

Annual Governance Report

London Borough of Lewisham 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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2009/10 Annual Governance Report

I am pleased to present the draft version of my report on the results of my audit work for 2009/10 which is currently in progress.

I discussed and agreed a draft of the report with the Executive Director of Resources on 17 August and 7 September 2010 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 7 to 8);
- 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 faithfully

Susan M. Exton
District Auditor

7 September 2010

Key messages

This report summarises the findings from the 2009/10 audit which is in progress. It includes the messages arising from my audit of your financial statements.

Financial statements	Results	Page
Unqualified audit opinion	Yes	7
Draft financial statements free from material error	No	7
Adequate internal control environment	Yes	8

Audit opinion

- 1 My work is substantially complete. Subject to the satisfactory clearance of the remaining work, I plan to issue an audit report on the Council's financial statements that includes an unqualified opinion on the pension fund accounts.
- 2 Subject to the final review of the pension fund annual report, I also plan to issue an unqualified opinion on the financial statements included in the pension fund annual report.

Financial statements

- 3 The Council provided its pension fund accounts for audit on 24 June 2010 as part of the financial statements for the Council as a whole. The working papers were provided one week later. The accounts submitted for audit were not fully complete as adjustments were made by officers to these accounts. A new set of financial statements was provided on 14 July 2010. I have not identified any errors in this set of financial statements.
- 4 The detailed section of this report highlights the significant findings from my audit work and the specific audit procedures performed in relation to the specific risks I reported to the Audit Panel as part of my opinion audit plan in June 2010.

Independence

- 5 The wife of one of my Audit Managers, Thomas Edgell, who was involved in planning the 2009/10 audit, is a teacher at the Coopers Lane Primary school. Appropriate safeguards were established such that he was not involved in any work directly related to the activities of this school. I can confirm that I have carried out the audit in accordance with the Audit Commission's policies on integrity, objectivity and independence.

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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.

6 I ask the Audit Panel to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 8);
- 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 Pension Fund's accounts are important means by which the Fund accounts for its stewardship of public funds. The Council has a 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 is substantially complete, although my work on investments is yet to be concluded. Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report on the Council's Pension Fund accounts included in the annual report. Appendix 1 contains a copy of my draft audit report.

Errors in the financial statements

8 Errors identified in the financial statements have been included in detail within Appendix 2. The errors detailed in Appendix 2 include those adjustments which were made by the Council after the submission of the accounts to the Audit Panel on 24 June 2010.

9 Additionally, a disclosure change has been made to note 4, investment income, to provide a split of other managed fund income into more detailed categories of investments.

Recommendation

R1 Ensure accounts are complete prior to their approval by the Audit Panel.

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 3 contains the draft letter of representation.

Key areas of judgement and audit risk

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

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
<p>Unquoted Investments</p> <p>The valuation of unquoted investments is potentially a very complex area. There are risks around accurate valuation at year end.</p>	<p>My audit work on unquoted investments is currently in progress.</p>
<p>HarbourVest</p> <p>One of the Council's pension fund managers, HarbourVest, was unable to provide a SAS 70 report, an independent auditors' report on the fund manager's internal controls and procedures as far as they relate to client assets and cash.</p>	<p>A SAS70 report for HarbourVest has been obtained giving assurance over the control environment. This report covers six months of the 2009/10 financial year, further testing will ensure that this assurance can be extended to the full year.</p>
<p>Statement of Recommended Practice (SoRP)</p> <p>The Pension Fund accounts are required to be fully compliant with the SoRP.</p>	<p>My work on the SoRP compliance of the disclosures is substantially complete. Some adjustments are required on completion of this work.</p>

Material weaknesses in internal control

12 I have reviewed your internal control environment and have no material weaknesses to report.

Accounting practice and financial reporting

13 I consider the qualitative aspects of your financial reporting processes, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of information provided by the financial statements. The Council does not have a separate bank account for the pension fund instead it co-mingles the money with its own. New regulations require all pension funds to have a separate bank account for their pension fund monies by 1 April 2011 and I have noted that the Council intends to comply with this requirement in order to provide a clear separation of the Council's and the pension fund's money.

Glossary

Annual governance statement

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

Audit closure certificate

15 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

16 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

17 The auditor has some reservations or concerns.

Unqualified

18 The auditor does not have any reservations.

Appendix 1 – Independent auditor’s report to the Members of London Borough of Lewisham

Independent auditor’s report to the Members of London Borough of Lewisham

I have audited the pension fund accounting statements for the year ended 31 March 2010. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund 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 the London Borough of Lewisham 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 published by the Audit Commission in April 2008.

Respective responsibilities of the Executive Director of Resources and auditor

The Executive Director of Resources is responsible for preparing the pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice. In preparing this pension fund accounting statements, the Executive Director of Resources is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgments and estimates that were reasonable and prudent;
- keeping proper accounting records which were up to date;
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

My responsibility is to audit the pension fund 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 pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, 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 also report to you whether, in my opinion, the information which comprises the commentary on the financial performance included within the Pension Fund Annual Report, is consistent with the pension fund accounting statements. That information comprises: Appendix B, 2009/10 Pension Fund Accounts

Appendix 1 – Independent auditor’s report to Members of London Borough of Lewisham

I review whether the governance compliance statement published in the Pension Fund Annual Report reflects compliance with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I report if it does not meet the requirements specified by the Department of Communities and Local Government or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting 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 pension fund accounting statements and related notes and consider whether it is consistent with the audited pension fund accounting statements. This other information comprises the remaining elements of the Pension Fund Annual Report other than Appendix B, 2009/10 Pension Fund Accounts. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund 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 pension fund 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 pension fund 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 pension fund 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 pension fund accounting statements and related notes.

Opinion

In my opinion:

- the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund’s assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year; and

Appendix 1 – Independent auditor’s report to Members of London Borough of Lewisham

- the information given in the commentary on financial performance included within the Pension Fund Annual Report is consistent with the pension fund accounting statements.

Susan M Exton

Officer of the Audit Commission

Audit Commission

1st Floor, Millbank Tower

Millbank

London

SW1P 4HQ

Appendix 2 – Amendments to the draft pension fund's accounts

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 2

Adjusted misstatements	Nature of adjustment	Fund Account		Net Assets Statement	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Investment Income (£11,306k)	Further analysis of Investment Income identified additional amounts due to the pension fund Investment Income	852			
Change in market value of investments (realised and unrealised) (£176,659k)	Change in MV is a balancing figure so has been adjusted accordingly for other fund account changes detailed. Change in MV of investments		1,070		
Investment expenses- Fund manager fees (£1,707k)	Further analysis revealed a lesser management fee payable to managers Fund managers' fees	189			
Investment expenses- Tax on Dividends (£745k)	Further analysis revealed less tax withheld than previously reported. Tax on Dividends	32			
Investment	Further analysis highlighted				

Appendix 2 – Amendments to the draft pension fund’s accounts

		Fund Account		Net Assets Statement	
Adjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Assets: Equities- United Kingdom (£32,483k)	adjustments to debtors reported Equities- United Kingdom			754	
Investment Assets: Equities- Overseas (£263,831k)	Further analysis highlighted adjustments to debtors reported Equities- Overseas			233	
Investment Assets: Managed Funds- Property (£59,701k)	Further analysis highlighted adjustments to debtors reported Managed Funds- Property			575	
Investment Assets: Managed Funds- Equities (£169,275k)	Further analysis highlighted adjustments to debtors reported Managed Funds- Equities			2	
Other investment balances: Debtors iro investment transactions (£39,806k)	Further analysis indicated net debtor and creditor values that needed splitting Debtors iro investment transactions				1,140
Other investment balances: Creditors iro investment transactions (£-149k)	Further analysis indicated net debtor and creditor values that needed splitting Creditors iro investment transactions				424
Net current	Northern Trust fees				

Appendix 2 – Amendments to the draft pension fund’s accounts

		Fund Account		Net Assets Statement	
Adjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
assets and liabilities: Cash in hand (£5,056k)	adjustment identified by LB Lewisham. Cash in hand				3
Note 2 Benefits payable (£26,833k in fund account)	Per the draft accounts this note showed £16,247k which had not been split. This has now been analysed between administering, scheduled and admitted bodies. Administering Admitted Scheduled	15,613 73 561	16,247		

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Appendix 3 – Draft letter of representation

To: Susan M. Exton
District Auditor
Audit Commission
Millbank Tower
Millbank
SW1P 4HQ

London Borough of Lewisham 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 London Borough of Lewisham, the following representations given to you in connection with your audit of the London Borough of Lewisham's pension fund financial statements for the year ended 31 March 2010.

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 give 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 Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

Appendix 3 – Draft letter of representation

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.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the pension fund.

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. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For the fair values disclosed at notes 5 to 7, 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
- if subsequent events [require/do not require] adjustment to the fair value measurement.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

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.

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 Council, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

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

Signed on behalf of London Borough of Lewisham

I confirm that the this letter has been discussed and agreed by the Audit Panel on 21 September 2010

Appendix 3 – Draft letter of representation

Signed

Councillor Harris
Chair of the Audit Panel

Janet Senior
Executive Director of Resources

Date

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Appendix 4 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R1 Ensure accounts are complete prior to their approval by the Audit Panel.	3	Jim Ricketts	Yes	This will be specifically addressed in the Closing of accounts timetable.	Jan 2011