

Archwilydd Cyffredinol Cymru
Auditor General for Wales



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

Audit of Financial Statements Report

Clwyd Pension Fund

Audit year: 2015-16

Issued: September 2016

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Status of report

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The Auditor General intends to issue an unqualified audit report on the Clwyd Pension Fund's financial statements, however, there are some issues to report to you prior to their approval.

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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 (the Pension Fund) at 31 March 2016 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 financial statements being misled.
3. The gross assets controlled by the Pension Fund amount to £1.381 billion. The quantitative level at which we judge such misstatements to be material for the Pension Fund is £13.8 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 the Pension Fund for 2015-16 which require reporting under ISA 260. A separate report has been issued covering Flintshire County Council (the Council).

Status of the audit

6. We received the draft financial statements for the year ended 31 March 2016 on 30 June 2016 and have now substantially completed our 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. We have already discussed these issues with Pension Fund officers.

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 opinion on the Pension Fund is included within the audit report on Council's main financial statements as set out in [Appendix 2](#) of the Audit of Financial Statements report for Flintshire County Council.

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 a number of misstatements which 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 2](#). There were also a number of other minor presentational amendments made to the financial statements 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 one concern about the qualitative aspects of your accounting practices and financial reporting as there are some unexplained differences between the financial ledger and the pensions administration system

13. Monthly reconciliations of transactions relating to lump sums and death benefit pension payments between the financial ledger and the pensions administration system are completed by the Pension Fund. As in previous years, our review of the reconciliations identified a number of differences that had not been explained or corrected.
14. It is essential that the records in both systems are reconciled on a regular basis and any differences corrected in the relevant system to ensure that transactions are both accurate and complete.

There is one other 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 their 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 employer body financial statements, but also for the individuals concerned.
- 18.** Whilst the administering authority process changes notified to them by the employer bodies throughout the year, the employer body 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.** We identified that membership records held in the pensions administration system were not up to date. Whilst it is the responsibility of the employer bodies to notify the administering authority of changes in the status of members e.g. starters, we identified instances where membership records from the three main employer bodies, namely Denbighshire County Council, Flintshire County Council, and Wrexham County Borough Council, were not always kept up to date and therefore accurate.
- 20.** Other than the actuarial present value of promised retirement benefits being disclosed in Note 16, this issue does not directly impact on the financial statements of the pension fund. It is essential that the Council, in its role as the administering authority, continues to working with employer bodies to ensure that the membership data is kept up to date. We have also reported this matter to the employer bodies.

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.
 - There are no other matters specifically required by auditing standards to be communicated to those charged with governance.

Recommendations arising from our 2015-16 financial audit work

- 22.** The key recommendations arising from our financial audit work are set out in [Appendix 3](#). 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

- 23.** As part of the finalisation process, we are required to provide you with representations concerning our independence. 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 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 2015-16 financial statements

This letter is provided in connection with your audit of the financial statements of the Clwyd Pension Fund (the Pension Fund) for the year ended 31 March 2016 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.

- 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 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.
- We have informed you of any concerns raised or comments made by regulators about the pension fund, its fund managers and any assets/liabilities.
- 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 the members of Flintshire County Council on 26 September 2016.

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

Councillor Peter Curtis
Chair to the Council

Appendix 2

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.

| Nature of correction | Reason for correction | Impact |
|--|---|---|
| <p>The analysis of the membership of the fund at 31st March 2016 was amended for the following</p> <ul style="list-style-type: none">• 'Active Members' from 16,282 to 15,989.• 'Pensions and survivors':<ul style="list-style-type: none">– 'Ex employees' from 9,815 to 9,862.– 'Survivors' from 1,601 to 1,616.• 'Other':<ul style="list-style-type: none">– 'Preserved benefits/ Undecided' from 13,052 to 13,176– 'Frozen Refund' from 955 to 1,022. | <p>The analysis was revised to the most up to date information provided by the pension administration team in July 2016 following the preparation of the draft financial statements</p> | <p>The change to the analysis had no other impact on the Council's financial statements.</p> <p>Presentational disclosure only.</p> |
| <p>The table containing the analysis market value of investments 2015-16 in Note 4 was amended for the following:</p> <ul style="list-style-type: none">• 'Property' from £109,422,000 to £109,233,000.• 'Infrastructure' from £27,436,000 to £27,351,000.• 'Timber & Agriculture' from £25,832,000 to £25,937,000.• 'Private Equity' from £139,117,000 to £139,582,000.• 'Opportunistic' from £8,384,000 to £8,240,000. | <p>To ensure market value of investment disclosed in Note 4 reflected the most up to date valuations.</p> | <p>The amendments increased the market value of investments by £152,000. Appropriate amendments were included in corresponding notes and value of Investment Assets disclosed in the 'Net Asset Statement'.</p> |
| <p>Note 6 'Fair value of investments – Hierarchy – Overseas Equities Active' table was amended:</p> <ul style="list-style-type: none">• 'Level 1' from £86,317,000 to £60,073,000.• 'Level 2' from £116,509,000 to £142,753,000 | <p>The Investment with Aberdeen Frontier was reclassified from 'Level 1' to 'Level 2' to agree with the classification provided by the Investment Manager.</p> | <p>Appropriate corresponding adjustments were included in the total columns of the analysis. The change had no other impact on the Council's financial statements.</p> |

| Nature of correction | Reason for correction | Impact |
|---|---|--|
| <p>Note 9 'Receivables/Payables - Current Liabilities' was amended for the following:</p> <ul style="list-style-type: none"> • 'Lump sums' from £(2,717,000) to £(3,324,000). • 'Death grants' from £(418,000) to (£755,000) | <p>Note 9 was amended to agree to Pension Fund records, due to delays in processing lump sum payments after the year-end.</p> | <p>Corresponding amendments were made to the 'Analysis of Creditors' in Note 9 and 'Current liabilities – due within one year' in the 'Net Asset Statement'.</p> |

Appendix 3

Recommendations arising from our 2015-16 financial audit work

We set out our two 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 – Maintaining up to date membership records

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|--|---|
| Findings | Membership records held in the pension's administration system are not up to date for the three main employer bodies, namely Denbighshire County Council, Flintshire County Council, and Wrexham County Borough Council. |
| Priority | High |
| Recommendation | The Council should continue working with employer bodies to ensure that membership records are brought up to date and subsequently maintained. |
| Benefits of implementing the recommendation | To ensure that membership records are accurate and complete. |
| Accepted in full by management | Yes |
| Management response | The 3 year Business Plan for the pension fund includes working with the unitary authorities to implement an on line computer module that will allow information to be submitted by employers more directly and efficiently into the pension administration system. This will be implemented on a phased basis with each unitary authority (as well as with some other employing bodies) through 2016-17 and 2017-18. In addition the completion of some outstanding backlog relating to deferred members and implementation of the Fund's Administration Strategy will vastly improve data quality and highlight any on-going problems. Progress is monitored by the Pension Fund Committee and Board. There is a Steering Group of senior finance officers from the unitary authorities who also discuss these operational issues. The Fund's actuary will discuss any impact of data quality on the results of the Actuarial Valuation with employers and the Committee |
| Implementation date | Work in progress with planned completion across all employer bodies in 2017-18. |

Matter arising 2 – Reconciliation of lump sums and death benefit pension payments

| | |
|--|--|
| Findings | 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. As in previous years, our review of the reconciliations identified a number of differences that had not been explained or corrected. |
| Priority | High |
| Recommendation | The Pension Fund to fully reconcile the monthly reconciliation of transactions relating to lump sums and death benefit payments, ensuring any differences are corrected. |
| Benefits of implementing the recommendation | To ensure that transactions are both accurate and complete. |
| Accepted in full by management | Yes |
| Management response | An efficient method of reconciling the pension system and the accounting ledger has proved problematic. Work is on-going to correct outstanding differences and reconciliation procedures. Greater resource and management oversight on progress will be applied. |
| Implementation date | 31 March 2017 |

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