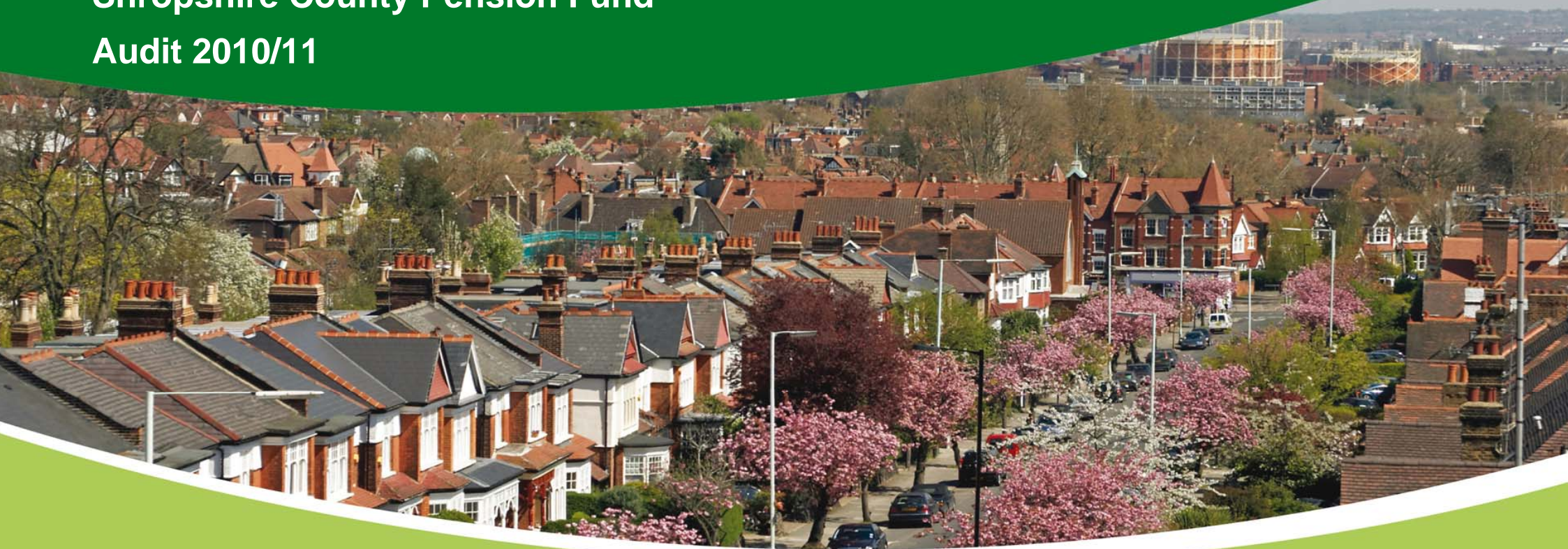


Annual governance report

Shropshire County Pension Fund

Audit 2010/11



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Traffic light explanation

Red  Amber  Green 

Key messages

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

Our findings

Unqualified audit opinion



I have not identified any material weaknesses in the design or operation of an internal control that might result in a material error in the financial statements. I have however identified several areas where controls could be strengthened to improve the overall governance arrangements.

Audit opinion and financial statements

I plan to issue an audit report on the Council's financial statements that includes an unqualified opinion on the Pension Fund accounts. I have not identified any material errors during my audit. I have identified unadjusted misstatements to the financial statements of £0.465m. I ask that Members consider amending the financial statements for these prior to their approval. Appendix 2 contains further details.

The draft financial statements presented for audit were mostly complete with the missing elements being details of purchases and sales (Note1) and the new disclosure around financial instruments and the associated risks arising. Otherwise only minor adjustments were required to the financial statements. The working papers presented for audit continue to be of a high standard.

Before I complete my audit

I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

Independence

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

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

I ask you to confirm to me

I ask the Pension Committee to:

- Consider the unadjusted misstatements to the financial statements that are set out in this report (appendix 2);
 - approve the letter of representation, provided alongside this report (appendix 3) on behalf of the Pension Fund before I issue my opinion and conclusion; and
 - agree your response to the proposed action plan (appendix 4).
-

Financial statements

I plan to issue an audit report on the Council's financial statements that includes an unqualified opinion on the Pension Fund accounts. I have not identified any material errors during my audit.

Opinion on the financial statements

I plan to issue an audit report on the Council's financial statements that includes an unqualified opinion on the Pension Fund accounts. I will therefore be able to issue an unqualified opinion on the financial statements within the Pension Fund's Annual Report. Appendix 1 contains a copy of my proposed audit report.

Errors in the financial statements

Under auditing standards I am required to bring to your attention any misstatements, including omissions or other errors in presentation or disclosure, other than those that are clearly trifling, identified during the course of my normal audit work for which no adjustment has been made in the financial statements. If I have identified any material misstatements which have been corrected by management I should also bring these to your attention in order to assist you in fulfilling your governance responsibilities.

I have detailed in appendix 2 the items which under auditing standards I am required to bring to your attention. I have also identified some potential improvement areas in reconciliations which I detail within the following pages of my report.

Financial statements

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

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

Key audit risk and our findings

Key audit risk	Finding
<p>1. Compliance with Code of Practice requirements</p> <p>My work in 2009/10 identified several areas where there was not compliance with reporting requirements.</p>	<p>The Annual Report contains the proper disclosures that were omitted from the 2009/10 publication. This chiefly related to an analysis of employer contributions receivable as detailed in note 14 of the Annual report.</p>
<p>2. Review of options for reporting actuarial present value of promised retirement benefits</p> <p>International Accounting Standard (IAS) 26 outlined several options for disclosing the actuarial present value of promised retirement benefits.</p>	<p>The Council selected option C for disclosing the actuarial present value of promised retirement benefits. This results in the disclosure being made through the Actuarial Report that must be published with the Annual Report. This is reflected in the wording of my audit report.</p>

Key audit risk	Finding
<p>3. Review of the reconciliation process for gaining assurances over the accuracy of pension payments and membership numbers.</p> <p>I raised this as an issue in 2009/10 Annual Governance Report as the arrangements did not allow a full reconciliation between the two sets of data.</p>	<p>My review has confirmed there remains a need for a full reconciliation to confirm the number of pensioners paid by the payroll system (Resourcelink) is agreeing with the number of pensioners recorded in the AXIS system. AXIS shows an extra 615 records (593 in 2009/10) compared to those paid by payroll. I understand that this may be because a) individuals who have been employed at more than one council/ admitted body during their working life will have separate records and b) Teachers' compensation payments paid on Resourcelink which do not appear on AXIS. From my audit procedures I am satisfied that it is unlikely that pensions are being paid to non-members but good practice would be to undertake a reconciliation at the year-end.</p>
<p>4. Review of reconciliations of forecast receipts of employee and employer contributions</p> <p>I raised this as an issue in 2009/10 Annual Governance Report as my testing identified that variances existed between expected receipts when compared to actual receipts.</p>	<p>I have reviewed the reconciliations prepared by the Pensions Administration section for individual employers' pension contributions (as reported in their annual returns to Pensions Administration) compared with an expected rate based on the employer rate determined by the Actuary. My testing of eight returns identified a total variance of £0.184m (2009/10 £0.185m) when compared with the actual value. If extrapolated across all admitted bodies, this would equate to a potential overstatement of £0.25m (2009/10 £0.26m). I have not sought an adjustment to the financial statements as this is not a material sum and only a potential variance. For employee contributions, I have gained assurances from my payroll testing at Shropshire Council, Internal Audit work and information supplied by the external auditor of Telford and Wrekin Council.</p>
<p>5. The Net Asset Statement includes unit trusts, hedge funds and derivatives.</p> <p>I need to ensure the values are reasonable and properly reflected in the financial statements.</p>	<p>I have undertaken a review of the valuations provided by Northern Trust with the supporting information provided by individual fund managers. As a result of my testing, combined with the assurances provided by the SAS 70 reports, I have been able to gain assurance the values are reasonable and are properly reflected in the financial statements.</p>
<p>6. Potential redundancies were expected in 2010/11 that may have an impact on the Pension Fund.</p> <p>I need to gain assurance of the appropriateness of the accounting of such transactions.</p>	<p>My review confirmed there were no significant redundancies arising in 2010/11 that would materially impact on the Pension Fund accounts. I have noted the main redundancies are falling into 2011/12 and this will be reassessed for my 2011/12 audit.</p>

Financial statements

Internal control environment

I have not identified any material weaknesses in the design or operation of an internal control that might result in a material error in the financial statements. I have however identified several areas where controls could be strengthened to improve the overall governance arrangements.

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

Internal control issues and our findings

Description of weakness	Potential effect	Management action
<p>1. Reconciling membership numbers</p> <p>There is no reconciliation of movements in membership numbers to the number of lump sum payments/ payments to leavers/ transfers in and out. This issue was raised in the 2009/10 Annual Governance Report.</p>	<p>Possible errors in the accuracy of recording of membership details.</p>	<p>Agree to undertake a review of year-end reconciliation procedures in relation to lump sum pensions / payments to leavers and membership numbers. However, it is impractical to reconcile transfers in and out to membership changes due to timing differences as a result of delays in the decision making of members.</p>

Description of weakness	Potential effect	Management action
<p>2. Reconciliation of AXIS values with the general ledger (SAMIS)</p> <p>My testing identified there is no agreement between AXIS and SAMIS for areas such as transfers in and lump sums. I identified a variance of £0.14m for transfers in and £0.3m for lump sum payments. The financial statements show a higher value than AXIS for transfers in, while AXIS is reporting higher values for lump sum payments than as stated in the financial statements. Similar opportunities for reconciliations exist for areas such as death in services with death grant. Appendix 2 details the unadjusted items.</p>	<p>Misstatement of balances within the financial statements.</p>	<p>Agree to undertake a review of the year-end reconciliation.</p>

Recommendations

- R1** Undertake a review to identify if additional year-end reconciliation procedures can be introduced to provide additional assurances of the accuracy of pension payments and membership numbers.
- R2** Perform a year-end reconciliation of the values in AXIS for areas such as lump sums and transfer in with the values in the general ledger.

Financial statements

Quality of your financial statements

The draft financial statements presented for audit were mostly complete with the missing elements being details of purchases and sales (Note1) and the new disclosure around financial instruments and the associated risks arising. Otherwise only minor adjustments were required to the financial statements. The working papers presented for audit continue to be of a high standard.

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

There is one issue I want to raise with you.

Issue	Findings
<p>1. Review of estimated valuations of investments The Pension Fund has private equity investment with the fund manager Harbourvest that uses estimated values at 31 March 2011. The final values are determined at the end of the following quarter (30 June 2011).</p>	<p>I noted that the value of investments confirmed to me by Harbourvest was different to that provided to the Pension Fund. I received information directly from Harbourvest indicating an estimated fund value at 31 March 2011 of £45.9m This was £2.2m below the valuation of £48.1m reported in the financial statements. Harbourvest have now provided me with a revised valuation which confirms the value recorded in the financial statements. I have also received an updated valuation of £49.9m for 31 March 2011 based upon actual outturn data. I have considered the updated value in supporting my view of the reasonableness of the valuation at 31 March 2011. The differences are not material and I am satisfied that the Pension Fund's use of the estimation technique is reasonable and that as the nature of private equity is that values can be volatile that the financial statements do not require adjustment. However, it highlights the importance of confirming and reconciling the prices issued by investment managers.</p>

Financial statements

Significant difficulties encountered during the audit

The main area of difficulty encountered was in securing evidence to support the values provided by several fund managers. This mainly related to investments within the pooled investment vehicles category in the Net Asset Statement. By their nature, these assets can be complex and require different approaches to secure evidence of the reasonableness of the values. Pension Fund officers were able to obtain information from fund managers that enabled me to inform my opinion. I have noted the Pension Fund is diversifying into infrastructure investments from 2011/12. I would expect that similar issues may arise for these values during my audit of the 2011/12 financial statements.

Letter of representation

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

Appendix 1 – Independent auditor’s report to Members of Shropshire County Pension Fund

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 Shropshire County Pension Fund Committee 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 Finance Advice Manager and Interim Scheme Administrator and auditor

As explained more fully in the Scheme Administrator as Chief Financial Officer Responsibilities, the Scheme Administrator 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 annual report to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011 other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the annual report 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 the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance.

Grant Patterson
Officer of the Audit Commission
Opus House
Priestley Court, Staffordshire Technology Park
Beaconside
Staffordshire ST18 0LQ
15 September 2011

Appendix 2 – Unadjusted misstatements to the financial statements

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements.

If you decide not to amend, please tell me 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.

Adjusted misstatement	Nature of adjustment	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Variance between AXIS report values and SAMIS (see item 2 within the report in the section on Internal Control)	Transfer in	138			
	Commutation of pensions and lump sum retirement benefits	327			465
	Cash				

Appendix 3 – Letter of Representation

To: Grant Patterson

District Auditor

Audit Commission

Opus House

Priestly Court

Staffordshire Technology Park

Beaconside

Staffordshire

ST18 0LQ

Shropshire County Pension Fund – Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Shropshire County Pension Fund, the following representations given to you in connection with your audit of the Shropshire County Pension Fund's financial statements for the year ended 31 March 2011.

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 which present fairly the financial position and financial performance of the Pension Fund and for making accurate representations to you.

Uncorrected misstatements

I believe that the differences highlighted in appendix 2 attached are not misstatements and are reconciliation differences between the primary source of information (SAMIS) and the secondary source (AXIS). The financial statements as at 31 March 2011 are produced based on the information held in SAMIS and reflect the true position of the Fund therefore these items will not be corrected. The differences in appendix 2 attached are noted and it has been agreed that a reconciliation between the two systems will be undertaken in time for the 2011/12 audit.

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 Shropshire County Pension Fund have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Pensions 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 am not aware of any 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. Nor am I aware of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Pension Fund.

Fair Values and estimates

I confirm the reasonableness of the significant assumptions within the financial statements. For the valuation of investments, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework; and
- the completeness and appropriateness under the financial reporting framework.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale and purchase commitments;
- assets pledged as collateral; and
- derivatives and unquoted investments

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

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,
- there are no material commitments or contractual issues, 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.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed 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 Shropshire County Pension Fund

I confirm that the this letter has been discussed and agreed by the Pensions Committee on 15 September 2011

Signed

Finance and Advice Manager and Interim Scheme Administrator

15 September 2011

Appendix 4 – Action Plan

Recommendations

Recommendation 1

Undertake a review to identify if additional year-end reconciliation procedures can be introduced to provide additional assurances of the accuracy of pension payments and membership numbers.

Responsibility	Employment and Pensions Service Manager
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Priority	Low
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Date	30 June 2012
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Comments	Agree to undertake a review of year-end reconciliation procedures in relation to lump sum pensions / payments to leavers and membership numbers. However, it is impractical to reconcile transfers in and out to membership changes due to timing differences as a result of delays in the decision making of members.
-----------------	--

Recommendation 2

Perform a year-end reconciliation of the values in AXIS for areas such as lump sums and transfer in with the values in the general ledger.

Responsibility	Treasury and Pensions Service Manager
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Priority	Medium
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Date	30 June 2012
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Comments	Agree to undertake a review of year-end reconciliation procedures
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Appendix 5 – 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 [where there is no regularity leg]

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.

[Where there is a regularity leg]

- I find that some spending or income was irregular.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

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0844 798 7070

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- any third party.

