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Mr Gary Ferguson  
Corporate Finance Manager  
Flintshire County Council  
County Hall  
Mold  
Flintshire  
CH7 6NB

**Reference:** AW/CPF/MJP

**Date issued:** 4<sup>th</sup> May 2021

Dear Gary,

**Clwyd Pension Fund 2020-21 - Audit enquiries to those charged with governance and management**

In our 2021 Audit Plan, we note that the Auditor General for Wales is responsible for obtaining reasonable assurance that the financial statements taken as a whole; are free from material misstatement, whether caused by fraud or error. We also set out the respective responsibilities of auditors, management and those charged with governance.

This letter formally seeks documented consideration and understanding on a number of governance areas, that impacts on our audit of the Clwyd Pension Fund's financial statements. These considerations are relevant to both the management of Clwyd Pension Fund and 'those charged with governance' (the Pension Fund Committee).

I have set out below the areas of governance on which I am seeking views.

1. Processes in relation to:
  - undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud;
  - identifying and responding to risks of fraud in the organisation;
  - communication to those charged with governance the processes for identifying and responding to fraud; and

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- communication to employees of views on business practice and ethical behaviour.
2. Awareness of any actual or alleged instances of fraud.
  3. How assurances are gained that all relevant laws and regulations have been complied with.
  4. Whether there is any potential litigation or claims that would affect the financial statements.
  5. Processes to identify, authorise, approve, account for and disclose related party transactions and relationships.

The information you provide will inform our understanding of the Pension Fund and its business processes and support our work in providing an audit opinion on your 2020-21 financial statements.

I would be grateful if you could liaise with Councillor Ted Palmer as the Chair of the Pension Fund Committee to complete the attached tables in Appendices 1-3.

Your responses should be formally considered and communicated to us on behalf of both management and those charged with governance by 31 August 2021. In the meantime, if you have queries, please contact me on 02920 320660 or by e-mail [Michelle.Phoenix@audit.wales](mailto:Michelle.Phoenix@audit.wales).

Yours sincerely



Michelle Phoenix  
Audit Manager

## Appendix 1

### Matters in relation to fraud

International Standard for Auditing (UK and Ireland) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both management and 'those charged with governance', which for the Pension Fund is the Pension Fund Committee. Management, with the oversight of the Pension Fund Committee, should ensure there is a strong emphasis on fraud prevention and deterrence and create a culture of honest and ethical behaviour, reinforced by active oversight by those charged with governance.

As external auditors, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

### What are we required to do?

As part of our risk assessment procedures we are required to consider the risks of material misstatement due to fraud. This includes understanding the arrangements management has put in place in respect of fraud risks. The ISA views fraud as either:

- the intentional misappropriation of assets (cash, property, etc); or
- the intentional manipulation or misstatement of the financial statements.

We also need to understand how the Pension Fund Committee exercises oversight of management's processes. We are also required to make enquiries of both management and the Pension Fund Committee as to their knowledge of any actual, suspected or alleged fraud and to understand the processes for identifying and responding to the risks of fraud and the internal controls established to mitigate them.

I have included your 2019-20 responses to assist with completion.

Enquiries of management - in relation to fraud		
Question	2019-20 Response	2020-21 Response
1. What is management's assessment of the risk that the financial statements may be materially misstated due to fraud and what are the principal reasons?	<p>The risk is considered to be low, because:</p> <ul style="list-style-type: none"> <li>- The Clwyd Pension Fund (CPF) processes and systems are audited by the Flintshire County Council (FCC) internal audit team, and their reports have not identified any serious weakness in relation to potential fraud.</li> <li>- CPF uses many of FCCs processes and systems, including staff payroll, payments of benefits, and the financial ledger system, which are subject to robust controls and are regularly audited.</li> <li>- The accounts are subject to internal review by members of the CPF team which would highlight distortion resulting from potential fraud.</li> </ul> <p>Regular budget monitoring reports are produced which would highlight areas of potential fraud.</p>	<p>The risk is considered to be low, because:</p> <ul style="list-style-type: none"> <li>- The Clwyd Pension Fund (CPF) processes and systems are audited by the Flintshire County Council (FCC) internal audit team, and their reports have not identified any serious weakness in relation to potential fraud.</li> <li>- CPF uses many of FCCs processes and systems, including staff payroll, payments of benefits, and the financial ledger system, which are subject to robust controls and are regularly audited.</li> <li>- The accounts are subject to internal review by members of the CPF team which would highlight distortion resulting from potential fraud.</li> </ul> <p>Regular budget monitoring reports are produced which would highlight areas of potential fraud.</p>

2. What processes are employed to identify and respond to the risks of fraud more generally and specific risks of misstatement in the financial statements?

CPF has a Risk Policy approved by CPF Committee. Under this policy a risk register is maintained and reports on the register are considered quarterly by CPF Committee.

The CPF Pension Board acts as a partner in assisting the Fund to meet its statutory and regulatory requirements and in administering the Fund effectively.

CPF has in place an Independent Advisor, who chairs the Pension Board and offers advice and guidance on governance matters.

CPF has a Breaches Policy approved by CPF Committee. Under this policy, CPF maintains a breaches register and reports on the register are considered quarterly by CPF Committee and at each CPF Pension Board meeting. This includes how breaches of legislation have arisen and how they have been managed.

CPF uses a number of FCC systems and processes which are governed by FCC's Financial Procedure Rules (FPR's). All officers are FCC employees and so are governed by FCC's Code of Conduct, Anti-Fraud and Corruption Strategy, Contract Procedure Rules, Whistle Blowing Policy and Constitution.

CPF participates in the NFI, which through its matching exercises would highlight potential fraud.

The Funds Actuary has completed an actuarial review during 2019/20 which includes a review of membership trends and activity. In addition, they complete IAS 19 reviews annually for large employers which require similar reviews of membership.

The CPF's Investment Advisor reviews asset valuations and performance regularly which would identify significant misstatements, and report regularly to CPF's Advisory Panel and CPF's Committee.

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CPF receive the annual accounts and internal control statements from fund managers in relation to investments.

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### Enquiries of management - in relation to fraud

Question	2019-20 Response	2020-21 Response
<p>3. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p>	<p>FCC's FCRSs specify that whenever a matter arises in relation to actual or potential fraud it is the responsibility of whichever Chief Officer's area of control it arises in to report it to Internal Audit, who will take whatever action necessary including appropriate reporting.</p> <p>The Annual Internal Audit Report reports on performance against the Anti-Fraud and Corruption Strategy.</p>	<p>FCC's FCRSs specify that whenever a matter arises in relation to actual or potential fraud it is the responsibility of whichever Chief Officer's area of control it arises in to report it to Internal Audit, who will take whatever action necessary including appropriate reporting.</p> <p>The Annual Internal Audit Report reports on performance against the Anti-Fraud and Corruption Strategy.</p>

<p>4. How has management communicated expectations of ethical governance and standards of conduct and behaviour to all relevant parties, and when?</p>	<p>The FCC intranet contains all the relevant policies as above which can be accessed by all officers and members of FCC at any time.</p>	<p>The FCC intranet contains all the relevant policies as above which can be accessed by all officers and members of FCC at any time. There has been a considerable training programme for Members during 202/21 details of which details may be found in the Fund's Annual report.</p>
<p>5. Are you aware of any instances of actual, suspected or alleged fraud within the audited body since 1 April 2020?</p>	<p>No.</p>	<p>No</p>

## Enquiries of management - in relation to fraud

Question	2019-20 Response	2020-21 Response
<p>6. How does the Pension Fund Committee, exercise oversight of management's processes for identifying and responding to the risks of fraud within the audited body and the internal control that management has established to mitigate those risks?</p>	<p>CPF Committee regularly receive updated risk registers. They also receive internal audit reports and minutes of the meetings of the Pension Board. The Independent Advisor monitors activity and produces an annual report. CPF Committee also receive regular financial monitoring reports. The CPF accounts are subject to external audit by Audit Wales.</p>	<p>CPF Committee regularly receive updated risk registers. They also receive internal audit reports and minutes of the meetings of the Pension Board. The Independent Advisor monitors activity and produces an annual report. CPF Committee also receive regular financial monitoring reports. The CPF accounts are subject to external audit by Audit Wales.</p>
<p>7. Are you aware of any instances of actual, suspected or alleged fraud with the audited body since 1 April 2020?</p>	<p>No.</p>	<p>No.</p>

## Appendix 2

### **Matters in relation to laws and regulations**

International Standard for Auditing (UK and Ireland) 250 covers auditors responsibilities to consider the impact of laws and regulations in an audit of financial statements.

Management, with the oversight of those charged with governance, which for the Pension Fund is the Pension Fund Committee, is responsible for ensuring that the Pension Fund's operations are conducted in accordance with laws and regulations, including compliance with those that determine the reported amounts and disclosures in the financial statements.

As external auditors, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. The ISA distinguishes two different categories of laws and regulations:

- laws and regulations that have a direct effect on determining material amounts and disclosures in the financial statements;
- other laws and regulations where compliance may be fundamental to the continuance of operations, or to avoid material penalties.

### **What are we required to do?**

As part of our risk assessment procedures we are required to make inquiries of management and the Pension Fund Committee as to whether the Pension Fund is in compliance with relevant laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

I have included your 2019-20 responses to assist with completion.

## Enquiries of management - in relation to laws and regulations

Question	2019-20 Response	2020-21 Response
<p>1. How have you gained assurance that all relevant laws and regulations have been complied with?</p>	<p>All CPF activity is designed to conform to statutory requirements and the requirements of The Pensions Regulator. The Independent Advisor monitors CPF activity and reports annually. CPF makes use of external advisors, including an Actuary and an Investment Advisor, who also report annually. There is an Advisory Panel in place, chaired by the FCC Chief Executive, who work with CPF to ensure positive outcomes in all areas of CPF activity.</p>	<p>All CPF activity is designed to conform to statutory requirements and the requirements of The Pensions Regulator. The Independent Advisor monitors CPF activity and reports annually. CPF makes use of external advisors, including an Actuary and an Investment Advisor, who also report annually. There is an Advisory Panel in place, chaired by the FCC Chief Executive, who work with CPF to ensure positive outcomes in all areas of CPF activity.</p>
<p>2. Have there been any instances of non-compliance or suspected non-compliance with relevant laws and regulations since 1 April 2020, or earlier with an ongoing impact on the 2020-21 financial statements?</p>	<p>The Breaches Register includes all cases of non-compliance and is reported regularly to the CPF Committee and the Pensions Board. No Breach has required reporting to The Pensions Regulator during 2019/20, and no Breach has had an impact on the preparation of the accounts.</p>	<p>The Breaches Register includes all cases of non-compliance and is reported regularly to the CPF Committee and the Pensions Board. No Breach has required reporting to The Pensions Regulator during 2019/20, and no Breach has had an impact on the preparation of the accounts.</p>

3. Are there any potential litigations or claims that would affect the financial statements?	None that CPF is aware of.	None that CPF is aware of.
4. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No.	No.

## Enquiries of management - in relation to laws and regulations

Question	2019-20 Response	2020-21 Response
5. How does the Pension Fund Committee, in its role as those charged with governance, obtain assurance that all relevant laws and regulations have been complied with?	As part of the regular reporting cycle to each CPF Committee, the Committee receives updates on Governance matters, which includes reports on the activities of the Pension Board. Breaches are reported to CPF Committee and the Pension Board.	As part of the regular reporting cycle to each CPF Committee, the Committee receives updates on Governance matters, which includes reports on the activities of the Pension Board. Breaches are reported to CPF Committee and the Pension Board.
6. Are you aware of any instances of non-compliance with relevant laws and regulations?	No.	No.

## Appendix 3

### **Matters in relation to related parties**

International Standard for Auditing (UK and Ireland) 550 covers auditors responsibilities relating to related party relationships and transactions.

The nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties.

Because related parties are not independent of each other, many financial reporting frameworks establish specific accounting and disclosure requirements for related party relationships, transactions and balances to enable users of the financial statements to understand their nature and actual or potential effects on the financial statements. An understanding of the entity's related party relationships and transactions is relevant to the auditor's evaluation of whether one or more fraud risk factors are present as required by ISA (UK and Ireland) 240, because fraud may be more easily committed through related parties.

### **What are we required to do?**

As part of our risk assessment procedures, we are required to perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the requirements of the framework.

I have included your 2019-20 responses to assist with completion.

## Enquiries of management - in relation to related parties

Question	2019-20 Response	2020-21 Response
<p>1. Confirm that you have disclosed to the auditor:</p> <ul style="list-style-type: none"><li>• the identity of any related parties, including changes from the prior period;</li><li>• the nature of the relationships with these related parties;</li><li>• details of any transactions with these related parties entered into during the</li><li>• period, including the type and purpose of the transactions.</li></ul>	<p>Note 22 of the CPF accounts for 2019/20 makes all necessary disclosures.</p>	<p>Note 23 of the accounts for 20/21 makes all necessary disclosures.</p>

<p>2. What controls are in place to identify, authorise, approve, account for and disclose related party transactions and relationships?</p>	<p>CPF has a Conflict of Interest Policy approved by CPF Committee. CPF Committee members regularly complete disclosures which are maintained on file. Members make any appropriate disclosure at the beginning of each CPF Committee meeting.</p>	<p>CPF has a Conflict of Interest Policy approved by CPF Committee. CPF Committee members regularly complete disclosures which are maintained on file. Members make any appropriate disclosure at the beginning of each CPF Committee meeting.</p>
<p>3. How does the Audit Committee, on behalf of 'those charged with governance' (full Council), in its role as those charged with governance, exercise oversight of management's processes to identify, authorise, approve, account for and disclose related party transactions and relationships?</p>	<p>Members make appropriate declaration before each CPF Committee meeting. The Audit Committee receive reports on the processes involved in the preparation of the CPF accounts which includes a Related Parties disclosure note.</p>	<p>Members make appropriate declaration before each CPF Committee meeting. The Audit Committee receive reports on the processes involved in the preparation of the CPF accounts which includes a Related Parties disclosure note.</p>