



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Audit of Financial Statements Report and Management Letter – **Clwyd Pension Fund**

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infoofficer@audit.wales.

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

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This document summarises the conclusions on the 2017-18 audit including our recommendations for the year. The Auditor General intends to issue an unqualified audit report on your financial statements.

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Summary report

Introduction

- 1 The purpose of this report is twofold:
 - to set out for consideration the matters arising from the audit of the financial statements of Clwyd Pension Fund (the Pension Fund) for 2017-18, that require reporting to those charged with governance, in time to enable appropriate action; and
 - to formally communicate the completion of our audit and capture the recommendations arising from our audit work for the year.
- 2 The Auditor General's responsibilities were set out in our Audit Plan that was noted by the Audit Committee in March 2018 along with your responsibilities as those charged with governance; we do not repeat them in detail again here.
- 3 We are particularly grateful to Pension Fund for their assistance, co-operation and good quality of working papers and the draft accounts provided.
- 4 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 Clwyd Pension Fund at 31 March 2018 and its income and expenditure for the year then ended.
- 5 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.
- 6 The quantitative level at which we judge such misstatements to be material for the Pension Fund is £17.8 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.

Status of the audit

- 7 We received the draft Pension Fund financial statements on 15 June 2018, fourteen days prior to the statutory deadline of 30 June 2018, and have now substantially completed the audit work.
- 8 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 and agreed these issues with Pension Fund officers and the Corporate Finance Manager.

Proposed audit report

- 9 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](#).
- 10 The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

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

Corrected misstatements

- 12 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 with explanations in [Appendix 3](#).

Other significant issues arising from the audit

- 13 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.

We have no concerns about the qualitative aspects of your accounting practices and financial reporting

- 14 The draft financial statements were prepared to a good standard and were supported by comprehensive and timely working papers, helping us to achieve the overall completion timetable on a timely basis.
- 15 With the advent of the earlier production and publication of local government annual accounts by the end of May and July respectively by 2020-21, the 2017-18 draft accounts were received on 15 June 2018, two weeks ahead of the statutory deadline. The earlier preparation was achieved as part of the Pension Fund's initiative to prepare for the early production and publication of local government body annual accounts required by 2020-21.
- 16 To ensure the Pension Fund and ourselves are well placed to meet the earlier deadlines we will review this year's account preparation process and audit outcomes at a joint post project learning session and agree a plan to incrementally bring forward the accounts closure and audit over the next few years.

- 17 Last year Internal Audit reported progress in addressing our 2015-16 recommendation on the need for the Pension Fund to address remaining differences in the monthly reconciliations of the transactions relating to lump sums and death benefit pension payments between the financial ledger and the pensions administration system. Internal Audit followed up progress in addressing the remaining differences in 2017-18 and concluded that there were no outstanding matters.

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

- 18 We did not encounter any significant difficulties during the audit. The Pension Fund and Worth Technical Accounting Solutions (who prepared the draft financial statements) maintained an open and constructive dialogue with the audit team throughout the audit. As a result, the audit process has gone smoothly. We were not restricted in our work and we received the information that we required for our audit in a timely manner.
- 19 There are no other matters to report to you. In particular:
- 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.

Independence and objectivity

- 20 As part of the audit finalisation process, we are required to provide you with representations concerning our independence. We can confirm that with the exception of one member of staff, there are no known threats to the independence of the Auditor General for Wales or on the independence of staff or contractors working on his behalf.
- 21 With regards to the exception noted above, a member of the audit team has close family who are members of the Pension Fund. We have taken appropriate steps to ensure that the audit team member has not been involved in any audit work on pension payments or payroll. 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

5 September 2018

Representations regarding the 2017-18 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 2018 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 of the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18; 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
 - 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 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.

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 Clwyd Pension Fund Committee on 5 September 2018. 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

Councillor David Hughes
Chair of Clwyd Pension Fund Committee

5 September 2018

5 September 2018

Appendix 2

Proposed independent auditor's report of the Auditor General to the members of Flintshire County Council as administering authority for the Clwyd Pension Fund

Report on the audit of the financial statements

Opinion

I have audited the financial statements of the Clwyd Pension Fund for the year ended 31 March 2018 under the Public Audit (Wales) Act 2004. The Clwyd Pension Fund's financial statements comprise the fund account, the net assets statement and the related notes, including a summary of significant accounting policies. 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 2017-18 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2018, and of the amount and disposition at that date of its assets and liabilities; and
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the pension fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the responsible financial officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Report on other requirements

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 financial 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.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of the Clwyd Pensions Fund in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

Responsibilities

Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the financial statements set out on page 30, the responsible financial officer is responsible for the preparation of the financial statements, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the responsible financial officer is responsible for assessing the pension fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Anthony J Barrett
For and on behalf of the Auditor General for Wales
7 September 2018

24 Cathedral Road
Cardiff
CF11 9LJ

Appendix 3

Summary of corrections made to the draft financial statements which should be drawn to the attention of the Clwyd Pension Fund

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
<p>Note 8 Benefits Payable Value of £1,708,000 The correction also affects the Fund Account and the Net Asset Statement.</p>	<p>The Note 8 'Benefits payable' increased from £68,889,000 to £70,597,000 due to the following amendments:</p> <ul style="list-style-type: none"> 'Administering Authority – Flintshire County Council' from £26,524,000 to £27,066,000 'Scheduled bodies' from £39,217,000 to £42,330,000. 'Admitted bodies' from £3,238,000 to £1,201,000. <p>'Benefits payable' in Note 19 was also amended from £0 to £1,708,000 and corresponding adjustments were made 'Other entities and individuals' disclosed in the subsequent table. The adjustments were also reflected in the 'Fund Account' and 'Net Asset Statement'.</p>	<p>To ensure:</p> <ul style="list-style-type: none"> 'Benefits Payable' was correctly classified between 'Scheduled' and 'Admitted' bodies; and Note 19 was not prepared in accordance with the Pension Fund's accounting policies as lump sum accruals for retirements and death grants were excluded in error.
<p>Note 13A Analysis of investments Reanalysed for 'Pooled investment vehicles: Overseas'.</p>	<p>The table containing the analysis of investments was amended to reflect the classification of investments disclosed in Note 15 'Fair value of Investments'.</p>	<p>To ensure the financial statements fully comply with the requirements of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017-18.</p>
<p>Note 13B Analysis by Fund Manager Narrative disclosure.</p>	<p>An additional table was added to the disclosure showing the split between UK and Overseas holdings at the 31 March 2018.</p>	<p>To ensure the financial statements fully comply with the requirements of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017-18.</p>

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