

Archwilydd Cyffredinol Cymru
Auditor General for Wales



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

Audit of Financial Statements Report

Clwyd Pension Fund

Audit year: 2014-15

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Status of report

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Contents

The Auditor General intends to issue an unqualified audit report on Clwyd Pension Funds financial statements however 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
Recommendations arising from our 2014-15 financial audit work	6
Independence and objectivity	6

Appendices

Final Letter of Representation	7
Auditor General for Wales' report to the Members of Flintshire County Council	10
Summary of corrections made to the draft financial statements which should be drawn to the attention of Flintshire County Council	13
Recommendations arising from our 2014-15 financial audit work	14

Summary report

Introduction

1. The Auditor General is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of the Clwyd Pension Fund at 31 March 2015 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 gross assets controlled by Clwyd Pension fund amount to £1.4 billion. The quantitative level at which we judge such misstatements to be material for the Clwyd Pension Fund is £13.945 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 to be taken, should there be any required.
5. This report sets out for consideration the matters arising from the audit of the financial statements of Clwyd Pension Fund, for 2014-15, that require reporting under ISA 260.

Status of the audit

6. We received the draft financial statements for the year ended 31 March 2015 before the statutory deadline of 30 June 2015, and have now substantially completed the audit work. However, as part of our audit we receive assurances from the auditors or the various investment funds that hold investments on behalf of the pension fund. At the time of writing we are still awaiting independent valuations for four investments amounting to £5.9 million.
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 Auditor General'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. The proposed audit report is set out in [Appendix 2](#). The pension fund is included within the Council's main financial statements and therefore the opinion shown is that proposed for the Council's main financial statements incorporating the pension fund.

Significant issues arising from the audit

Uncorrected misstatements

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

Corrected misstatements

11. There were two substantive 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 with explanations in [Appendix 3](#). There were also a number of other presentational amendments made to the accounts during the audit process.

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 two concerns about the qualitative aspects of your accounting practices and financial reporting

13. We have two concerns about the qualitative aspects of your accounting practices and financial reporting:
 - Monthly reconciliations of the transactions relating to lump sums and death benefit pension payments between the financial ledger and the pensions administration system are performed. On review of the reconciliations we identified a number of differences that had not been explained or corrected. It is essential that the records in both systems are reconciled on a regular basis and the differences corrected in the relevant system to ensure that transactions are both accurate and complete.
 - In preparing a set of financial statements, it is important that there is a detailed closedown plan that clearly sets out the specific tasks and timetable during the preparation window. Whilst Flintshire County Council's accounts closedown plan does cover aspects of the Clwyd Pension Fund accounts preparation, it would be beneficial if a separate and specific closedown plan for the Pension Fund were set and adhered to.

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

14. There are no other matters to report to you. In particular:
 - we did not encounter any significant difficulties during the audit;

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- 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; and
 - there are not any other matters specifically required by auditing standards to be communicated to those charged with governance.

Recommendations arising from our 2014-15 financial audit work

15. The key recommendations arising from our financial audit work are set out in [Appendix 4](#). Management has responded to them and we will follow up progress on 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.

Independence and objectivity

16. As part of the finalisation process, we are required to provide you with representations concerning our independence.
17. 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 Clwyd Pension Fund that we consider to bear on our objectivity and independence.

Appendix 1

Final Letter of Representation

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

Representations regarding the 2014-15 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 2015 for the purpose of expressing an opinion on their truth and fairness.

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.
- 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.

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- 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.
 - 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.

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 24 September 2015.

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.

Date

Gary Ferguson
Corporate Finance Manager (Chief
Finance Officer)

Date

Ray Hughes
Chair to the Council

Appendix 2

Auditor General for Wales' 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 2015 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, the Cash Flow Statement, the Movement on the Housing Revenue Account Statement and the Housing Revenue Account Income and Expenditure 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 2014-15 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the Auditor General for Wales

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 Financial Reporting Council'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's 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 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

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 2015 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 2014-15.

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 the Clwyd Pension Fund during the year ended 31 March 2015 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 2014-15.

Opinion on other matters

In my opinion, the information contained in the Explanatory Foreword 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 following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept;
- the accounting statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit;
- the Governance Statement contains material misstatements of fact or is 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 Auditor General for Wales' Code of Audit Practice.

**For and on behalf of
Huw Vaughan Thomas
Auditor General for Wales
Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ
Xx September 2015**

Appendix 3

Summary of corrections made to the draft financial statements which should be drawn to the attention of Flintshire County Council

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.

Value of correction	Nature of correction	Reason for correction
£1,910,776	Difference in Private equity holdings from valuations at the time the draft accounts compiled, 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.
£1,052,268	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.

Appendix 4

Recommendations arising from our 2014-15 financial audit work

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

Matter arising 1 – Accounts preparation closedown plan

Findings	The accounts preparation closedown plan for the pension fund is currently incorporated into the Flintshire County Council closedown plan and contains only brief instructions specific to the pension fund.
Priority	Medium
Recommendation	The Pension Fund should consider establishing a specific, detailed closedown plan.
Benefits of implementing the recommendation	A detailed description of the processes required to produce the financial statements will ensure that the pension fund would assist the timely production of the pension fund accounts.
Accepted in full by management	Yes
Management response	Agreed
Implementation date	March 2016

Matter arising 2 – Reconciliation of the ledger to the pension admin system (Altair)

Findings	We identified that transactions relating to lump sum/death benefit pension payments in the ledger did not agree fully to those recorded within the pension admin system.
Priority	Medium
Recommendation	Ensure that the differences identified within the reconciliations between the ledger and the pensions admin system are corrected within the relevant system to ensure accuracy and completeness of financial records.
Benefits of implementing the recommendation	The pension fund would have assurance over the completeness and accuracy of lump sum/death benefit payments in both the ledger and the financial statements.
Accepted in full by management	Yes
Management response	Agreed. Discussions commencing October 2015.
Implementation date	By March 2016

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