

Annual governance report

Lincolnshire County Council Pension Fund

Audit 2010/11

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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.

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Ladies and Gentlemen

2010/11 Annual Governance Report

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

I have discussed and agreed a draft of my report with the Assistant Director of Resources and the Pensions and Investment Group Manager. 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 3 to 7); and
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (appendix 2).

Yours faithfully

Tony Crawley
District Auditor

26 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	5
Important weaknesses in internal control	No	5

Audit opinion

1 My work on the opinion is finalised and I propose to issue an unqualified audit opinion on the Pension Fund accounts.

Financial statements

2 The draft financial statements were produced before the required statutory date and we were able to complete the audit in line with the agreed timetable. We are grateful for the support and assistance provided by your officers in enabling us to complete our work promptly.

3 There were no adjustments or errors in the financial statements that I need to draw to your attention. I have not identified any important weaknesses in internal control.

Audit fees

4 The planned audit fee for 2010/11 has proved sufficient to obtain the assurance that I need to cover the cost of my work on the financial statements.

Independence

5 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.

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 7); 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 My work on the opinion is finalised and I propose to issue an unqualified audit opinion on the Pension Fund accounts. Appendix 1 contains a copy of my draft audit report.

8 I have not identified any important weaknesses in internal control.

Key areas of judgement and audit risk

9 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
Stock market volatility and potential fall in asset values leading to a non adjusting post balance sheet event.	The audit processes address the stock market risks through our tests of detail on the verification and valuation of assets. Although markets have fallen somewhat since 31 March 2011, at the time of writing this report, I do not consider that the fall is sufficiently outside of the normal market variances to require the disclosure of a non adjusting post balance sheet event this year. If I think the position has changed prior to the meeting I will discuss the way forward with the Committee.

Issue or risk	Finding
<p>The results of the triennial actuarial valuation were expected in 2010/11 (as at 31 March 2010). The funding level is expected to have fallen significantly.</p>	<p>We have checked that the latest actuarial position is disclosed adequately in the financial statements. Funding levels have fallen from 86% to 76% of the funds assets. We have also reviewed the work of the actuary and we have relied on this work.</p> <p>Contribution levels for the major employing bodies have been stabilised until March 2014 within the overall aim of achieving the target funding level of 100% over a 20 year period.</p>
<p>The Council's service provider (Mouchel) switched to the Middlesbrough office systems for aspects of pension fund administration. The work will all be done in Lincoln and any changes in people and systems will be gradual.</p>	<p>We have not identified any changes that have impacted on the key systems controls on which we have placed reliance and tested.</p>

Quality of your financial statements

10 I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statement disclosures. There are only two SoRP disclosure issues which I need to bring to your attention.

Table 3: **Accounting practices, policies and estimates and financial statement disclosures**

Issue	Finding
<p>The SoRP requires taxation, including withholding tax, to be disclosed on the face of the fund account. This has never been done because the Custodian has not provided accountancy services to the pension fund which would facilitate this.</p>	<p>The Custodian service has since been re-tendered and the accounts will disclose this information from 2011/12 onwards.</p>
<p>Material balances at 31 March 2011 relating to unsettled trades are netted off in the net asset statement under 'Other'. The balances are shown in full in the</p>	<p>These balances should be disclosed separately on the face of the net asset statement.</p>

Issue**Finding**

notes to the accounts.

Recommendation

R1 Disclose any material balances relating to trade purchases and sales separately on the face of the net asset statement in future.

11 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 2 contains the draft letter of representation.

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

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These 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 Lincolnshire County Council 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 Executive Director of Resources and Community Safety and auditor

As explained more fully in the Statement of the Executive Director of Resources and Community Safety Responsibilities, the Executive Director is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting 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 accounting statements sufficient to give reasonable assurance that the accounting 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 fund; and the overall presentation of the accounting statements. I read all the information in the annual report to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; 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 annual report for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

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

Tony Crawley
Officer of the Audit Commission

Rivermead House
Grove Park
Enderby
Leicester
LE19 1SU

26 September 2011

Appendix 2 Draft letter of representation

To: Tony Crawley
District Auditor
Rivermead House
Grove Park
Enderby
Leicester
LE19 1SU

Lincolnshire 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 the County Council the following representations given to you in connection with your audit of the Lincolnshire County Council Pension Fund's financial statements for the year ended 31 March 2011.

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, based on International Financial Reporting Standards and the 2007 Statement of Recommended Practice (Financial Reports of Pension Schemes) which give a true and fair view of the financial position and financial performance of the Pension Fund, and for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of any uncorrected financial statements misstatements are not material to the financial statements, either individually or in aggregate.

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.

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.

Related party transactions

I confirm that I have disclosed the identity of Lincolnshire County Council Pension Fund 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 Lincolnshire County Council Pension Fund

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

Signed

Name Mr P Moore

Position Executive Director of Resources and Community Safety

Date 26 September 2011

Signed

Name Mr B Young

Position Chairman

Date 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. Pension funds are required to publish a governance compliance statement.

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. This will not be issued until the audit of the administering authority is complete.

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.

Appendix 4 Action Plan

Recommendations	
Recommendation 1	
Disclose any material balances relating to trade purchases and sales separately on the face of the net asset statement in future.	
Responsibility	
Priority	
Date	
Comments	