agreed to

Issue or risk	Finding
balance not being separately identifiable owing to the fact that the Pension Fund does not have its own bank account.	supporting documentation retained by the Pension Fund team. On a monthly basis a record is kept of the cashflow and this is used to inform the Treasury team at Essex County Council as to how much their share of the cash balance is.

### Accounting practice and financial reporting

**13** I consider the qualitative aspects of your financial reporting. Table 2 contains the issues I want to raise with you.

**Table 2**

Issue or risk	Finding
The Pension Fund pools its cash with Essex County Council.	<p>The Pension Fund informs Essex County Council what their share of the cash balance is at any given time and they then receive the Local Authority 7-Day Rate (LA7DR) on their cash balances.</p> <p>For 2008/09 the Pension Fund received £904,004.00 interest. If the Pension Fund had invested their cash separately then would have potentially received £845,722.00 in interest.</p> <p>The Pension Fund therefore receives favourable interest rates from investing with the County Council.</p> <p>The practice of local authorities holding pension fund cash and their own cash in a joint bank account will not be permitted under CLG's proposed legislative revisions to the 1998 Regulations, even where the respective transactions are separately identifiable.</p>

Recommendation
<b>R5</b> Create a separate bank account for the Pension Fund so that it can account for its cash separately.



# Appendix 1 – Independent auditor’s report to Members of Essex County Council

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## Independent auditor’s report to the Members of Essex County Council

### Opinion on the Authority accounting statements

I have audited the accounting statements and related notes of Essex County Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement and the related notes. The 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 Essex County Council 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 Chief Financial Officer and auditor

The *Chief Financial Officer’s* 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 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 accounting statements 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 position of the Authority 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 accounting statements and related notes and consider whether it is consistent with the audited 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 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 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 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 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 accounting statements and related notes.

### Opinion

In my opinion 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.

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### Opinion on the pension fund

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 Essex County Council 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 Chief Financial Officer and auditor

The Chief Financial Officer’s 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.

### 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, Essex County Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

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

The audit cannot be formally concluded and an audit certificate issued until I have completed my review of Members' expenses. I am satisfied that these matters do not have a material effect on the financial statements.

Paul King

District Auditor  
Officer of the Audit Commission

Atlantic Business Centre, 64 Broomfield Road, Chelmsford, Essex, CM1 1SW

September 2009

## Appendix 2 – Adjusted amendments to the draft Pension Fund’s 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 3**

		Fund Account		Net Assets Statement	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
The Pension Fund received late confirmation from two private equity Fund Managers which resulted in an amendment to the Managed Funds asset figure in the Net Assets Statement and the Change in Market Value figure in the Fund Account.	Net Assets Statement – Managed Funds Fund Account – Change in Market Value	480			480
Derivatives – updated valuation received.	Net Assets Statement – Derivative Contracts			15	15

## Appendix 3 – Unadjusted misstatements in the accounts

The following misstatements were identified during the course of my audit and the financial statements have not been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities. If you decide not to do so, please tell us why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

**Table 4**

Description of error	Accounts effected	Value of error £'000
Following the M99 reconciliation process a number of discrepancies have been identified between what the Pension Fund believes the employing bodies have contributed and what they state they have contributed per the M99 form. These discrepancies result in both debtors and creditors to the Pension Fund. These have not been amended because the amounts have not been agreed with the employing bodies.	Fund Account – Employees Contributions Net Assets Statement – Debtors & Creditors	£91 employee contributions
	Net Assets Statement – Employers Contributions Net Assets Statement – Debtors & Creditors	£110 employer contributions

# Appendix 4 – Draft letter of representation

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To: Paul King  
Audit Commission  
Atlantic Business Centre  
Lyttleton House  
64, Broomfield Road  
Chelmsford  
Essex  
CM1 1SW

## **Essex Pension Fund - Audit for the year ended 31st March 2009**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Essex Pension Fund, the following representations given to you in connection with your audit of the Pension Fund's financial statements for the year ended 31<sup>st</sup> March 2009. All representations cover the Pension Fund accounts included within the Essex County Council financial statements.

### **Compliance with the statutory authorities**

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which present fairly the financial position and financial performance of the Essex Pension Fund and for making accurate representations to you.

### **Uncorrected misstatements**

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed 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 Essex Pension Fund and the reason for not correcting these items is:

- The M99 reconciliation process has identified some discrepancies between the contributions per the Fund Account and the contributions per the employing bodies. The financial statements have not been amended because the amounts and the corresponding debtors and creditors have not been agreed with the relevant employing bodies, they are still under discussion

### **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 Essex Pension Fund have been



properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Audit Committee, Pensions Board and Investments Steering Committee meetings, have been made available to you.

### **Irregularities**

I acknowledge my 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.

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; and
- 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.

### **Fair Values**

I confirm the reasonableness of the significant assumptions within the financial statements. For actuarial assumptions in the pension fund I confirm:

- the appropriateness of the measurement method;
- the completeness and appropriateness under the financial reporting framework; and
- subsequent events do not require adjustment to the fair value measurement.

### **Contingent liabilities**

There are no other 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.

### **Related party transactions**

I confirm the completeness of the information disclosed regarding the identification of related parties.



## Appendix 4 – Draft letter of representation

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

### **Post balance sheet events**

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

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

### **Specific representations:**

There are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements.

Signed on behalf of Essex County Council

I confirm that the this letter has been discussed and agreed by the Council Audit Committee on 25 September 2009.

Margaret Lee  
Chief Financial Officer and s151 Officer

September 2009

# Appendix 5 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Annual Governance Report 2008/09 - Recommendations</b>						
7	<b>R1</b> The Authority should try to obtain all direct confirmations from Fund Managers before preparing the financial statements.	3	Kevin McDonald			
8	<b>R2</b> The Authority should undertake the M99 reconciliation process early enough to allow the correct figures to be entered into the financial statements.	3	Jody Evans			
8	<b>R3</b> Review SAS 70 reports when they are received and ensure issues are followed up as appropriate. A log should be maintained to ensure that all required reports are received on an annual basis. By spreading the task across the year this should also reduce the burden during the year end closedown process.	3	Kevin McDonald			
8	<b>R4</b> Reconsider the membership of the Pension	3	Martin Quinn /			

## Appendix 5 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	Fund Board with reference to the representation of non administering authority members.		Margaret Lee			
8	<b>R5</b> Create a separate bank account for the Pension Fund so that it can account for its cash separately.	3	Martin Quinn / Margaret Lee			