

# Annual governance report

Royal Borough of Kingston upon Thames Pension Fund

Audit 2010/11



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**Traffic light explanation**

Red  Amber  Green 

# Key messages

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

	Our findings
Unqualified audit opinion	●
Financial Statements free from material error	●

- A number of minor presentational amendments have also been made by officers. These have no significant effect on the financial statements and will be reported in the statement of accounts memorandum that will be addressed to officers.

## **Audit opinion and financial statements**

- The Pension Fund financial statements were prepared and submitted to audit by the deadline of 30 June 2011. The financial statements were supported by appropriate working papers. The working papers provided to support Investment and Contributions balances were an improvement from the previous year. My audit is almost complete and I expect to issue an unqualified opinion by the 30 September 2011 deadline.
- My audit identified two non trivial errors. Officers have amended the financial statements for these errors. One of these errors reduced the balances on the Net Assets Statement and Fund Account by £485k.

# Before I complete my audit

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## I confirm to you

My report 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.

### Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including Ethical Standards 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council's Pension Fund during 2010/11.

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## I ask you to confirm to me

### I ask the committee to:

- 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 5).
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# Financial statements

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## Opinion on the financial statements

Subject to satisfactory clearance of the following outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements:

- review of the final version of the Annual Report; and the
- final check of amended financial statements.

Appendix 1 contains a copy of my draft report.

## Errors in the financial statements

The following paragraphs detail the findings from my audit that I am required to bring to your attention. The Council has agreed to adjust the Pension Fund financial statements for these findings. Appendix 2 details the adjustments to the Pension Fund financial statements.

- Employee and Employer Contributions of £843,000 owed to the Pension Fund at the 31 March 2011 had not been accrued for. The outstanding contributions were debited to (increased) Cash in the Net Assets Statement rather than Receivables as required. There was no impact on the overall net assets figure
- There was no accrual included in the Pension Fund for Pension Payments and Lump Sum Payments of £485,000 that were owed at 31 March 2011.

## Recommendations

### Recommendations

- R1** Ensure that Receivables and Payables due to and from the Pension Fund at the year end are accounted for in line with the Pension Fund's accounting policies.
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# Financial statements

The Council's Pension financial statements and are important means by which the Pension Fund 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 Pension Fund financial statements.

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

## Key audit risk and our findings

Key audit risk	Finding
<p>The quality of working papers provided to support Contributions Receivable and Investment balances did not meet the expected standard in 2009/10. This resulted in additional information requests, a significant amount of audit queries and additional audit work.</p> <p>There is a risk that Investments and Contributions Receivable balances are misstated.</p>	<p>The working papers provided to support Investment and Contributions balances were an improvement on the previous year. My substantive testing concluded that Investments and Contributions receivable were fairly stated.</p>
<p>Receivables and Payables relating to Pension Fund Investments were incorrectly classified in the Net Assets statement in 2009/10.</p> <p>There is a risk that Investment balances do not agree with the disclosure requirements of the Code of Practice on Local Authority Accounting.</p>	<p>My substantive testing concluded that Receivables and Payables relating to Investments were accounted for in accordance with the Code of Practice on Local Authority Accounting.</p>
<p>The Pension Fund is required to establish a separate bank account by 1 April 2011 in line with guidance from the Department for Communities and Local Government.</p> <p>The Council will need to separate Pension Fund cash from the main accounts cash at the point of transfer to the new bank account. In addition, appropriate controls will need to be implemented to ensure all receipts and payments go through the Pension Fund bank account.</p>	<p>The Council has opened a separate Pension Fund bank account within the year as required. However, as at 31 March 2011 most transactions relating to the Pension Fund continue to go through the Council's main account.</p> <p>My substantive testing concluded that the Council had separated Pension Fund Cash from the main Council balances at the year end. I am satisfied that Cash is fairly stated.</p>

**Key audit risk**

A significant proportion of Contributions Receivable are from Admitted and Scheduled bodies. There is a potential risk that contributions receivable and benefits payable in respect of these bodies may be materially misstated.

**Finding**

Substantive testing of Contributions Receivable from Admitted and Scheduled bodies confirmed they were fairly stated.

# Financial statements

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## Significant weaknesses in internal control

There are no significant weaknesses in internal control that I need to bring to your attention.

## Weaknesses in internal control

These weaknesses are only those I identified during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

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### Internal control issues and our findings

Description of weakness	Potential effect	Management action
<p><b>Trial balance</b></p> <p>The Council did not produce a full trial balance as part of their preparation of the Pension Fund financial statements. This is due to Investments being recorded at book value within the ledger. Investment balances in the ledger are not updated to market value at the year end which prevents a complete trial balance from being undertaken. I have substantively tested the working papers provided by the Council to support Investment balances and I have agreed these to confirmations from the Fund Mangers and Custodian. I am satisfied that the Investment balances are fairly stated.</p>	<p>The production of a trial balance is a key process that would assist the Council in identifying any potential misstatements to their Pension Fund financial statements.</p>	<p>Management has agreed to produce a full trial balance as part of the 2011-12 closing process.</p>

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### Recommendations

**R2** Prepare a trial balance for the Pension Fund financial statements as part of the closedown process and provide this to auditors as part of the working papers.

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# Financial statements

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## Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. There are no matters I wish to bring to your attention.

## Letter of representation

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.

# Appendix 1 – Independent auditor’s report to Members of the Royal Borough of Kingston Upon Thames

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This opinion is an extract from the opinion that we will be giving on the main statements. There will not be a separate opinion for the Pension Fund financial statements.

## **Opinion on the pension fund accounting statements**

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 the Royal Borough of Kingston upon Thames 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 Director of Finance**

As explained more fully in the Statement of the Director of Finances Responsibilities, the Director of Finance 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 Practice’s 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 explanatory foreword 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 explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Lindsey Mallors  
District Auditor  
First Floor  
Millbank Tower  
Millbank  
London  
SW1P 4HQ

30 September 2011

# Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

		Fund Account		Net Assets Statement	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Receivables	Employee and Employer Contributions of £843,000 owed to the Pension Fund at the 31 March 2011 had not been accrued for. The outstanding contributions were debited to Cash in the Net Assets Statement rather than Receivables as required.			843	
Cash					843
Benefits payable	There was no accrual included in the Pension Fund for Pension Payments and Lump Sum Payments of £485k owed at 31 March 2011.	485			
Payables					485

# Appendix 3 – Letter of Representation

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Lindsey Mallors  
Audit Commission  
First Floor Millbank Tower  
Millbank  
London  
SW1P 4HQ

## **Royal Borough of Kingston upon Thames 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 Royal Borough of Kingston upon Thames, the following representations given to you in connection with your audit of the Pension Fund's financial statements for the year ended 31 March. All representations cover the Pension Fund accounts included within the 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.

### ***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 the Royal Borough of Kingston upon Thames 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 Royal Borough of Kingston upon Thames Council Pension Fund

I confirm that the this letter has been discussed and agreed by the Policy and Resources Committee on 29 September 2011

Leigh Whitehouse  
Director of Finance

Councillor Derek Osborne Leader of the Council

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# Appendix 4 – Glossary

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## 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 Auditing Practices Board (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 5 – Action Plan

## Recommendations

### Recommendation 1

Ensure that Receivables and Payables due to and from the Pension Fund at the year end are accounted for in line with the Pension Fund accounting policies.

<b>Responsibility</b>	Capability Lead – Financial Accounting
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<b>Priority</b>	High
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<b>Date</b>	March 2012
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<b>Comments</b>	A more robust process for ensuring all accruals are processed in line with the Pension Fund accounting process will be developed and delivered
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### Recommendation 2

Prepare a trial balance for the Pension Fund financial statements as part of the closedown process and provide this to auditors as part of the working papers.

<b>Responsibility</b>	Capability Lead – Financial Accounting
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<b>Priority</b>	High
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<b>Date</b>	March 2012
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<b>Comments</b>	The chart of accounts supporting the Pension Fund is being enhanced to ensure a clearer audit trail for officers and auditors this will allow a comprehensive and singular trial balance to be produced to speed up the production of the accounts and enhance audit working papers
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