

# Annual Governance Report

Bedfordshire County Council Pension Fund

Audit 2008/09

Date 18 September 2009

DRAFT

---

# Contents

<b>Key messages</b>	<b>4</b>
<b>Next steps</b>	<b>5</b>
<b>Financial statements</b>	<b>6</b>
<b>Appendix 1 – Unadjusted misstatements in the accounts</b>	<b>10</b>
<b>Appendix 2 – Draft letter of representation</b>	<b>11</b>
<b>Appendix 3 – Action Plan</b>	<b>14</b>

---

## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission, explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non executive directors, members or officers and 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.
-

## Key messages

# Key messages

This report summarises the findings from the 2008/09 audit which is substantially complete. It includes the messages arising from my audit of your financial statements.

Financial Statements	Results	Page
Unqualified audit opinion	Yes	6
Financial statements presented for audit free from error	No	6
Adequate internal control environment	Yes	6

## Audit opinion

- 1 Our opinion on the pension fund accounts forms part of the opinion on Bedfordshire County Council's 2008/09 accounts as a whole.

## Financial statements

- 2 At this stage of our audit we anticipate being in a position to issue an unqualified audit report on the pensions fund element of the Council's accounts. I have yet to complete my final review of the audit. Should any further matters arise that require reporting to those charged with governance, I will raise them with the Chair of this committee prior to issuing the opinion on the County Council accounts.

## Audit Fees

- 3 Bedfordshire County Council Audit Committee agreed an audit fee of £32,200 for the audit of the pension fund accounts for 2008/09. We do not expect to have to charge additional fee for this audit.

# Next steps

**This report identifies the key messages that you should consider before I issue my opinion on the pension fund's accounts, which forms part of my report on the Council's financial statements. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.**

---

**4** I ask the Pension Panel /Audit Committee to:

- consider the matters raised in the report before publishing the financial statements;
- approve the letter of representation on behalf of the Council before I issue my opinion (Appendix 2); and
- agree your response to the proposed action plan (Appendix 3).

DRAFT

# Financial statements

The Pension Fund's accounts are important means by which the Fund accounts for its stewardship of pension funds. The Council has a final responsibility for these statements. It is important that you consider my findings before you publish the financial statements.

## Opinion on the financial statements

- 5 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report on the Council's financial statements that includes an unqualified opinion on the Pension Fund's accounts. The opinion will form part of our opinion on Bedfordshire County Council's 2008/09 accounts as a whole.

## Errors in the financial statements

- 6 Our testing of investment management expenses, which totaled £3,943,767 in 2008/09, has identified the following differences between the expenses accrued for in the accounts and the actual figures for expenses, which were not available until after the year end.

Manager	Accrual included in the accounts	Actual value	Difference
BGI active	£636,400	£584,610.68	£51,789.32
Lazards	£110,000	£127,110.60	£17,110.60

- 7 If this error is extrapolated for the total amount of investment management expenses included in the Fund Account the error would be £0.082m. This is not material.

## Material weaknesses in internal control

- 8 In last years Annual Governance Report we recommended that measures should be put in place to ensure that the pensionable pay figures included in the monthly returns from admitted bodies and scheduled bodies are complete and accurate. During 2008/09 Internal Audit carried out specific work on this area and we have been able to rely on their work to gain assurance as to the reasonableness of the figures for employee contributions included in the Fund Account.
- 9 Although some admitted bodies do provide payroll data, not all do. This is a requirement of membership. We have therefore recommended that, all scheme employers should be reminded of the requirement to provide relevant payroll information to enable checks to be made on the contributions deducted.

## Financial statements

### Recommendation

- R1** All scheme employers should be reminded of the requirement to provide relevant payroll information to enable checks to be made on the contributions deducted.

### Letter of representation

- 10** Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 2 contains the draft letter of representation I seek to obtain from you.

### Key areas of judgement and audit risk

- 11** In planning the audit specific risks were identified and areas of judgement were considered as part of the audit. The findings are set out in Table 1.

**Table 1** Key areas of judgement and audit risk

Issue or risk	Finding
As a result of Local Government Reorganisation (LGR) the administration of the pension fund transferred to Bedford Borough Council. Possible risk of loss of key staff and increased risk in respect of the accounts.	The transfer of responsibility for the administration of the pension fund has not had an impact on the timeliness or accuracy of the pension fund accounts submitted for audit.
Completeness and accuracy of contributions receivable from the admitted and scheduled bodies. As noted above, in last years Annual Governance Report we recommended that measures should be put in place to ensure that the pensionable pay figures included in the monthly returns from admitted bodies and scheduled bodies are complete and accurate.	During 2008/09 Internal Audit carried out specific work on this area and we have been able to rely on their work to gain assurance as to the reasonableness of the figures for employee contributions included in the Fund Account.
FRAG 21/ SAS 70 reports were not all returned in 2007/08.	At the time of writing this report the only fund manager for which a report had not been received was FX Concepts who produce the report every 2 years. The next

Issue or risk	Finding
	report due from this fund manager is for the period ending 31 December 2009.
<p>The Local Government Pension Scheme (Administration) Regulations 2008 (SI 2008/ 239) require the pension fund annual report to contain the Fund Account and Net Asset Statement with supporting notes and disclosures, prepared in accordance with proper practices.</p> <p>As the statutory deadline for publication of the statement of accounts is 30 September and that for publication of the pension fund annual report is 1 December there is the potential that the statements are published at different times.</p>	<p>The Audit Commission has determined that auditors should:</p> <ul style="list-style-type: none"> <li>• include a separate opinion on the pension fund accounts within their report on the statement of accounts; and</li> <li>• issue a separate opinion on the financial statements included in the pension fund annual report</li> </ul>
<p>The investments valuations included in the Net Asset Statement are based on the figures provided by the Custodian, Northern Trust. As part of our audit we compare the value of investments as at 31 March 2009 as disclosed in the accounts with the Fund Manager reports and market prices.</p>	<p>This year, based on our testing, the variance between the Custodian Report and the Fund Manager reports and market prices was £0.418m. If this difference is extrapolated across the whole balance the difference is £0.523m. This difference represents 0.0611% of the total investments value of £852,057m. The difference this year relates largely to the adjustment from mid market price per the investment manager reports to the bid price per the custodian reports. This level of discrepancy on such a large balance is acceptable.</p>

---

### Accounting practice and financial reporting

**12** I consider the qualitative aspects of your financial reporting. Table 2 contains the issues I want to raise with you.



## Financial statements

Issue or risk	Finding
The most up to date risk register was approved by the pension fund panel in May 2008.,	The arrangements in place provide for the risk register to be reviewed annually, unless a particular issue arises that needs to be considered. The risk register was not reviewed in May 2009 due to LGR and in particular the elections for Members of the new authorities not taking place until June 2009.

---

Recommendation
<b>R2</b> Continue to ensure that the pensions risk register is reviewed and approved on a regular basis.

# Appendix 1 – Unadjusted misstatements in the accounts

The following misstatements were identified during the course of my audit and the financial statements have not been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities. If you decide not to do so, please tell us why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

**Table 2**

Description of error	Accounts effected	Value of error £Million
<p>An element of Investment Managers' fees for the year has to be estimated as the information is not available at the time the accounts are prepared.</p> <p>Our audit found that:</p> <ul style="list-style-type: none"> <li>- BGI active fees had been over estimated by £51,789.32.</li> <li>- Lazard managers expenses had been underestimated by £17,110.60. If these errors were extrapolated for the total amount of investment management expenses the error would be £0.082m.</li> </ul>	<p>Fund Account</p> <p>Investment management expenses: £3.944m.</p>	<p>£0.082m (extrapolated)</p>

# Appendix 2 – Draft letter of representation

---

Ms D Hanson  
District Auditor  
Regus House  
1010 Cambourne Business Park  
Cambourne  
Cambridge, CB23 6DP

## **Bedfordshire Pension Fund - Audit for the year ended 31st March 2009**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Bedfordshire Pension Fund, the following representations given to you in connection with your audit of the Pension Fund's financial statements for the year ended 31<sup>st</sup> March 2009. All representations cover the Pension Fund accounts included within the Bedfordshire County Council financial statements.

### **Compliance with the statutory authorities**

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which present fairly the financial position and financial performance of the Bedfordshire Pension Fund and for making accurate representations to you.

### **Uncorrected misstatements**

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Bedfordshire Pension Fund and the reason for not correcting these items is:

- An element of Investment Managers' fees for the year has to be estimated as the information is not available at the time the accounts are prepared. The accounts were closed based on the information available at the time and the adjustment is not material.

### **Supporting records**

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Bedfordshire Pension Fund have been properly reflected and recorded in the accounting records. All other records and related

information, including minutes of all Bedfordshire County Council committee meetings have been made available to you.

### **Irregularities**

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

### **Fair Values**

I confirm the reasonableness of the significant assumptions within the financial statements. For actuarial assumptions in the pension fund I confirm:

- the appropriateness of the measurement method;
- the completeness and appropriateness under the financial reporting framework; and
- subsequent events do not require adjustment to the fair value measurement.

### **Contingent liabilities**

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

### **Related party transactions**

I confirm the completeness of the information disclosed regarding the identification of related parties.

## Appendix 2 – Draft letter of representation

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

### **Post balance sheet events**

Since the date of approval of the financial statements by the Central Bedfordshire Council Audit Committee no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

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

### **Specific representations:**

There are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements.

Signed on behalf of Central Bedfordshire Council

I confirm that the this letter has been discussed and agreed by the Central Bedfordshire Council Audit Committee on 21 September 2009.

Clive Heaphy  
Director of Resources  
Central Bedfordshire Council

Signed on behalf of Bedford Borough Council

I confirm that the this letter has been discussed and agreed by the Pensions Panel on 21 September 2009.

Trevor Roff  
Director of Finance  
Bedford Borough Council

# Appendix 3 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Annual Governance Report 2008/09 - Recommendations</b>						
7	All scheme employers should be reminded of the requirement to provide relevant payroll information to enable checks to be made on the contributions deducted.	2	Head of Pension Fund Management	Agreed	Procedures will be tightened to ensure reminder is sent.	On-going
9	Continue to ensure that the pensions risk register is reviewed and approved on a regular basis.	2	Head of Pension Fund Management	Agreed	Report next going 21 September Report 2009.	On-going