

# Annual governance report

Essex Pension Fund

Audit 2010/11

**The Audit Commission is a public corporation set up in 1983 to protect the public purse.**

**The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.**

**We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.**

# Contents

<b>Key messages .....</b>	<b>3</b>
Audit opinion .....	3
Financial statements .....	3
Audit fees .....	3
Independence .....	3
<b>Next steps .....</b>	<b>4</b>
<b>Financial statements .....</b>	<b>5</b>
<b>Appendix 1 Draft independent auditor's report to Members of Essex County Council .....</b>	<b>7</b>
<b>Appendix 2 Draft letter of representation .....</b>	<b>8</b>
<b>Appendix 3 Glossary .....</b>	<b>11</b>

Ladies and Gentlemen

**2010/11 Annual Governance Report**

I am pleased to present the results of my audit work for 2010/11.

I discussed and agreed a draft of my report with the Executive Director for Finance on 12 September 2011 and updated it as issues have been resolved.

My 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 5 to 6); and
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (appendix 2).

Yours faithfully

Rob Murray  
District Auditor

September 2011

# Key messages

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

Table 1: **Key messages - financial statements**

Financial statements	Results	Page
Unqualified audit opinion	Yes	
Important weaknesses in internal control	No	

## 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 2010/11 Audit Opinion Plan for the Essex Pension Fund that the audit fee for the pension fund would be £45,000. I am satisfied that the fee estimate for the Pension Fund opinion audit was appropriate and no adjustment is required to the fee.

## Independence

- 4 I can confirm that I have complied with the Audit Practice 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.
- 5 The Audit Commission's Audit Practice has not undertaken any non-audit work for the Pension Fund during 2010/11.

## Next steps

**This report identifies the key messages that you should consider before I issue my financial statements opinion, 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.**

**6** I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 5 to 6); and
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (appendix 2).

# Financial statements

**The Council's financial statements and annual governance statement 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.**

## Opinion on the financial statements

**7** 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.

## Key areas of judgement and audit risk

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

---

Table 2: **Key areas of judgement and audit risk**

Issue or risk	Finding
The current economic climate may place pressure on the financial health of the Pension Fund creating a risk that inappropriate valuation methods are employed. This is a generic audit risk that applies to all Local Authorities and Pension Funds following the recent Comprehensive Spending Review.	I have reviewed the appropriateness of estimation and valuation techniques employed by the Pension Fund to determine the value of its assets and liabilities, and have agreed the investment valuations to third party confirmations from Fund Managers. No issues found.
The introduction of International Financial Reporting Standards (IFRS) in the accounts of local government is a significant change. This is not the case for Pension Funds as the main areas are around disclosure requirements.	The Pension Fund correctly obtained an IAS 26 valuation in accordance with IAS 19 for all retirement benefits for all employer bodies within the Pension Fund. This is disclosed in Note 3.3 to the Pension Fund statements.

Issue or risk	Finding
<p>However, it requires a valuation in accordance with International Accounting Standard (IAS) 19 for all retirement benefits for all employer bodies within the Pension Fund including smaller bodies which previously did not require FRS17 valuations.</p>	

## Quality of your financial statements

**9** There are no matters that I wish to bring to your attention.

## Letter of representation

**10** 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 4 contains the draft letter of representation.



# Appendix 1 Draft independent auditor's report to Members of Essex County Council

Please refer to Appendix 1 of the Essex County Council 2010/11 Annual Governance Report.

## Appendix 2 Draft letter of representation

To:

Rob Murray  
District Auditor  
Audit Commission  
Eastbrook  
Shaftesbury Road  
Cambridge  
SB2 8DF

### **Essex County Council Pension Fund - Audit for the year ended 31 March 2011**

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 2011. All representations cover the Pension Fund's accounts included within the County Council's financial statements.

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

I have fulfilled 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 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**

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

#### **Internal control**

I have communicated to you all deficiencies in internal control of which I am aware

## **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 that 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.

For actuarial assumptions in the financial statements 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.

## **Related party transactions**

I confirm that I have disclosed the identity of Essex 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 requirement of the framework.

**Subsequent events**

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of Essex County Council

I confirm that this letter has been discussed and agreed by the Essex County Council Audit Committee on 26 September 2011.

## Appendix 3 Glossary

### **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 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.

If you require a copy of this document in an alternative format or in a language other than English, please call:  
**0844 798 7070**

© Audit Commission 2011.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

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.



Audit Commission

1st Floor  
Millbank Tower  
Millbank  
London  
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946