

Archwilydd Cyffredinol Cymru  
Auditor General for Wales



WALES **AUDIT** OFFICE  
SWYDDFA **ARCHWILIO** CYMRU

# Audit of Financial Statements Report

## **Clwyd Pension Fund**

**Audit year:** 2013-14

**Issued:** September 2014

**Document reference:** 560A2014

# Status of report

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The team who delivered the work comprised John Herniman, Amanda Hughes, Ron Parker, Simon Monkhouse and Jessica Hamilton

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The Appointed Auditor intends to issue an unqualified audit report on the financial statements of Clwyd pension fund. There are some issues to report to you prior to their approval.

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# Summary report

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## 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 2014 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 is £11.814 million. 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 Clwyd Pension Fund, for 2013-14, that require reporting under ISA 260.

## Status of the audit

6. We received the draft financial statements for the year ended 31 March 2014 on 30 June 2014, the agreed deadline, and have now substantially completed the audit work.
7. We 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 Gary Ferguson, Corporate 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](#). The proposed audit report is included within the full audit report on the Council's financial statements which is set out in [Appendix 2](#),

## Significant issues arising from the audit

### Uncorrected misstatements

9. There are no misstatements identified in the financial statements, which remain uncorrected.

## Corrected misstatements

10. There are 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. They are set out in [Exhibit 1](#) below:

### Exhibit 1: Summary of corrections

Value of correction	Nature of correction	Reason for correction
£905,000	The Fund Accounts included this amount in the Pensions figure but it should have been in Lump Sums (Retirement).	To ensure correct classification.
£515,000	Difference in Private equity holdings from valuations at the time the draft accounts complied, to year-end valuations received during the audit. This affects a number of notes in the accounts.	To ensure Private Equity balances reflected the most up to date valuations.
£935,000	<b>Note 9 Creditors</b> Increase in lump sum accruals based on more recent information than was available at year-end.	To correctly accrue for retirement liabilities up to 31 March.
£172,000	<b>Note 9 Creditors</b> Increase in death grant accruals based on more recent information than was available at year-end.	To correctly accrue for death benefit liabilities up to 31 March.

## Significant audit risks

11. In our Financial Audit Strategy, we set out information regarding the significant and elevated audit risks that were identified during the audit planning process. [Exhibit 2](#) below sets out the outcome of our audit procedures in respect of those risks:

### Exhibit 2: Summary of main audit risks and action taken

Risks	Action taken
<b>Control environment risks</b>	
<b>Management override and estimation</b> 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	<ul style="list-style-type: none"> <li>We understood and evaluated internal control processes and procedures as part of our planning work.</li> <li>We reviewed and tested the appropriateness of a sample of manual</li> </ul>

Risks	Action taken
<p>risk.</p> <p>In addition, the preparation of the Statement of Accounts will involve the estimation of a number of account figures which could be subject to bias.</p>	<p>journals processed during the year.</p> <ul style="list-style-type: none"> <li>• We looked carefully at management estimations and considered if they were subject to bias.</li> <li>• We understood the business rationale for significant transactions which appeared out of the normal course of business.</li> <li>• Our audit procedures also included an unpredictable element that varies year on year.</li> </ul> <p>We have not identified any misstatements as a result of our testing to date.</p>
<p><b>Revenue and expenditure recognition</b></p> <p>There is a risk that the Pension Fund could adopt accounting policies or treat income and expenditure transactions in such a way as to lead to material misstatement in the financial Statements.</p>	<ul style="list-style-type: none"> <li>• We have evaluated key controls to confirm our understanding of the design of the control; tested key reconciliations, and, tested that transactions that occurred around year-end were appropriately classified within the financial year to which they related.</li> <li>• We have considered the accounting policies adopted by the Pension Fund and subjected income and expenditure to the appropriate level of testing to identify any material misstatement.</li> <li>• We have also considered the work we undertook in relation to the risk of management override of controls (see above).</li> </ul> <p>We did not identify any misstatements as a result of our work.</p>
<p>In 2012-13 we were aware that there were staffing shortages within the pensions' administration section. Whilst we believe that this has now been resolved there is a risk that this had an impact on the timely processing of pensions' administration tasks which may affect the transactions within the financial statements.</p>	<p>We reviewed the Council's closedown procedures and liaised with the Head of Pensions to consider whether previous capacity issues gave rise to specific accounts risks. We did not identify any risks of material misstatement.</p>
<p><b>Financial systems risks</b></p>	
<p>As part of its portfolio, the Pension Fund has substantial holdings in unquoted investments, the figure for this year is £293.8 million (approximately £262.5 million in 2012-13).</p> <p>These are accounted for at fair value determined by valuations provided by fund</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• obtained direct confirmation from Fund managers of the year-end investment balances;</li> <li>• reviewed and assessed investment manager's internal control reports to establish whether they are indicative of</li> </ul>

Risks	Action taken
<p>managers. In addition, 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.</p>	<p>specific risks to the balances; and</p> <ul style="list-style-type: none"> <li>obtained the Investment fund's audited financial statements and considered relevant issues raised by the auditor.</li> </ul> <p>We did not identify any material misstatement as a result of our work.</p>

### Other significant issues arising from the audit

12. 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. There were some issues arising in these areas this year:

#### We have one concern about the qualitative aspects of your accounting practices and financial reporting.

13. As a result of our audit work we identified that the Pension Fund had under estimated the accrual for the lump sum and death benefit liabilities for former employees who had either retired or passed away up to and including 31 March 2014. As a result, an amendment was made to accrue an additional £1.107 million of expenditure.
14. The Council needs to strengthen its arrangements to ensure that it identifies all retirements (and deaths) up to 31 March 2014 in order to accrue for the liability in the correct financial period.

#### There is one matter relevant to the oversight of the financial reporting process that we need to report to you

15. International Accounting Standard 19 (Employee Benefits) requires Employer bodies to disclose in their accounts the assets, liabilities and transactions, together with certain information regarding underlying assumptions, in respect of retirement benefits.
16. The actuary prepares both a triennial funding valuation and an annual valuation of the pension fund liabilities, on an IAS19 basis, which provides both revenue and balance sheet disclosures for inclusion in the financial statements. This is prepared using a range of data, provided by the administering authority, and actuarial assumptions.
17. It is critical therefore that the administering authority's membership records are up to date and accurately record data for active, deferred and pensioner records. Both the employer body (via its payroll team) and the administering authority need to work together to ensure that membership records are kept up to date. This not only has implications for the IAS19 disclosures in the financial statements, but also for the individuals concerned.

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18. Whilst the administering authority process changes notified to them by the employer throughout the year, the employer also submits an annual contributions return. This allows for the data to be reconciled and often identifies changes, eg starters, leavers or additional roles, for which the administering authority has not been notified.
  19. The administering authority are keen to move to a monthly process and whilst we appreciate that there are resource implications for both the administering authority and the employer bodies, we would encourage this move as it is critical that membership data is accurate.
  20. Other than the actuarial present value of promised retirement benefits being disclosed in Note 15, it is worth noting that this issue does not directly impact on the financial statements of the pension fund.

### There are no other matters that we need to report to you

21. There are no other matters to report to you. In particular:
  - we did not encounter any significant difficulties during the audit;
  - there were no significant matters discussed and corresponded upon with management which 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; and
  - there are not any other matters specifically required by auditing standards to be communicated to those charged with governance.

### Independence and objectivity

22. As part of the finalisation process, we are required to provide you with representations concerning our independence.
23. 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 Flintshire County Council that we consider to bear on our objectivity and independence.



# Appendix 1

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## Final Letter of Representation

[Audited body's letterhead]

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

24 September 2014

Dear Sir,

### Representations Regarding the 2013/14 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 2014 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 the United Kingdom; 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

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- unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
  - The identity of all related parties and all the related party relationships and transactions of which we are aware.
  - The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
  - In the period relating to this audit we do not have any knowledge of the following:
    - 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;
    - any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others; and
    - known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

### 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.

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.

In terms of the recommendations made in the audit report:

1. Consideration will be given on how to strengthen the process for estimating the accrual for the lump sum and death benefit liabilities; and
2. improving the process for the flow of member information from employers to the administering authority is included in the Clwyd Pension Fund Service Plan 2014/15 and progress will be monitored by the Clwyd Pension Fund Committee.

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### 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 24 September 2014.

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**  
**Corporate Finance Manager (Chief**  
**Finance Officer)**

**Glenys Diskin**  
**Chair to the Council**

Date: 24 September 2014

Date: 24 September 2014

# Appendix 2

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## Proposed audit report of the Appointed Auditor to Flintshire County Council

### **Independent auditor's report to the Members of Flintshire County Council**

I have audited the accounting statements and related notes of:

- Flintshire County Council; and
- Clwyd Pension Fund

for the year ended 31 March 2014 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 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 2013-14 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, Flintshire County Council'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 the Flintshire County Council'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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I

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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 2014 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 2013-14.

### **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 2014 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 2013-14.

### **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 2014**

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