

Pension Fund -
communication to those
charged with governance

**Oxfordshire County
Council**

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Reference:	OCC Pension Fund SAS610– FINAL
Date:	November 2004

Introduction

Statement of Auditing Standards (SAS), SAS 610 *Reporting to those charged with governance*, requires auditors to report to 'those charged with governance' before they give an opinion on the financial statements:

- expected modifications to the auditors' report;
- unadjusted misstatements;
- material weaknesses in the accounting and internal control systems identified during the audit;
- their views about the qualitative aspects of the entity's accounting practices and financial reporting;
- matters specifically required by other Auditing Standards to be communicated to those charged with governance; and
- any other relevant matters relating to the audit.

We agreed with the Council that the communications required by SAS 610 in advance of issuing our report on the annual financial statements of the Council would be with the Pension Fund Committee.

The Council, as administering authority for the Pension Fund, is responsible for the preparation of financial statements that present fairly the financial transactions of its pension scheme for the year ended 31 March 2004 and the disposition of its assets and liabilities at that date other than liabilities to pay pensions and benefits after the end of the scheme year.

We are responsible for undertaking an audit and reporting whether in our opinion the financial statements do present fairly the financial transactions, assets and liabilities of the Pension Fund other than liabilities to pay pensions and benefits after the end of the scheme year.

Status of the audit

The Council submitted draft financial statements to us on 22 June 2004 and we have now completed our audit of those statements. Subject to receipt of satisfactory responses to the issues identified and a letter of representation from the Council, we anticipate being able to issue an unqualified opinion by 31 October 2004 (a draft report is attached at Appendix 1).

Matters to be reported to those charged with governance

Full details of all the issues arising from our opinion audit, including those of a trifling nature, are contained in Appendix 4. In addition we have the following matters to draw to the Pension Fund Committee's attention:

Unadjusted misstatements

We are required to report to you all misstatements other than those of a clearly trifling nature. A trifling error is an entirely inconsequential error, whether taken individually or in aggregate and whether judged by any quantitative and/or qualitative criteria.

We have not identified any non-trifling errors in the course of our audit.

Material weaknesses in accounting and internal control systems

Our audit identified the following weaknesses in systems of accounting and financial control:

- Under procedures agreed with the custodian (ABN AMRO) the four fund managers are responsible for undertaking a monthly reconciliation with the custodian records within an agreed tolerance of 0.2%. As part of this process three out of the four fund managers provide details of the difference, but this information was not readily available from UBS. The impact of this tolerance is that the value of funds stated could potentially be over/under stated by up to £1.2 million (based on funds under management of £601 million). It is recommended that:
 - the agreed tolerance level is kept under close review particularly as the value of funds increases
 - UBS are reminded of the need to supply data consistent with the other three managers.
- We previously reported problems in reporting accurate membership numbers. In particular, membership numbers are taken at 31st March. However, they include employees that may have decided not to join the pension fund and there are delays in the submission of annual returns. As a consequence, accurate membership details are not included in the statement of accounts.

Qualitative aspects of accounting practices and financial reporting

The matters which have come to our attention that we would wish to raise with you are listed in Appendix 3.

Matters required by other auditing standards to be reported to those charged with governance

Other auditing standards require us to communicate with you in other specific circumstances including:

- where we suspect or detect fraud, even if the potential effect is not material to our audit of the financial statements
- in respect of the conclusion that the Pension Fund is a going concern
- where there is an inconsistency between the Pension Fund financial statements and other information in documents containing the financial statements.

We would wish to draw the following to the Committee's attention:

Funding of Pension Fund

The Report *The Funding Strategy Statement* considered by the Pension Fund Committee on 27 August 2004 identified a potential shortfall in the future funding of the of the Pension Fund. Whilst we acknowledge that that the figures are provisional a substantial future shortfall has been identified:

Funding Level	2001	91%
Forecast Funding Level	2004	63%

We note that the Office of the Deputy Prime Minister have provided guidance on the need to ensure pension funds are placed on an affordable and sustainable basis including:

- increasing the level of employers contributions over a number of years
- adopting appropriate assumptions about future inflation, price increases and other actuarially sensitive variables
- extending the recovery period from the current 12 years up to a maximum of 30 years
- prioritising the need for expensive, early retirements.

The final figures are expected from the actuary in November 2004 and we will continue to monitor the position and report the up-dated position in the Annual Audit and Inspection Letter later in the year.

Other matters

There are no other matters that we wish to draw to your attention.

Next steps

We are drawing these matters to the Pension Fund's attention so that you can consider them before the financial statements are approved and certified. In particular, this provides the Committee with the opportunity to amend the financial statements for the unadjusted misstatements identified above. Should you chose not to do so, we are required by SAS 610 to request from you a letter of representation explaining why you are not going to adjust the financial statements. We ask that the letter specifically details the misstatements and/or qualitative aspects of reporting to which it relates, either in the body of the letter or in a document appended to it.

Status of this report to the Council

This report is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. It is prepared by appointed auditors and addressed to Members of the Council. It is prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Director or officer in their individual capacity, or to any third party.

Independent Auditor's Report to the administering body of Oxfordshire Pension Fund

I have audited the Pension Fund accounts on pages 16 to 26 which have been prepared in accordance with the accounting policies applicable to local authority pension funds as set out on pages 18 to 19.

This report is made solely to the administering body 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 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

Respective Responsibilities of the Chief Financial Officer and Auditor

The Chief Financial Officer is responsible for the preparation of the financial statements in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2003. My responsibilities, as independent auditor, are established by statute, the Code of Audit Practice issued by the Audit Commission and my profession's ethical guidance.

I report to you my opinion as to whether the financial statements present fairly the financial transactions of its Pension Fund during the year and the amount and disposition of the Fund's assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

I read the other information published with the statement of accounts and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant Auditing Standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by or on behalf of the fund in the preparation of the financial statements, and of whether the accounting policies are appropriate to the fund'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 financial statements 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 the information in the financial statements.

Opinion

In my opinion the financial statements present fairly the financial transactions of Oxfordshire County Pension Fund during the year ended 31 March 2004, and the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

A P Burns
1 November 2004
District Auditor, Unit 5 , Isis Business Centre, Horspath Road, Cowley, Oxford, OX4 2RD

Additional disclosures required

It is the responsibility of the council to provide appropriate disclosures however, as a minimum we would suggest:

Statement	Description
PBSE - transfer out	<p>A creditor for £8.41 million (FRS17 valuation at 31 March 2003 £6.88 million) has been included in respect of the transfer of the Probation service out of the pension fund. This was also included in last year's accounts, but as an amount of £5million. At present the actuaries have not yet agreed a date for the transfer.</p> <p>Disclosure of the present state of this transfer needs to be included in the Statement of Accounts.</p> <p>Wording to be inserted as a PBSE note to the Pension Fund Accounts:</p> <p><i>A creditor for £8.41m has been included for the transfer of the Probation service out of the Pension Fund. As at the date of the issuing of the external auditor's opinion £7.2m of this transfer has been made. The date for settling the balance has still to be agreed.</i></p>
PBSE	<p>There are potentially conflicting messages in the issues surrounding the value of the Fund. The significant increase in the value of the Fund, and the continued rise since the 2003/04 financial year end in stock markets suggests an improvement in the value of the Fund. However, although the results of the triennial valuation will not be known until after the issuing of the external auditor's opinion, it is acknowledged that there will be a significant shortfall in funding.</p> <p>Given these apparently conflicting findings, clarification and further disclosure is needed.</p> <p>Wording to be inserted as a PBSE note to the Pension Fund Accounts AND the notes to the accounts for the County Council:</p> <p><i>The Council's next full actuarial valuation is based on the position of the fund at 31 March 2004 and the results of this valuation will be available in November 2004. Although the findings are not yet known, in common with other pensions funds there will be a shortfall in the percentage funding of the Fund.</i></p> <p><i>The Council is required to produce a Funding Strategy Statement by 31 March 2005 that will determine the level of contribution rates based on the funding levels, stepping and recovery period required.</i></p>

Opinion Audit – matters arising

Introduction and approach

In giving our opinion on the Pension Fund's financial accounts, we undertake a review of the core financial processes. These are the Main Accounting System, Budgetary Control and Closedown Procedures. This involves ascertaining the Pension Fund's system for recording, processing and monitoring transactions and assessing its adequacy as a basis for the preparation of the statements of accounts.

We undertook this work at the same time as our opinion audit and concluded that overall we are able to rely on the core financial processes for opinion purposes. Given this base we are able to concentrate our final accounts audit on:

- Agreement to the Pensions SORP and Accounts and Audit Regulations 2003
- Analytical Review
- Agreement to the general ledger
- Specific risk areas.

Issues arising

The issues arising from our final accounts work, including those of a trifling nature, are set out below.

Acknowledgements

We would like to thank the Council's staff, and in particular Tony Wheeler, for their co-operation and help during our visit.

Audit of annual financial statements – matters arising

Ref.	Finding	Recommendation	Priority (H/M/L)	Response	Responsible	Target date
	OPINION AUDIT: statement of accounts					
R1 EX.1	Note 7: Equity investments There is an addition error in respect of note 7 to the accounts. The analysis adds to £290,877k not £290,878 as disclosed.	Additions of the accounts should be made to ensure accurate disclosure.	H	Analysis has been amended in the accounts.	-	-
R2 EX.2	Transfers out Accrual in respect of transfers out has been overstated by £9989.81. An accrual was made where the transfer request was not received until 4th May 2004.	Closedown procedures should ensure that only transfer requests received prior to 31st March are included in creditors.	H	Accounts amended	-	-
R3 EX.3	Accounting policies: fixed interest securities Fixed interest securities have been disclosed in the net assets statement on a "clean" basis whereas the 2002/03 disclosure was "dirty". This has no effect on the overall net asset statement only the allocation. Interest accrued at the valuation date is shown as interest accrued within debtors, whereas for 2002/03 it was included in the market valuation of the investment.	Accounting policies should be reviewed on an annual basis.	H	A note describing this change of basis has been included in the fund accounts and annual report.	-	-

Ref.	Finding	Recommendation	Priority (H/M/L)	Response	Responsible	Target date
	OPINION AUDIT: statement of accounts					
R4 EX.4	Management expenses The fees in respect of the Global Custodian have been wrongly disclosed as Administrative Expenses rather than Investment Management Expenses. This amounts to £116143. It was also found that £16000 had been wrongly analysed and should have been disclosed as Investment Management Expenses rather than Administrative Expenses.	Analysis should be checked to ensure correct disclosure.	H	The accounts have been adjusted transferring £100k from Administrative Expenses to Investment Management Expenses.	-	-
R5 EX.5	Membership numbers Membership numbers do not include the councillors from OCC, Cherwell DC and Vale of White Horse DC who were allowed to join the scheme during 2003/04. Membership numbers are taken at 31st March. They include employees that may have decided not to join the pension fund. Delays are experienced in authorities returning annual returns, thus accurate membership details are not included in the statement of accounts. (This recommendation is repeated from the 2002/03 SAS610 report).	Include all members, and care should be taken when compiling the numbers to include all new admitted and scheduled bodies etc. to ensure accurate disclosure of membership numbers. Ensure compliance with a timetable to provide accurate membership numbers for inclusion in the annual financial statements.	H	Accepted Membership figures supplied at 31 March unavoidably include employees who subsequently decide to opt out of the scheme.		

Ref.	Finding	Recommendation	Priority (H/M/L)	Response	Responsible	Target date
	OPINION AUDIT: statement of accounts					
R6 EX.6	<p>SORP compliance</p> <p>There are two areas of non compliance with the Statement of Recommended Practice (SoRP).</p> <p>1). Disclosure should be made of sales and purchases of investments and of the changes in value during the year providing a reconciliation between the opening and closing value of investments, analysed by major asset classes. (para 2.11, note 11 Appendix 1).</p> <p>2). The notes to the pension fund should include an explanation of the AVC arrangement and how AVCs are invested. Typically this includes information on the providers, that the funds are held separately from the pension fund, that the participating member receives an annual statement confirming amounts held in their account etc, and it is also regarded as good practice to also comment on the AVC provider's performance over the year.</p>	Review of the Pension Fund SoRP should be included in the closedown plan. A named individual should be responsible in ensuring compliance with the SoRP and other accounting changes.	H	In future a named individual will be given responsibility to ensure compliance with the SORP	T Wheeler	31 March 2005
R7 EX.7	<p>Annual report.</p> <p>There were a number of typographical errors included in the annual report, including incorrect numbering of notes, discount rates not included in the actuarial report and the decrease in the fund account should be an increase.</p> <p>(A similar recommendation was made last year).</p>	The annual report should be proof read to ensure there are no omissions and that it is consistent with the fund accounts.	H	These errors have all been corrected.	-	-

Ref.	Finding	Recommendation	Priority (H/M/L)	Response	Responsible	Target date
	OPINION AUDIT: process issues					
R8 EX.8	<p>Investment reconciliation</p> <p>The custodian (ABN AMRO) completes a monthly reconciliation process with the four fund managers, ensuring that the valuations fall within 20 basis points of the custodians records. (0.2%). As part of this process three out of the four fund managers provide details of the basis point difference that the fund managers have agreed, but this information was not readily available from UBS.</p> <p>In setting the tolerance at 20 basis points, and reliance being placed on the custodians records, the pension fund is creating a materiality level of £1.202m (based on funds under management of £601m). This is the potential difference between the custodian and fund managers records which the authority regards as acceptable.</p>	<p>Information regarding the monthly reconciliation process should be available from all fund managers and in this respect a request should be made to UBS to supply data consistent with the other three managers.</p> <p>Review tolerance level in respect of the valuation of investments. As the fund value increases, the risk of a material mis-statement increases.</p>	H	<p>Accepted, council has now written to UBS Global Asset Management asking them to supply details of the reconciliation statement to compare against the custodians records.</p> <p>Tolerance levels will be reviewed during 2004/05.</p>	T Wheeler	31 March 2005
R9 EX.9, 10	<p>Post Balance Sheet Events (PBSEs)</p> <p>There are two issues that need to be disclosed as a PBSE in the Pension Fund accounts and in the notes to the statement of accounts:</p> <ul style="list-style-type: none"> - the impact of the triennial actuarial revaluation (if known; or at least a likely indication of the impact of this) and how the Council intends to respond to this (e.g. extending the liability recovery period); - disclosure of the outstanding transfer of TVPB and the date that this will occur. 	Include PBSEs within the final version of the accounts	H	Accounts amended	-	-