

# Annual governance report

Nottinghamshire County Pension Fund

Audit 2010/11



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# Key messages

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**This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the key messages arising from my audit of the Pension Fund's financial statements.**

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

The Council's 2010/11 financial statements and this report are to be initially considered by the Audit Committee on 12 September 2011, with the statements formally approved by the County Council at its 22 September 2011 meeting. The statements include both the County Council and Pension Fund accounts. 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.

## **Audit opinion and financial statements**

- I expect to issue an unqualified audit opinion on the pension fund accounts.
- The draft pension fund financial statements were produced before the required statutory date and we were able to complete the audit in line with the agreed timetable and within the original audit fee.
- No material errors were identified during the audit of the pension fund financial statements.



# Before I complete my audit

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## I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit of the pension fund. 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.

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## I ask you to confirm to me

### I ask the Council to:

- take note of the unadjusted items in the pension fund financial statements which are set out in this report (Appendix 2); and
  - approve the letter of representation, provided alongside this report, before I issue my opinion.
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# Financial statements

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**The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council 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.**

## **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 pension fund financial statements. Appendix 1 contains a copy of my draft report, which relates to both the Authority and pension fund accounts.

## **Errors in the pension fund financial statements**

I have not identified any material errors in the draft pension fund financial statements and there are no amendments to these statements that I need to report to you. Two non-material errors were identified during the pension fund audit and these are summarised for your information at Appendix 2.

## **Key areas of judgement and audit risk**

I issued an updated audit opinion plan for the pension fund in March 2011. I reported that at that stage of my audit planning I had not identified any significant risks of material misstatement which require me to carry out additional specific audit procedures. I have updated my risk assessments as the pension fund audit progressed and I have not needed to make any further significant amendments to the revised audit plan.

## **Significant weaknesses in 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 the pension fund financial statements of which you are not aware.

I have not provided a comprehensive statement of all weaknesses which may exist in internal control, or of all improvements which may be made. I have reported only those matters which have come to our attention because of the audit procedures we have performed.

## **Quality of the pension fund financial statements**

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statement disclosures. There are no matters relating to the pension fund that I wish to bring to your attention and there were no significant difficulties encountered during that audit that I need to report here.

## **Other significant matters relating to the pension fund audit**

There were no significant difficulties encountered during the pension fund audit that I need to report to you. There are no other significant matters discussed with or subject to correspondence with management, or other matters relevant to the reporting process which I need to bring to your attention.

## **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. The Letter of Representation covers both the County Council and pension fund financial statements.

# Appendix 1 – Draft audit report

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

### Opinion on the Authority and Group accounting statements

I have audited the Authority and Group accounting statements of Nottinghamshire County Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow 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 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 auditor

As explained more fully in the Statement of the Service Director (Finance) Responsibilities, the Service Director (Finance) is responsible for the preparation of the Authority and Group'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 Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority and Group; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## **Opinion on accounting statements**

In my opinion the accounting statements:

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

## **Opinion on other matters**

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

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

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

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

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of 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 auditor**

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



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

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

## **Opinion on accounting statements**

In my opinion the pension fund's accounting statements:

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

## **Opinion on other matters**

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

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

### **Authority's responsibilities**

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

### **Auditor's responsibilities**

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

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

### **Basis of conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

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

### **Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Nottinghamshire County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

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

The audit cannot be formally concluded yet as objections made by a local elector as part of the 2008/09 audit have not been determined. The audit certificates for 2009/10 and 2010/11 cannot be issued until this issue relating to the 2008/09 audit has been resolved and that year's audit has been formally concluded. I am satisfied that these matters do not have a material effect on the 2009/10 or 2010/11 financial statements.

Ian Sadd  
Officer of the Audit Commission  
Rivermead House  
7 Lewis Court  
Grove Park Farm  
Enderby

Leicester

LE19 1SU

September 2011

# Appendix 2 – Unadjusted misstatements to the financial statements

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The following non-material misstatements were identified during the course of my audit and the financial statements have not been adjusted by management. I bring this matter to your attention to assist you in fulfilling your governance responsibilities. If you agree 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.

Description of errors and accounts affected	Total Value of errors
Investments – two valuation errors were identified during the audit relating to processing errors in calculating the valuation of the pooled vehicle investments (under other managed funds) and the valuation of the overseas equities and index linked securities investments. Both errors understated the investments values but not by material amounts.	£0.72m

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# Appendix 3 – Glossary

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## Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

## Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

## Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

## Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

## Materiality and significance

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

