

Annual governance report

Royal Borough of Kensington and Chelsea Pension Fund

Audit 2011/12



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Key messages

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

- Subject to the completion of my final review, I intend to issue an unqualified opinion on the pension fund financial statements.
- There has been an improvement in the quality of the draft financial statements presented for audit this year. As such, my audit testing has not identified any numerical errors that have required amendment. There have been a number of relatively minor amendments and additions to the disclosed accounting policies and the notes to the financial statements to enhance compliance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 ('the CIPFA Code'), the Pensions Statement of Recommended Practice ('the SORP') and underlying accounting standards.
- Satisfactory working papers were also provided to support the draft financial statements this year.

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 the Pension Fund during 2010/12.

I ask the Audit Committee to:

- approve the letter of representation, provided alongside this report, on behalf of the Royal Borough, before I issue my opinion.

Financial statements

The Pension Fund's financial statements are an important mechanism for the Royal Borough 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

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the Pension Fund financial statements included within the Royal Borough's Statement of Accounts. Appendix 1 contains a copy of my draft audit report.

Significant risks and my findings

I reported to you in my March 2012 Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In Table 1, I report to you my findings against each of these risks.

Table 1: **Risks and findings**

Risk	Finding
The Royal Borough's developing arrangements for sharing services, premises and management capacity in partnership with the City of Westminster Council and the London Borough of Hammersmith and Fulham include the joint provision of investment and treasury management functions. This may have implications for the arrangements for the preparation of the fund financial statements.	The joint provision of investment and treasury management functions was implemented towards the end of the 2011/12 financial year. The processes for compiling the financial statements therefore largely remained unchanged.

Risk

The present value of retirement benefits is a material item in the fund's financial statements. The complexities involved in the valuation means that there is a risk that the financial statements may be materially misstated.

Finding

The financial statements were reconciled to the assessments made by the actuary in all material respects.

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 significant internal control weaknesses that I wish to bring to your attention.

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 including the following:

- qualitative aspects of your accounting practices;
- matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions; and
- other audit matters of governance interest

I wish to bring the following issues to your attention:

Table 2: **Other matters**

Issue

The timing of contribution payments by admitted and scheduled bodies.

Finding

Regulation 42(2) of the Local Government Pension Scheme (Administration) Regulations 2008 requires admitted and scheduled bodies to pay employee contributions to the administering authority within 19 days of the end of the month to which they relate. As the administrator of the pension fund, the Royal Borough is

Issue	Finding
	<p>responsible for the stewardship of funds and should therefore ensure that all admitted and scheduled bodies pay contributions within the timescale required by the regulations.</p> <p>In last year's annual governance report, I reported numerous breaches of this requirement during 2010/11. Every month had at least one body that did not make the payment before the 19th of the month. For 2011/12, I have noted improvement in the timing of payments after the date of issue of my report (September 2011). Whilst there are still some admitted and scheduled bodies that have continued to miss the payment date during the remainder of 2011/12, this is usually only by only one or two days and the financial consequences are limited. Nevertheless, the Council should continue to encourage admitted and scheduled bodies to pay contributions before the 19th of the month.</p>
<p>The presentation of the Pension Fund financial statements.</p>	<p>There have been a number of relatively minor amendments and additions to the disclosed accounting policies and the notes to the 2011/12 financial statements to enhance compliance with the CIPFA Code, the SORP and underlying accounting standards. Looking forward to 2012/13, the tri-borough arrangements noted above provide an opportunity for further review.</p>

Fees

I reported my planned audit fee in the March 2012 Audit Plan.

I will complete the audit within the planned fee.

Table 3: Fees

	Planned fee 2011/12	Expected fee 2011/12
Audit	£35,000	£35,000
Total	£35,000	£35,000

*The fee above does not include the 8% rebate that the Audit Commission has paid to reflect attaining internal efficiency savings.

Appendix 1 – Draft independent auditor’s report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA

Opinion on the Authority financial statements

I have audited the financial statements of the Royal Borough of Kensington and Chelsea for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Revenue Account Income and Expenditure 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 the Royal Borough of Kensington and Chelsea 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 Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Town Clerk and Executive Director of Finance and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Town Clerk and Executive Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, 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 Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Town Clerk and Executive Director of Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Foreword to the Statement of Accounts and the Report to Taxpayers 2012 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 financial statements:

- give a true and fair view of the financial position of the Royal Borough of Kensington and Chelsea as at 31 March 2012 and of its expenditure and income for the year then ended; 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 Foreword to the Statement of Accounts and the content of the Report to Taxpayers 2012 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 annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

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, the Pension Fund Investment Movement Summary 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 the Royal Borough of Kensington and Chelsea 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 Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Town Clerk and Executive Director of Finance and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Town Clerk and Executive Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, 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 Town Clerk and Executive Director of Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Foreword to the Statement of Accounts and the Report to Taxpayers 2012 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 properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the Foreword to the Statement of Accounts and the content of the Report to Taxpayers 2012 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Royal Borough and the auditor

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 to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, the Royal Borough of Kensington and Chelsea put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

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

Michael Haworth-Maden
District Auditor

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

September 2012

Appendix 2 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Pension Fund 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 Royal Borough and the Audit Committee.

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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.

