

Annual Governance Report

Essex County Council Pension Fund

Audit 2009/10

September 2010

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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. They 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

2009/10 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2009/10.

A draft of the report was discussed and agreed with the Director for Finance and has been updated as issues have been resolved.

This 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 7);
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- Agree your response to the proposed action plan (Appendix 4).

Yours sincerely

Rob Murray
District Auditor

September 2010

Key messages

This report summarises the findings from the 2009/10 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements	Results	Page
Unqualified audit opinion	Yes	4
Financial statements free from material error	Yes	6
Adequate internal control environment	Yes	6

Audit opinion

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

Financial statements

- 2 The financial statements were submitted to audit on time and were 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 thank officers for the preparation of good quality working papers and responding to our queries on a timely basis.

Audit fees

- 3 I reported in my 2009/10 Audit Opinion Plan for the Essex Pension Fund that the revised audit fee for the pension fund would be £56,921. I am satisfied that the revised fee estimate for the Pension Fund opinion audit was appropriate and no adjustment is required to the fee.

Independence

- 4 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. 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.

5 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 7);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 4).

Financial statements

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

Opinion on the financial statements

- 6** Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Errors in the financial statements

- 7** I have identified errors in the financial statements (other than those of a non-trivial nature) and reported these to management.
- 8** Management has agreed to adjust the financial statements for the errors identified in Appendix 2. One error is non-trivial. The error is in £520,431 and relates to managed funds in the net asset statement. The error was identified as a result of receiving late direct confirmations from four of the private equity managers. The Pension Fund team do try to obtain direct confirmations from all fund managers in advance of preparing the financial statements however we recognise that the private equity managers do not work to the same timetable. The overall impact of this amendment is to increase the value of the Managed Fund Investments in the Net Asset Statement and therefore decrease the Change in Market Value figure in the Fund Account.

Important weaknesses in internal control

- 9** It was identified during the audit that the return (PN11) which states the employee and employer contributions from each contributing body, and is received monthly and yearly, is not currently required to be signed off by a Senior Financial Officer (for example the S151 Officer, Director for Finance or Finance Manager) from those bodies.
- 10** It was identified that the pension fund does not receive and review the SAS70 report for Hamilton Lane.
- 11** A report was not retained to support the member figures as at 31st March 2010 as disclosed in Note 5.1 of the accounts.

Recommendations

- | | |
|-----------|---|
| R1 | A Senior Financial Officer from each contributing body should be required to sign off the monthly Contribution return (PN11). |
| R2 | Review the SAS70 report for Hamilton Lane. |
| R3 | A copy of the report run on the 31 March to support the member figures disclosed within the accounts should be retained. |

Letter of representation

- 12** 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.

Glossary

Annual governance statement

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

Audit closure certificate

- 14** 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 certificate.

Audit opinion

- 15** On completion of the audit of the accounts, auditors must give their 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.

Qualified

- 16** The auditor has some reservations or concerns.

Unqualified

- 17** The auditor does not have any reservations.

Appendix 1 – Independent auditor's report to Members of Essex Pension Fund

Please refer to Appendix 1 of the Essex County Council 2009/10 Annual Governance Report.

Appendix 2 – Amendments to the draft accounts

- 1 I identified the following misstatements during my audit and managers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Table 1

		Income and Expenditure Account		Balance sheet	
Adjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
The Pension Fund received late confirmation from four Private Equity managers which resulted in an amendment to the managed Funds assets figure in the Net Asset Statement and the Change in market Value figure in the fund account.	Net Assets Statement- Managed Funds Fund Account- Change in Market Value		520	520	

Appendix 3 – Draft letter of representation

To: Rob Murray
Audit Commission
Atlantic Business Centre
Lyttleton House
64 Broomfield Road
Chelmsford
Essex
CM1 1SW

Essex Pension Fund - Audit for the year ended 31 March 2010

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 March 2010. 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 gives a true and fair view of the financial position and financial performance of the Pension Fund and for making accurate representations to you.

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 basis used by management to overcome the presumption under the financial reporting framework;
- 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;
- 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.

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

Appendix 3 – Draft letter of representation

Post balance sheet events

Since the date of approval of the financial statements by the Essex County Council Audit Commission, no additional significant post balance sheet events/events after the reporting period that 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.

If adoption of the financial statements and the representation are on the same day this paragraph is not required.

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 Essex County Council Audit Committee on

Signed

Date

Appendix 4 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Governance Report 2009/10 - Recommendations						
7	A Senior Financial Officer from each contributing body should be required to sign off the monthly Contribution return (PN11).	2	Kevin McDonald	Yes	At present the PN11 form is typically signed by the officer responsible for sending in the return (Admin officer, Payroll Manager, School Bursar etc). This recommendation has been accepted in principle. However, further consideration will be required in respect of how this change will be implemented for employers who submit their PN11 forms electronically and those who use 3rd party payroll providers.	2010/11
7	Review the SAS70 report for Hamilton Lane.	2	Kevin McDonald	Yes	This recommendation has been agreed. The most up to date SAS70 for the period ending 31 December 2008 was reviewed in July 2010. Review of future Hamilton Lane SAS70 reports will be incorporated into the current practice of reviewing SAS70s as and when they become available.	2010/11

Appendix 4 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	A copy of the report run on the 31 March to support the member figures disclosed within the accounts should be retained.	3	Jody Evans	Yes	This recommendation has been accepted and will form part of the year end closure process.	2010/11

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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