

# Annual Governance Report

Hammersmith & Fulham Pension Fund

Audit 2009/10

**September 2010**

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# Contents

<b>Key messages</b>	<b>4</b>
<b>Next steps</b>	<b>5</b>
<b>Financial statements</b>	<b>6</b>
<b>Glossary</b>	<b>9</b>
<b>Appendix 1 – Independent auditor’s report to Members of London Borough of Hammersmith &amp; Fulham</b>	<b>10</b>
<b>Appendix 2 – Amendments to the draft pension fund's accounts</b>	<b>14</b>
<b>Appendix 3 – Draft letter of representation</b>	<b>15</b>
<b>Appendix 4 – Action plan</b>	<b>18</b>

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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. 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.
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Ladies and Gentlemen

## **2009/10 Annual Governance Report**

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

I discussed and agreed a draft of the report with the Chief Executive and Director of Finance on 21 September 2010 and updated it as issues have been resolved.

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 8);
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- approve 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

September 2010

# Key messages

This report summarises the findings from the 2009/10 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	Yes	6
Adequate internal control environment	Yes	6

## Financial statements

- 1 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements.
- 2 The accounts are free from material error. However, there is scope for improvement in the preparation of working papers, the reconciliations to London Pension Fund Authority (LPFA) records, the membership reconciliations and Statement of Recommended Practice (SoRP) disclosures.

## Independence

- 3 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

# 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.**

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**4** I ask the Audit and Pensions Committee:

- 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);
- approve 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).

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# Financial statements

**The Pension Fund's accounts are important means by which the Fund accounts for its stewardship of public funds. The Council has a final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.**

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## Opinion on the financial statements

- 5** Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report. Work remains outstanding on the membership reconciliation.

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## Errors in the financial statements

- 6** No material errors have been identified in the financial statements.

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## Important weaknesses in internal control

- 7** I have not identified weaknesses in internal control that would lead to material mis-statements in the accounts, but I have identified some matters that lead to delays in the audit process.
- 8** To enable me to complete the audit in a timely fashion it is important that a full set of working papers is available with the draft accounts in June. To help officers with this task I provided a list of my working paper requirements in February 2010. Officers did not provide all of the working papers requested in a timely fashion, which has resulted in delays to the audit and a higher number of queries than would otherwise be the case.
- 9** We reported after last year's audit that working papers provided in support of employer and employee contributions did not agree to the values reported in the accounts. These working papers are provided by the London Pension Fund Authority (LPFA). This remains the case and action has not been taken in respect of the recommendation made last year. Table 1 summarises the variances I have identified for 2009/10 although I only examined a sample of employers. Attempts to explain these variances during the audit identified mispostings to the ledger, which demonstrates the importance of establishing a strong reconciliation process.

## Financial statements

**Table 1** Variance between the financial statements and LPFA records

Item of account	Financial statements £000	LPFA records £000	Variance £000
London Borough of Hammersmith & Fulham (including Councillors): Employer Contributions	20,301	20,209	(92)
Inspace: Employer Contributions	62	58	(4)
London Borough of Hammersmith & Fulham (including Councillors): Employee Contributions	6,054	5,960	(94)
Eden: Employee contributions	35	32	(3)

**10** Officers were also unable to provide a reconciliation of the membership numbers. The statistics reported in note 1 have been amended to agree to figures from the LPFA.

### Recommendation

**R1** Ensure a complete set of working papers is available for the commencement of future audits.

**R2** Establish a process to reconcile LPFA pension records with the Pension Fund accounts.

**R3** Ensure the movement in membership numbers is reconciled each year.

### Letter of representation

**11** 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.

### Key areas of judgement and audit risk

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

**Table 2** Key areas of judgement and audit risk

Issue or risk	Finding
The financial markets, both locally and globally, remain volatile. This may impact upon the valuation of the Pension Fund's investment holdings.	I have reviewed reports on the Custodian's internal control. These have given me the assurance that investments are appropriately valued.
Valuation of unquoted investments can be difficult	I have reviewed fund statements as at 31 March

Issue or risk	Finding
to obtain. The Custodian values these investments on draft accounts as at 31 December.	which were made available in September and have obtained assurance that the valuations are materially accurate.
The Pension Fund cash balance is held within the Council's bank account. In effect the cash balance reported in the Pension Fund Net Asset Statement is a balancing item with no independent verification of the balance.	The cash balance remains as a balancing item in the Pension Fund trial balance. However, I have not made a recommendation on this as a separate bank account is to be established in 2010/11.
During 2008/09 we identified discrepancies between LPFA pension records and the Pension Fund accounts for contributions and pensions in payment.	I have commented on this issue in paragraph 10 above.

### Accounting practice and financial reporting

**13** I consider the non-numeric content of your financial reporting. Table 3 contains the issues I want to raise with you.

**Table 3**

Issue or risk	Finding
<p>The Statement of Recommended Practice requires contributions from employers to be broken down into the following categories:</p> <ul style="list-style-type: none"> <li>• normal;</li> <li>• augmentation;</li> <li>• deficit funding; and</li> <li>• other</li> </ul>	The accounts do not contain the required disclosure.

### Recommendation

**R4** Ensure all disclosures required by the Statement of Recommended Practice are made in future accounts in respect of employer contributions.



# Glossary

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## Annual governance statement

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

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## Audit closure certificate

**15** 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.

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## Audit opinion

**16** 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; and
  - whether they have been prepared properly, following the relevant accounting rules.
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## Qualified

**17** The auditor has some reservations or concerns.

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## Unqualified

**18** The auditor does not have any reservations.

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# Appendix 1 – Independent auditor’s report to Members of London Borough of Hammersmith & Fulham

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## Opinion on the Authority accounting statements

I have audited the accounting statements and related notes of London Borough of Hammersmith & Fulham for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund and the related notes. The 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 London Borough of Hammersmith & Fulham 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 Director of Finance and Corporate Services and auditor

The Director of Finance and Corporate Services 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 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 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.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in

## Appendix 1 – Independent auditor’s report to Members of London Borough of Hammersmith & Fulham

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 accounting statements, and consider whether it is consistent with the audited Authority 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 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 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 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 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 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.

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### Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2010 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

## Appendix 1 – Independent auditor’s report to Members of London Borough of Hammersmith & Fulham

This report is made solely to the members of London Borough of Hammersmith & Fulham 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 Director of Finance and Corporate Services and auditor

The Director of Finance and Corporate Services responsibilities for preparing the 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 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 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 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 accounting statements and related notes and consider whether it is consistent with the audited pension fund 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 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 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 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 accounting statements and related notes.

## **Appendix 1 – Independent auditor’s report to Members of London Borough of Hammersmith & Fulham**

### **Opinion**

In my opinion the 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 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.

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### **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, London Borough of Hammersmith & Fulham made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

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### **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.

# Appendix 2 – Amendments to the draft pension fund's accounts

I identified misstatements during my audit that managers have agreed to adjust. There are also some amendments made by management to the draft accounts approved in June. I bring the following to your attention to assist you in fulfilling your governance responsibilities.

**Table 4 Amendments to the draft pension fund accounts**

Description	Adjustment
<b>Note 1 Introduction</b> Amendment to the pension fund membership statistics: <ul style="list-style-type: none"> <li>- Employees</li> <li>- Pensioners</li> <li>- Deferred pensioners</li> </ul>	+ 232 + 171 + 186
<b>Note 14 Benefits Payable</b> Move lump sum retirement benefits from "P H Jones" to "Serco"	£41,000
<b>Note 16 Post Balance Sheet Events</b> The note has been updated to reflect the latest valuation of investments as at 31 August.	- £1,94m
Additional note added on 'Top ten equities' to ensure consistency with the financial statements in the annual report.	n/a
Additional detail to the Additional Voluntary Contributions (AVCs) note on the amount of AVCs paid in year and the valuations at year end.	n/a

# Appendix 3 – Draft letter of representation

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To: Jon Hayes, District Auditor, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1p 4HQ

## London Borough of Hammersmith & Fulham - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of London Borough of Hammersmith & Fulham, 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 and Pension Fund 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 for making accurate representations to you.

### 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 have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council and 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.

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. Except as disclosed in Note 25 to the financial statements we have no other lines of credit arrangements.

### 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.



## Appendix 3 – Draft letter of representation

### 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

- The increase in the ALMO pension liability to £12.3 million is not considered material to users of the accounts and therefore group accounts have not been prepared.

### Signed on behalf of London Borough of Hammersmith & Fulham

I confirm that the this letter has been discussed and agreed by the Council on [date]

Signed

Name

Position

## Appendix 4 – Action plan

Rec	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
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 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	Oct 2010

## Appendix 4 – Action plan

Rec	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
					<p>data and on time. Resource levels are being reviewed and additional resources will be allocated to the Pensions 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.</p>	
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	March 2011

## Appendix 4 – Action plan

Rec	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
					in membership numbers from 2009/10 to 2010/11 as at 31st March 2011. It should be noted that there are differences in the way membership numbers are 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	Ensure all disclosures required by the Statement of Recommended Practice are made in future accounts in respect of employer contributions.	1	Assistant Director Business Support	Agreed	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	April 2011

## Appendix 4 – Action plan

Rec	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
					accounts.	

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# The Audit Commission

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As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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