



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# Audit of Financial Statements Report – **Clwyd Pension Fund**

Audit year: 2016-17

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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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The Auditor General intends to issue an unqualified audit report on your financial statements. 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 Clwyd Pension Fund (the Pension Fund) at 31 March 2017 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 the Pension Fund are £16.8 million. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and reader 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 the Pension Fund for 2016-17, that require reporting under ISA 260.

## Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2017 on 30 June 2017, 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 Pension Fund Officers and the 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 opinion is included within the audit report on Council's main financial statements as set out in 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 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 2](#).

## 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 some concerns about the qualitative aspects of your accounting practices and financial reporting and the Pension Fund did not achieve its own earlier closure timetable, but it did meet its statutory deadline for preparing the draft financial statements

- 13 The Pension Fund's draft financial statements were not prepared to the standard consistently achieved in previous years. We identified a number of accounting errors and a large number of discrepancies with supporting working papers, which resulted in the financial statements being corrected. We also encountered some prolonged delays in receiving responses to audit queries. Officers advised us that the difficulties in part arose due to extenuating internal circumstances arising from staffing issues during the closedown process. Despite this, we achieved our overall completion timetable on a timely basis, enabling us to meet the Council's reporting deadlines.
- 14 With the advent of the earlier production and publication of local government annual accounts by the end May and July respectively by 2020-21, the Pension Fund also intended sharing its draft financial statements for audit by 19 June 2017. The draft financial statements were subsequently shared with us on 30 June 2017, and whilst this was in line with the statutory deadline, it was later than planned.
- 15 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 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.

- 16 Last year we also reported that monthly reconciliations of the transactions relating to lump sums and death benefit pension payments between the financial ledger and the pensions administration system identified a number of non-material differences that had not been explained or corrected. We recommended that the Pension Fund fully reconciled the monthly transactions relating to lump sums and death benefit payments, ensuring any differences were corrected.
- 17 The Pension Fund informed us that obtaining reports from the pensions system to facilitate the reconciliation remained problematic during the year. Internal Audit followed up progress in addressing our 2016-17 recommendation and found that 'lump sum reconciliations and differences resulting from these have improved from the previous year' but there remain differences between the general ledger and Pensions Administration System. The Pension Fund has accepted Internal Audit's recommendation to address the remaining variances and continues to develop reports to facilitate the reconciliation. We will following progress as part of our 2017-18 audit work.

### **There are no other matters relevant to the oversight of the financial reporting process that we need to report to you and the Pension Fund has made good progress in updating the accuracy of membership records**

- 18 We planned and performed our audit to address the financial statement risks as reported within our 2017 Audit Plan. No significant issues were identified from the audit of these areas.
- 19 Last year we reported that Pension Fund membership records held in the pension's administration system were not up to date for the three main employer bodies, namely Denbighshire County Council, Flintshire County Council, and Wrexham County Borough Council. We recommended that the Pension Fund should work with employer bodies to ensure that membership records were brought up to date and subsequently maintained.
- 20 Our follow up confirmed that good progress has been made in updating membership records. The Council, in its role as the administering authority, has been working with employer bodies to ensure membership records are brought up to date and subsequently maintained. An automated interface system (I –connect) has been implemented for Denbighshire County Council and some smaller bodies in 2016-17, and others bodies will use the system over the next two years. In addition, the Pension Fund has established an Employer Liaison Team to work with the admitted bodies to ensure the accurate and timely transfer of information.

## 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.

## Recommendation arising from our 2016-17 financial audit work

- 22 The key recommendation arising from our financial audit work is set out in [Appendix 3](#). Management has responded to it and we will follow up progress during next year's audit. Where the actions remains 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 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.
- 24 With regards to the exception noted above, a member of the Financial Audit team's family is a member of the Pension Fund. We have taken appropriate steps to ensure that the team member has not been involved in any work that could compromise her independence.
- 25 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 Council 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

27 September 2017

### Representations regarding the 2016-17 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 2017 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 2016-17; 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 any 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 Flintshire County Council on 27 September 2017.

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 Brian Lloyd  
Chair of Flintshire County Council

27 September 2017

27 September 2017

# 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><b>Note 3 ‘Expenses Borne by the Fund – Fund Management Fees’</b> table was amended as follows:</p> <p><b>Oversight &amp; Governance</b></p> <ul style="list-style-type: none"> <li>• ‘Supplies &amp; Services’ from £1,000 to £58,000.</li> <li>• ‘Consultancy &amp; Actuarial’ from £1,272,000 to £1,226,000.</li> <li>• An additional ‘Miscellaneous’ category was included for £11,000.</li> </ul> <p><b>Investment Management fees</b></p> <ul style="list-style-type: none"> <li>• ‘Net Fund Management Fees’ from £12,904,000 to £14,386,000.</li> </ul> <p><b>Administration Expenses</b></p> <ul style="list-style-type: none"> <li>• ‘Supplies &amp; Services’ from £773,000 to £365,000.</li> </ul>	<p>The ‘Net Fund Management Fees’ disclosed in the Pension Fund Account was understated by £1,482,000 as a number of fund manager fees were omitted in error in the supporting analysis.</p>	<p>An appropriate corresponding adjustment was included in the Pension Fund Account.</p>
<p><b>The table in Note 5 ‘Transactions and Returns on Investments’</b> was amended for the following:</p> <p><b>‘Unrealised Gain/(Loss)’</b></p> <ul style="list-style-type: none"> <li>• Property from £4,752,000 to £5,412,000.</li> <li>• Infrastructure from £5,760,000 to £6,629,000.</li> <li>• Timber from £4,443,000 to £4,579,000.</li> <li>• Private equity from £9,996,000 to £11,085,000.</li> <li>• Opportunistic from £1,265,000 to £1,320,000.</li> </ul>	<p>To ensure the unrealised gain/(loss) on investments disclosed reflected most up to date position.</p>	<p>Appropriate corresponding adjustments were included in the Clwyd Pension Fund Account, the Net Assets Statement and corresponding notes as summarised:</p> <p>The amendments increased the unrealised gain by £2,809,000.</p>

Nature of correction	Reason for correction	Impact
<p><b>‘Market Value 2016/17’</b></p> <ul style="list-style-type: none"> <li>• ‘Property’ from £114,054,000 to £114,714,000.</li> <li>• ‘Infrastructure’ from £30,892,000 to £31,761,000.</li> <li>• ‘Timber &amp; Agriculture’ from £28,967,000 to £29,103,000.</li> <li>• ‘Private Equity’ from £151,334,000 to £154,423,000.</li> <li>• ‘Opportunistic’ from £17,911,000 to £17,966,000.</li> </ul> <p><b>‘Investment Income’</b></p> <ul style="list-style-type: none"> <li>• ‘Property’ from £1,676,000 to £2,501,000.</li> <li>• ‘Infrastructure’ from £725,000 to £1,584,000.</li> <li>• ‘Private Equity’ from £5,000 to £2,537,000.</li> <li>• ‘Opportunistic’ from £564,000 to £669,000.</li> </ul> <p><b>‘Fees within pooled vehicles – Unrealised gains/(loss)’</b> from £10,046,000 to £7,176,000.</p>	<p>To ensure the market value of investment disclosed in Note 5 reflected the most up to date valuations.</p> <p>The investment income in Note 5 did not agree with the general ledger. As a consequence investment income was incorrectly classified as and in ‘Change in Market Value of Investments’.</p> <p>To ensure the fees within pooled vehicles agreed to supporting records.</p>	<p>The amendments increased the market value of investments by £2,809,000.</p> <p>The amendment increased ‘investment income’.</p> <p>The amendment decreased the unrealised gain by a corresponding amount.</p>
<p><b>Note 7 ‘Fair Value of Investments - Fixed Interest Securities’</b> amounting to £198,621,000 in the hierarchy table analysing the Fund’s assets was amended from ‘Level 1’ to ‘Level 2’.</p>	<p>The hierarchy analysis of the Fund’s assets at 31 March 2017 was amended as it did not agree to the Pension Fund’s supporting working paper.</p>	<p>No other impact upon the financial statements. Presentational disclosure only.</p>

## Appendix 3

### Recommendations arising from our 2016-17 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:

<b>Matter arising 1 – Reconciliation of lumps sums and death benefit pension payments</b>	
<b>Findings</b>	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. Whilst progress has been made in reconciling the differences in the reconciliations, Internal Audit have identified a number of differences that had not been explained or corrected.
<b>Priority</b>	High
<b>Recommendation</b>	The Pension Fund to fully reconcile the monthly reconciliation of transactions relating to lump sums and death benefit payments, ensuring any differences are corrected.
<b>Benefits of implementing the recommendation</b>	To ensure that transactions are both accurate and complete.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	The differences identified have now been explained and corrected
<b>Implementation date</b>	-

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