

Government and Public Sector  
Year ended 31 March 2010

# London Borough of Bromley Pension Fund

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## **Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies**

*The 'Statement of responsibilities of auditors and of audited bodies' issued by the Audit Commission in April 2008 applies to our 2009/10 audit of the London Borough of Bromley under the Code of Audit Practice for Local Government Bodies issued by the Audit Commission in July 2008. A copy of the statement is available from the Chief Executive of the London Borough of Bromley . The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement and the Code of Audit Practice. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.*

# 1. Introduction

This report is in respect of our audit of the financial statements of the London Borough of Bromley Pension Fund (the “Fund”) for the year ended 31 March 2010. It is designed to provide you with feedback from the work performed and to communicate any issues which have come to our attention during the audit.

This report focuses solely on the Pension Fund audit. We are required to report formally to the Members of the London Borough of Bromley under the Audit Commission’s Code of Audit Practice and International Standard of Auditing (UK & Ireland) ISA(UK&I) 260 - “Communication of audit matters with those charged with governance” in relation to our audit of the London Borough of Bromley as a whole (the Council). This report was not prepared to comply fully with the Code of Practice although it contains much of the required content; it does, however, satisfy our duties under ISA (UK & I) 260 in respect of your role as “those charged with governance”.

We have completed the audit of the Pension Fund accounts in line with the Code of Audit Practice and International Standards on Auditing (UK & Ireland).

## 1.1 Audit status

Our audit work is substantially complete. The main outstanding matters are:

- final checks on the updated accounts
- approval of the letter of representation by the Director of Resources.

## 1.2 Audit overview and conclusions

We have performed an audit of the financial statements following the strategy outlined in our Audit Plan. Subject to final clearance and any matters raised by the Committee, we anticipate issuing an unqualified audit opinion on the Pension Fund accounts.

## 1.3 Matters arising from the audit

We are pleased to report that we have not identified any significant internal controls points as part of our audit. We have, however, noted the following opportunities to strengthen internal controls:

	Section	Importance
Incorrect contributions	3.1	Medium
Timeliness of receipt of contributions	3.2	Medium
Accounting for investments	3.3	Medium
Bank Account	3.4	Medium

The matters for governance interest noted in our report are only those that have come to our attention as a result of performing the audit. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance.

We would like to record our thanks to the officers of the Council who have assisted us in completing our audit work.

# 2. Audit Scope and Approach

Our audit followed the strategy discussed and agreed with management at our planning meeting and documented within our Pension Fund Audit Plan. We confirm that there has been no cause for us to vary the planned scope of our work. We have included a summary of our audit approach for each of the key components, together with our findings, below:

## Summary approach

	Overall control environment	Investments and investment return	Contributions	Benefits/ membership (including pensions, transfers and refunds)	Admin expenses	Other net asset statement balances
Management controls	✓	✓	✓	✓	✓	
Administrative controls	✓		✓	✓	✓	
Review of internal control reports		✓ (I)				
Work performed at Council payroll			✓			
Third party confirmations		✓ (I, A,C)	✓			✓ (B)
Analytical procedures		✓	✓	✓	✓	✓
Substantive testing		✓	✓	✓	✓	✓

I – investment manager, C – custodian, A – AVC provider, B – bank

## Investment assets

	2010 £m	2009 £m
Investment Assets	446.3	297.4
Current Assets	0.9	0.9
Current Liabilities	(1.5)	(0.8)
Total	445.7	297.5

The increase in market value of the Investments was due to a recovery in markets in 2010 following severe losses in 2009.

Focus area	Audit approach	Findings
Investments exist	<p>We understood the controls and procedures over the monitoring of investments, including reviewing committee minutes to confirm the monitoring process, and the committee's consideration of the impact of recent market volatility and compliance with the Statement of Investment Principles.</p> <p>We obtained independent third party confirmation of assets held from the investment managers and custodian.</p> <p>We obtained and reviewed the third party control reports (AAF/SAS 70) on investment management and custody and considered the impact on our audit.</p>	No issues noted
Investments are correctly valued	<p>We performed tests of valuation of listed investments against third party sources.</p> <p>We sought to understand the Council's control environment and how it validated the asset values provided by investment managers including those not quoted, not actively traded or where no market exists.</p>	Please see 3.3
Investment performance data reported to the committee is consistent with the financial statements	We performed analytical review of investment returns/income comparing these to published indices/benchmarks, accounting records and the investment report within the Annual Report and accounts for consistency.	No issues noted
Investment activities are in accordance with the Statement of Investment Principles (SIP)	We reviewed the year end holdings and considered whether they were compliant with the SIP.	No issues noted

## Contributions

	2010 £m	2009 £m
Employees' normal contributions	6.2	5.9
Employer's normal contributions	14.4	12.7
Deficit contributions	8.6	8.3
<b>Total</b>	<b>29.2</b>	<b>26.9</b>

The number of active members in the Fund increased during the year from 5,179 to 5,360. This is reflected in the increase in the overall total of contributions along with the increase in the percentage of employer contributions and the pay increase.

Focus area	Audit approach	Findings
Employer and employee contributions are paid in accordance with the actuary and the Local Government Pension Scheme Rules.	<p>We reviewed the employer contribution rates specified by the Actuary.</p> <p>We reviewed the employee rates under LGPS.</p> <p>We reviewed the controls operated by the Council and validated that these controls are</p>	Please see 3.1

Focus area	Audit approach	Findings
	<p>still working as expected.</p> <p>We performed detailed testing on the employer payroll. We assessed whether pensionable salary used accords with the Local Government Pension Scheme Rules.</p> <p>We considered the amounts of monthly contributions received in order to investigate any unusual fluctuations.</p>	
Contributions are paid to the Fund promptly.	We reviewed the timing of receipt of contributions by the Fund.	Please see 3.2

## Benefits and membership

	2010 £m	2009 £m
Pensions	18.3	16.8
Commutations and lump sum retirement benefits	5.5	4.4
Death Benefits	0.3	0.4
Refund of Contributions	0.1	0.1
Total	24.2	21.7

The number of members in receipt of a pension increased from 4,270 to 4,413 during the year. This is reflected in the overall increase in benefits along with the Pension Increase which was applied to Pensions.

Focus area	Audit approach	Findings
Benefits are calculated correctly in accordance with the Local Government Pension Scheme Rules	We reviewed the controls operated by the Council and validated that these controls are operating as expected.	No issues noted
Benefits are paid at the right rate to valid beneficiaries	<p>We performed substantive testing procedures over all material benefits categories.</p> <p>We reviewed the controls over the operation of the pension payroll system.</p> <p>We performed analytical review of pensioners' pay and understood the reasons for differences between our expectation and actual.</p> <p>We considered the amounts of monthly pensions paid and investigated any unusual fluctuations in these amounts.</p> <p>We reviewed the controls over the application of pension increases to the pension payroll. We confirmed that the increases in rates are consistent with those awarded.</p>	No issues noted.
Benefits are only paid to bona fide pensioners.	We reviewed the results of the existence exercise which was completed as part of the National Fraud Initiative.	No issues noted
Membership statistics accurately reflect the membership of the Fund	We compared the membership statistics and movements reported in the accounts with data generated by the administration system and our knowledge of joiners, leavers, retirees etc.	No issues noted

# 3. Internal Control Recommendations

## Issue

### 3.1 Incorrect contributions

Our testing noted that for one member no employer contributions had been made for the individual after the employee changed contribution bandings in June 2009 until March 2010. The total amount of underpayment of the individual's employer contributions was £4,273.19. Liberata has since paid this into the scheme.

On investigation by Liberata they were not able to ascertain the reason why the error occurred.

## Recommendation

Liberata has now strengthened their controls over members changing contribution bandings. Liberata now runs a report on a monthly basis (rather than annually) to identify all members whose contribution banding has changed and ensures that for those members their employer's and employees' contributions have been accurately calculated.

In addition we recommend that Liberata continue their investigation to ascertain the reason for this error.

## Issue

### 3.2 Timeliness of receipt of contributions

Contributions from Admitted and Scheduled bodies were not always received by the Council by the 19<sup>th</sup> of the month following the month to which they relate. Approximately 50% of contributions from the Admitted and Scheduled bodies were received late, although the majority are paid within 7 days following the deadline.

We recognise that the timeliness of payment of contributions has somewhat lower significance than in many other private sector pension schemes as the Fund does not face going concern risk to the same extent. However, we do recommend that controls are put in place to monitor the timing of payment of contributions to the Fund, with chasing procedures adopted when payments have not been received by the second week of the month following the payroll month to which the contributions relate.

With the introduction of a separate bank account in 2010/11 (see Section 3 Internal Control Recommendations) it is important that the Fund is able to predict cash flow accurately and ensure that it can invest contributions promptly in order to maximise investment returns.

## Issue

## Recommendation

### 3.3 Accounting for investments

The accounts include the pooled investment vehicles at the net asset values at 31 March 2010 as provided by Baillie Gifford. Baillie Gifford have annual accounts prepared and audited to 31 December and in all cases the annual reports to 31 December 2009 were obtained. We compared the audited accounts through to the unaudited management information which had been provided before the audited accounts were available and ensured the following;

- The valuation methodology was the same for the unaudited management information as the valuation method used for the audited accounts.
- We ensured that the opinion provided by the auditors was unqualified and did not include an emphasis of matter.
- We recalculated the Pension Fund's net asset value based on the signed audited financial statements and compared this through to the unaudited management information.
- We considered the proficiency of the auditors.
- We considered any changes in market movements between December and March.

We recommend that a process is put in place at the Council to compare the unaudited information in the accounts to the audited underlying Pooled Investment Vehicles accounts when they become available and investigate the reasons for variances in the figures

## Issue

## Recommendation

### 3.4 Bank Accounts

The Pension Fund is currently operated from the Council's main bank account. A new requirement for each pension fund is that it should have, by 1 April 2011, a bank account which is separate from any which the administering authority has in its capacity as a local authority. This change is being adopted because it will enable pension fund monies to be clearly ring-fenced from other monies of the local authority, and thus reflects a longstanding Audit Commission view on best practice. We noted during our audit that the Pension Fund held £2m at the end of the year within the Council's own bank account for an operational float for the Pension Fund.

The Council has already begun giving consideration to this new requirement and we recommend that the Pension Fund bank account is made operational before the deadline to allow for possible implementation problems.



*In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), you are required to disclose any information contained in this report, we ask that you notify us promptly and consult with us prior to disclosing such information. You agree to pay due regard to any representations which we may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such information. If, following consultation with us, you disclose any such information, please ensure that any disclaimer which we have included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.*

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