

Annual governance report

Lincolnshire County Council Pension Fund

Audit 2011/12



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Key messages

This report summarises the findings from my 2011/12 audit of the Pension Fund financial statements which is substantially complete.

As at 24 September 2012 I expect to issue an unqualified audit opinion.

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.

The quality of the financial statements and supporting working papers was good, and there is only one uncorrected error that I need to draw to your attention. Investment income relating to property is understated by £1.480M, and sales income overstated by the same amount. This is a result of inconsistent accounting treatment of income from different investment managers during the year, and officers plan to address this in 2012/13.

I have identified one area where internal control procedures can be improved. The pension administration section undertakes a comprehensive annual data checking exercise on the AXIS system, but we found that the record of checks undertaken could be better evidenced and some of the reports generated for this purpose are not retained. We have recommended that improvements are made to the management trail.

Before I give my opinion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit 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 am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Pension Fund during 2011/12.

I ask the Audit Committee to:

- take note of the adjustments to the financial statements included in this report (appendix 2);
- approve the letter of representation (appendix 3), on behalf of the Pension Fund before I issue my opinion; and
- agree your response to the proposed action plan (appendix 5).

Financial statements

The Pension Fund's financial statements are an important mechanism for the Pension Fund to account for its stewardship of public funds. As Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements.

Opinion on the financial statements

I plan to issue an audit report including an unqualified opinion on the financial statements included within the Authority's Statement of Accounts and the financial statements included within the Pension Fund Annual Report. Appendix 1 contains copies of my draft audit reports.

Uncorrected error

Investment income relating to property is understated by £1.480M and sales income overstated by the same amount. This is because of inconsistent treatment of income from different investment managers since the JP Morgan (JPM) accounting package was introduced in 2011/12. Dividends from Rreef are included within the income, but funds received from Standard Life Property and two of the Innisfree funds are treated as distributions (sales). The net effect on the accounts is neutral as a correction would increase sales income and reduce market value by the same amount. Officers have already discussed this with JPM, and in 2012/13 this income will all be treated as dividends, rather than sales, for the selected funds. Consequently there is no audit recommendation needed.

Corrected errors

There were no non trivial errors that required correction in the draft accounts. Some minor changes were agreed to the notes to the accounts to ensure full compliance with Pension Regulations and the Code requirements. These included disclosures relating to the audit fee and officer remuneration and member allowances. Some minor typographical errors were also corrected.

Significant risks and my findings

I reported to you in my 13 January 2012 Audit Plan just one significant risk that I identified relevant to my audit of your financial statements. My audit did take account of a small number of other risks specific to the pension fund audit this year, such as the new JPM accounting package and the outstanding claims for withholding tax disclosed in the accounts. In Table 1 I report to you my findings against the only significant risk.

Table 1: **Risks and findings**

Risk	Finding
<p>Volatility of the markets. We needed to bear in mind the continuing and potential impact of the volatility of the markets, specifically any major default within the Euro zone or problem with the currency itself. Although this could have significant implications for the value of pension fund assets we did not plan to undertake any additional procedures beyond keeping the situation under review.</p>	<p>Despite the continuing uncertainty, the overall market performance over 2011/12 and currently has remained relatively stable. We have successfully completed our verification work on investments (existence, completeness, rights and obligations and value and allocations).</p>

Systems of internal control

It is the responsibility of the Pension Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Pension Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Pension Fund only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control.

The following opportunity to improve internal control is the only issue that I have identified during the audit.

Table 2: **Internal control issue and my findings**

Description of weakness	Potential impact	Management action
<p>The pension administration section undertakes a comprehensive annual data checking</p>	<p>Whilst the annual data check should ensure that administrative records are accurate, the</p>	<p>The Group Manager (Pensions and Treasury) has agreed to speak to Internal Audit so that</p>

Description of weakness	Potential impact	Management action
<p>exercise on the AXIS system. The record sheet kept does not record which officer completed each check nor are all the electronic reports that are generated retained. For example the AXIS interface files transfer report (which proves that the admitted bodies' spreadsheet has been downloaded to AXIS). All individual exception reports, the pensionable pay control reports and the validation reports should also be kept as well as a record of any action taken to correct errors.</p>	<p>failure to record or retain all of the evidence supporting the work done weakens the management trail, and reduces the level of assurance that can be taken from this key annual control by management and auditors.</p>	<p>this aspect can be reviewed further as part of the planned internal audit review to be undertaken in October / November 2012.</p>

Recommendation

R1 The evidence held to support the annual data check completed by the pensions administration section should be improved by keeping a better record of the individuals completing each test, actions taken to correct errors, and the retention of all reports generated.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Pension Fund's financial reporting process. I have no matters I wish to report.

Pension Fund Annual Report

The Pension Fund provided a copy of its Annual Report on 31 July 2012 and I have completed my review and report on the financial statements included in it. I expect to report on these statements on or shortly after 24 September 2012.

Fees

I reported my planned audit fee in the 13 January 2012 Audit Plan.

I will complete the audit within the planned fee.

Table 3: **Fees**

	Original scale fee 2011/12 (£)	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	39,919	39,919	39,919
Non-audit work	0	0	0
Total	39,919	39,919	39,919

The Audit Commission in July 2011 confirmed an 8 per cent rebate on audit fees for all local government bodies. This equates to £3,187 for this Pension Fund.

Appendix 1 – Draft independent auditor’s reports

Report on the pension fund financial statements in the Statement of Accounts

Opinion on the pension fund financial statementsⁱ

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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 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’s Responsibilities, the Executive Director of Resources and Community Safety is responsible for the preparation of the pension fund’s financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial 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 financial statements sufficient to give reasonable assurance that the financial 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 Executive Director of Resources and Community Safety; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword and the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

[Signature]

Tony Crawley
Officer of the Audit Commission

Unit 10 Whitwick Business Centre
Whitwick Business Park
Stenson Road
Coalville
Leicestershire
LE67 4JP

September 2012

Report on the pension fund financial statements included in the Pension Fund Annual Report

Opinion on the pension fund financial statements

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- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

[Signature]

Tony Crawley
Officer of the Audit Commission

Unit 10 Whitwick Business Centre
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Leicestershire
LE67 4JP

September 2012

Appendix 2 – Uncorrected error

I identified the following error during the audit which management have not corrected in the revised financial statements.

		Fund Account		Net Assets Statement	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Investment income	Investment income relating to property is understated and sales income overstated by the same amount. There is no overall impact on the net assets of the fund.	1,480	1,480	1,480	1,480
Sales distributions					

Appendix 3 – Draft letter of management representation

Lincolnshire County Council Pension Fund - Audit for the year ended 31 March 2012

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 Pension Fund's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on 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.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in appendix 2 of the auditor's annual governance report are not material to the financial statements, either individually or in aggregate.

Supporting records

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

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 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 the 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 requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

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 24 September 2012

Signed

Name

Position

Date

Appendix 4 – Glossary

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Pension Fund is required to prepare, which report the financial performance and financial position of the Pension Fund in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Internal control

The whole system of controls, financial and otherwise, that the Pension Fund establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative 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.

Pension Fund Annual Report

The annual report, including financial statements, that the Pension Fund must publish under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

Significance

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Pension Fund. This term includes the members of the Authority, the Pension Committee and the Audit Committee.

Appendix 5 – Action plan

Recommendations

Recommendation 1

The evidence held to support the annual data check completed by the pensions administration section should be improved by keeping a better record of the individuals completing each test, actions taken to correct errors, and the retention of all reports generated.

Responsibility	Group Manager (Pensions and Treasury)
Priority	High
Date	31 March 2013
Comments	

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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.

