

Annual Governance Report

Tower Hamlets Pension Fund

Audit 2008/09

September 2009

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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission, explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non executive directors, members or officers and are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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2008/09 Annual Governance Report

I am pleased to present the draft version of my report on the results of my audit work for 2008/09.

A draft of this report was discussed and agreed with the Corporate Director of Resources on 21 September 2009.

The 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 8);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- recommend approval of the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 4).

Yours faithfully

Jon Hayes
District Auditor

29 September 2009

Key messages

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

Financial Statements	Results	Page
Unqualified audit opinion	Yes	6
Financial statements free from material error	No	6
Adequate internal control environment	Yes	7

Audit opinion

- 1 Subject to satisfactory completion of outstanding testing, I expect to issue an unqualified opinion on the Pension Fund financial statements on 30 September 2009.
-

Financial statements

- 2 The draft financial statements were submitted for audit on 29 June 2009, in accordance with the agreed timetable.
- 3 My audit identified one material error and a number of presentational amendments to the notes to the Fund Account. These are set out in paragraphs 7 and 8.

Next steps

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

4 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 8);
- take note of the adjustments to the Pension Fund's accounts which are set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 4).

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Financial statements

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

Opinion on the financial statements

- 5 Subject to satisfactory clearance of the outstanding matter below, I plan to issue an audit report on the Council’s financial statements that includes an unqualified opinion on the Pension Fund’s accounts. Appendix 1 contains a copy of my draft audit report.
- 6 My work on the financial statements is substantially complete but not yet finalised. I expect to conclude my work in this area shortly. The key area outstanding is to receive and review the Pension Fund’s Governance Compliance Statement.

Errors in the financial statements

- 7 The draft financial statements contained one material classification error, which was in the Net Assets Statement. Fixed interest securities investment assets of £10,736k had been incorrectly classified as a debtor. This was due to a coding error.
- 8 Our audit identified a number of amendments that were required to the notes to the Fund Account to disclose correctly contributions receivable and benefits payable relating to scheduled and admitted bodies. These were included within contributions receivable and benefits payable relating for the Council in the draft financial statements.
- 9 Management has agreed to adjust the financial statements for the above matters. A summary of these adjustments is contained in Appendix 2.

Recommendations
R1 Ensure that balances are appropriately classified in the Net Assets Statement.
R2 Analyse correctly the split of contributions receivable and benefits payable between the Council and admitted and scheduled bodies.

Letter of representation

- 10 Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation I seek to obtain from you.

Appendix 1 – Independent auditor’s report to Members of the London Borough of Tower Hamlets

Key areas of judgement and audit risk

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

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
<p>Contributions</p> <p>With effect from 1 April 2008, employees' contributions to the LGPS are on a tiered basis with differing rates depending on the band in which their pensionable pay for the previous year fell. There is a risk that contributions will not be deducted and collected at the right rates.</p>	<p>Our testing confirmed that the new contribution rates have been entered on the payroll system and that deductions have been made correctly.</p>
<p>Investments</p> <p>The volatility in world financial markets impacts upon the value of the Pension Fund's investment holdings. There are risks around accurate recording at the year end and the adequacy of funding levels.</p>	<p>Our testing has not identified any errors regarding the valuation of Pension Fund investments.</p>

Accounting practice and financial reporting

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

Table 2

Issue or risk	Finding
<p>The Pension Fund accounts do not comply fully with the SORP</p>	<p>Our audit identified instances where the supporting notes to the accounts were incomplete and did not comply fully with the SORP requirements. In particular:</p> <ul style="list-style-type: none"> • there is no reconciliation between the opening and closing value of investments; • the level of funding and commentary on the deficit is not disclosed; and • management expenses are not analysed.
<p>Separation of bank accounts for</p>	<p>The Council does not maintain a separate bank</p>

Appendix 1 – Independent auditor’s report to Members of the London Borough of Tower Hamlets

Issue or risk	Finding
Pension Fund and Council cash	account for the Pension Fund. Although this is not yet a legal requirement, holding pension fund cash in a dedicated account would improve transparency and governance.

Recommendation
R3 Ensure the Pension Fund accounts comply fully with the disclosure requirements of the SORP.
R4 Establish and maintain a separate bank account for pension fund cash.

Appendix 1 – Independent auditor’s report to Members of the London Borough of Tower Hamlets

Opinion on the Authority accounting statements

I have audited the Authority and Group accounting statements and related notes of the London Borough of Tower Hamlets for the year ended 31 March 2009 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, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account the Collection Fund 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 the London Borough of Tower Hamlets 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 prepared by the Audit Commission.

Respective responsibilities of the Corporate Director of Resources and auditor

The Corporate Director of Resources’s responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 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 present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008:

- 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 financial 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.

Appendix 1 – Independent auditor’s report to Members of the London Borough of Tower Hamlets

I read other information published with the Authority and Group accounting statements and related notes 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 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 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 financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended; and
- the Group financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Group as at 31 March 2009 and its income and expenditure for the year then ended.

Opinion on the pension fund accounts

I have audited the pension fund accounts for the year ended 31 March 2009 under the Audit Commission Act 1998. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of the London Borough of Tower Hamlets 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 prepared by the Audit Commission.

Respective responsibilities of the Corporate Director of Resources and auditor

The Corporate Director of Resources’s responsibilities for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

Appendix 1 – Independent auditor’s report to Members of the London Borough of Tower Hamlets

My responsibility is to audit the pension fund accounts 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 pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the 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 pension fund accounts and related notes and consider whether it is consistent with the audited pension fund accounts. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounts 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 pension fund accounts 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 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 pension fund accounts and related notes.

Opinion

In my opinion, the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund’s assets and liabilities as at 31 March 2009, 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 relevant criteria specified by the Audit Commission for principal local authorities. 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,

Appendix 1 – Independent auditor’s report to Members of the London Borough of Tower Hamlets

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 February 2009, I am satisfied that, in all significant respects, the London Borough of Tower Hamlets made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Jon Hayes
District Auditor

Audit Commission
1st Floor, Millbank Tower
Millbank
London
SW1P 4HQ

30 September 2009

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Appendix 2 – Adjusted amendments to the Pension Fund accounts

The following misstatements were identified during the course of my audit and the financial statements have been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities.

Table 3 Amended misstatements

		Fund Account		Net Assets Statement	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Net assets statement: Fixed interest securities	Misclassification of balance.			10,736	
Net assets statement: Debtors					10,736

		Dr £000s	Cr £000s
		Note 4	
Pensions payable Council	To separately disclose the amounts payable in respect of the Council and Admitted bodies and correct a misclassification in the type of benefit payable.		117
Pensions payable Admitted bodies		117	
Lump sums payable Council			970
Lump sums payable Admitted bodies		712	
Death grant		258	

Appendix 3 – Draft letter of representation

Dear Jon

Tower Hamlets Pension Fund - Audit for the year ended 31 March 2009

We confirm to the best of our knowledge and belief, having made appropriate enquiries of other officers of Tower Hamlets Council, the following representations given to you in connection with your audit of the Pension Fund's financial statements for the year ended 31 March 2009.

We acknowledge our responsibility under the relevant statutory authorities for preparing the financial statements which present fairly and for making accurate representations to you.

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

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 Pension Fund have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Members meetings, have been made available to you.

Related party transactions

We confirm the completeness of the information provided 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.

Contingent assets and contingent liabilities

There are no other contingent assets or 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

Appendix 3 – Draft letter of representation

- no financial guarantees have been given to third parties, other than those already disclosed in the financial statements.

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.

The body 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.

Irregularities

We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect 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.

We also confirm that we have disclosed:

- our 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
- our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.

Post balance sheet events

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

Compensating arrangements

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

Signed on behalf of Tower Hamlets Pension Fund

Kevan Collins
Interim Chief Executive

Chris Naylor
Corporate Director of Resources

Appendix 4 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Governance Report 2008/09 - Recommendations						
6	R1 Ensure that balances are appropriately classified in the Net Assets Statement.	3				
6	R2 Analyse correctly the split of contributions receivable and benefits payable between the Council and admitted and scheduled bodies.	2				
8	R3 Ensure the Pension Fund accounts comply fully with the disclosure requirements of the SORP.	2				
8	R4 Establish and maintain a separate bank account for pension fund cash.	2				