

Annual governance report

Oxfordshire 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 4 September I expect to issue an unqualified audit opinion subject to satisfactory completion of the audit.

In general the quality of the accounts was satisfactory. I found one significant error in the net asset statement but no material errors in either the Fund Account or the Net Asset Statements. There were a few minor errors in the notes to the accounts plus a material error in the disclosure of the assets within the financial instruments note. None of the errors found had an impact on the financial position of the fund. I noted a strengthening in the detail and meaning of the disclosures on risk that I recommended in my 2010/11 Annual Governance Report.

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 (appendices 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 means 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

Subject to satisfactory clearance of outstanding matters, I plan to issue audit reports including unqualified opinions 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 errors

You corrected all errors I identified during the course of the audit.

Corrected errors

You made no material errors in the Fund Account or the Net Asset Statement. There were a few minor errors in the notes to the accounts plus:

- You included reconciling items between the bank balance and the ledger cash balance under current liabilities rather than netting them off from the cash book figure. You made a £544,000 adjustment between current assets and current liabilities on the Net Asset Statement to correct this error; and
- You incorrectly disclosed the 'carrying value' of financial assets within the financial instrument note at cost rather than at current valuation. You increased the figures by £179,497,000. In addition you included contributions and tax debtors in financial instruments in error. You reduced the 'receivables' figure within the financial instruments note by £26,394,000 for this error.

None of these errors had an impact on the position of the fund. I have set out significant amendments in Appendix 2.

Significant risks and my findings

I reported to you in my January 2012 Audit Plan that I had identified no significant relevant to my audit of your financial statements. I have updated my assessment across the course of the audit and have not identified any relevant significant risks.

Significant weaknesses in 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 weaknesses in internal control are only those I have identified during the audit that are relevant to preparing the financial statements.

Table 1: **Internal control issues and my findings**

Description of weakness	Potential impact	Management action
You did not fully evidence controls over data sent to the actuary for the fund valuation.	You are unable to provide full assurance that the data sent to the actuary was accurate.	Evidence all controls over data sent to the actuary.

Recommendation 1

Evidence all controls over data sent to the actuary.

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 including the following:

- Qualitative aspects of your accounting practices;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions; and
- Other audit matters of governance interest.

I have set my other significant findings out in the table below.

Table 2: **Other matters**

Issue	Finding
Change in accounting policy for cash.	You changed your accounting policy for cash in 2011/12. You now treat amounts held in call accounts and at the custodian as current asset cash balances within the Net Asset Statement rather than as investments. You have disclosed prior period adjustments of £45,291,000 for 2009/10 and £21,881,000 for 2010/11. The impact on 2011/12 is £28,458,000. I asked you to disclose clearly your new interpretation of the accounting guidance in your accounting policies and to clarify why this policy is more appropriate and better shows the position of the fund.
Related party transactions – note 15	You rely on the Oxfordshire County Council system of identifying related party transactions. This approach adequately covers members but does not cover the key manager of Oxfordshire Pension Fund. I asked the key manager to complete a separate disclosure and also asked you to include remuneration information within the note as required by IAS24.

Pension Fund Annual Report

The Pension Fund prepared its Annual Report in July 2012. My work on the Annual Report is now substantially complete. The accounts within the Annual Report will be adjusted for the same errors set out within this report.

Fees

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

I will complete the audit within the planned fee.

Table 3: **Fees**

	Original scale fee (£)	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	39,414	39,414	39,414
Non-audit work	0	0	0
Total	39,414	39,414	39,414

Appendix 1 – Draft independent auditor’s reports

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF OXFORDSHIRE COUNTY COUNCIL

Opinion on the Authority and fire-fighters’ pension fund accounting statements

I have audited the financial statements and the fire-fighters’ pension fund financial statements of Oxfordshire County Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. The fire-fighters’ 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 Oxfordshire 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 Assistant Chief Executive and Chief Finance Officer and auditor

As explained more fully in the Statement of the Assistant Chief Executive and Chief Finance Officer’s Responsibilities, the Assistant Chief Executive and Chief Finance Officer is responsible for the preparation of the Authority’s Statement of Accounts, which include the Authority financial statements and the fire-fighters’ pension fund 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 Authority and Pension Fund’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Assistant Chief Executive and Chief Finance Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword 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 financial statements:

- give a true and fair view of the financial position of Oxfordshire County Council as at 31 March 2012 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial transactions of the fire-fighters' 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.

Opinion on other matters

In my opinion, the information given in the explanatory foreword 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 annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

Opinion on the pension fund financial statements

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 Oxfordshire Pension Fund 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 Assistant Chief Executive and Chief Finance Officer and auditor

As explained more fully in the Statement of the Assistant Chief Executive and Chief Finance Officer's Responsibilities, the Assistant Chief Executive and Chief Finance Officer 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 Assistant Chief Executive and Chief Finance Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword 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; and
- 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 explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Oxfordshire County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

I certify that I have completed the audit of the accounts of Oxfordshire County Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Maria Grindley
District Auditor

Unit 5 Isis Business Park
Horspath Road
Cowley
Oxford
OX4 2RD

September 2012

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OXFORDSHIRE PENSION FUND

Opinion on the pension fund financial statements

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 Oxfordshire Pension Fund 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 Assistant Chief Executive and Chief Finance Officer and auditor

As explained more fully in the Statement of the Assistant Chief Executive and Chief Finance Officer's Responsibilities, the Assistant Chief Executive and Chief Finance Officer is responsible for the preparation of the pension fund's financial statements 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 Assistant Chief Executive and Chief Finance Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in 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; and
- 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.

Maria Grindley
District Auditor
Unit 5 Isis Business Park
Oxford
Oxfordshire
OX4 2RD

September 2012

Appendix 2 – Corrected errors

I identified the following significant errors during the audit which management have addressed in the revised financial statements.

		Fund Account		Net Assets Statement	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Current assets	Items reconciling the cash book balance on the ledger to the bank statement were incorrectly added to current liabilities rather than netted of the cash figure within current assets				544
Current liabilities	As above			544	

		Financial instruments disclosure note 28a	
Item of account	Nature of error	£'000s	
2011/12 Loans and Receivables	Contributions and taxation debtors included in error – these are not financial instruments as they are statutory debts.	- 26,394	
2010/11 Loans and Receivables	As above	- 11,708	

		Financial instruments disclosure note 28b
Item of account	Nature of error	£'000s
31 March 2012 Carrying Value of Financial Assets at fair value	Carrying value incorrectly recorded at cost	+ 179,497
31 March 2011 Carrying Value of Financial Assets at fair value	As above	+ 218,502

Appendix 3 – Draft letter of management representation

Audit of Oxfordshire County Council for the 2011/12 year ended 31 March 2012

I understand that auditing standards require you to obtain representations from management on certain matters material to your opinion. 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 County Council's financial statements for the 2011/12 year ended 31 March 2012. All representations cover the County Council's accounts, the Local Government Pension Fund accounts and the Fire-fighters 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 Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 which give a true and fair view of the financial position and financial performance of the County Council, for the completeness of the information provided to you and for making accurate representations to you.

Uncorrected misstatements

There are no errors that have not been corrected.

Supporting records

All relevant information and access to persons in the County Council have been made available to you for the purpose of your audit and all the transactions undertaken by the County Council have been properly reflected and recorded in the financial statements.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems 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 County Council'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.

Laws, 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 County Council 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 County Council 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 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 Oxfordshire County Council.

I confirm that this letter has been discussed and agreed by the Audit & Governance Committee on 19 September 2012.

Signed:

Name	Sue Scane
Position	Assistant Chief Executive and Chief Finance Officer
Date	September 2012

Appendix 4 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Pension Fund after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

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 Panel] and the Audit Committee.

Appendix 5 – Action plan

Recommendations

Recommendation 1

Evidence all controls over data sent to the actuary.

Responsibility

Priority

High

Date

Comments

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0844 798 7070

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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.

