

# **Annual governance report**

**Greater Manchester Pension Fund**

**Audit 2010/11**

**The Audit Commission is a public corporation set up in 1983 to protect the public purse.**

**The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.**

**We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.**

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Ladies and Gentlemen

## **2010/11 Annual Governance Report**

I am pleased to present the results of my audit work for 2010/11.

A draft of my report has been agreed with the Executive Director of Pensions and other officers and will be updated as necessary.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 3 to 10);
- note the adjustments to the financial statements set out in this report (appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (appendix 4); and
- agree your response to the proposed action plan (appendix 6).

Yours faithfully

Mark Heap  
District Auditor

24 August 2011

# Key messages

**This report summarises the findings from the 2010/11 audit, which is substantially complete. It contains the messages arising from my audit of your financial statements.**

Table 1: **Key messages - financial statements**

Financial statements	Results	Page
Unqualified audit opinion	Yes	3, 5, 11, and 14.
Important weaknesses in internal control	No	8

## Audit opinion

**1** I will issue two audit reports on the financial statements of the Pension Fund. Both of these will show an unqualified audit opinion. The two reports will cover the:

- Pension Fund's financial statements as presented in the Greater Manchester Pension Fund Annual Report; and
- Pension Fund's financial statements included within the administering authority's accounts for Tameside Metropolitan Borough Council.

**2** As at 24 August 2011, the date on which papers are required for the Pension Fund Management Panel, I have substantially completed my audit, subject to carrying out my final checks on the inclusion of the Pension Fund financial statements within the administering authority audited financial statements.

**3** The Audit Commission addresses pension fund audits as a separate engagement, which is why I am reporting my audit to both the Pension Fund Management Panel and Tameside Metropolitan Borough Council's Overview (Audit) Panel. I will update Members on progress on the issues referred to in paragraph 1 at these meetings.

**4** The Pension Fund team presented the financial statements and notes by the 30 June 2011 notwithstanding all the significant challenges arising from the first year implementation of International Financial Reporting Standards (IFRS). The team's responses to queries raised at audit were prompt and helpful. In addition, the team helped to progress some early audit tests ahead of the full preparation of the financial statements.

## Financial statements

**5** Subject to any changes arising from completion of our final processes as outlined in paragraph 2, no material misstatements have been identified during the course of the audit.

**6** I am required to report to you any non-trivial misstatements which have been identified at audit. No non-trivial misstatements have been identified. However, some improvements were made during the audit in relation to new disclosures required in respect of financial instruments. In addition, some IFRS comparative disclosures were added to the statements and the notes in respect of the opening position at April 2009.

## Audit fees

**7** At this stage, I do not anticipate that any additional fees will be required to complete this year's audit.

## Independence

**8** I can confirm that I have complied with the Audit Practice Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm that there were no relationships resulting in a threat to independence, objectivity and integrity.

**9** The Audit Commission's Audit Practice has not undertaken any non-audit work for the Pension Fund during 2010/11.

## Next steps

**This report identifies the key messages that you should consider before I issue my opinion on the Pension Fund's financial statements, which also forms part of my report on the Council's financial statements. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.**

**10** I ask the Pension Fund Management Panel to:

- consider the matters raised in my report before approving the financial statements (pages 3 to 10);
- take note of the adjustments to the financial statements which are set out in this report (appendix 3);
- approve the letter of representation on behalf of the Council for the Pension Fund before I issue my opinion (appendix 4); and
- agree your response to the proposed action plan (appendix 6).

**11** I will also be presenting this Annual Governance Report to Tameside Metropolitan Borough Council's Overview (Audit) Panel on 26 September 2011 along with an Annual Governance Report covering the remainder of the Council's financial statements. This is where the formal approval for the Council's financial statements occurs.

# Financial statements

**The Pension Fund's financial statements are important means by which the Pension Fund accounts for its stewardship. The Council has final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements.**

## **Opinion on the financial statements**

**12** Subject to satisfactory clearance of my final checks on the inclusion of the Pension Fund financial statements within the administering authority audited financial statements, I plan to issue an audit report including an unqualified opinion on the financial statements.

- Appendix 1 contains a copy of my draft audit report on the Pension Fund's financial statements included within the Annual Report.
- Appendix 2 contains the relevant extract of my draft audit report for Tameside Metropolitan Borough Council's financial statements.

## **Amendments to the financial statements**

**13** Subject to any changes arising following the completion of our final processes as outlined in paragraph 12, no material misstatements have been identified during the course of the audit.

**14** I am required to report to you any non-trivial misstatements which have been identified at audit. None have been identified.

**15** Some amendments have been made to improve the disclosures in the financial statements as noted in Appendix 3. These were required to reflect the 'CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 based on International Financial Reporting Standards' (The IFRS Code). The IFRS code implemented IFRS for the first time in Local Government and in their pension funds. The changes mainly related to:

- improving the disclosures made in relation to the new reporting requirements for financial instruments and financial estimates; and
- disclosing the 1 April 2009 comparative net asset statement and related notes and their movements in 2009/10. None of these values changed from figures reported in previous years.

**16** These amendments had no impact on the reported financial position. They add to the explanations of the IFRS values in the financial statements.

## Recommendation

**R1** Members are asked to consider the amendments to the disclosures in the financial statements. These are listed in appendix 3.

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### Key areas of judgement and audit risk

**17** In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

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Table 2: **Key areas of judgement and audit risk**

Issue or risk	Finding
<p>The Pension Fund had to prepare International Financial Reporting Standards (IFRS) compliant financial statements from 2010/11. The introduction of IFRS also required the Pension Fund to restate the 2009/10 financial statements.</p> <p>The financial statements may not properly reflect relevant changes in accounting requirements and disclosures.</p>	<p>I reviewed the risks and the arrangements in place for the transition to IFRS. The audit team liaised with the Pension Fund's accountancy and investment teams as the Pension Fund developed its approach to the new requirements in respect of IFRS and financial instrument disclosures.</p> <p>I reviewed the 1 April 2009 and 31 March 2010 net asset statement and the 2009/10 fund statement in relation to the new the IFRS requirements. There are no IFRS changes that impact on the previous reported figures, as they previously were at fair value, an IFRS requirement. However, some disclosures and descriptions had changed.</p> <p>I reviewed the accounting policies and completed detailed testing on balances as part of the audit of the 2010/11 financial statements to ensure that the new requirements were met.</p> <p>The issues I found around the implementation of IFRS and the related financial instrument disclosures are noted in paragraph 15, 16 and Appendix 3.</p>
<p>The IFRS code includes the requirement to disclose in accounting terms the actuarial present value of promised retirement benefits following International Accounting Standard 26 (IAS 26). This is an accounting estimate and a material misstatement of the relevant note could result. Note the estimate is not part of the net asset statement, nor is it the valuation used for funding purposes.</p>	<p>My audit has assessed the work of the Pension Fund's Actuary as your expert for arriving at the accounting disclosure actuarial present value of promised retirement benefits.</p> <p>I have reviewed the Pension Fund's consideration of the actuary's assumptions and the accounting treatment.</p> <p>I have conducted audit tests on the estimates and made local enquiries of the actuary as to the estimates and his expertise. To support my work, I have also been able to draw on the Audit Commission's national review of the actuary and the assumptions, using our national audit experts.</p>

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Issue or risk	Finding
<p>The Pension Fund's investments are valued annually at bid price on 31 March. Many of the Pension Fund's investment values are obtained from expert valuations. Although management review and monitor any assumptions and differences in values on a regular basis, there remains a risk that they could be misstated.</p>	<p>I have obtained confirmation from the valuers as to their valuation expertise, the procedures they adopted, and details of their valuations. I have considered how these are applied to the various investment assets held by the Pension Fund. I have reviewed how management monitor any differences and how these are explained.</p> <p>Private equity and indirect property investments have more subjective valuation procedures and I conducted further audit review of these. Last year I recommended that the Pension Fund's internal control procedures should be improved for these investments. New internal control procedures based on the Pensions Research Accountants Group (PRAG) Guidance on Investment Valuations have been implemented in 2010/11. I have used this to support my audit tests.</p>
<p>Legislation sets out specific requirements for the format of pension fund annual reports. An audit opinion is given on the financial statements in the annual report. A separate audit opinion is also given within the opinion for Tameside MBC accounts. There is a risk that these two reporting formats may not be aligned.</p>	<p>I review the financial statements for consistency in both reporting formats and for compliance with the relevant reporting guidance. The reporting format prepared in the Annual Report for the financial statements is copied into the administering authority's accounts. As noted in paragraph 2, I have to complete my final checks on this process before the Pension Fund's part of the opinion is given in Tameside Metropolitan Borough Council's accounts.</p> <p>As I have noted, changes have been made to the Pension Fund's financial statements as originally presented. I do not envisage any new issues will arise from this checking of consistency, as the financial statements in the Annual Report are those on which I intend to give my opinion.</p>

### Important weaknesses in internal control

**18** No important weaknesses in internal control have been identified by my audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

### Quality of your financial statements

**19** I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statement disclosures. Table 3 contains the issues I want to raise with you.

Table 3: **Accounting practices, policies and estimates and financial statement disclosures**

Issue	Finding
Accounting estimates	<p>A paper identifying key accounting estimates and the basis upon which they were made was discussed and reviewed by the Pension Fund’s Ethics and Audit Working Group in July 2011. This review by management and Councillors provided good support to our audit review of the estimates. In auditing the estimates in the accounts, we found that reasonable bases have been used. The substance of the paper formed part of the financial statements to explain the estimates within them as required by the IFRS code.</p> <p>Key estimates discussed included those for:</p> <ul style="list-style-type: none"> <li>■ Investments’ fair value; and</li> <li>■ IAS 26, actuarial valuation of present value of promised retirement benefits.</li> </ul>
Lump sum payments	<p>The Pension Fund accountancy team identified a systems difficulty in obtaining a suitable analysis for us to test the lump sums payments that are recorded in the financial statements. However, our audit test was completed satisfactorily. The Pension Fund accountancy team are considering ways to produce a person by person analysis in future years. This may require system enhancement.</p>
Related parties	<p>We have found that the Pension Fund has a number of systems and arrangements in place for identifying and recording transactions with related parties, for example:</p> <ul style="list-style-type: none"> <li>■ the identifying and recording of transactions with the Council who administers the pension fund and with other Councils who are members of the Fund;</li> <li>■ the register of interests and declaration of these, which allows other transactions to be identified and recorded; and</li> <li>■ general ‘round table’ discussion by the Pension Fund management team of any related parties and transactions that need identifying.</li> </ul> <p>Whilst related parties and transactions that are identified are noted in financial statements based on this approach, our audit would have benefitted from a collation of the supporting processes and information for us to review.</p> <p>The related party note to the financial statements was expanded following the audit review as noted in appendix 3.</p>

## Recommendations

- R2** Consider the arrangements for producing an analysis of lump sum payments from the system so that the information is more readily available to pension fund accountancy.
- R3** Record the methodology and supporting evidence for identifying related parties and transactions as recorded in the financial statements.
- 

### **Significant matters that were discussed or subject to correspondence with management**

**20** I am required to report under the auditing standards any significant matters that were discussed or subject to correspondence with management. No significant matters were discussed or subject to correspondence.

### **Letter of representation**

**21** Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation.

# Appendix 1 Draft of independent auditor's report for the Pension Fund's Annual Report

## **Independent auditor's report to the Members of Tameside Metropolitan Borough Council**

### **Opinion on the pension fund accounting statements**

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Tameside Metropolitan Borough Council 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 Executive Director of Finance and auditor**

As explained more fully in the Statement of the Responsibilities, the Executive Director of Finance is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting 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 accounting statements sufficient to give reasonable assurance that the accounting 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 fund; and the overall presentation of the accounting statements. I read all the information in the annual report to identify material inconsistencies with the audited accounting

statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on accounting statements**

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011; 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 annual report for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

### **Matters on which I report by exception**

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

Mark Heap  
District Auditor  
Officer of the Audit Commission

September 2011

Audit Commission, 2nd Floor, Aspinall House, Aspinall Close, Middlebrook,  
Bolton, BL6 6QQ

# Appendix 2 Draft of independent auditor's report for Council's financial statements

## **Pension fund opinion - Extract Only**

### **Opinion on the pension fund accounting statements**

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Tameside Metropolitan Borough Council 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 Executive Director of Finance and auditor**

As explained more fully in the Statement of the Executive Director of Finance Responsibilities, the Executive Director of Finance is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting 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 accounting statements sufficient to give reasonable assurance that the accounting 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 fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on accounting statements**

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011 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 explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

**end of extract**

## Appendix 3 Amendments to the draft financial statements

### Changes made to disclosures in the financial statements

The following disclosures in the financial statements have been amended as a result of my audit, with no further impact on the financial position.

Table 4: Amendments made to the financial statements

Reference in Annual Report	Description of amendment made to the financial statements
IFRS code changes	<ul style="list-style-type: none"> <li>■ IFRS opening comparatives were added for 1 April 2009 to the net asset statement and related notes for the net asset statement. Notes where movement over the year was shown were expanded to include the two years. None of these values changed from figures reported in previous years.</li> <li>■ Note 24 Actuarial present value of promised retirement benefits was added for 1 April 2009.</li> </ul>
Note 1	<ul style="list-style-type: none"> <li>■ Reference to the implementation of IFRS code was added.</li> </ul>
Note 2 Accounting Policies	<ul style="list-style-type: none"> <li>■ Financial assets and liabilities description was expanded to include details of accounting treatment on initial recognition;</li> <li>■ Further detail added on the basis of investment values and the assumptions;</li> <li>■ The policy for 'Financial instruments at fair value through the fund account' was expanded; and</li> <li>■ Investment management expense note was re-phrased to better explain the accounting treatment.</li> </ul>
Note 24 IAS 26 actuarial value	<ul style="list-style-type: none"> <li>■ Actuary's caveats to the IAS 26 valuation were added i.e. the IAS 26 valuation is not used for any other purposes.</li> <li>■ The significant change from RPI to CPI was noted.</li> </ul>
Note 18 Related party transactions	<ul style="list-style-type: none"> <li>■ This was expanded to reflect the related parties to the pension fund</li> </ul>

## Appendix 4 Draft letter of representation

Mr M Heap  
District Auditor  
Audit Commission  
2nd Floor Aspinall House,  
Aspinall Close,  
Middlebrook,  
Bolton, BL6 6QQ

Dear Mr Heap

### **Greater Manchester Pension Fund, Local Government Pension Scheme Audit for the year ended 31 March 2011**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other Executive Directors and officers of Greater Manchester Pension Fund and Tameside Metropolitan Borough Council, the following representations given to you in connection with your audit of the Pension Fund's financial statements for the year ended 31 March 2011. All representations cover the Pension Fund accounts included within the Council's financial statements.

#### **Compliance with the statutory authorities**

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom, International Financial Reporting Standards and in accordance with the Statement of Recommended Practice for financial reports of Pension Schemes, which give a true and fair view of the financial position and financial performance of the Pension Fund, and for the completeness of the information provided to you, and for making accurate representations to you.

#### **Supporting records**

All relevant information and access to persons within the pension fund have been made available to you for the purpose of your audit, and all the transactions undertaken by the pension fund have been properly reflected and recorded in the financial statements.

## **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 that 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. For all appropriate assumptions, (e.g. IAS 26 valuation, investment and financial instrument valuations, accruals), I confirm:

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the process;
- the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures;
- the completeness and appropriateness under the financial reporting framework; and
- that subsequent events do not require adjustment to accounting estimates and disclosure included within the financial statements.

## **Assets**

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale and purchase commitments;
- agreements and options to buy back assets previously sold; and
- assets pledged as collateral.

## **Compensating arrangements**

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. We have no other lines of credit arrangements.

There is no co-mingling of the Pension Fund bank balances, deposits and investments with the Council's money.

## **Contingent liabilities**

There are no contingent liabilities other than those disclosed. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

## **Related party transactions**

I confirm that I have disclosed the identity of Greater Manchester Pension Fund 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 requirement of the framework.

## **Subsequent events**

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

The Pension Fund has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

## **Signed on behalf of Greater Manchester Pension Fund**

I confirm that this letter has been discussed and agreed by the Greater Manchester Pension Fund Management Panel on 9 September 2011.

Signed:

September 2011

Peter Morris  
Executive Director of Pensions

Signed:

September 2011

Councillor Quinn

Chair of the Greater Manchester Pension Fund Management Panel

## Appendix 5 Glossary

### **Annual governance statement**

A statement of internal control prepared by an audited body and published with the financial statements.

### **Audit closure certificate**

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

### **Audit opinion**

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

### **Opinion**

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

### **Materiality (and significance)**

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor's report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical 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.

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

### **Weaknesses in internal control**

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

## Appendix 6 Action plan

### Recommendations

#### Recommendation 1

Members are asked to consider the amendments to the disclosures financial statements. These are listed in appendix 3.

**Responsibility**

**Priority**

**Date**

**Comments**

#### Recommendation 2

Consider the arrangements for producing an analysis of lump sum payments from the system so that the information is more readily available to pension fund accountancy.

**Responsibility**

**Priority**

**Date**

**Comments**

#### Recommendation 3

Record the methodology and supporting evidence for identifying related parties and transactions as recorded in the financial statements.

**Responsibility**

**Priority**

**Date**

**Comments**

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