

Annual governance report

Cumbria Local Government Pension Scheme

Audit 2011/12



Contents

Key messages	3
Before I give my opinion	4
Financial statements	6
Fees	11
Appendix 1 – Draft independent auditor’s reports	12
Appendix 2 – Uncorrected errors	19
Appendix 3 – Corrected errors	20
Appendix 4 – Draft letter of management representation	24
Appendix 5 – Glossary	28
Appendix 6 – Action plan	31

Key messages

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

As at 26 September 2012, I expect to issue an unqualified audit opinion.

The pension fund accounts were prepared and available for audit well in advance of the statutory deadline of 30 June 2012. They were supported by working papers that were, as in previous years, prepared to a high standard.

The accounts contained no material errors affecting the primary statements.

However, there was some material amendments required to the analysis within the investment disclosure notes. These amendments included reclassification of investments and removal of statutory debtors, creditors and certain provisions from financial instruments disclosures but did not affect the overall total net investment position for the 2011/12 year.

Before I give my opinion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit 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 aware of the following relationship that might constitute a threat to independence and that I am required to report to you. I have therefore put in place the following safeguard to reduce the threat.

Table 1: Threats and safeguards

Threat	Safeguard
Alison Clark the newly appointed Group Finance Manager – Pensions and Investments is a former Audit Commission employee. Angela Stubbs the audit Team Leader on the Pension Fund audit did work with Alison Clark back in 2006.	Alison Clark only joined the Pension Fund in May 2012 and she has had limited input to the 2011/12 Pension Accounts. Angela’s key liaison is with Debbie Purvis Technical Principal Finance Officer – Pensions and Investments. The Audit Commission has reviewed this relationship and on the basis of the passage of time there is no threat to Angela Stubbs independence.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Pension Fund during 2010/12.

I ask the Audit and Assurance Committee to:

- take note of the adjustments to the financial statements included in this report in Appendices 2 and 3;
- approve the letter of representation as shown in Appendix 4, on behalf of the Pension Fund before I issue my opinion; and
- agree your response to the proposed action plan Appendix 6.

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 the outstanding matter regarding property portfolio outlined on page 9, I plan to issue an audit report including an unqualified opinion on the financial statements included within the Cumbria County Council's Statement of Accounts and the financial statements included within the Pension Fund Annual Report. Appendix 1 contains copies of my draft audit reports.

Uncorrected errors

During 2011/12 the Pension Fund identified that the Real Estate Investment Trust of £2.581 million should always have been categorised as managed funds as opposed to overseas equities. The Pension Fund decided not to amend the 2010/11 and earlier years on the basis of it not being a material amount. Instead the re-classification of £2.581 million Real Estate Investment Trust holdings from overseas equities to managed funds has been achieved in Note 10(d) Profit and Losses on Disposal of Investments and Changes in the Market Value of Investments via a balancing adjustment to the sales figure for both categories.

I acknowledge the closing position as at 31 March 2012 on equities and managed funds is correct.

Corrected errors

The accounts contained no material errors affecting the primary statements.

However, there was some material amendments required to the analysis within the investment disclosure notes. These amendments did not affect the overall total net investment position for the 2011/12 year.

Appendix 2 lists all the material and significant disclosure related audit amendments made by management including:

- Note 10 Investment assets and Note 11 Financial Instruments - reclassification of investments; and
- Note 11 Financial Instruments - removal of statutory debtors, creditors and certain provisions

Significant risks and my findings

I reported to you in my February 2012 Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In Table 2 I report to you my findings against each of these risks.

Table 2: **Risks and findings**

Risk	Findings
Pension Administration Contract The new contract for pensions administration commenced in February 2011 with Lancashire County Council. I acknowledge the Pension Fund officers have assurance that the transition to the new administration arrangements has gone well. However, 2011/12 is the first full financial year of the new administration arrangements and I am required to gain additional assurance as it is carried out by a service organisation.	<p>I have reviewed management's arrangements for the administration of pensions.</p> <p>I have documented and walked through the system to understand how it operates. I have carried out a review of controls as well as substantive testing.</p> <p>I have gained additional assurance that this service organisation has adequate arrangements in place to administer the Cumbria Local Government Pension Scheme.</p>
Investments and the Current Climate The Cumbria Local Government Pension Scheme has varied investment categories including unlisted investments. During 2011/12 there has been substantial market volatility due to the current economic climate. There is a continued risk of significant market volatility between the pension fund statements being presented for audit and opinion sign off, which could require post balance sheet event consideration.	<p>I have reviewed management's arrangements for the investment of pension fund assets.</p> <p>I have sought direct independent external confirmation of Investment Manager and Custodian year end investment portfolios.</p> <p>I am satisfied that the Pension Fund has fully considered the post balance sheet events position, and made appropriate disclosures up to the point of giving my opinion.</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 property assets managed by Aberdeen Asset Management on behalf of the Pension fund are held in a company called Courts Nominees Limited. The Senior Manager Technical Finance informed me that due to an administrative error some years ago, the shares in Courts Nominees Limited were in the name of Aberdeen Asset Management and not the Pension Fund. The Pension Fund (PF) has sought legal advice which says that the PF has beneficial title to the shares and the property in the company despite the legal title being with Courts Nominee Limited (Aberdeen Asset Management). You confirm this view in your Letter of Representation as shown in appendix 4.

I have reviewed the legal opinion sought by the Cumbria Local Government Pension Scheme (CLGPS) and other related documentation and am satisfied with the CLGPS's view that there is no related IAS37 contingent liability disclosure required. This position is further supported by the accounts of Courts Nominee Limited making no representation as to Aberdeen Asset Management having an ownership interest in these assets. In accordance with paragraph 2.1.2.9 of the Code I note CLGPS is accounting for these assets in accordance with their substance and economic reality not merely their legal form.

The Aberdeen Asset Management solicitor has confirmed that they hold copies of the official land registry documents with Courts Nominees as the proprietor on 31 March 2011 and 31 March 2012 for each property. To support my opinion I am carrying out independent land registry checks to confirm that the current ownership resides with Courts Nominees Limited (Aberdeen Asset Management). I have some queries to resolve where there is insufficient detail to trace the property with the land registry. I will update the Audit Committee on the results of this work at the Audit Committee on 26 September 2012.

I am aware of CLGPS is acting urgently to resolve this issue and I will maintain a monitoring brief.

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.

- Qualitative aspects of your accounting practices including accounting policies, estimates and financial statement disclosures.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.

- Other audit matters of governance interest.

Qualitative aspects

I did identify a number of material and significant disclosure related errors in the accounts which have all been amended as outlined in appendix 3. The Pension Fund needs to carry out a thorough check on future investment asset classifications provided by its Custodian compared with those disclosed in its investment notes.

Financial Instruments

I also found assets and liabilities classified as financial instruments within the Pension Fund accounts included a number of statutory debtors and creditors, and provisions in error. As a result total financial instruments in Note 11 reduced by £6.040 million at 31 March 2012 and by £18.152 million at 31 March 2011. This was identified as this was the first year the Pension Fund has made this full Financial Instrument disclosure.

Changes in investment managers

I note as at 31 March 2012 there is 48.8 per cent of the Fund with Legal and General within 2 separate policies, one index funds in equity and corporate bonds and the other holding in an index-linked gilts fund. I am also aware that the Pension Fund is planning further changes to the investment managers used and that additional temporarily funds may go to 'Legal and General' in a new third passively managed policy. I am aware the Pension Fund has considered the related risks and is ensuring compliance with its Statement on Investment Principles and the Local Government Pension Scheme Management and Investment of Funds Regulations 2003 and 2009, through having different policies.

It is important the Pension Fund continues to closely monitor compliance with its Statement on Investment Principles and the Local Government Pension Scheme Management and Investment of Funds Regulations 2003 and 2009.

I found an immaterial but non-trivial un-reconciled difference of £279,000 between the Insight Investments portfolio valuation at close of business in June 2011 and the transition report from Legal & General confirming the receipt of investments. It is important for pending and future changes in investment manager the Pension Fund obtain and retain sufficient documentary evidence to provide an audit trail between the closure value of one portfolio and the transfer to/opening value of the receiving portfolio.

Related Party Disclosures

I acknowledge the guidance on Related Party Disclosures for 2011/12 has not been clear, in particular the key management personnel was not included in the CIPFA proforma example statements. CIPFA is due to publish updated guidance on the disclosures required and I note the Pension Fund will address these in its 2012/13 accounts.

Recommendations

- R1** Reconcile fully investment asset classifications as shown in the Holdings by Manager Custodian report to the Investment Note disclosures in the accounts.
 - R2** Retain sufficient documentary evidence to provide an audit trail between the closure value of one portfolio and the transfer to opening value of the receiving portfolio.
 - R3** Ensure full compliance with the requirements of IAS 24 Related Party Disclosures, by identifying and quantifying the key management personnel and related compensation received.
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Fees

I reported my planned audit fee in the Audit Plan for 2011-12.

I will complete the audit within the planned fee of £40,330 as agreed in the February 2012 Audit Plan for 2011/12. The Audit Commission has also given an 8 per cent rebate on this fee of £3,226.

Appendix 1 – Draft independent auditor's reports

The Auditor's report on the pension fund financial statements in the Cumbria County Council's Statement of Accounts

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUMBRIA COUNTY COUNCIL

Opinion on the Authority and firefighters' pension fund financial statements

I have audited the financial statements and the firefighters' pension fund financial statements of Cumbria County Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The Authority financial statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow, and the related notes. The firefighters' 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 Cumbria County 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 Acting Assistant Director - Finance and Auditor

As explained more fully in the Statement of the Acting Assistant Director - Finance's Responsibilities, the Acting Assistant Director - Finance is responsible for the preparation of the Statement of Accounts, which include the Authority financial statements and the firefighters' 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 Authority and the firefighters pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Acting Assistant Director - Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword 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 Cumbria County Council as at 31 March 2012 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2012 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial transactions of the firefighters' 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 explanatory foreword 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 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 Cumbria County 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 Acting Assistant Director - Finance and Auditor

As explained more fully in the Statement of the Acting Assistant Director - Finance's Responsibilities, the Acting Assistant Director - Finance is responsible for the preparation of the Statement of Accounts, which include 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 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 Acting Assistant Director - Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword 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; 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 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, Cumbria County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

I certify that I have completed the audit of the accounts of Cumbria County Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Jackie Bellard

District Auditor

September 2012

Audit Commission, Aspinall House, Middlebrook, Horwich, Bolton, BL6 6QQ

The Auditor's report on the statements included in the Pension Fund Annual Report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUMBRIA COUNTY COUNCIL

Opinion on the pension fund financial 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 Cumbria County Council's Audit and Assurance Committee 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 Acting Assistant Director – Finance and Auditor

As explained more fully in the Statement of the Acting Assistant Director – Finance's Responsibilities, the Acting Assistant Director – Finance 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 Acting Assistant Director - Finance; 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; 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 financial statements.

Matters on which I report by exception

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

Jackie Bellard

District Auditor

September 2012

Audit Commission, Aspinall House, Middlebrook, Horwich, Bolton, BL6 6QQ

Appendix 2 – Uncorrected errors

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

Disclosure notes		
Item of account	Nature of adjustment	Impact
Note 10(d) Profit and Losses On Disposal of Investments and Changes in the Market Value of Investments	<p>The Pension Fund held £2.581m of Real Estate Investment Trust investments at 31 March 2011 and had classified these as overseas equities.</p> <p>The Pension Fund still holds £2.542m of Real Estate Investment Trust investments at 31 March 2012 but has now classified these as pooled investment vehicles.</p> <p>The re-classification of £2.581m Real Estate Investment Trust holdings from overseas equities to managed funds has been achieved in Note 10(d) Profit and Losses On Disposal of Investments and Changes in the Market Value of Investments through a balancing adjustment to the sales figure for both categories.</p>	<p>2011/12 Sales proceeds and derivative receipts for overseas equities are overstated by £2.581m</p> <p>2011/12 Sales proceeds and derivative receipts for managed funds are understated by £2.581m</p> <p>2010/11 overseas equities are overstated by £2.581m</p> <p>2010/11 quoted pooled investments is understated by £2.581m.</p> <p>I acknowledge the closing position as at 31/03/2012 on equities and managed funds is correct.</p>

Appendix 3 – Corrected errors

I identified the following accounting policy and disclosure note errors during the audit which management have corrected in the revised financial statements.

Other disclosures		
Item of account	Nature of adjustment	Impact
Note 2 Summary of Significant Accounting Policies	The note on recognition of assets and liabilities required further disclosure to include the valuation methodology of loans and receivables.	Accounting policies note updated to reflect the valuation methodology of loans and receivables. As non-derivative financial assets which have fixed or determinable payments and are not quoted in an active markets they are carried in the Balance Sheet on an amortised cost basis.
Note 10 Investment Assets	<p>An audit query prompted a re-analysis of pooled investment vehicles holdings by the Pension Fund on its financial instrument disclosure. It was found that a quoted “BlackRock” unit trust had been incorrectly classified as an unquoted managed fund in both 2010/11 and 2011/12.</p> <p>The review also identified that a 2011/12 overseas “BlackRock” pooled investment vehicle had been incorrectly classified as UK.</p> <p>There was no effect on the reported total value of investments as at 31 March 2012 (£1.454 billion) or as at 31 March 2011 (£1.377 billion).</p>	<p>Note 10 analysis has been amended for the following:</p> <ul style="list-style-type: none"> ■ 2011/12 UK quoted pooled investments changed from £6.234m to £17.444m; ■ 2011/12 UK unquoted pooled investments changed from £755.904m to £742.326m; ■ 2011/12 Overseas unquoted pooled investments changed from £77.012m to £79.380m; ■ 2010/11 UK quoted pooled investments changed from £12.646m to £26.083m; and ■ 2010/11 UK unquoted pooled investments changed from £592.072m to £578.635m.

Other disclosures		
Item of account	Nature of adjustment	Impact
Note 10(a) Pooled Investment Vehicles	<p>A further re-analysis of pooled investment vehicles holdings by the Pension Fund's financial instrument disclosure identified that a quoted "BlackRock" unit trust had been incorrectly classified as an unquoted managed fund in both 2010/11 and 2011/12.</p> <p>There was no effect on the reported total value of pooled investment vehicles as at 31 March 2012 (£857.653m) or as at 31 March 2011 (£649.198m).</p>	<p>Note 10(a) analysis has been amended for the following:</p> <ul style="list-style-type: none"> ■ 2011/12 UK quoted unit trusts changed from £6.234m to £17.444m; ■ 2011/12 Other managed funds – unquoted changed from £112.398m to £101.188m; ■ 2010/11 UK quoted unit trusts changed from £12.646m to £26.083m; and ■ 2010/11 Other managed funds – unquoted changed from £110.487m to £97.050m.
Note 10(c) Derivatives	<p>A GBP Bought/USD sold deal with a settlement date of 01/06/2012 had been incorrectly included in the settlement within one month figure.</p> <p>A GBP Bought/SGD sold deal had been omitted from the note in error.</p> <p>There was no effect on the reported derivative asset or liability value at 31 March 2012 (£2.999m and £0.285m respectively).</p>	<p>Note 10(c) analysis has been amended for the following:</p> <ul style="list-style-type: none"> ■ Settlement within one month GBP bought local value changed from £22.088m to £2.008m; ■ Settlement within one month USD sold local value changed from (£35.139m) to (£3.172m); ■ Settlement within one month GBP Bought/USD sold unrealised gain changed from £0.088m to £0.023m; ■ Settlement one to six months GBP bought local value changed from £150.730m to £170.810m; ■ Settlement one to six months USD sold local value changed from (£237.112m) to (£269.079m); ■ Settlement one to six months GBP Bought/USD sold unrealised gain changed from £2.249m to £2.314m; and

Other disclosures

Item of account	Nature of adjustment	Impact
Note 10(d) Profit and Losses On Disposal of Investments and Changes in the Market Value of Investments	<p>Within Note 10(d) – movements on Derivatives, an unrealised loss of £2.366m had not been disclosed nor had a realised gain of £2.010m. Together with other small adjustments to purchases, the total gain for the year of £46.744m remained unchanged.</p> <p>There was no effect on the reported total value of investments as at 31 March 2012 (£1.454 billion).</p>	<p>■ A settlement within one month GBP bought/SGD sold line was added to the note.</p> <p>Note 10(d) analysis has been amended for the following:</p> <ul style="list-style-type: none"> ■ 2011/12 Purchases at cost and derivative payments changed from £556.888m to £557.214m; ■ Total realised gains changed from £38.881m to £40.891m; and ■ Total unrealised gains changed from £8.189m to £5.853m.
Note 11 Financial Instruments	<p>The IFRS Code requires statutory debtors, creditors and certain provisions not to be shown as financial instruments. Assets and liabilities classified as financial instruments within the Pension Fund accounts included a number of statutory debtors and creditors, and provisions in error.</p> <p>Total financial instruments reduced by £6.040m at 31 March 2012 and by £18.152m at 31 March 2011.</p>	<p>Note 11 was amended for the following:</p> <ul style="list-style-type: none"> ■ 2011/12 Loans and receivables - current & long-term assets changed from £12.499m to £5.487m; ■ 2011/12 Financial liabilities at amortised cost - current/long-term liabilities changed from (£5.075m) to (£4.103m); ■ 2010/11 Loans and receivables - current & long-term assets changed from £26.517m to £7.418m; and ■ 2010/11 Financial liabilities at amortised cost - current/long-term liabilities changed from (£5.522m) to (£4.575m).
Note 11(a) Valuation of Financial Instruments Carried at Fair Value	<p>I identified Pooled investment vehicle values within the Level 1 fair value classification for both the current and comparator year did not agree to the quoted pooled investment values disclosed in Note 10 Investment Assets.</p>	<p>Note 11(a) analysis was amended for the following:</p> <ul style="list-style-type: none"> ■ 2011/12 Pooled investment vehicles level 1 has changed from £31.969m to £35.947m;

Other disclosures

Item of account	Nature of adjustment	Impact
	<p>Some unquoted investments were classified as Level 1 and some unquoted investments were classified as Level 2. A re-analysis of investment holdings by the Pension Fund identified that a quoted "BlackRock" unit trust had been incorrectly classified as an unquoted managed fund in both years.</p> <p>There was no effect on the reported total value of investments assets classified as financial instruments as at 31 March 2012 (£1.367 billion) or as at 31 March 2011 (£1.297 billion)</p>	<ul style="list-style-type: none"> ■ 2011/12 Pooled investment vehicles level 2 has changed from £802.201m to £798.223m; ■ 2010/11 Fixed interest securities level 1 has changed from £123.822m to £125.462m; ■ 2010/11 Fixed interest securities level 2 has changed from £3.784m to £2.144m; ■ 2010/11 Pooled investment vehicles level 1 has changed from £35.663m to £43.463m; and ■ 2010/11 Pooled investment vehicles level 2 has changed from £597.040 to £589.240m.
Senior Employees' remuneration	<p>There is no specific senior employees' remuneration note although there is reference in the accounts as to why this is i.e. the Pension Fund does not employ officers directly.</p>	<p>The revised accounts contain a separate senior employees' remuneration note outlining a fuller disclosure on the proportion of senior officer salaries relate to their engagement in pension fund duties.</p>

Appendix 4 – Draft letter of management representation

Jackie Bellard
District Auditor
Audit Commission,
2nd Floor, Aspinall House,
Aspinall Close,
Middlebrook,
Horwich
Bolton,
BL6 6QQ

Cumbria Local Government Pension Scheme - Audit for 2011-12 ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors and officers of Cumbria County Council, the following representations given to you in connection with your audit of the Pension Fund's financial statements for the 2011/12 financial year ended 31 March 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.

Compliance with the Statement of Investment Principles and Governance arrangements

I confirm that the Pension Fund has complied with its Statement of Investment Principles (SIP) and governance arrangements throughout the year for all investments including the temporarily high level of holdings with Legal and General for the year. Additional disclosure has been made to the Committee and in the accounts to demonstrate good governance and reporting regarding the increased holding in Legal and General due to the ongoing transitional asset allocation changes.

During routine compliance work Aberdeen Asset Managers Limited (Aberdeen AM) became aware of an error in the initial investment management agreement (IMA) signed in September 2002 with Credit Suisse (the previous property asset manager). This contract was novated to Aberdeen AM when they acquired this arm of Credit Suisse in 2009. The legal error occurred due to the administrative arrangements which arose as part of the agreement of the initial contracts with Credit Suisse in 2001. The error was that the share ownership of Courts Nominees Limited (Courts), (the company set up to be the bare trustee for the CLGPS property holdings) was transferred to Credit Suisse and not Cumbria County Council (County Council), as intended. This shareholding in Courts then transferred on novation to Aberdeen Asset Management in June 2009. Effectively therefore the legal owners of Courts, that acts as bare trustee company for the property holding of the CLGPS, is Aberdeen AM and not the County Council.

Specialist legal advice has been sought and we have been advised, that should an issue ever have arisen as to the beneficial ownership of the assets held by Courts, the intent of the parties (i.e. that the County Council remains the beneficial owner of the assets of Courts as Administering Authority to the CLGPS) would have been established by the courts and the issue duly resolved. Furthermore we have been advised there are no tax implications arising from the transfer of the shares in Courts. Courts has no intrinsic value as it simply holds the legal title of CLGPS as bare trustee on behalf of the County Council, as Administering Authority to the CLGPS. Other than the cost of legal work (£4,500) to address the issue the error has not resulted in any loss to the CLGPS. We are working closely with specialist legal advisors to redress the matter and expect to resolve it imminently.

Uncorrected misstatements

The effects of the one uncorrected disclosure misstatement summarised in the Annual Governance Report is not material to the financial statements.

This misstatement has been included in reports to the Pensions Committee on 24 September 2012 and the Audit & Assurance Committee on 26 September 2012 and the reason for not correcting this item is as follows:

- The misstatement is immaterial and affects four figures within, but not the totals of, one disclosure note only. Furthermore the misstatement relates to opening and in year movement figures – the year end position as at 31 March 2012 is correctly stated.

- The misstatement, which relates to misclassification between sub-categories of investments, also occurred in 2010/11 and the equivalent disclosure within the 2010/11 statements was therefore also immaterially misstated but has not been corrected on the basis of immateriality and negligible impact of the misstatement

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.

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.

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. Subject to the below I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

In the absence of clear guidance I believe we have made appropriate disclosure of officer remuneration for key management personnel.

Subsequent events

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

Signed on behalf of Cumbria County Council

I confirm that the this letter has been discussed and agreed by the Audit Committee on 26 September 2012

Signed

Name: Julie Crellin

Position: Acting Assistant Director - Finance

Date: 26 September 2012

Appendix 5 – Glossary

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 Committee and the Audit Committee.

Appendix 6 – Action plan

Recommendations

Recommendation 1

Reconcile fully investment asset classifications as shown in the Holdings by Manager Custodian report to the Investment Note disclosures in the accounts.

Responsibility	Alison Clark (Group Finance Manager – Pensions and Investments)
Priority	Complete
Date	To ensure compliance for 2012/13 Statutory Accounts Preparation
Comments	<p>Officers extended the work with the Custodian which was in progress for the Draft Accounts to ensure compliance in the Final Accounts. Officers will continue to work closely with the Custodian to ensure their reporting aligns with CLGPS definitions of investments for future reporting.</p> <p>This will ensure work practices are the most efficient and effective, thus reducing the complexity of reconciliations as well as re-analysis Officers have previously undertaken at year end. This should therefore reduce the risk of misclassification in the future.</p>

Recommendation 2

Retain sufficient documentary evidence to provide an audit trail between the closure value of one portfolio and the transfer to opening value of the receiving portfolio.

Responsibility	Alison Clark (Group Finance Manager – Pensions and Investments)
Priority	Low
Date	As and when further transfers occur.

Comments	<p>A full reconciliation of units to be transferred had been undertaken and therefore the Fund was at no risk of loss. This issue relates to pricing method and timing differentials, as such this recommendation relates to ensuring a more complete audit trail is retained.</p> <p>Officers will ensure a more robust audit trail is retained on transfer of investments including:</p> <ul style="list-style-type: none"> ■ line-by-line reconciliations of information received from the various sources upon transfer; ■ spot-checks on the valuations used; and ■ scrutiny of our Custodian's accounting records for the transitions once transfer is complete to accurately reconcile the valuations coming out from one account and received by the other account.
Recommendation 3	
Ensure full compliance with the requirements of IAS 24 Related Party Disclosures, by identifying and quantifying the key management personnel and related compensation received.	
Responsibility	Alison Clark (Group Finance Manager – Pensions and Investments)
Priority	Low
Date	Further review prior to Completion of 2012/13 Statutory Accounts
Comments	<p>At present no consensus exists among LGPS's as to the required level of disclosure. This has been discussed nationally by the Society of County Treasurers.</p> <p>Officers will revisit this disclosure with colleges from other Schemes and CIPFA, in light of any further guidance issued in relation to it as part of the preparation for the production of the 2012/13 Financial Statements.</p>

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- any director/member or officer in their individual capacity; or
- any third party.

