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***London Borough  
of Bromley  
Pension Fund***  
Report for the year  
ended 31 March  
2011

*Strictly confidential  
August 2011*



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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 March 2010 applies to our 2010/11 audit of Bromley Council under the Code of Audit Practice for Local Government Bodies issued by the Audit Commission in March 2011. A copy of the statement is available from the Council. 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 Executive summary*

## *Scope of our work*

This report is in respect of our audit of the accounts of the London Borough of Bromley Pension Fund (the “Fund”) for the year ended 31 March 2011. This report focuses solely on the Pension Fund audit. The purpose of this report is to provide you with feedback from the audit work performed and to communicate relevant issues which have come to our attention during the audit.

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

We would like to record our thanks to Martin Reeves, the officers of the Council and the administration team at Liberata who have assisted us in completing our audit work.

## *Audit status*

Our audit of the accounts of the Fund for the year ended 31 March 2011 is substantially complete, subject to:

- review of the final Annual Report;
- approval of the Annual report by the Pensions Committee; and
- receipt of the signed letter of representation.

## *Our conclusions*

Subject to the satisfactory clearance of the above matters we anticipate issuing an unqualified audit opinion on the pension fund accounts.

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

## *Audit issues, findings and recommendations*

The main issues and findings from our audit are around controls over monitoring of receipt of contributions; and AVCs disclosures. Further detail on these findings is provided in section 2 of this report.

## *Independence and objectivity*

Our reputation and continued success as a firm depends on our maintaining auditor independence. We are required to communicate with you matters that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

We confirm that, in our professional judgement, as at the date of this document, we are independent auditors with respect to the Authority and its related entities, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit engagement leader and the audit staff is not impaired.

## *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, reviewing minutes in connection with significant or unusual transactions and incorporating an element of unpredictability in our testing. There are no matters to report as a result of this testing.

## ***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 Authority's ISA 260 report.

## ***Related parties***

No significant matters in connection with the related parties were identified during the audit.

## 2 Internal control recommendations

### Significant matters arising from this year's audit

We are required to report to you any material weaknesses in the accounting and internal control systems identified during the audit. We have graded the impact of the matters in this section on the following basis:

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

<b>Issue</b>	<b>Monitoring of contributions</b>	<b>MEDIUM</b>
<i>Observation and implication</i>	<p>During our audit work on the receipt of contributions from admitted and scheduled bodies we identified that there is no clear responsibility delegated between the Council and Liberata to ensure that contributions are received by the Council by the 19<sup>th</sup> 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.</p> <p>This issue was also raised last year (see below).</p>	
<i>Recommendation</i>	<p>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.</p>	
<i>Management response and timescale</i>	<p>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.</p>	

Issue	AVC disclosures	MEDIUM
<i>Observation and implication</i>	<p>In accordance with Regulation 5 (2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831), AVCs are not included in the Pension Fund accounts. However, disclosure is required of the value of these policies by way of a note to the accounts. In the past the Fund received annual statements from the AVC providers (Equitable Life and Aviva) as at 31 March confirming the amounts held in members' accounts and the movements in the year.</p> <p>From 2010/2011, Aviva has changed its procedures and these statements have been produced and sent to members on their birthdays. Aviva has not been able to provide the total value of benefits as at 31st March 2011 (as at 31st March 2010 the value was £1,182,920). In the absence of this information the accounts for 2010/2011 disclose the prior year value and cash movements during the year.</p>	
	We understand management is trying to resolve the issue with Aviva.	
<i>Recommendation</i>	We recommend that this issue is discussed with Aviva in order to ensure management is provided with information to ensure that movements in AVC values can be monitored appropriately and that the pension fund accounts are prepared in line with best practice.	
<i>Management response and timescale</i>	Council officers will pursue this matter with Aviva with a view to obtaining the required information.	

## Update on matters reported last year

<i>Prior year observation and implication</i>	Incorrect contributions	MEDIUM
<i>Prior year observation and implication</i>	Our testing noted that for one member no employer contributions had been made for the individual after the employer changed contribution banding for the nine months June 2009 until March 2010. The total amount of the underpayment of the individual's employer contributions was £4,273. This amount has since been paid into the Fund. On investigation Liberta were not able to ascertain the reason why the error occurred.	
<i>Prior year recommendation</i>	Liberta has since strengthened their controls over 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 ensure that for these members their contributions have been accurately calculated.	
<i>Update and further recommendations</i>	<b>CLOSED</b>	

<b>Prior year observation and implication</b>	<b>Timeliness of receipt of contributions</b>	<b>MEDIUM</b>
<i>Prior year observation and implication</i>	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 these bodies were received late, although the majority are paid within seven days following the deadline.	
<i>Prior year recommendation</i>	Whilst we recognise that the timeliness of contribution receipts has somewhat lower significance compared to private pension schemes we recommend that controls are put in place to monitor the timing of contribution receipts 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 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.	
<i>Update and further recommendations</i>	<b>ON-GOING</b> see issues raised in the current year	
<b>Prior year observation and implication</b>	<b>Bank accounts</b>	<b>MEDIUM</b>
<i>Prior year observation and implication</i>	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 long standing 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.	
<i>Prior year recommendation</i>	The Council has already begun to giving consideration to this requirement and we recommend that the pension fund bank account is made operational before the deadline to allow for possible implementation problems.	
<i>Update and further recommendations</i>	<b>CLOSED</b> A new bank account was set up on 1 April 2011.	

## ***3 Accounting observations***

### ***3.1 Accounting and other observations***

We are also required to report to you our view on qualitative aspects of the Council's accounting practices and financial reporting. As a result of our audit procedures we agreed a few changes to the accounts approved by the in June 2011. These changes related to the presentation of the accounts or disclosures and did not change the reported results. The main changes made are:

- Merging of unrealised and realised investment gains and losses as one line 'change in market value'; and
- Additional disclosure of investment manager performance fees.

### ***3.2 Financial Instruments Disclosures for Pension Fund Accounts***

In the Accounts Code, there is some evidence of an intention for pension fund administering authorities to make IFRS 7 risk disclosures in relation to financial instruments; however, the requirements are unclear. Furthermore the Code Guidance Notes and the Accounts Code Checklists issued by CIPFA have not set out any new requirements for risk disclosures. We have considered the requirements of the Code in respect of IFRS 7 and due to the uncertainty we are awaiting further guidance to be issued by CIPFA confirming their intentions for future periods.



## 4 PwC's pension publications and events

### Surveys and publications

We have a variety of surveys and publications covering pension issues. We would be pleased to arrange for individual trustees to receive these publications if they are interested in any/all of them.

**Governance Survey** - produced biennially to provide an objective benchmark against which trustees can measure the performance of their own scheme. The 2010 Governance Survey was published in April 2010 and key findings can be found on our website. [http://www.pwc.co.uk/eng/publications/pension\\_surveys\\_index.html](http://www.pwc.co.uk/eng/publications/pension_surveys_index.html)

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

**Pensions Brief** - an electronic monthly summary of pensions-related technical issues. It can be accessed on the web via <http://www.pensionsbrief.com>.

**Pensions File** - email bulletins on significant changes and developments.

**Annual Pensions Survey** - tracks corporate thinking on pension provision.

**Trustee pay survey** - ad hoc survey (latest version was March 2010).

**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.com/gx/en/asset-management/library>.

### Events

We run a range of pensions events tailored for particular audiences.

**Pension trustee seminars for 2011** – these seminars are aimed at trustees, pension managers and secretaries to trustee boards and are held in a number of different locations. They provide an opportunity to look at issues faced by trustees, with input from PwC's specialists. Please let us know if you would like further details.

### Industry awards

We are proud to have been recognised by trustees and people who are prominent in the pensions industry with these awards:



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