

*London Borough
of Bromley
Pension Fund
Report to those charged
with governance*

*Year ended 31 March 2012
Prepared for the Pensions Committee
10 September 2012
Strictly confidential*

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1 Executive summary

The purpose of this report

Under the Auditing Practices Board's International Standards on Auditing (UK and Ireland) 260 (ISA (UK&I) 260) "Communication of audit matters with those charged with governance" we are required to report to those charged with governance on the significant findings from our audit of the London Borough of Bromley Pension Fund ("the Fund"). As agreed with you, we consider that "those charged with governance", are the Pensions Committee.

We would also like to take this opportunity to express our thanks for the co-operation and assistance we have received from the management and staff of the Fund throughout our work.

Scope of our work

Our audit was performed under International Standards on Auditing (UK & Ireland) and followed the approach set out in our Audit Plan. There has been no cause for us to vary the planned scope of work.

An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters.

Accounts and audit status

Our audit of the accounts of the Fund is substantially complete subject to:

- Review of the final annual report
- Approval of the annual report by the Pensions Committee
- Receipt of the letter of representation

We anticipate issuing an unqualified audit report.

Misstatements and significant audit adjustments

We have not identified any material uncorrected misstatements in the accounts that require representation from the Pensions Committee.

Audit issues, findings and internal control recommendations

It is the responsibility of the 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. As auditors, we review these arrangements for the purposes of our audit of the accounts and our review of the annual report.

The main findings from our audit are included in section 2. Issues that we wish to bring to the attention of the Pensions Committee are included in section 3. An update on the matters raised in the prior year audit is detailed in section 3. Other matters which we wish to bring to your attention are in section 4.

Management representations

The final draft of the representation letter that we are requesting management and those charged with governance to sign is included in the report of the main Authority.

Audit independence

Independence from our audit clients is required by our regulators, it is also crucial to our business, our reputation and success as a firm. We have procedures in place to ensure that any conflicts of interest of which we are aware are communicated to our clients and resolved.

This includes all relationships between PricewaterhouseCoopers LLP in the UK and associated entities and the Fund that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity of the audit engagement leader and staff. There may be factors known to you which we are not aware of, and our engagement letter asks that you tell us about this; especially if any Pensions Committee

member/key management personnel becomes connected with PwC. The letter of representation also requires you to confirm that you are not aware of any such issues.

Maintaining and assessing our independence is a continual process throughout the audit cycle. We have considered and assessed any threats to our independence and objectivity and we hereby confirm that in our professional judgement:

- we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and
- our objectivity is not compromised.

Fees update for 2011/12

We reported our fee proposals as part of the Audit Plan for 2011/12. Our actual fees were in line with our proposals.

2 Audit findings

Financial highlights

Fund account		Net assets statement	
£'000	2012	£'000	2012
Contributions	28,057	Investments	499,322
Transfers in	4,261	Net current assets	2,227
Benefits, leavers and transfers	(28,796)	Net assets	501,549
Administration expenses	(629)		
Net investment returns	10,481		
Investment management expenses	(1,190)		
Net increase	12,184		
Opening net assets	489,365		
Net assets	501,549		

Contributions

Key figures		
£'000	2012	2011
Employer normal	16,791	13,275
Deficit funding	5,500	8,929
Member normal	5,766	6,040
Contributions	28,057	28,244

Commentary

Employer normal contributions have increased due to the finalisation of the actuarial valuation as at 31 March 2010, the common employer contribution rate has increased from 14.7% to 23%.

Deficit funding contributions have been paid in accordance with the rates and adjustments certificate.

Member normal contributions have fallen in line with the fall in active members.

Focus Area	PwC Response	Matters arising
Payment of contributions in accordance with the rates and adjustments certificate	<ul style="list-style-type: none"> Undertook analytical review of contributions for reasonableness compared with the prior year, allowing for changes in membership, pay and rates of contributions. Considered the monthly contributions received and investigated any unusual fluctuations. Tested on a sample basis that the contributions are calculated and paid in accordance with the rates and adjustments certificate. Reviewed the timing of the payment of contributions compared with legislative requirements. 	None

Benefits

Key figures

£'000	2012	2011
Pensions	20,465	19,223
Lump sums – retirement	5,705	5,674
Lump sums – death	795	332
Refunds	11	17
Transfers out	1,820	2,734
Total	28,796	27,980

Average pension per pensioner member

	2012	2011
Average pensioners	4,575	4,467
Average pension per member	£4,473	£4,303

Commentary

Pensions in payment increased in line with membership movements and the average pension increase.

Lump sums and leaver payments are expected to be in line with membership movements.

Focus Area	PwC Response	Matters arising
Benefits are correctly calculated according to the Trust Deed and legislation.	<ul style="list-style-type: none"> Reviewed the controls operated by the administration team (including over the pension payroll) and validated on a sample basis that these are operating as expected. Undertook analytical review of pensions paid for reasonableness compared to the prior year, allowing for changes in membership and the effects of the pensions increase. Considered the monthly total pensions paid and investigated any unusual fluctuations. Performed substantive testing on a sample basis over material types of benefit payments. 	None

Investments

Key figures

£'000	2012	2011
Equities	261,049	260,715
Pooled investment vehicles (PIVs)	225,778	219,816
Cash deposits	12,753	10,560
Other	(258)	(1,500)
Investments	499,322	489,591

Investment returns

£'000	2012	2011
Investment income and change in market value	10,481	39,597
Investment management expenses	(1,190)	(2,318)
Investment returns	12,184	41,569

Commentary

There have been no changes to the investment strategy during the year. The movement in investments from the prior year is mainly due to positive market returns.

Investment performance

%	2012
Estimated* per accounts	2.1
Benchmark return	2.6

**The estimated return based on the financial statements is a simple calculation comparing investment income and change in market value with the average investments held during the year, which we have calculated to assess reasonableness compared with other investment return figures disclosed.*

Focus Area	PwC Response	Matters arising
Existence of investments.	<ul style="list-style-type: none"> Understood trustee and management monitoring controls, including review of trustee meeting minutes. Obtained independent confirmations of assets from the custodian and investment managers. Reviewed internal controls reports (AAF/SAS70) on investment management and custody. 	None
Valuation of investments.	<ul style="list-style-type: none"> Tested valuation of quoted investments against third party sources. Reviewed valuations for pooled investment vehicles. 	None
Completeness of investments.	<ul style="list-style-type: none"> Reviewed the reconciliations of cash inflows and outflows from the trustees' bank account compared to contributions and other income, benefits and expenses and the movements in investments. 	None
Performance of investments reported is consistent with the financial statements.	<ul style="list-style-type: none"> Completed an analytical review of investment returns for reasonableness compared with the scheme's benchmarks and other external indices. 	None
Allocation of investments is in accordance with the Statement of Investment Principles ('SIP').	<ul style="list-style-type: none"> Reviewed the allocation of investments compared with the requirements of the SIP. 	None

Significant risks

ISAs recommend that we communicate how we propose to respond to significant risks (those which require special audit consideration) identified during the audit. Because of the potential link to fraud, the risk of **management override of controls** is always considered a significant risk. We addressed this risk by performing testing of journals, reviewing estimates made by management, and reviewing minutes in connection with significant or unusual transactions. There are no matters to report as a result of this testing.

Disclosure matters

We have not identified any significant matters in respect of disclosures.

3 Internal control recommendations

We have graded the impact of the matters in this section on the following basis:

HIGH	A significant issue which could result in material financial, regulatory or reputational risk.
MEDIUM	A less significant issue but still relating to an area where we think controls should be improved as a priority.
LOW	Areas where we recommend enhancements be made to existing controls or matters of best practice.

Matters arising in the current year

Issue	Supporting documentation for bank receipts	MEDIUM
<i>Observation and implication</i>	During our audit work over the receipt of contributions from admitted and scheduled bodies we were unable to locate the bank statement for one BACS receipt and were therefore unable to verify whether the contribution has been received by the Council by the 19 th of the month following the month to which the contributions relate.	
<i>Recommendation</i>	We recommend that the procedures over the maintenance of bank statements are reviewed to ensure that sufficient information is held to support the transactions in the pension fund accounts.	
<i>Management response and timescale</i>	Agreed and will liaise with Liberata staff to ensure adequate retention of documents. Timescale: immediate	

Update on matters reported last year

Issue	Monitoring of contributions	MEDIUM
<i>Observation and implication</i>	During our audit work over the receipt of contributions from admitted and scheduled bodies we identified that there is no clear responsibility delegated to ensure that contributions are received by the Council by the 19 th of the month following the month to which they relate. Our testing on a sample of 15 receipts identified one late receipt which was one day late.	
<i>Recommendation</i>	We recognise that the timeliness of contribution receipts has somewhat lower significance compared to private pension schemes. However, we recommend that controls are put in place to monitor the timing of contribution receipts to the Fund and that procedures to follow up payments not been received by the second week of the month following the payroll month are adopted.	

Issue**Monitoring of contributions****MEDIUM**

Management response and timescale

Council officers will liaise with Liberata and will ensure that controls are put in place to monitor the timing of contribution receipts to the Fund and that a follow-up procedure is put in place.

Update during 2012 audit:

Liberata were reminded of their responsibilities following the 2010/11 audit and, as far as officers are aware, there were no late receipts in 2011/12 and the matter is considered closed.

No late contributions were identified in the sample of contribution receipts that were tested as part of the 2012 audit.

4 Accounting and other observations

We are required to report to you our view on qualitative aspects of the Fund's accounting practices and financial reporting. As a result of our audit procedures we agreed few changes to the draft accounts. The draft accounts presented to us in June 2012 for audit were generally of a good standard. The changes we did propose mainly related to the presentation of the accounts or disclosures and did not significantly change the reported results.

IFRS disclosures

The Code of Practice on Local Authority Accounting 2011/12 requires IFRS disclosures for the first time this year. Many of our local authority clients have adopted some of these disclosures. We have discussed with management any areas where the disclosures Bromley has included in the 2011/12 accounts could be further improved for 2012/13.

Appendix I Sharing our insight

Briefings and surveys

We have a variety of surveys and publications covering pension issues and related matters which are available to trustees and include a summary below:

Governance Survey - produced biennially to provide an objective benchmark against which trustees can measure the performance of their own scheme. The 2012 Governance Survey has been published.

Please let us know if you would like to receive the findings from the survey.

Trustee newsletters - produced monthly and covering a topical issue. These can be emailed individually or can be accessed on our website:

http://www.pwc.co.uk/eng/publications/pension_trustee_index.html.

Pensions File – email bulletins on significant changes and developments.

Annual Pensions Survey - tracks corporate thinking on pensions provision.

Trustee Pay Survey – ad hoc survey (latest review will be published by end of April 2012).

Asset management publications - these are available via an online publication browser (covers subjects such as UK Real Estate, insights/trends in asset management) and can be accessed by the web link below: http://www.pwc.co.uk/eng/industries/fs_publications.html.

We would be pleased to arrange for individual trustees to receive these publications if they are interested in any/all of them.

Trustee seminars

The dates and locations for this year's programme of seminars are set out below. The seminars are free and open to all our client trustees. Please let us know if you would like to attend.

Region	Location		Date
Scotland	Edinburgh	PwC	25 Oct 2012 - 8.30
	Glasgow	PwC	11 Oct 2012 - 8.30
North	Wakefield	Cedar Court	17 Oct 2012 - 8.00
	Warrington	The Park Royal	11 Oct 2012 - 8.00
Midlands	Birmingham	PwC, Cornwall Court	10 Oct 2012 - 8.30
West and Wales	Chepstow	Marriott St Pierre Hotel	18 Oct 2012 - 8.30
London and South East	London	PwC, More London	16 Oct 2012 - 8.30

In the event that, pursuant to a request which the London Borough of Bromley (“the Authority”) has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. The Authority agrees to pay due regard to any representations which PwC may make in connection with such disclosure and the Authority shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, the Authority discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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