

## Audit of Accounts Report – Clwyd Pension Fund

Audit year: 2022-23

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We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

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We intend to issue an unqualified audit report on your Accounts. There are some issues to report to you prior to their approval.

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# Audit of Accounts Report

## Introduction

- 1 We summarise the main findings from our audit of your 2022-23 annual report and accounts in this report.
- 2 We have already discussed these issues with the Deputy Head of Pension Fund.
- 3 Auditors can never give complete assurance that accounts are correctly stated. Instead, we work to a level of 'materiality'. This level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled.
- 4 We set this level at £23,051,000 for this year's audit.
- 5 There are some areas of the accounts that may be of more importance to the reader. We have set a lower materiality level related party transactions £1,000
- 6 We have now substantially completed this year's audit, but the following work is outstanding:
  - Final review of the annual report;
  - Benefits payable;
  - Contributions income;
  - Investment assets; and
  - Related party transactions.
- 7 In our professional view, we have complied with the ethical standards that apply to our work; remain independent of yourselves; and our objectivity has not been compromised in any way. There are no relationships between ourselves and yourselves that we believe could undermine our objectivity and independence.
- 8 We have previously notified you of two potential threats to auditor independence and objectivity arising from the audit lead and an audit trainee being deferred members of the pension fund and confirm that the planned safeguards set out in our Audit Plan have operated as intended.
- 9 We identified one further threat to auditor independence during the course of the audit, arising from a member of the audit team being in receipt of a pension from the pension fund. We ensured that the individual did not undertake any work that required accessing any personal information, such as testing of contributions receivable and benefits payable.
- 10 We also wish to inform you of a change in the audit team from that set out in the detailed audit plan. Mike Whiteley has now replaced Michelle Phoenix as Audit Manager for the Clwyd Pension Fund audit.

## Proposed audit opinion

- 11 We intend to issue an unqualified audit opinion on this year's accounts once you have provided us with a Letter of Representation based on that set out in **Appendix 1**.
- 12 We issue a 'qualified' audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.
- 13 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards along with confirmation of other specific information you have provided to us during our audit.
- 14 Our proposed audit report is set out in **Appendix 2**.

## Audit risks update

- 15 In our detailed audit plan, we reported the following significant risks identified from our risk assessment and planning work:

### Exhibit 1 – significant financial statement risks reported in detailed audit plan

#### **Management override of controls**

The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.32-33].

#### **Unquoted investments valuation**

As part of its portfolio, the Pension Fund has substantial holdings in unquoted investments. They are accounted for at fair value determined by valuations provided by fund managers.

External investment managers are appointed to manage the investment portfolio. Their own systems and records will generate account entries made to the Pension Fund account and net assets statement.

- 16 As part of our continual risk assessment throughout the audit, we reassessed the unquoted investments valuation risk and reclassified it to a lower risk category of other areas of audit focus.

## Significant issues arising from the audit

### Uncorrected misstatements

17 There are no misstatements identified in the accounts, which remain uncorrected.

### Corrected misstatements

18 There were initially misstatements in the accounts that have now been corrected by management. However, we believe that these should be drawn to your attention and they are set out with explanations in **Appendix 3**.

### Other significant issues arising from the audit

19 In the course of the audit, we consider a number of matters relating to the accounts and report any significant issues arising to you. There was one issue arising in these areas this year:

#### **Outstanding Capital Commitments (Investments)**

- 20 Note 24 of the accounts discloses outstanding capital commitments at 31 March 2023 of £277m. Our testing of a sample of commitments included within the total disclosed in the note identified a number of errors resulting in the commitment being misstated. Using the error rate identified from our testing, we project that the outstanding commitments are overstated by £18.5 million.
- 21 We have discussed the nature of the errors with the Deputy Head of Pension Fund, who has chosen not to make any amendments to the disclosure in the accounts given the amounts 'called' by the funds are irregular in size and timing and that the error is not material.
- 22 Improvements are required to the Pension Fund's processes for valuing outstanding capital commitments to ensure that the value disclosed at the year-end is accurate. Further detail is included in recommendation 1 in **Appendix 4**.

## Recommendations

23 The recommendations arising from our audit are set out in **Appendix 4**. Management has responded to them and we will follow up progress against them during next year's audit. Where any actions are outstanding, we will continue to monitor progress and report it to you in next year's report.

# Appendix 1

## Final Letter of Representation

Audited body's letterhead

Auditor General for Wales  
Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

## Representations regarding the 2022-23 financial statements

This letter is provided in connection with your audit of the financial statements of the Clwyd Pension Fund for the year ended 31 March 2023 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

## Management representations

### Responsibilities

We have fulfilled our responsibilities for:

- the preparation of the financial statements in accordance with legislative requirements and CIPFA Code of Practice on Local Authority Accounting; in particular the financial statements give a true and fair view in accordance therewith; and
- the design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

## Information provided

We have provided you with:

- full access to:
  - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;

- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- our knowledge of fraud or suspected fraud that we are aware of and that affects the Clwyd Pension Fund and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
- our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
- our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements; and
- the identity of all related parties and all the related party relationships and transactions of which we are aware.

## Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

The methods, the data and the significant assumptions used in making accounting estimates, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

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.

The financial statements are free of material misstatements, including omissions. The effects of the uncorrected misstatement identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.



## Representations by the Pension Committee

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by the Pension Fund Committee on 29 November 2023.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:

Signed by:

Gary Ferguson

Ted Palmer

Corporate Finance Manager

Chair of Clwyd Pension Fund Committee

Date: 29 November 2023

Date: 29 November 2023

# Appendix 2

## Proposed Audit Report

### The report of the Auditor General for Wales to the members of Flintshire County Council as administering authority for Clwyd Pension Fund

#### Opinion on financial statements

I have audited the financial statements of Clwyd Pension Fund for the year ended 31 March 2023 under the Public Audit (Wales) Act 2004. Clwyd Pension Fund's financial statements comprise the fund account, the net assets statement and the related notes, including the significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2023.

In my opinion, in all material respects, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2023, and of the amount and disposition at that date of its assets and liabilities; and
- have been properly prepared in accordance with legislative requirements and UK adopted international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2023.

#### Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. My staff and I are independent of the pension fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### Conclusions relating to going concern

In auditing the financial statements, I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the pension fund's ability to continue to adopt the going concern basis of accounting

for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the responsible financial officer with respect to going concern are described in the relevant sections of this report.

### **Other information**

The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. The Responsible Financial Officer is responsible for the other information contained within the annual report. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon. My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

### **Opinion on other matters**

In my opinion, based on the work undertaken in the course of my audit, the information contained in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements and is in accordance with the Local Government Pension Scheme Regulations 2013.

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

In the light of the knowledge and understanding of the pension fund and its environment obtained in the course of the audit, I have not identified material misstatements in the annual report.

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- I have not received all the information and explanations I require for my audit;
- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my team; or
- the financial statements are not in agreement with the accounting records and returns.

### **Responsibilities of the responsible financial officer for the financial statements**

As explained more fully in the Statement of Responsibilities for the financial statements the responsible financial officer is responsible for:

- the preparation of the financial statements, which give a true and fair view;
- maintaining proper accounting records;
- internal controls as the responsible financial officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- assessing the Clwyd Pension Fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the responsible financial officer anticipates that the services provided by Clwyd Pension Fund will not continue to be provided in the future.

### **Auditor's responsibilities for the audit of the financial statements**

My responsibility is to audit the financial statements in accordance with the Public Audit (Wales) Act 2004. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

My procedures included the following:

- Enquiring of management, the pension fund's Head of Internal Audit and those charged with governance, including obtaining and reviewing supporting documentation relating to Clwyd Pension Fund's policies and procedures concerned with:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- Considering as an audit team how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I

identified potential for fraud in the following areas: management override of controls.

- Obtaining an understanding of Clwyd Pension fund's framework of authority as well as other legal and regulatory frameworks that Clwyd Pension Fund operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of Clwyd Pension Fund.
- Obtaining an understanding of related party relationships.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Pension Fund Committee and legal advisors about actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the administering authority; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential fraud risks to all audit team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the Clwyd Pension Fund's controls, and the nature, timing and extent of the audit procedures performed.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

### **Other auditor's responsibilities**

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

**Certificate of completion of audit**

I certify that I have completed the audit of the accounts of Clwyd Pension Fund in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

Adrian Crompton  
Auditor General for Wales  
November 2023

1 Capital Quarter  
Tyndall Street  
Cardiff, CF10 4BZ

# Appendix 3

## Summary of Corrections Made

During our audit, we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

### Exhibit 2: summary of corrections made

Value of correction	Nature of correction	Reason for correction
Various	<p><b>Note 15B – Reconciliation of fair value measurements within Level 3</b></p> <ul style="list-style-type: none"> <li>• Pooled property investments – Sales: Increase from (£4,387,000) to (£5,798,000)</li> <li>• Pooled property investments – Unrealised gains and losses: Increase from (£7,231,000) to (£18,009,000)</li> <li>• Private equity and joint venture funds – Sales: Increase from (£47,568,000) to (£50,454,000)</li> <li>• Private equity and joint venture funds – Unrealised gains and losses: Increase from £3,376,000 to £6,262,000</li> <li>• Infrastructure funds – Sales: Increase from (£22,168,000) to (£23,320,000)</li> <li>• Infrastructure funds – Unrealised gains and losses: Increase from £13,789,000 to £14,939,000</li> <li>• Timber and agriculture – Sales: Increase from (£3,796,000) to (£3,939,000)</li> <li>• Timber and agriculture – Unrealised gains and losses: Increase from £119,000 to £261,000</li> <li>• Private debt – Sales: Increase from (£6,267,000) to (£6,854,000)</li> <li>• Private debt – Unrealised gains and losses: Increase from £2,872,000 to £3,459,000</li> <li>• Impact/local – Sales: Increase from (£7,437,000) to (£9,515,000)</li> <li>• Impact/local – Unrealised gains and losses: increase from £127,000 to £2,205,000</li> </ul>	To correct the movements in fair value in Note 15B to reconcile to Note 13 Investments.

£98,281,000	<p><b>Net Assets Statement - Investment assets</b></p> <p>Testing identified that the value of the Pension Fund's bank account was incorrectly included within Investment Assets instead of being shown separately as a current asset on the net assets statement:</p> <ul style="list-style-type: none"> <li>• Investment assets (also disclosed in Note 13): Reduce from £2,298,181,000 to £2,199,900,000</li> <li>• Cash at Bank: Increase from £0 to £98,281,000.</li> </ul>	To correct the misclassification of cash held in the Pension Fund's bank account.
£4,107	<p><b>Note 23 – Related party transactions</b></p> <p>The value of allowances (£4,107) received by co-opted members of the Pension Fund was not separately disclosed in the note.</p>	To ensure disclosure complied with the CIPFA Code of Practice

There have also been a number of minor amendments and disclosure updates as a result of our work.



# Appendix 4

## Recommendations

We set out the recommendations arising from our audit with management's response to them. We will follow up this next year and include any outstanding issues in next year's audit report:

### Exhibit 3: matter arising

<b>Matter arising – Improvements required to arrangements for monitoring and valuing outstanding capital commitments</b>	
<b>Findings</b>	Our audit testing of a sample of outstanding capital commitments disclosed in the financial statements identified a number of errors, resulting the value disclosed in Note 24 being overstated.
<b>Priority</b>	Medium
<b>Recommendation</b>	Improve the processes for monitoring and valuing outstanding capital comments to ensure more robust information is available to the Pension Fund and to support the disclosure in the financial statements.
<b>Benefits of implementing the recommendation</b>	Improved processes and more accurate information on outstanding capital commitments of investments held.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	Management agree to review the process for capturing data in relation to Private Market commitments for the 2023-24 audit of accounts.
<b>Implementation date</b>	March 2024



Audit Wales

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: [info@audit.wales](mailto:info@audit.wales)

Website: [www.audit.wales](http://www.audit.wales)

We welcome correspondence and telephone calls in Welsh and English.  
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.