

## **Audit of Accounts Report – Clwyd Pension Fund**

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We intend to issue an unqualified audit report on your Accounts. There are some issues to report to you prior to their approval.

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# Audit of Accounts Report

## Introduction

- 1 We summarise the main findings from our audit of your 2019-20 annual report and accounts in this report.
- 2 We have already discussed these issues with the Deputy Head of the Pension Fund and the Pension Fund Accountant.
- 3 Auditors can never give complete assurance that accounts are correctly stated. Instead, we work to a level of 'materiality'. This level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled.
- 4 We set this level at £17.795 million for this year's audit.
- 5 We have now substantially completed this year's audit, but at the time of drafting this report, the following areas of work were outstanding:
  - a small number of third-party verifications for investment valuations;
  - our final stage review of our audit work coupled with our final review of the revised accounts; and
  - final review of the Annual Report.
- 6 In our professional view, we have complied with the ethical standards that apply to our work; remain independent of yourselves; and, our objectivity has not been compromised in any way. There are no relationships between ourselves and yourselves that we believe could undermine our objectivity and independence.

## Impact of COVID-19 on this year's audit

- 7 The COVID-19 pandemic has had a significant impact on all aspects of our society and continues to do so. You are required by law to prepare accounts and it is of considerable testament to the commitment of your accounts team that you have succeeded in doing so this year in the face of the challenges posed by this pandemic. To help overcome these challenges we adopted new ways of working such as establishing a secure remote file transfer portal. We are extremely grateful to the professionalism of the team in supporting us to complete our audit in such difficult circumstances, although we have identified some opportunities where the process needs to improve for future years. We will be reviewing what we have learned from the impact of the pandemic on our audit and whether there are innovative practices that we might adopt in the future to enhance our work for our experiences both locally and nationally.
- 8 The pandemic has unsurprisingly affected our audit and we summarise in **Exhibit 1** the main impacts. Other than where we specifically make recommendations, the detail in **Exhibit 1** is provided for information purposes only to help you understand the impact of the COVID-19 pandemic on this year's audit process.

## Exhibit 1 – impact of COVID-19 on this year’s audit

<b>Timetable</b>	<ul style="list-style-type: none"><li>• Officers provided us with good quality draft accounts on 16 June 2020 as planned.</li><li>• The Annual Report was provided to us on 3 September 2020.</li><li>• We expect your audit report to be signed by 13 October 2020.</li></ul>
<b>Electronic signatures</b>	Given current social distancing requirements, it may be difficult for signing and certification of the accounts in hard copy this year. We may need to use electronic signatures for this purpose and will accept electronic signatures from the Pension Fund. We will liaise with management to ensure relevant arrangements are in place.
<b>Conducting the audit approach and obtaining audit evidence</b>	Due to social distancing measures, Audit Wales staff are currently working remotely from home. As a result, we adopted new ways of working: <ul style="list-style-type: none"><li>• weekly meetings held with the Deputy Head of the Pension Fund and the Pension Fund Accountant throughout the audit to discuss progress and emerging issues; and</li><li>• established a secure remote file transfer portal to safely share information.</li></ul>

- 9 We will be reviewing what we have learned for our audit process from the COVID-19 pandemic and whether there are innovative practices that we might adopt in the future to enhance that process.

## Proposed audit opinion

- 10 We intend to issue an unqualified audit opinion on this year’s accounts once you have provided us with a Letter of Representation based on that set out in **Appendix 1**.
- 11 We issue a ‘qualified’ audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.
- 12 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards.
- 13 Our proposed audit report is set out in **Appendix 2**. The audit report includes an Emphasis of Matter which draws readers’ attention to uncertainties arising from circumstances caused by the COVID-19 pandemic:
- Note 13A ‘Analysis of Investments’ which describes material valuation uncertainty clauses in the valuation reports for Pooled Property Investments held by the Fund.

- 14 My opinion is not modified in respect of this matter.
- 15 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards, along with confirmation of other specific information you have provided to us during our audit.

## Significant issues arising from the audit

### Uncorrected misstatements

- 16 Notwithstanding the areas of audit work outstanding highlighted in paragraph 5, there are no misstatements identified in the financial statements, which remain uncorrected. We will update our report as the audit work is completed and will report back to you any misstatements the Pension Fund has not corrected.

### Corrected misstatements

- 17 There were initially misstatements in the accounts that have now been corrected by management. However, we believe that these should be drawn to your attention and they are set out with explanations in **Appendix 3**.

### Other significant issues arising from the audit

- 18 In the course of the audit, we consider a number of matters relating to the accounts and report any significant issues arising to you. There were no issues arising in these areas this year.

## Recommendations

- 19 We intend to make a small number of recommendations in a separate report to the Pension Fund. The recommendations do not have any impact on our opinion over the financial statements.

# Appendix 1

## Final Letter of Representation

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

7 October 2020

### Representations regarding the 2019-20 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 2020 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 2019-20; in particular the financial statements give a true and fair view in accordance therewith; and
- 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 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 the Clwyd Pension Fund Committee**

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 Pensions Committee on 7 October 2020.

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  
Date: 7 October 2020

Cllr Ted Palmer  
Chair of Clwyd Pension Fund Committee  
Date: 7 October 2020

# Appendix 2

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

### Report on the audit of the financial statements

#### Opinion

I have audited the financial statements of Clwyd Pension Fund for the year ended 31 March 2020 under the Public Audit (Wales) Act 2004.

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 2019-20 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 2020, 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 2019-20.

#### 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.

#### Emphasis of Matter – effects of COVID-19 on the Fund's Pooled Property investment valuations

I draw attention to Note 13A to the financial statements, which describes material valuation uncertainty clauses in the valuation report's on Pooled Property investments

held by the Clwyd Pension Fund arising from circumstances caused by the COVID-19 pandemic. My opinion is not modified in respect of this matter.

## **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 Clwyd Pension Fund's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

## **Other information**

The responsible financial officer is responsible for the other information in the annual report. The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements 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.

## **Report on other requirements**

### **Opinion on other matters**

In my opinion, based on the work undertaken in the course of my audit:

- the information contained in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements and the annual report has been prepared in accordance with the Local Government Pension Scheme Regulations 2013.

## **Matters on which I report by exception**

In the light of the knowledge and understanding of the pension fund and its environment obtained in the course of the audit, I have not identified material misstatements in the annual report.

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 Clwyd Pension 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, 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

Adrian Crompton  
Auditor General for Wales

Date: 13 October 2020

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# Appendix 3

## Summary of corrections made

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.

### Exhibit 2: summary of corrections made

Value of correction	Nature of correction	Reason for correction
£19.386 million reduction to the Closing Net Assets of the Fund	<b>Value of Investment Assets</b> The Value of 'Investment Assets' on the face of the Net Assets Statement were overstated by £19.386 million and the 'Change in market value of investments' on the face of the Fund Account is overstated by the same amount.	To include the investments held by the Pension Fund at their actual value as at 31 March 2020. Due to their nature, there is a delay in receiving year-end valuations for 'Private Equity' investments. These investments are held at an estimated value within the balance sheet. The difference between the estimates and the actuals, once all valuations were received, was a material amount.
£1.2 million, self-contained to Note 11	<b>Note 11 Investment Income</b> The current year figures within note 11 contained a classification error. The 'Pooled Investments' income was overstated by £1.2 million, with the 'Private equity' income being understated by the same amount. The prior-year comparative was also amended to correct this classification with £1.4 million moved from 'Pooled Investments to 'Private Equity'.	To correctly disclose the Investment Income received during the year ended 31 March 2020.

Value of correction	Nature of correction	Reason for correction
Narrative disclosure only, self-contained to note 13A.	<p><b>Note 13A Analysis of Investment</b></p> <p>Additional disclosure has been inserted into note 13A regarding material valuation uncertainties of Pooled Property investments.</p>	The disclosure highlights the impact of the COVID-19 pandemic on the valuation of properties which underly Pooled Property Investments held by the Fund.
£6.5 million, self-contained to note 13A	<p><b>Note 13A Analysis of Investment</b></p> <p>The table showing the analysis of investments contains a classification error within the 'Infrastructure' balances. The 'Limited Liability Partnerships – quoted' figure is overstated by £6.5 million with the 'Limited Liability Partnerships – unquoted' being understated by the same amount.</p>	To correctly disclose the nature of the Fund investments
£29.7 million, self-contained to note 13B	<p><b>Note 13B Analysis by Fund manager</b></p> <p>The table showing the analysis of the Fund investments between 'UK' and 'Overseas' contained a classification error. The 'UK' balance was overstated by £29.7 million, with the 'Overseas' balance being understated by the same amount.</p>	To correctly disclose the geographic analysis of the Fund investments.

Value of correction	Nature of correction	Reason for correction
£88.6 million, self-contained to note 15	<p><b>Note 15 Fair Value of Investments</b></p> <p>The fair value hierarchy for 'Infrastructure' and 'Hedge Fund' contained classification errors.</p> <p>For 'Infrastructure', the 'Level 2' had been understated by £6.5 million with the 'Level 1' being overstated by the same amount.</p> <p>For 'Hedge Fund', the 'Level 2' had been understated by £82.1 million, with the 'Level 1' overstated by £81.7 million and 'Level 3' overstated by £0.4 million.</p>	To correctly disclose the fair value levels in line with IFRS13.
Narrative disclosure only, Annual Report	<p><b>Annual Report Section 9 – Investment Policy and Performance Report; Section 11 – Financial Report</b></p> <p>The investment performance of the Fund had been misstated within the annual report. The overall return had been stated as -3.2% and has been amended to -5.1%. The underlying portfolio returns have been amended where applicable.</p>	To update the investment return to reflect the final valuation of Fund investments included within the Financial Statements.

There have also been a number of minor amendments and disclosure updates as a result of our work.





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