

# Annual governance report

Oxfordshire Pension Fund

Audit 2010/11

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**The Audit Commission is a public corporation set up in 1983 to protect the public purse.**

**The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.**

**We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.**

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Ladies and Gentlemen

**2010/11 Annual Governance Report**

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

I discussed and agreed a draft of my report with the Assistant Chief Executive and Chief Finance Officer on 12 September 2011.

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 5 to 7);
- note 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 5).

Yours faithfully

Maria Grindley  
District Auditor

September 2011

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# Key messages

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

Table 1: **Key messages - financial statements**

<b>Financial statements</b>	<b>Results</b>	<b>Page</b>
Unqualified audit opinion	Yes	5
Important weaknesses in internal control	No	6

## **Audit opinion**

**1** Subject to satisfactory clearance of outstanding matters, I plan to issue an unqualified opinion on the financial statements. I have set out my draft report in Appendix 1.

## **Financial statements**

**1** I found no material errors in the financial statements.

## **Independence**

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

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

## Next steps

**This report identifies the key messages that you should consider before I issue my financial statements opinion. 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.**

4 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 5 to 7);
- 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

**The Pension Fund financial statements and annual governance statement are important means by which the Fund accounts for its stewardship of public funds. The Council has final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.**

## Opinion on the financial statements

**5** Subject to satisfactory clearance of outstanding matters, I plan to issue an unqualified opinion on the financial statements. I have set out my draft report in Appendix 1.

## Key areas of judgement and audit risk

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

Table 2: **Key areas of judgement and audit risk**

Issue or risk	Finding
International Financial Reporting Standards (IFRS) – inherent risk due to the scale and complexity of changes	I have reviewed your arrangements for preparing for the introduction of IFRS and the resulting amendments to the accounts. A number of disclosures required under the new regulations and code were added to the accounts as a result. These are outlined below.

## Errors in the financial statements

**7** You included the £892,000 cash held within the County Council's main bank account as a debtor to the Pension Fund. As at 31 March 2011 you were using this bank account as your main cash account and therefore it should be recorded under cash balance. The accounts have been amended for this error.

8 The Pension Fund has been the subject of a claim against them through the Local Government Ombudsman. A final determination has now been received that requires the Pension Fund to pay around £235,000 over the next 15 years. This has now been disclosed in the statements. I have shown the above amendments in appendix 2.

9 The Chartered Institute of Public Finance and Accountancy (CIPFA)'s Code of Practice for 2010/11 requires additional disclosures this year. The accounts have been amended to include the new disclosures required including:

- An additional analysis of debtors and creditors by type of organisation;
- A note on risk;
- A note on financial instruments.

### Important weaknesses in internal control

10 I have not identified any important weaknesses in internal control that are relevant to preparing the financial statements. However, I am not expressing an opinion on the overall effectiveness of internal control.

11 I have however noted two issues regarding evidencing of controls that I set out below for your information:

Table 3: **Weaknesses in internal control**

Issue	Finding
Evidencing of controls	<p>I found that a reconciliation is carried out between the opening value of investments and the closing values, custodian records and SAP. This reconciliation is not evidenced as reviewed.</p> <p>Officers confirm that they review SAS70 auditor reports on the fund managers to identify any areas of concern. This review is not documented to clearly set out assurance sought and any concerns arising. This issue was raised in 2009/10.</p>

### Recommendation

**R1** Clearly evidence controls carried out, in particular reconciliation reviews and review of SAS70 reports.

### Quality of your financial statements

12 I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statement disclosures.



13 Overall the quality of the accounts and working papers was good. In addition responses to queries were generally prompt and precise.

14 Table 4 contains an issue I want to raise with you.

Table 4: **Accounting practices, policies and estimates and financial statement disclosures**

Issue	Finding
Disclosure of the impact of changes in actuarial assumptions on the net present value of future benefit obligations	The actuaries are unable to separate out the impact of changes in actuarial assumptions from other changes such as use of more accurate and up to date information. We have required a disclosure to this affect.

### **Other significant matters relevant to the financial reporting process**

15 I have worked closely with Internal Audit across the year to agree a detailed programme for areas where I have relied on their work:

- IT risk assessment work;
- Transfers in;
- Transfers out; and
- Lump sum payments.

16 I am grateful to Internal Audit for the commitment they have shown to both the spirit and the detail required for effective co-ordination.

17 Regulation 42(2) of the Local Government Pension Scheme (Administration) Regulations 2008 requires employer authorities to pay employee contributions to the administering authority within 19 days of the end of the month to which they relate. Of 74 employers, 21 have made a late payment in the year. Overall there were 837 payments in the year, of which 49 were late. This is an improvement on last year. I am aware that close monitoring of late payments is taking place and the Council is actively encouraging admitted bodies to pay within the required timescale.

### **Letter of representation**

18 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. I have included your draft letter of representation at Appendix 3.

# Appendix 1 Draft independent auditor's report to Members of Oxfordshire County Council and Oxfordshire Pension Fund

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

I have audited the accounting statements and the fire-fighters' pension fund accounting statements of Oxfordshire County Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting 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 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 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, including the fire-fighters' pension fund accounting statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority and Pension 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 financial 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 accounting statements:

- give a true and fair view of the state of Oxfordshire County Council's affairs as at 31 March 2011 and of its income and expenditure 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 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.

### **Matters on which I report by exception**

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion, the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

### **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 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 Responsibilities, the Assistant Chief Executive and Chief Finance Officer is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in

the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. I read all the information in the 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; 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.

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

#### ***Authority's responsibilities***

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.

#### ***Auditor's responsibilities***

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.

### **Basis of conclusion**

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 2010, 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 2011.

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 2010, 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 ending 31 March 2011.

### **Certificate**

I certify that I have completed the audit of the accounts, including the fire-fighters' pension fund accounting statements, 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 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 help you in fulfilling your governance responsibilities.

Table 5:

Adjusted mis-statement	Comprehensive income and expenditure statement		Balance sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
Cash held in bank account			Cash 892	Debtors 892

Source:

I have also identified the need to disclose a claim against Oxfordshire Pension Fund that has been upheld by the Local Government Ombudsman. The claims is likely to cost the Pension Fund an estimated £235,000 over 15 years.

In addition I have identified the need for additional disclosures in line with the 2010/11 Code of Practice.

There have been a few other minor amendments to the accounts.

# Appendix 3 Draft letter of representation for Oxfordshire County Council and Oxfordshire Pension Fund

## **Audit of Oxfordshire County Council for the 2010/11 year ended 31 March 2011**

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 2010/11 year ended 31 March 2011. 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 Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 based on International Financial Reporting Standards 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**

An error of £0.019m identified during the audit testing of creditors (extrapolated to give an estimated under accrual of expenditure of £0.595m) has not been corrected because neither the amount of the error or the extrapolated estimate of under accrual are material to the financial statements.

An error of £0.510m in the disclosure of future years' commitments identified during audit testing of leases has been corrected in the operating lease note. The further extrapolated error of £1.448m has not been corrected in the note because the error identified is not considered to be representative of the remaining lease data and the extrapolated amount is not material to the financial statements.

### **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 financial reporting framework.

## **Subsequent events**

Since I certified the financial statements in June there have been two post balance sheet events which have been adjusted for/disclosed in the



financial statements. There are no other significant post balance sheet events which would require additional adjustment or disclosure in the financial statements.

Signed on behalf of Oxfordshire County Council.

I confirm that this letter has been discussed and agreed by the Audit Committee on 21 September 2011.

Signed:

Name	Sue Scane
Position	Assistant Chief Executive and Chief Finance Officer
Date	21 September 2011

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## Appendix 4 Glossary

### **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 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.

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# Appendix 5 Action Plan

## Recommendations

### Recommendation 1

Clearly evidence controls carried out, in particular reconciliation reviews and review of SAS70 reports.

**Responsibility**

**Priority**

**Date**

**Comments**

