

# Annual governance report

Nottinghamshire County Council Pension Fund

Audit 2011/12



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# Key messages

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**This report summarises the findings from my 2011/12 audit of the Pension Fund financial statements which is substantially complete.**

## **Status of the Audit and this Report**

The Council's 2011/12 Statement of Accounts, which include the Pension Fund financial statements, and this report are to be initially considered by the Audit Committee on 12 September 2012, with the statements formally approved by the County Council at its 20 September 2012 meeting. My audits of the two sets of accounts are substantially complete. There are some outstanding issues relating to the County Council accounts which are expected to be resolved by the date of the County Council meeting. I will update the Audit Committee at its meeting on the progress made in relation to the remaining audit enquiries.

## **Pension Fund financial statements**

As at 30 August 2012 I expect to issue an unqualified audit opinion on the Pension Fund financial statements included in the Authority's statement of accounts.

# Before I give my opinion

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

## **Independence**

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Pension Fund during 2011/12.

## **I ask the Audit Committee to:**

- take note of the matters included in this report; and
- approve the letter of representation (appendix 2), on behalf of the Pension Fund before I issue my opinion.

# Financial statements

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**The Pension Fund's financial statements are an important mechanism for the Pension Fund to account for its stewardship of public funds. As Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements.**

## **Opinion on the Pension Fund financial statements**

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements included within the Authority's Statement of Accounts. Appendix 1 contains a copy of my draft audit report.

## **Amendments to the draft financial statements**

I have not identified any non-trivial errors in the draft Statement of Accounts identified in the course of my audit work. There are no agreed amendments to the draft financial statements that I need to bring to your attention.

## **Specific risks and my findings**

I reported to you in my February 2012 Audit Plan a specific risks that I had identified relevant to my audit of your financial statements. In Table 1 I report to you my findings against this risk.

Table 1: **Risks and findings**

Risk	Finding
<p>The introduction of the new Business Management System in 2011/12 sees the replacement of many of the Council's financial systems, including the General Ledger. This is a risk for the County Council and the Pension Fund audits as weaknesses in the control and operation of these systems could lead to delays in the accounts' production or result in a material misstatement.</p>	<p>In conjunction with the audit of the County Council, and in liaison with Internal Audit, we documented the new systems and changes in interfaces, and tested key controls. We documented and tested the key controls within the new General Ledger system. We checked the opening balances on the SAP General Ledger and transferred data, and tested material reconciliations to the General Ledger at the year end. We did not identify any material errors from the testing we carried out.</p>

## Significant weaknesses in internal control

It is the responsibility of the Pension Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Pension Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Pension Fund only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have not identified any significant weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.

## Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Pension Fund's financial reporting process, including the following.

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

I have one specific matter I wish to report in relation to these topics.

## **Financial Instruments Disclosures**

The Code of Practice on Local Authority Accounting requires extensive disclosures on Council and Pension Fund financial instruments. The requirements include disclosure of the nature and extent of risks arising from financial instruments to which the pension fund was exposed and how the pension fund administering authority manages those risks. The financial instruments disclosure note within the Pension Fund financial statements does not include all the information required under the Code regarding the risks faced, the extent to which Pension Fund is exposed to those risks and the methods used to determining the Fund's risk exposure. The disclosure note does refer to other documents which include more information on the risks to the achievement of the Fund's aims. The note itself does not currently however meet the full requirements of the Code and the Council should include the necessary disclosures in future year's financial statements.

## **Pension Fund Annual Report**

The Pension Fund has not yet prepared its Annual Report. As a result I have not yet reviewed the financial statements contained within the Annual Report and am not able to report on them. The Pension Fund plans to produce its Annual Report by 30 September 2012 and I anticipate reporting on the financial statements included in the Annual Report shortly after that date.

# Fees

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

I expect to complete the audit within the planned fee of £44,460.



# Appendix 1 – Draft independent auditor's report

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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NOTTINGHAMSHIRE COUNTY COUNCIL

### Opinion on the Authority financial statements

I have audited the financial statements of Nottinghamshire County Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Nottinghamshire 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 Service Director (Finance and Procurement) and auditor

As explained more fully in the Statement of the Service Director (Finance and Procurement) Responsibilities, the Service Director (Finance and Procurement) is responsible for the preparation of the Authority's Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting

policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Service Director (Finance and Procurement); and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view of the financial position of Nottinghamshire County Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

### **Opinion on other matters**

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

I report to you if:

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

I have nothing to report in these respects.

### **Opinion on the pension fund financial statements**

I have audited the Nottinghamshire County Council Pension Fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The

financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Nottinghamshire 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 Service Director (Finance and Procurement) and auditor**

As explained more fully in the Statement of the Service Director (Finance and Procurement) Responsibilities, the Service Director (Finance and Procurement) is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Service Director (Finance and Procurement); and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

## **Opinion on other matters**

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

### **Respective responsibilities of the Authority and the auditor**

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

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

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

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

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

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

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

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

## **Conclusion**

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

### **Delay in certification of completion of the audit**

The audit cannot be concluded yet for two reasons:

- I am required to give an opinion on the financial statements of the pension fund included in the Nottinghamshire County Council Pension Fund Annual Report of. The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December 2012. As the authority has not yet prepared the Annual Report I have not yet been able to read the other information to be published with those financial statements and I have not issued my report on those financial statements.
- I have not completed the work necessary to issue my assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. The deadline for issuing my assurance statement is 5 October 2012.

I am satisfied that these matters do not have a material effect on the 2011/12 financial statements.

Ian Sadd  
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LE67 4JP

September 2012

# Appendix 2 – Draft letter of management representation

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## **Nottinghamshire County Council and Nottinghamshire County Council Pension Fund - Audit for the year ended 31 March 2012**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other Directors the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2012. All representations cover the Council's accounts and the Nottinghamshire County Council Pension Fund Accounts included within the financial statements.

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

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the County Council and Pension Fund, for the completeness of the information provided to you, and for making accurate representations to you.

### **Uncorrected misstatements**

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

### **Supporting records**

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

### **Irregularities**

I acknowledge my responsibility for the design, implementation and maintenance of internal control 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 entity'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.

### **Law, 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 and Pension Fund have 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 if material 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.

### **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; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements.

### **Related party transactions**

I confirm that I have disclosed the identity of County Council and Pension Fund 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 framework.

**Subsequent events**

All significant events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

The Council 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:**

None requested at this stage

Signed on behalf of Nottinghamshire County Council.

I confirm that this letter has been discussed and agreed by the Audit Committee on 12 September 2012 and the Council on 20 September 2012.

Signed

Name: Paul Simpson

Position: Service Director (Finance and Procurement)

Date: 20 September 2012



# Appendix 3 – Glossary

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## **Annual Governance Report**

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.

## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

## **Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

## **Auditor(s)**

Auditors appointed by the Audit Commission.

## **Code (the)**

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

## **Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

## **Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

## **Financial statements**

The annual statement of accounts that the Pension Fund is required to prepare, which report the financial performance and financial position of the Pension Fund in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

## **Internal control**

The whole system of controls, financial and otherwise, that the Pension Fund establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

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

## **Pension Fund Annual Report**

The annual report, including financial statements, that the Pension Fund must publish under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

## **Significance**

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

**Those charged with governance**

Those entrusted with the supervision, control and direction of the Pension Fund. This term includes the members of the Authority and the Audit Committee.

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- any director/member or officer in their individual capacity; or
- any third party.

