

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

Your Ref/ Eich Cyf

Our Ref/ Ein Cyf **KAF/SO**

Date/ Dyddiad **25th September 2013**

Ask for/ Gofynner am **Kerry Feather**

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Dear Sir,

Representations Regarding the 2012/13 Financial Statements

This letter is provided in connection with your audit of the financial statements of Flintshire County Council 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 Local Government Code of Practice; 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.

Cont.....

County Hall, Mold. CH7 6NA
Tel 01352 702872 Fax 01352 702836
www.clwydpensionfund.org.uk
Neuadd y Sir, Yr Wyddgrug. CH7 6NA
Ffôn 01352 702872 Ffacs 01352 702836
www.cronfabensiynauclwyd.org.uk

The Council welcomes correspondence in Welsh or English
Mae'r Cyngor yn croesawu gohebiaeth yn y Cymraeg neu'r Saesneg

Administered by
Gweinyddwyd gan



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 Flintshire County Council 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;
- 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 31st 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, (£2.297m 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.

Representations by Flintshire County Council

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 25th September 2013.

Signed by:

Signed by:

Kerry Feather
Head of Finance

Carolyn Thomas
Chair to the Council

Date: 25th September 2013

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