

Annual Governance Report

Nottinghamshire County Council Pension Fund and
Admission Agreement etc Pension Fund

Audit 2009/10

September 2010

Contents

Key messages	4
Next steps	5
Financial statements	6
Glossary	8
Appendix 1 – Independent auditor’s report to Members of Nottinghamshire County Council	9
Appendix 2 – Unadjusted misstatements in the accounts	15
Appendix 3 – Draft letter of representation	16

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. They 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.

Ladies and Gentlemen

2009/10 Annual Governance Report

I am pleased to present the results of my audit work for 2009/10.

I am required to produce a separate report on the results of my audit of the Council's pension funds although the audit opinion (attached at Appendix 1) and the letter of representation at Appendix 4 covers both the Council's accounts and those of both pension funds.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 7);
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors; (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3).

Yours faithfully

Ian Sadd
District Auditor

20 September 2010

Key messages

This report summarises the findings from the 2009/10 audits of the two Pension Funds financial statements, which are substantially complete.

Financial statements	Results	Page
Unqualified audit opinion	Yes	6
Financial statements free from material error	Yes	6
Adequate internal control environment	Yes	6

Audit opinion

- 1 Subject to satisfactory clearance of outstanding matters, my work on the audit opinion is finalised and I propose to issue an unqualified audit opinion on both pension funds.

Financial statements

- 2 The draft financial statements were produced before the required statutory date and we were able to complete the audit in line with the agreed timetable. No material errors were identified during the audit.

Audit fees

- 3 The audit work was contained within the original planned audit fee.

Independence

- 4 I can confirm that there were no relationships giving rise to a threat to independence, objectivity and integrity.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion. It includes only matters of governance interest that have come to my attention in performing my of the pension funds audit. My audit is not designed to identify all matters that might be relevant to you.

5 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 7);
- agree to adjust the errors in the financial statements I have identified that management has declined to amend or set out the reasons for not amending the errors (Appendix 2); and
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3).

Financial statements

The Council's pension fund 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 financial statements

- 6 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements covering the Nottinghamshire County Council Pension Fund and the Admission Agreement etc. Pension Fund. Appendix 1 contains a copy of my draft audit report.

Errors in the financial statements

- 7 There were just two non-material errors identified during the audit which are set out in Appendix 2.

Key areas of judgement and audit risk

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

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
Contributions receivable (employer and employee) continues to be a difficult area to audit and the administering authority is dependant on the admitted bodies having effective controls in place throughout the year and providing the information required within the agreed timescale. We reviewed the controls in place to ensure contributions from all employers are collected at the right rates and are complete and carry out further substantive testing as necessary.	We were able to obtain sufficient assurance regarding the completeness and accuracy of contributions receivable.
The value of the Funds' unquoted investments is material. We needed to carry out specific audit procedures to test the relevant investments and to assess the appropriateness of the valuation methods	The appropriate valuation methods had been used for the investments we tested.

Financial statements

Issue or risk	Finding
used.	
At the 2008/09 audit we identified a non material error in the valuation of investments. We have tested the valuations this year.	Two non material errors have been identified.
We identified a number of areas in 2008/09 where the notes in the financial statements could more closely meet the SORP disclosure requirements. We reviewed the 2009/10 draft accounts against the current year's SORP requirements.	We did not identify any significant non compliance with the SORP requirements.

Letter of representation

- 9 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 the draft letter of representation.

Glossary

Annual governance statement

- 10 Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.
- 11 It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.
- 12 The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit closure certificate

- 13 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 certificate.

Audit opinion

- 14 On completion of the audit of the accounts, auditors must give their 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;
 - whether they have been prepared properly, following the relevant accounting rules; and
 - for local probation boards and trusts, on the regularity of their spending and income.

Qualified

- 15 The auditor has some reservations or concerns.

Unqualified

- 16 The auditor does not have any reservations.

Appendix 1 – Independent auditor’s report to Members of Nottinghamshire County Council

Opinion on the Authority and Group accounting statements

I have audited the Authority and Group accounting statements and related notes of Nottinghamshire County Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement and the related notes. The Authority and Group 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 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Service Director (Finance) and auditor

The Service Director’s (Finance) responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the Authority and Group accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Authority and Group accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial position of the Group and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices

specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the Authority and Group accounting statements, and consider whether it is consistent with the audited Authority and Group accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority and Group accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority and Group accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority and Group accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority and Group accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Authority and Group accounting statements and related notes.

Opinion

In my opinion:

- The Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended; and
- The Group accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Group as at 31 March 2010 and its income and expenditure for the year then ended.

Opinion on the Nottinghamshire County Council pension fund accounting statements

I have audited the Nottinghamshire County Council Pension Fund accounting statements for the year ended 31 March 2010 under the Audit Commission Act 1998. The Nottinghamshire County Council pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The Nottinghamshire County Council pension fund 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 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Service Director (Finance) and auditor

The Service Director's (Finance) responsibilities for preparing the Nottinghamshire County Council pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the Nottinghamshire County Council pension fund accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Nottinghamshire County Council pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Nottinghamshire County Council pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I read other information published with the Nottinghamshire County Council pension fund accounting statements and related notes and consider whether it is consistent with the audited Nottinghamshire County Council pension fund accounting statements. This other information comprises the Explanatory Foreword published in the financial statements and the content of the Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Nottinghamshire County Council pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Nottinghamshire County Council pension fund

accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Nottinghamshire County Council pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Nottinghamshire County Council pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Nottinghamshire County Council pension fund accounting statements and related notes.

Opinion

In my opinion the Nottinghamshire County Council pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Nottinghamshire County Council Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Opinion on the Admission Agreement etc. Pension Fund accounting statements

I have audited the Admission Agreement etc. Pension Fund accounting statements for the year ended 31 March 2010 under the Audit Commission Act 1998. The Admission Agreement etc. pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The Admission Agreement etc. pension fund 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 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Service Director (Finance) and auditor

The Service Director's (Finance) responsibilities for preparing the Admission Agreement etc. pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the Admission Agreement etc. pension fund accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Admission Agreement etc. pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Admission Agreement etc. pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I read other information published with the Admission Agreement etc. pension fund accounting statements and related notes and consider whether it is consistent with the audited Admission Agreement etc. pension fund accounting statements. This other information comprises the Explanatory Foreword published in the financial statements and the content of the Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Admission Agreement etc. pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Admission Agreement etc. pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Admission Agreement etc. pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Admission Agreement etc. pension fund accounting statements and related notes.

Opinion

In my opinion the Admission Agreement etc. pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Admission Agreement etc. Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Conclusion on 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 regularly to review the adequacy and effectiveness of these arrangements.

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority 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 in relation to proper arrangements, having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. 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.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, Nottinghamshire County Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

Delay in certification of completion of the audit

The audit cannot be formally concluded yet for two reasons. Firstly, owing to a court case a local elector has been unable to exercise his rights in respect the Council's 2008/09 accounts. Secondly, objections made by another local elector as part of the 2008/09 audit have not been determined. The audit certificate for 2009/10 cannot be issued until both of these issues relating to the 2008/09 audit have 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 financial statements.

Ian Sadd
Officer of the Audit Commission

Rivermead House
7 Lewis Court
Grove Park
Enderby
Leicester
LE19 1SU

Appendix 2 – Unadjusted misstatements in the accounts

The following misstatement was 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 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 affected	Value of error £ million
Understatement of the Pooled Vehicle Investments under Other Managed Funds, as a result of a manual processing error	Investments	0.630
Overstatement of the total valuation of the Overseas Equities managed in house, as a result of a classification error and a change in the status of an investment	Investments	0.047

Appendix 3 – Draft letter of representation

To:

Ian Sadd
District Auditor
Rivermead House
7 Lewis Court
Grove Park
Enderby
Leicestershire
LE19 1SU

Nottinghamshire County Council, Nottinghamshire County Council Pension Fund and the Admission Agreement etc. Pension Fund - Audit for the year ended 31 March 2010

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 2010. All representations cover the Council's accounts, the Group Accounts and the Nottinghamshire County Council and Admission Agreement etc. Pension Funds' Accounts included within the 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 give a true and fair view of the financial position and financial performance of the Council and the Pension Funds 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 (to be provided) are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are set out in the schedule.

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 Council and the Pension Funds have been properly reflected and recorded in the accounting records. All

other records and related information, including minutes of all Council and Pension 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.

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 Council and the pension Funds.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements.

Assets

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

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

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, 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.

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 Council, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

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:

PFI schemes

I confirm that for the Council's PFI schemes there have been no changes to existing schemes and contracts.

Service concessions IFRIC 12

I have reviewed all contracts to identify any that involve both service provision and the use of assets. These have then been examined to determine whether any may fall within the scope of IFRIC 12 as service concessions. There are no contracts that fall within this scope other than those which have been properly recorded and disclosed within the financial statements.

In respect of the WRG Eastcroft incinerator scheme, I confirm that the Council's estimated residual interest of £9.6m at expiry of the contract between the Councils and WRG in 2030 is significant. I consider the accounting treatment as off balance sheet to be appropriate.

Signed on behalf of Nottinghamshire County Council.

I confirm that this letter has been discussed and agreed by the Audit Committee on 28 September 2010.

Signed

Alan Sumbly
Service Director (Finance)