



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

# Audit of Financial Statements Report

## Clwyd Pension Fund

**Audit year:** 2012-13

**Issue:** September 2013

**Document reference:** 509A2013

# Status of report

---

This document has been prepared for the internal use of Clwyd Pension Fund as part of work performed in accordance with statutory functions, the Code of Audit Practice and the Statement of Responsibilities issued by the Auditor General for Wales.

No responsibility is taken by the Wales Audit Office (the Auditor General and his staff) and, where applicable, the appointed auditor in relation to any member, director, officer or other employee in their individual capacity, or to any third party.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales (and, where applicable, his appointed auditor) is a relevant third party. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at [infoofficer@wao.gov.uk](mailto:infoofficer@wao.gov.uk).

The team who delivered the work comprised:  
John Herniman, Phil Pugh, Ron Parker and Simon Monkhouse.

# Contents

---

The Appointed Auditor intends to issue an unqualified audit report on your financial statements. There are some issues to report to you prior to their approval.

---

## Summary report

Introduction	4
Status of the audit	4
Proposed audit report	4
Significant issues arising from the audit	5
Independence and objectivity	7

## Appendices

Final Letter of Representation	8
Proposed audit report of the Appointed Auditor to the Clwyd Pension Fund	12

---

# Summary report

---

## Introduction

1. The Appointed Auditor is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of Clwyd Pension Fund at 31 March 2013 and its income and expenditure for the year then ended.
2. We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
3. The quantitative levels at which we judge such misstatements to be material for Clwyd Pension Fund are £752,000 for income and expenditure items and working capital balances, and £11.8 million for other balances. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.
4. International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
5. This report sets out for consideration the matters arising from the audit of the financial statements of the Clwyd Pension Fund, for 2013, that require reporting under ISA 260.

## Status of the audit

6. After discussions and initial agreement with management, the target date set for receipt of the draft financial statements was 17 June 2013. Due to a number of factors it was not possible for this date to be achieved. The draft financial statements were however received on 30 June 2013 which was in line with the statutory deadline.
7. We have now substantially completed our audit work and are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with the Head of Finance, Clwyd Pension Fund Manager and the Pensions Finance Manager.

## Proposed audit report

8. It is the Appointed Auditor's intention to issue an unqualified audit report on the financial statements once you have provided us with a Letter of Representation based on that set out in [Appendix 1](#).

- 
9. However, as part of its investment portfolio, the Pension Fund has substantial holdings in unquoted investment funds (£262.515 million). In the financial statements, these are valued at fair value by fund managers, using an appropriate basis of valuation. The valuations are reliant upon a significant degree of judgement, and due to the subjectivity of these valuations, the fair value of these investments may differ from their realisable values. The difference could be material.
  10. As was the case in 2011-12, our review of the audited accounts of the investment managers' has not identified any instances where those accounts included an Emphasis of Matter reference in respect of the level of uncertainty associated with the value of unquoted investments or any qualifications in respect of other matters. The Authority has however disclosed within Note 6 to the financial statements, reference to the uncertainty around value of unquoted investments. In view of the above and in-line with the 2011-12 position, we do not intend to include an Emphasis of Matter paragraph within the Appointed Auditor's audit report.
  11. In completing our audit work, we have reviewed the latest available audited financial statements of the various funds, the year-end investment manager valuation reports, and the reports on controls in operation (IASE 3402 Type 11) reports which supercede the reports formerly referred to as SAS70 reports.
  12. The proposed audit report is set out in [Appendix 2](#).

## Significant issues arising from the audit

### Uncorrected misstatements

13. We set out below, details of a misstatement we identified in the financial statements, which has been discussed with management but remains uncorrected, and request that this is corrected. If you decide not to correct this misstatement, we ask that you provide us with the reason for non-correction within your Letter of Representation.
14. There is an understatement in the value of investments in the financial statements of £899,000. This is because when preparing the draft financial statements, the Authority uses the latest investment valuation reports available to it. As part of our audit work we write to all investment managers to obtain final year-end valuation reports. This information is then compared to the investment valuations disclosed in the draft financial statements. Due to more up to date information being available, we identified that the value of investments disclosed within the draft financial statements was understated by approximately £899,000. Management have decided not to adjust for this change due to the extent of changes that would be required to the accounts, we request that you confirm whether you are content to not adjust the accounts for this change in value.

---

## Corrected misstatements

15. As a result of the audit there are a number of misstatements identified 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. They are set out in the table below.

Value of correction	Nature of correction	Reason for correction
-£277,273	Pension Fund Accounts – Lump Sums -£277,273  Note 9 Current Liabilities – Lump Sums -£277,273	To reduce an identified over accrual of lump sum payments in the accounts.

## Other significant issues arising from the audit

16. In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. This year:
- **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.** The draft account provided to us for audit was generally found to be of a good standard with only a minor note disclosure (i.e. Note 11 'Additional Voluntary Contributions') being incomplete due to the required information not being available from the provider by the required date.
  - **We did not encounter significant difficulties during the audit.** We received information in a timely and helpful manner and were not restricted in our work. However, during our interim audit, discussions with management highlighted that the pensions section/department is operating below its full staffing complement and has experienced difficulty in recruiting staff with the requisite level of skills and knowledge over a number of years. To continue to operate below its optimum staffing level, increases the risk that the department is unable to undertake its functions effectively. Since the completion of the audit, we have been informed that an additional senior resource has now been appointed. A key risk highlighted by our interim audit work identified that bank reconciliations had not been completed on a monthly basis and were several months behind. Management has confirmed however, that other controls were in place which were operating on a daily/weekly basis.
  - **There were no significant matters discussed and corresponded upon with management which we need to report to you.**
  - **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
  - **We did not identify any material weaknesses in your internal controls that we have not reported to you already.**

- 
- **There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.**

## **Independence and objectivity**

- 17.** As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 18.** We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office and the Clwyd Pension Fund that we consider to bear on our objectivity and independence.

# Appendix 1

---

## Final Letter of Representation

(Audited body's letterhead)

Appointed Auditor  
Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

[Date]

## Representations regarding the 2012/13 financial statements

This letter is provided in connection with your audit of the financial statements of Clwyd Pension Fund for the year ended 31 March 2013 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 the Code of Practice on Local Authority Accounting; in particular the financial statements give a true and fair view in accordance therewith.

We acknowledge our responsibility for 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 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.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

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.

Local Government Investment Regulations require a pension fund, when formulating its investment policy, to consider the full range of investments and give reasons if some asset classes are excluded. The Clwyd Pension Fund fundamentally considers its asset allocation every three years including an optimisation exercise which quantifies the risk and return from a combination of asset classes to provide, at total fund level, both diversification and a return to meet future liabilities. This has led to an allocation to Private Equity due to the assets classes potential to generate higher returns than other asset classes. The Clwyd Pension Fund has had an allocation to Private Equity since the early 1990s. To manage risk the Pension Fund has commitments to over 50 direct private equity funds or private equity fund of funds with over 15 different managers.

---

The life of a typical private equity fund is usually about 10 years. During this period investments are usually made for the first five years and then these assets are realised over the next five years. Typically, the Pension Fund is committed to make drawdowns to the fund for about five years and usually receives distributions for the next five years. During the life of the fund it is valued quarterly using the appropriate industry standards but there is inherent uncertainty associated with their valuation, as the only definite points for valuing investments are at the point of investment and realisation. In theory, in the early life of a fund it would usually show a negative return and then returns should increase through the life of the fund as underlying investments are developed and sold. This theory is known as the 'J Curve'.

Clearly, there is no liquid market for private equity investments (by definition) and consequently the estimated fair value of private equity investments will always differ from their "realisable values" at any particular time, and for technical reasons I understand that the external auditor must refer annually to this difference.

In light of this inherent uncertainty, the value as at 31 March of a number of investments will not be known at the time of the closure of the accounts because valuation processes by third parties will be incomplete. An estimate is reported in the financial statements and actual values disclosed as a note in the accounts (Note 6 – Fair Value of Investments). As reported in Note 6, the Fund has been undervalued by £0.899m, (£2.297 million in 2011/12). I understand that the external auditor must refer to this difference as an unadjusted misstatement.

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 uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of these items is set out below:

## Representations by Flintshire County Council as administering authority for the Clwyd Pension Fund

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 Flintshire County Council on [\[insert date\]](#).

Signed by:

Kerry Feather  
Head of Finance

Date:

Signed by:

Date:

# Appendix 2

---

## Proposed audit report of the Appointed Auditor to the Clwyd Pension Fund

I have audited the accounting statements and related notes of:

- Flintshire County Council; and
- Clwyd Pension Fund.

For the year ended 31 March 2013 under the Public Audit (Wales) Act 2004.

Flintshire County Council's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, and the Cash Flow Statement.

Clwyd Pension Fund's accounting statements comprise the Fund Account and the Net Assets Statement.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2012-13 based on International Financial Reporting Standards (IFRSs).

### **Respective responsibilities of the responsible financial officer and the independent auditor**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts the responsible financial officer is responsible for the preparation of the statement of accounts, including Clwyd Pension Fund's accounting statements, which gives a true and fair view.

My responsibility is to audit the accounting statements and related notes 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 accounting statements**

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to Flintshire County Council and Clwyd pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the responsible financial officer and the overall presentation of the accounting statements and related notes.

In addition, I read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited accounting statements and related notes. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

---

### **Opinion on the accounting statements of Flintshire County Council**

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Flintshire County Council as at 31 March 2013 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012-13.

### **Opinion on the accounting statements of Clwyd Pension Fund**

In my opinion, the pension fund accounts and related notes:

- give a true and fair view of the financial transactions of Clwyd Pension Fund during the year ended 31 March 2013 and of the amount and disposition of the fund's assets and liabilities as at that date; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012-13.

### **Opinion on other matters**

In my opinion, the information contained in the Explanatory Foreword for the financial year for which the accounting statements and related notes are prepared is consistent with the accounting statements and related notes.

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

I have nothing to report in respect of the Annual Governance Statement on which I report to you if, in my opinion, it does not reflect compliance with 'Delivering Good Governance in Local Government: Framework' published by CIPFA/SOLACE in June 2007, or if the statement is misleading or inconsistent with other information I am aware of from my audit.

### **Certificate of completion of audit**

I certify that I have completed the audit of the accounts of Flintshire County Council in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Code of Audit Practice issued by the Auditor General for Wales.

**Anthony Barrett**  
**Appointed Auditor**  
**Wales Audit Office**  
**24 Cathedral Road**  
**Cardiff**  
**CF11 9LJ**

**30 September 2013**



WALES **AUDIT** OFFICE  

---

SWYDDFA **ARCHWILIO** CYMRU

Wales Audit Office  
24 Cathedral Road  
Cardiff CF11 9LJ

Swyddfa Archwilio Cymru  
24 Heol y Gadeirlan  
Caerdydd CF11 9LJ

Tel: 029 2032 0500

Ffôn: 029 2032 0500

Fax: 029 2032 0600

Ffacs: 029 2032 0600

Textphone: 029 2032 0660

Ffôn Testun: 029 2032 0660

E-mail: [info@wao.gov.uk](mailto:info@wao.gov.uk)

E-bost: [info@wao.gov.uk](mailto:info@wao.gov.uk)

Website: [www.wao.gov.uk](http://www.wao.gov.uk)

Gwefan: [www.wao.gov.uk](http://www.wao.gov.uk)