

Annual governance report

Suffolk Pension Fund

Audit 2011/12



Contents

Key messages	3
Before I give my opinion	4
Financial statements	5
Fees	8
Appendix 1 – Draft independent auditor’s report	9
Appendix 2 – Draft letter of management representation	11
Appendix 3 – Glossary	14

Key messages

This report summarises the findings from my 2011/12 audit of the Suffolk Pension Fund financial statements which is substantially complete.

The key messages from my audit are that:

- upon member approval of the final version of the statement of accounts and receipt of the letter of representation at the Suffolk County Council Audit Committee on 27 September 2012, I propose to issue an unqualified opinion on the Pension Fund element of the financial statements;
- I am also required to provide a separate audit report on the Pension Fund Annual Report, and I propose to issue an unqualified opinion at the same time; and
- the Pension Fund financial statements submitted for audit were complete. My audit identified no material errors within the primary financial statements; although a number of amendments were required to the notes to the accounts and a number of notes were omitted from the original draft statements presented for audit. The financial statements were supported by a good standard of working papers.

Before I give my opinion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for Suffolk Pension Fund during 2011/12.

I ask the Pension Fund Committee and the Audit Committee to:

- take note of the results of my audit of the financial statements included in this report; and
- approve the letter of representation (appendix 2), on behalf of the Pension Fund before I issue my opinion.

Financial statements

The Pension Fund's financial statements are an important mechanism for the Pension Fund to account for its stewardship of public funds. As Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements.

Opinion on the financial statements

The audit is substantially complete and upon member approval of the final version of the statement of accounts and receipt of the letter of representation at the Suffolk County Council Audit Committee on 27 September 2012, I propose to issue an unqualified opinion on the Pension Fund element of the financial statements. The opinion will form part of my opinion on Suffolk County Council's 2011/12 financial statements as a whole.

As well as reporting on the Pension Fund element of the financial statements I am also required to provide a separate audit report on the Pension Fund Annual Report. I enclose a copy of my proposed audit report on the Pension Fund Annual Report at Appendix 1.

Corrected errors

My audit identified no material errors within the primary financial statements. It did however identify the following disclosure errors:

MF Global UK – Treatment of investment asset impairment

Suffolk Pension Fund utilised the services of MF Global UK as part of the Fund's UK equities futures investment strategy. MF Global UK went into administration on 31 October 2011. At that point in time the Fund's exposure totalled £8.412m. The Fund has now received an interim distribution of £2.193m from the administrators, although elements of this may be subject to a claw back in the event of a shortfall in the funds recovered by the administrator. The interim distribution and the potential contingency relating to the claw back has been correctly treated within the statements.

There is uncertainty over the timing and amount of recovery regarding the remaining £6.219m of the original exposure, however in the draft statements this had been written off as a change in market value. This treatment was incorrect as this event represents an impairment of the investment asset. The Fund Account and relevant supporting notes have now been amended to correct this error and the statements now correctly recognise this transaction as an impairment.

Notes to the financial statements omitted from draft version

The draft version of the financial statements omitted a number of significant disclosure notes that are required by the Code. These are detailed below:

- an explanation of the nature of restatements to 2010/11 balances reflected in the 2011/12 accounts;
- significant judgements made in applying accounting policies;
- information on future assumptions or other major sources of estimation uncertainty;
- classification of financial instruments between those designated at fair value through profit and loss, loans and receivables and financial liabilities at amortised cost;
- net gains and losses on financial instruments;
- fair value of financial assets and liabilities; and
- the valuation of financial instruments carried at fair value.

The final version of the statements, which are subject to Member approval, now includes these disclosure notes.

Significant risks and my findings

I reported to you in my 2011/12 Audit Plan that I had identified no significant risks relevant to my audit of the Pension Fund financial statements. Audit procedures undertaken on the financial statements did not identify any significant risks.

Significant weaknesses in internal control

It is the responsibility of the Pension Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Pension Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Pension Fund only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control.

I have not identified any weaknesses in internal control that require reporting to either the Pension Fund or Audit Committee.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Pension Fund's financial reporting process. The financial statements submitted for audit were supported by a good standard of working papers, although a number of amendments were required to the notes to the accounts.

I have no significant matters I wish to report.

Pension Fund Annual Report

The Pension Fund prepared its Annual Report on 7 September 2012. As a result I have not yet completed my review and report on the financial statements included in the Annual Report. However, I expect to report on the financial statements included in the Annual Report on 28 September 2012.

Fees

I reported my planned audit fee in my letter of 20 April 2011 and in the 2011/12 Audit Plan.

I will complete the audit within the planned fee. As reported in my 2011/12 Audit Plan, I set the fee 5.26% below the Audit Commission scale fee of £41,165.

Table 1: Fees

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	39,000	39,000
Non-audit work	0	0
Total	39,000	39,000

The Audit Commission has paid a rebate of £3,290 to reflect attaining internal efficiency savings, reducing the net amount paid to the Audit Commission to £35,710.

Appendix 1 – Draft independent auditor’s report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF SUFFOLK PENSION FUND

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Suffolk Pension Fund in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Head of Strategic Finance and auditor

As explained more fully in the Statement of the Head of Strategic Finance Responsibilities, the Head of Strategic Finance is responsible for the preparation of the pension fund’s financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if, in my opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I have nothing to report in this respect.

Neil Harris
District Auditor

Audit Commission,
3rd Floor,
Eastbrook,
Shaftesbury Road,
Cambridge CB2 8BF

September 2012

Appendix 2 – Draft letter of management representation

To:
Neil Harris
District Auditor
Audit Commission,
3rd Floor,
Eastbrook,
Shaftesbury Road,
Cambridge CB2 8BF

Suffolk Pension Fund - Audit for the 2011/12 year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers and members in respect of Suffolk Pension Fund, the following representations given to you in connection with your audit of the Pension Fund's financial statements for the 2011/12 year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Pension Fund, for the completeness of the information provided to you, and for making accurate representations to you.

Supporting records

I have made available all relevant information and access to persons within the Pension Fund for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Pension Fund.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

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;
- 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; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Pension Fund has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of the Pension Fund's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Suffolk Pension Fund

I confirm that this letter has been discussed and agreed by the Audit Committee of Suffolk County Council on 27 September 2012.

Signed

Name

Position

Date

Appendix 3 – Glossary

Annual Audit Letter

Letter issued by the auditor to Suffolk County Council after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Pension Fund is required to prepare, which report the financial performance and financial position of the Pension Fund in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Internal control

The whole system of controls, financial and otherwise, that the Pension Fund establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Pension Fund Annual Report

The annual report, including financial statements, that the Pension Fund must publish under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

Significance

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Pension Fund. This term includes the members of the Authority, [the Pension Panel] and the Audit Committee.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

© Audit Commission 2012.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

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.

