

# Annual Governance Report

Hampshire County Council and Hampshire  
Pension Fund  
Audit 2009/10

September 2010



# Structure of this report




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1. What we do and why?
  2. Key messages
  3. What does the Audit Committee need to do?
  4. What did we plan to do?
  5. Issues arising?
  6. Audit fees
  7. Independence
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  10. Supplementary papers
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# 1. What we do and why?

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Our audit work is directed at giving:

|                              | County Council   | Pension Fund  |
|------------------------------|--|---|
| Financial statements opinion |    |  |
| Value for money conclusion   |  | Not applicable  |

## 2. Key messages

### Financial statements opinion

|  | County Council         | Pension Fund   |
|--|------------------------|--|
| Proposed audit opinion (Supplement 1);                         | Unqualified opinion    | Unqualified opinion  |
| Accounts free from material error?                             | No material errors     | Material adjustment made, resulting in a net £9m increase to net assets.                                   |
| Material weaknesses in internal control?                       | No material weaknesses | No material weaknesses   |
| Issues relating to accounting practice and financial reporting | No issues to report    | There is scope to improve compliance with the SORP in the draft accounts presented for approval and audit. |

### Value for money conclusion

- The County Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. (Supplement 1)

### 3. What does the Audit Committee need to do?

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- Consider the matters raised in this report before publishing the financial statements.
- Take note of the adjustments to the financial statements which are set out in this report (Supplement 2).
- Approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Supplement 3).
- Note the VFM Criteria achieved (Supplement 4)
- Agree your responses to the proposed action plan (Supplement 5).

## 4. What specific risks did we plan to review?

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### **Hampshire County Council Opinion risks:**

- Correct application of IFRIC 12 (service concessions) – The Council needed to examine if it should report any assets that have not previously been disclosed on the balance sheet

### **Hampshire Pension Fund Opinion risks:**

- No specific risks requiring additional audit procedures identified at the opinion planning stage.

# 5. Issues arising to date

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## 5.1 Hampshire County Council Opinion findings

- Based on our work undertaken to date, the Council has correctly accounted for transactions under IFRIC12.
- The Council did not receive all related party transaction returns from members at the year end, five were outstanding.
- Two non material errors, to the Balance Sheet and Cashflow statement that have been amended. (Supplement 2)
- The Council correctly disclosed a material post balance sheet event to reflect the changed measure of price inflation for public sector pension schemes from April 2011. (Note 34 has been amended)
- Minor amendments made to disclosure notes to comply with SORP; correct additions or correct prior year comparators.

# 5. Issues arising to date

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- **5.1 Hampshire County Council Opinion findings (continued)**
  - Progress on previous audit recommendations:
    - We suggested that the Council obtain immediate revaluations where there had been significant expenditure on assets between the normal 5 yearly revaluations as recommended by the SORP. The Council now obtains valuations when expenditure on an asset has exceeded £0.5m

# 5. Issues arising to date

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## 5.2 Hampshire Pension Fund

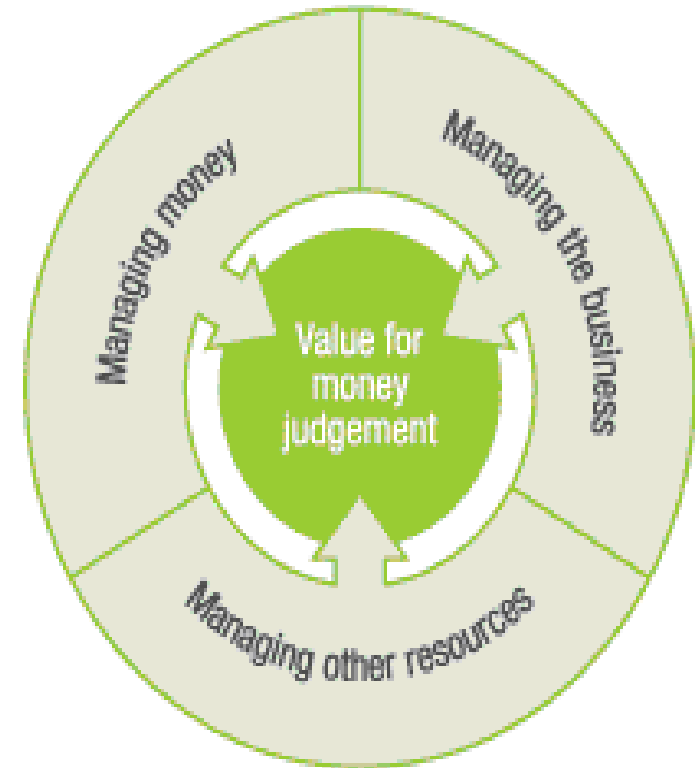
- The Council identified that derivative contract liabilities were overstated by £33m and derivative contract assets overstated by £24m resulting in a net understatement of £9m in the Fund's net assets . The accounts have been amended.
- The notes to the pension fund accounts presented for approval and audit did not fully comply with the SORP. Prior year comparators were missing and the note on derivatives did not comply. The accounts have been amended.
- The pension fund annual report includes unaudited financial statements. The County Treasurer is reviewing the timetable for next year so that audited accounts can be included.

# 5. What did we find?

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## 5.2 VFM Conclusion

- The County Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
- The criterion are set out in Supplement 4
- I intend to give an unqualified VFM conclusion for the year ended 31 March 2010.



# 6. Audit fee

## Hampshire County Council

- I can confirm that the audit has been delivered within my initial estimates.

|                    | Actual (£)     | Plan (£)       |
|--------------------|----------------|----------------|
| Accounts           | 164,600        | 164,600        |
| VFM                | 96,000         | 96,000         |
| WGA                | 3,000          | 3,000          |
| <b>Audit Total</b> | <b>263,600</b> | <b>263,600</b> |

# 6. Audit fee

## Hampshire Pension Fund

- My 2009/10 audit took longer than planned because of late adjustments to the accounts. We needed to undertake additional work which may result in an increased audit fee. I will discuss the fee implication with the County Treasurer at the end of the audit.

|                    | Current (£)   | Plan (£)      |
|--------------------|---------------|---------------|
| Accounts           | 51,100        | 51,100        |
| <b>Audit Total</b> | <b>51,100</b> | <b>51,100</b> |

# 7. Independence

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- I can confirm that I have carried out the 2009/10 audits of Hampshire County Council and Hampshire Pension Fund in accordance with the Audit Commission's policies on integrity, objectivity and independence.

# 8. Recommendations

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- I have made three recommendations which are contained in supplement 5. I ask Members to agree responses to the action plan.

# 9. Outstanding queries

- There are some outstanding areas, which we have raised with officers, that we hope to resolve by the audit committee meeting:

| Hampshire County Council   | Hampshire Pension Fund   |
|--|--|
| <ul style="list-style-type: none"><li>• Letter of representation</li><li>• Response to questions raised of the monitoring officer (special recognition payments)</li></ul> | <ul style="list-style-type: none"><li>• Letter of representation</li></ul> |

- We still have to complete our final review procedures once all the above is complete