

Annual governance report

Cheshire Pension Fund

Audit 2011/12



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Key messages

This report summarises the findings from my 2011/12 audit of the Pension Fund financial statements which is substantially complete.

Subject to satisfactory completion of a small number of outstanding issues, I intend to issue an unqualified opinion on the Pension Funds Annual accounts for 2011/12 and the Pension Funds Annual Report.

The Pension Fund presented me with a set of statements ahead of the statutory deadline. Once again, the statements were produced to a good standard and were supported by a comprehensive set of working papers. This enabled me to complete my work well ahead of 30 September deadline.

The Pension Fund's financial statements have been amended to correct a number of errors identified during the audit. None of these errors had a material impact to the reported performance of the fund, and most related to classification errors. I identified a further three errors which I have not asked the pension fund to amend, as related to uncertainties around valuations.

I also identified a small number of disclosure errors and non trivial errors, all of which the pension fund has agreed to amend.

There are no other significant matters that I need to bring to your attention.

I would like to thank the finance team for their continued support and commitment throughout the audit.

Before I give my opinion

My report 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.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you. Where staff have declared a relationship I confirm that they have not worked on the audit.

Next Steps

I ask the Pension Fund Committee to:

- Consider the matters raised in the report before recommending the approval of the financial statements to the Audit and Governance Committee (AGC)
- take note of the adjustments to the Pension Fund's accounts which are set out in this report (appendices 2&3);
- approve and recommend 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).

I will ask the AGC to consider the recommendation of the Pension Fund Committee in relation to this report before it:

- considers the matters raised in this report before approving the financial statements;
- takes note of the adjustments to the financial statements which are set out in this report;
- approves the letter of representation before I issue my opinion; and
- agree a response to the proposed action plan.

Financial statements

The Pension Fund's financial statements are an important mechanism for the Pension Fund to account for its stewardship of public funds. As Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements.

Opinion on the financial statements

Subject to satisfactory clearance of a small number of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. My opinion will be included within the Authority's Statement of Accounts and the financial statements included within the Pension Fund Annual Report. Appendix 1 and 1a contain copies of my draft audit reports.

My work to review the Annual Report is ongoing. I expect to complete all my work, including my final review procedures, before the Pensions Committee on 4 September. I will update the Committee as necessary as part of my oral report.

Uncorrected uncertainties

There are three uncorrected uncertainties that I need to bring to your attention (appendix 2). Due to the nature and size of these uncertainties officers are not amending the statements. I have asked the Director of Resources to confirm the reason for not amending the statements in her letter of representation.

Corrected errors

My work identified a number of errors in the statements presented for audit. None of these have a material impact on the financial position of the Pension Fund at 31 March 2012. These have now been amended. A schedule of the changes is attached, appendix 3. I also agreed a number of changes to disclosures and supporting narrative.

The most significant amendments are:

- ③ Understatement of Private Equity by £9,327,000. This is due to updated valuations available at the time of audit, and does not represent an error in the initial preparation of statements.
- ③ Material misclassification of current assets. £16,263,000 was reclassified to non current assets.

Specific risks and my findings

I reported to you in my December 2011 Audit Plan the specific risks that I identified relevant to my audit of your financial statements. In Table 1 I report to you my findings against each of these risks.

Table 1: **Risks and findings**

Risk	Finding
<p><u>Scheme contributions</u></p> <p>The Pension Fund receives contributions in respect of equal pay settlements made by admitted bodies. Some but not all admitted bodies have made contributions in respect of equal pay. There is a risk this may lead to a material misstatement of contributions income in the financial statements.</p>	<p>I have reviewed management's arrangements for ensuring that reasonable contributions have been made in respect of equal pay.</p> <p>I have considered settlements made within major scheduled bodies to the fund and assessed if they may give rise to potential material assets to the fund, if contributions were not made. I am satisfied that the risk of material misstatement has been reduced to an appropriately low level.</p>
<p><u>Investment strategy review</u></p> <p>The main body of the Investment strategy review has been completed with the following key outcomes:</p> <ul style="list-style-type: none">■ To reduce the Fund's exposure to equities;■ To move to managing UK equities on a passive basis;■ To allocate 15% of Fund assets into an absolute return mandate.■ The appointment of four new managers: <p>These outcomes have been implemented. The Committee at the August 2011 meeting ratified the appointment the new managers. The main changes will take place in 2011/12.</p>	<p>I have substantively tested investments, and have gained assurance over the classification and valuation of the new investments.</p> <p>I have considered the transfer process that took place in 2011/12. I am satisfied that the transfer was completed as planned and in accordance with the implementation plan which was agreed with the Pensions Committee. I am satisfied that the accounting entries reflect the timing of the investment transactions.</p>

Risk	Finding
<p><u>Impact of redundancies on capacity within the Pension Fund</u></p> <p>I am aware that contributing bodies to the Pension Fund are in many cases offering voluntary early retirement, voluntary redundancy and possibly the need to make compulsory redundancies. This may place additional workload on the Pensions team in dealing with the increased volume of severance arrangements.</p>	<p>I have substantively tested contributions receivable and benefits payable and have gained adequate assurance that they are not materially misstated.</p>
<p><u>Access control</u></p> <p>I identified in 2010/11 that non-council staff have access to the general ledger without effective controls being in place. This increases the risk of unauthorised and inappropriate entries being made in the general ledger and other key financial systems.</p>	<p>There are multiple access privileges for some staff to main financial systems which reduces the effectiveness of segregation of duty controls. Progress was made by the Council in 2011/12 to improve access controls and further improvements have been made in 2012/13. Internal Audit has performed substantive testing in these risk areas and concluded that transactions have been processed correctly. I have reviewed and re-performed a small sample of Internal Audit's work to gain the assurance I need for my audit. Further work is needed to bring the risk of unauthorised access down to an acceptable level.</p>

Significant weaknesses in internal control

It is the responsibility of the Pension 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. My responsibility as your auditor is to consider whether the Pension Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Pension Fund only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control.

The following weakness in internal control is only one that I have identified during the audit that is relevant to preparing the financial statements. This relates to:

- some staff having multiple access privileges to main financial systems thus reducing the effectiveness of segregation of duty controls.

This weakness was reported at last year's audit and is therefore included as audit risks in Table 1 above. I have explained in Table 1 how Cheshire West and Chester Council, as the administering authority of the Pension Fund, has responded to this weakness and the action I took at my audit to reduce the risks to acceptably low levels. The Director of Resources is giving priority to further resolving these control issues in 2012/13.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Pension Fund's financial reporting process including the following.

Key reconciliations

I have reported in previous years the need for the Pension Fund to enhance its reconciliations, in particular the reconciliation between the investments held in the General Ledger at book value, and external records of the Market value of investments. Whilst improvements have been made, extra work was carried out during the audit to ensure the two holdings of investments at book value could be reconciled to their current market value. I have discussed the need for full reconciliations to be carried out as part of the closing process on a yearly basis. Officers have agreed to action this for future years.

This recommendation also applies to investment sales and purchases general ledger balances. The Pension funds records for private equity were not fully reconciled back to the general ledger at year end. This led to a £6m adjustment to note 15f, as shown in appendix 3.

Quality of financial statements presented to audit

The financial statements were provided for audit on 18 June 2012. This was a week earlier than the previous year and ahead of the statutory deadline of 30 June. The statements were presented to a good standard and supported by a full set of comprehensive working papers. Pension fund officers engaged well with my audit team, and responded to the audit constructively. This has enabled me to complete the majority of my audit by mid August. This is a significant achievement.

Pension Fund Annual Report

The Pension Fund prepared its Annual Report on 21 August 2012. As a result I have not yet completed my review and report on the financial statements included in the Annual Report. I expect to report on the financial statements included in the Annual Report by 11 September 2012. I will provide an oral update on my work on the report to the Pensions Fund Committee on 4 September and to the Audit Committee on 11 September.

Fees

I reported my planned audit fee in my 2011/2012 Audit Plan.

I will complete the audit within the planned fee.

Table 2: Fees

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit - opinion	47,402	47,402
Non audit work	0	0
Total	47,402	47,402

Appendix 1 – Draft independent auditor’s report for the Councils financial statements

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF CHESHIRE WEST AND CHESTER COUNCIL

Opinion on the Authority financial statements

I have audited the financial statements of Cheshire West and Chester Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Cheshire West and Chester 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 Director of Resources and auditor

As explained more fully in the Statement of the Director of Resources Responsibilities, the Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial 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 financial statements sufficient to give reasonable assurance that the financial 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 Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Resources; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword and the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Cheshire West and Chester Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998. I

have nothing to report in these respects

Opinion on the pension fund financial statementsⁱ

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Cheshire West and Chester 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 Director of Resources and auditor

As explained more fully in the Statement of the Director of Resources Responsibilities, the Director of Resources is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial 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 financial statements sufficient to give reasonable assurance that the financial 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 Director of Resources; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword and the pension fund annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012 other than liabilities to pay pensions and other benefits after the end of the scheme year; 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 and the content of the pension fund annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Cheshire West and Chester Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Delay in certification of completion of the audit

I cannot formally conclude the audit and issue an audit certificate until I have completed the work necessary to issue my assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. I am satisfied that this work does not have a material effect on the financial statements or on my value for money conclusion.

Judith Tench

Officer of the Audit Commission

11 September 2012

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

Appendix 1a – Draft independent auditor’s report for the Pension Fund Annual Report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF CHESHIRE WEST AND CHESTER COUNCIL

Opinion on the pension fund accounting statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Cheshire West and Chester 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 Director of Resources and auditor

As explained more fully in the Statement of the Director of Resources Responsibilities, the Director of Resources is responsible for the preparation of the pension fund’s financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial 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 financial statements sufficient to give reasonable assurance that the financial 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 Director of Resources; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the accounting statements.

Judith Tench

Officer of the Audit Commission

11 September 2012

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

Appendix 2 – Uncorrected errors and uncertainties

I identified the following errors during the audit which management have not addressed in the revised financial statements.

		Fund Account		Net Assets Statement	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Total Investment Balances	Potential understatement of investment balances due to inconsistencies between accounts valuations and Fund Manager Statements			1,615	
Changes in Market values of investments		1,615			
Hedge Funds	Uncertainties within Hedge Funds valuations due to availability of supporting external evidence.				1,604
Changes in Market values of investments				1,604	
Equities	Inconsistencies between valuations in the accounts and those expected				287
Changes in Market values of investments				287	

Appendix 3 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

		Fund Account		Net Assets Statement	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Private Equity	Availability of more accurate and timely information from Fund Managers regarding valuation of assets as at 31/3/12.	9,327		9,327	
Long term Assets	Receivables are required to be split between current and long term.			16,263	
Current Assets					16,263
Note 15 - Overseas Listed Equities	UK investments had been classified as overseas.				10,356
UK listed Equities				10,356	
Note 15f - Private Equity Purchases	Understatement of purchases and sales.			6,190	
Private Equity Sales					6,190
Note 14 - Management Fees	Management fees overstated by £111,000.	111			111
	Transposition error within classes of investment expenses.	137	137		

		Fund Account		Net Assets Statement	
Significant disclosure/narrative adjustments					
Note 21c Stock lending	Stock lending understated by £4,416,000				
Note 16 Analysis of derivatives	Understatement of forward foreign exchange contracts by £19,107,000				
Note 28 Contingent liabilities	M&G drawn down figure understated by £14,400,000.				

Appendix 4 – Draft letter of management representation

Judith Tench

District Auditor

Audit Commission

Aspinall House

Aspinall Close

Middlebrook

Bolton

BL66QQ

Cheshire Pension Fund - Audit for the year ended 31/03/2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of Directors and Officers of Cheshire Pension Fund, the following representations given to you in connection with your audit of the Pension Fund's financial statements for the year ended 31/03/2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Pension Fund, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected errors and uncertainties

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

These misstatements have been discussed with those charged with governance within the Pension Fund and the reasons for not correcting these items are as follows.

The errors identified relate to the valuation of assets within the fund where the actual market value of the assets is not readily available. Audit testing has been undertaken in order to determine an expected value which then differs from the managers own assessment as they have been calculated on a different basis. The investment managers clearly set out their valuation policies which are communicated to the fund at the outset. All investment managers are independently audited and provide the fund with copies of their audited financial statements and their audit of systems of internal controls on an annual basis. In addition, the fund requires all investment managers to provide responses to the due diligence questions as set out in the Pensions Research Accountants Group – Guidance on Valuations, on an annual basis. The fund is satisfied that the minor variances that have been identified do not require adjustment.

Supporting records

I have made available all relevant information and access to persons within the Pension Fund for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Pension Fund.

Internal control

I have communicated to you all deficiencies in internal control of which I am aware.

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 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 accounting estimates relating to Private Equity, Hedge Funds and Investment Property valuations, I confirm:

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the method;
- the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Pension Fund, where relevant to the accounting estimates and disclosures;
- the disclosures relating to the accounting estimate are complete and appropriate under the Code; and
- that no subsequent event requires the Pension Fund to adjust the accounting estimate and related disclosures included in the financial statements.

Related party transactions

I confirm that I have disclosed the identity of the Pension Fund's 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 requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Cheshire Pension Fund

I confirm that the this letter has been discussed and agreed by the Audit and Governance Committee on 11 September 2012

Signed

Name

Position

Date

Appendix 5 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Pension Fund after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Pension Fund is required to prepare, which report the financial performance and financial position of the Pension Fund in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Internal control

The whole system of controls, financial and otherwise, that the Pension Fund establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative 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.

Pension Fund Annual Report

The annual report, including financial statements, that the Pension Fund must publish under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

Significance

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

Those charged with governance

Those entrusted with the supervision, control and direction of the Pension Fund. This term includes the members of the Authority, [the Pension Panel] and the Audit Committee.

Appendix 6 – Action plan

Recommendations

Recommendation 1

Ensure that key reconciliations are carried out, particularly as part of the year end closedown process.

Significantly:

- ③ reconciliation between the Market Value of investments at year end and the General Ledger values, held at book value; and
- ③ reconciliation of investment sales and purchases in the general ledger.

Responsibility	Stephan Van Arensden
Priority	High
Date	Initial in year review September 2012
Comments	The suggested recommendations will be implemented in full and will be built into the reconciliations that the fund already undertakes. Additional in year monitoring is being introduced to assist with this process.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

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