



# AUDIT AND PENSIONS COMMITTEE

22 SEPTEMBER 2010

## CONTRIBUTORS

FCS  
All Departments

**Annual Governance Reports 2009/10 –  
Statement of Accounts & Pension Fund**

**WARDS  
All**

### **Summary**

This report provides an overview of the issues arising from the audit of the Council's annual Statement of Accounts for 2009/10, prior to the publication of the Audit Commission's formal opinion on those accounts.

The covering report sets out the Council's response to the Audit Commission's Annual Governance Reports 2009/10, which is attached, along with the revised Statement of Accounts for approval

### **Recommendations**

The Committee is asked to;

- 1 To note the content of the Auditor's Annual Governance Reports stating that the accounts will receive an unqualified opinion, are free from material error and that the Council has a adequate internal control environment
- 2 To note the Council's response to the Annual Governance Reports,
- 3 To note the management representation letter,
- 4 To approve the Statement of Accounts for 2009/10.

## **1 Introduction**

- 1.1 In accordance with the Accounts and Audit Regulations, the Council's audited year end Statement of Accounts must be published before the end of September. The Audit Commission is required to report the findings from their audit to a properly constituted governance body of the Council before the opinion on the accounts is issued. The Audit and Pensions Committee fulfils this role for Hammersmith and Fulham.
- 1.2 The Audit Commission's Annual Governance Report for Hammersmith and Fulham 2009/10 Audit is attached to this report (Appendix 1). It sets out the Audit Commission's findings from this year's audit relating to two main areas:
- Financial Statements
  - Value for Money
- 1.3 This report summarises the issues included in the Annual Governance Report, and sets out the Council's response to the recommendations made therein. Attached in Appendix 3 is the revised Statement of Accounts for approval by the Audit and Pensions Committee.
- 1.4 For the second year the Audit Commission have produced a separate Annual Governance Report for the Pension Fund (Appendix 2). This is discussed in section 5 of this report.
- 1.5 The Pension Fund is required to publish a separate annual report. The auditors are required to check consistency with the financial statements before issuing an opinion. 2009/10 sees an earlier publication of this report by the Council and so the Audit Commission will be able to provide an opinion on the Pension Fund accounts at the Audit and Pensions Committee

## **2 Summary**

- 2.1 The Annual Governance Report sets out one area where work on the final accounts audit has yet to be completed, but is expected to be finalised before the deadline for signing off the accounts. It is usual for some pieces of work not to be finalised at this stage, and there are no indications that these areas will give rise to any material considerations.
- 2.2 Based on work completed to date, the Annual Governance Report indicates that the District Auditor expects to issue an unqualified opinion on the main financial statements and also notes that the financial statements are free from material error and the Council has an adequate internal control environment. There are ten adjustments or revisions to

- the Statement of Accounts, all of which have been made to the updated copy in Appendix 3.
- 2.3 The adjustments/revisions mentioned in Appendix 2 of the Annual Governance report occurred as follows.
  - 2.4 An error in service classification when converting the trial balance to the Income & Expenditure account (adjustment 1).
  - 2.5 An error in between categorisation of disposal of fixed assets and ne service expenditure in the Income & Expenditure account (adjustment 2).
  - 2.6 An error in classification leading to an overstatement in debtors and creditors on the balance sheet (adjustment 3).
  - 2.7 Addition of narrative explaining the cumulative effect of prior period adjustments below the Statement of Total Recognised Gains and Losses (adjustment 4)
  - 2.8 An error in disclosure to Note 2 Private Finance Initiative (adjustment 5).
  - 2.9 An error in disclosure to Note 6 Pensions Costs (adjustment 6).
  - 2.10 An arithmetic error in Note 9 Agency Income and Expenditure (adjustment 7).
  - 2.11 An error in disclosure to Note 10 Leasing charges (adjustment 8).
  - 2.12 An error in disclosure to Note 11 Material transactions with related parties (adjustment 9).
  - 2.13 The inclusion of a new post balance sheet event that arose between the June and September Audit and Pensions Committee. Amendments such as this are common practice dependent on external circumstances (adjustment 10).
  - 2.14 The report also states that the District Auditor will issue an unqualified opinion on the Council's arrangements for delivering Value for Money.

### **3 Financial Statements and Annual Governance Statement**

- 3.1 The audit of the financial statements has, from the Council's perspective, progressed well. The Audit Commission identified some areas of audit risk before the audit commenced, which were used to plan their audit work. At the time of writing all areas of risk had been examined and passed by the District Auditor.

- 3.2 The working relationship between the audit team and the council accounting teams has been positive, with arrangements put in place to manage the process well. Improvements to the quality of working papers have again been made and most queries have been answered more promptly than in previous years. This process has been enhanced by lessons learnt from the 2008/09 process and the growing experience of Council staff. Both teams realise there is still room for improvement especially due to the amount of work required to present the 2010/11 accounts under International Financial Reporting Standards. Specific recommendations on the 2009/10 accounts are set out below:
- 3.3 The Audit Commission has asked the Council to ensure that, in future years, all working papers required for the Final Accounts audit are prepared and available at the beginning of the audit. 2009/10 saw an improvement in this part of the process, but to meet one of the objectives of the Council's World Class Financial Management programme (WCFM) of a speedier final accounts production and audit process, continued improvement in this area is key.
- 3.4 The Council has also been asked to look at its unallocated cash balance in the Accounts Receivable ledger. Although correctly accounted for in the final accounts, this balance needs to be applied to individual customer accounts to reflect correct individual debtor positions.

#### **4. Value for Money**

- 4.1 The District Auditor comments positively on the Council's arrangements for securing value for money.

Rec.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
1	Ensure a full set of working papers is available for the agreed date of the commencement of the audit.	3	Deputy Director of Finance	Agreed	To achieve an even quicker conclusion to the audit process, the Council will ensure all working papers are produced for the agreed start date of the audit	June 2011
2	Review the £2.3 million of unallocated receipts in the sales ledger.	2	Deputy Director of Finance	Agreed	This has been accounted for correctly, however, as part of the WCFM programme, unallocated cash in AR will be dealt with under a series of agreed options	Dec 2010

## **5. Pension Fund Annual Governance Report**

- 5.1 For the second year, the Audit Commission is obliged to submit a separate Annual Governance Report for the Pension Fund
- 5.2 Subject to the satisfactory clearance of outstanding matters, the Annual Governance Report indicates that the District Auditor expects to issue an unqualified opinion on the pension fund accounts and also notes that the Pension Fund financial statements are free from material error and the Council has an adequate internal control environment.
- 5.3 The Audit Commission identified four areas of specific audit risk which were used to plan their audit work. In the Auditor's opinion, one area of risk has not been addressed and is the subject of recommendations below.
- 5.4 The auditors have identified some areas for improvement in terms of internal control and have produced four specific recommendations in light of their findings which can be seen on the next page
- 5.5 The first recommendation, as with the main accounts AGR, is to ensure that a complete set of working papers is available at the beginning of the audit. This will ensure an even speedier audit process in future years.
- 5.6 The second recommendation is to establish a process to reconcile LPFA pensions records with Pension Fund Accounts, both in terms of contributions and pensions in payment. Although this has not led to material misstatement in the accounts, the Council has now implemented a robust procedure in reconciling Trent pensions payroll entries to the pension fund accounts and admitted bodies remittances to the pension fund accounts. Work is being undertaken to ensure the LPFA records are reconciled to the pension fund accounts on a regular basis. The first 6 months of 2010/11 will be reconciled by October 2010 and reviewed by internal audit.
- 5.7 The third recommendation is to ensure that the movement in pension membership numbers is reconciled, at least annually. The Council has requested that the LPFA produce a report on 31 March each year reconciling membership numbers from 1 April to 31 March. This procedure will be in place in time for the 2010/11 pension fund accounts
- 5.8 The fourth recommendation asks the Council to ensure that all disclosures required by the Statement of Recommended Practice are made in the Pension Fund Accounts.

- 5.9 There were also four adjustments to the Pension Fund Accounts. The first amended the pension fund membership statistics; the second concerned a misstatement between admitted bodies of £41k in Note 14 regarding lump sum retirement benefits; the third gives an updated Post balance sheet event disclosure of the market value of the investments of the fund, this is amendment is common practice; the fourth added a note to the Pension Fund accounts for the 'Top Ten Equity Holdings' and a note detailing the in year amounts and values at year end of Additional Voluntary Contributions (AVCs).

<b>Rec</b>	<b>Recommendation</b>	<b>Priority</b> 1 = Low 2 = Med 3 = High	<b>Responsibility</b>	<b>Agreed</b>	<b>Comments</b>	<b>Date</b>
1	Ensure a complete set of working papers is available for the commencement of future audits.	3	Assistant Director (Business Support) & Assistant Director (Human Resources)	Agreed	To achieve an even quicker audit conclusion to the audit process, the Council will ensure all working papers are produced for the agreed start date of the audit.	June 2011
2	Establish a process to reconcile LPFA pension records with the Pension Fund accounts.	3	Assistant Director (Business Support)	Agreed	Resources were reduced earlier in the year by half a post in the pensions administration team, but this has not worked. In addition, the team has had to deal with the data requirements of the actuarial valuation and the pensions administration tender. The actuary has congratulated the team on supplying good quality data and on time. Resource levels are being reviewed and additional resources will be allocated to the Pensions	Oct 2010



Rec	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
					Administration team to ensure that a full reconciliation of the LPFA records to the Pension Fund accounts takes place. Responsibilities have been agreed between three different sections for reconciling LPFA records to pension fund accounts. Reconciliations for the first six months of the current year are underway and will be reviewed by internal audit.	
3	Ensure the movement in membership numbers is reconciled each year.	3	Assistant Director (Human Resources)	Agreed	The LPFA will be requested to run a report reconciling the movement in membership numbers from 2009/10 to 2010/11 as at 31 March 2011. It should be noted that there are differences in the way membership numbers are	March 2011

Rec	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
					held by the LPFA and this could account for the differences found. This will be fully investigated and the reconciliation documented for ongoing use.	
4	<p>Ensure all disclosures required by the Statement of Recommended Practice are made in future accounts in respect of:</p> <ul style="list-style-type: none"> <li>• employer contributions; and</li> <li>• additional voluntary contributions.</li> </ul>	1	Assistant Director (Business Support)	Agreed	<p>The information for the employer contribution disclosure notes comes from the triennial actuarial valuation report. The last report in 2007 did not contain this information but the current actuary has been asked to provide it in the 2010 report and this will be shown in next year's accounts.</p> <p>The information for the additional voluntary contributions was not received in time to go into the accounts. The provider will be requested</p>	April 2011

Rec	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
					to supply this information earlier next year to fit in with the accounts timetable	

**6 List of Appendices**

**Appendix 1 – Audit Commission Annual Governance Report (Main Financial Statements)**

**Appendix 2 – Audit Commission Annual Governance Report (Pension Fund)**

**Appendix 3 – Annual Statement of Accounts (including Pension Fund)**