

Audit of Financial Statements Report

City & County of Swansea Pension Fund

Audit year: 2013-14

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Purpose of this document

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Status of report

This document was produced by PricewaterhouseCoopers LLP on behalf of Anthony Barrett, the Appointed Auditor. The team who delivered the work included Kevin Williams, Engagement Leader and Rebecca Nelson, Engagement Manager.

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Anthony Barrett, as Appointed Auditor, 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. Anthony Barrett, as Appointed Auditor, is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of the City & County of Swansea Pension Fund as at 31 March 2014 and its income and expenditure for the year then ended. This report has been prepared and presented by PricewaterhouseCoopers LLP as sub-contract auditor appointed by the Auditor General for Wales.
2. We received the draft financial statements for the City & County of Swansea (the Authority), which included the draft financial statements of the City & County of Swansea Pension Fund, for the year ended 31 March 2014 on 8 July 2014 and have now substantially completed the audit work. 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 Mike Hawes (Head of Finance and Delivery/S151 Officer).
3. 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.
4. The quantitative levels at which we judge such misstatements to be material for the City & County of Swansea Pension Fund are £1,030,580 for the fund account and debtor/creditor balances and £13,769,080 for the net assets statement (excluding debtors & creditors balances). 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.
5. 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.
6. This report sets out for consideration the matters arising from the audit of the financial statements of the City & County of Swansea Pension Fund, for 2013-14, that require reporting under ISA 260.

Proposed audit report

7. Subject to the satisfactory completion of the outstanding work, as detailed below, it is the Appointed Auditor'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](#).
8. At the date of our presentation of this report the following area of audit work was outstanding:
 - Final review of the financial statements.

Significant issues arising from the audit

Uncorrected misstatements

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

Corrected misstatements

10. There are audit identified 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

11. 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 no concerns about the qualitative aspects of your accounting practices and financial reporting.** Generally, we found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.
 - **We identified one issue during the course of the audit.** This relates to a Group transfer between the Fund and Powys Pension Fund which is explained in further detail below.
 - **We did not encounter any significant difficulties during the audit.** We received information in a timely and helpful manner and were not restricted in our work.
 - **There were no significant matters discussed and corresponded upon with management which we need to report to you.**
 - **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
 - **We did not identify any material weaknesses in your internal controls but have made some recommendations to enhance the control environment.** This is explained in further detail below.
 - **There are no other matters specifically required by auditing standards to be communicated to those charged with governance.**

Issue identified during the course of the audit

Powys Pension Fund Transfer In

12. Due to a further education college merger, the employees of the former Powys College transferred to Neath Port Talbot College and therefore a fund transfer from the Powys Pension Fund to the City and County of Swansea Pension Fund was needed.
13. The transfer of Powys College employees to the Neath Port Talbot section of the City & County of Swansea Pension Fund was approved by the Department for Communities and Local Government with effect from 1st August 2013.
14. We were advised by the auditors of the Powys Pension Fund that the fund intends to accrue £8.9m for the bulk transfer of employees of Powys College based on an actuarial estimation of the transfer value.
15. Management have contacted the actuary for the City & County of Swansea Pension Fund, who has confirmed that they are content with an £8.9m figure as a starting point for a value of the transfer, but will be looking to refine the figure in the near future. Management have therefore proposed and actioned an adjustment to their draft accounts to recognise this asset.

There are no uncorrected misstatements

16. We report to you all uncorrected misstatements other than those of a clearly trivial nature (trivial is defined as entirely inconsequential, whether taken individually or in aggregate, either quantitatively and/or qualitatively). On the basis of the standard methodology applied by the Wales Audit Office, the financial limit for what is considered to be trivial has been calculated at £100,000.
17. The Authority has agreed to amend the financial statements for all items we have identified during our audit.
18. [Appendix 2](#) contains a summary of the corrections that have been made to the accounts presented for audit.

Significant Risks

Significant risks identified at the planning stage

19. During the planning stage of our audit and as documented within our Financial Audit Outline, we have considered the Fund's operations and assessed the extent to which we believed there were potential audit risks. We consider an audit risk to be the risk that we may reach an inappropriate opinion on the financial statements. In this report, we summarise the significant matters which we have considered throughout the course of the audit. See table below:

Summary of main audit risks

Significant Risks	Action Taken
<p>Management override of controls The risk of management override of controls is present in all entities.</p> <p>Due to the unpredictable way in which such override could occur, it is viewed as a significant risk.</p>	<p>We have tested a sample of journals posted to the nominal ledger in the period, back to source documentation, without issue.</p> <p>From our consideration of management estimates, no issues have been identified.</p> <p>No significant transactions outside the normal course of business were identified.</p> <p>We have undertaken unpredictable procedures, to identify any potential false suppliers. No issues were identified.</p>

The Appointed Auditor intends to issue an unqualified audit report

20. We report any proposed modifications to the standard auditor's report to ensure that you are aware of the reasons for the modifications and have the opportunity to provide any further information and explanations in respect of the matter giving rise to the modification.
21. The auditor's report comments on whether the accounts and related notes present fairly the financial transactions of the Fund during the year ended 31 March 2014 and

the amount and disposition of the Fund's assets and liabilities as at 31 March 2014, other than liabilities to pay pensions and other benefits after the end of the Fund year.

- 22.** Subject to the satisfactory completion of the outstanding work, as noted earlier in this report, it is the Appointed Auditor's intention to issue an unqualified audit report on the financial statements once you have provided us with a Letter of Representation as set out in [Appendix 1](#).

We did not identify any material weaknesses in your internal controls but have made some recommendations to enhance the control environment

- 23.** A material weakness in internal control is defined by ISA 260 as 'a deficiency in design or operation which could adversely affect the entity's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements'.
- 24.** We do not, however, normally report information to you concerning a material weakness you know about and have taken appropriate action to correct, unless the weakness is symptomatic of broader weaknesses in the overall control environment and there is a risk that other material weaknesses may occur.
- 25.** You should be aware that we do not provide a comprehensive statement of all weaknesses that may exist in the internal controls, or of all improvements that may be made, but have addressed only those matters that have come to our attention as a result of the audit procedures performed.
- 26.** We did not identify any material weaknesses in controls. However we did note the following control points which are also included in [Appendix 3](#) to this report.

Inaccurate pension contributions received from Celtic Community Leisure

- 27.** From our testing of individual contributions, sampled across a number of scheduled and admitted bodies, we have identified a number of contributions received from the same admitted body, Celtic Community Leisure, which have been identified as incorrect.
- 28.** In the cases sampled from Celtic Community Leisure, each employee had their contribution deductions calculated each month, based on a percentage of their annual full-time equivalent (FTE) contracted pay, divided by twelve. The correct amount that should have been deducted should be based on how much the employee had actually been paid in the month. These errors occurred in instances where the employee worked more or indeed less hours than 1 FTE and also occurred when an employee performed a different role to that contracted e.g. a supervisor role instead of a standard role, where there are differences in rates of pay. Of the nine samples selected from this admitted body, seven were identified as incorrect.

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29. We are aware that the control performed by Management of the Fund by assessing the Employee to Employer contributions ratio each month would not identify this issue and are also aware that Management of the Fund would not expect to obtain individual payslips from each of the Admitted and Scheduled bodies to allow them to identify this issue.
 30. Whilst we have assessed that these errors will not cause a material misstatement within the 2013/14 accounts, given that total contributions (Employer and Employee) for all employees from this admitted body for this period were £235k, we would recommend that management should request that Celtic Community Leisure review the contributions paid during 2013/14 to identify the actual amount of over/under payment made to the Fund and determine the appropriate correcting action.

Late payment of pension contributions

31. Regulation 81 (1) of the Local Government Pension Scheme Regulations 1997 requires employer authorities to pay employee contributions to the administering authority within 19 days of the end of the month to which they relate. As reported in prior periods, we have continued to identify payments from employers exceeding the 19 day rule. During testing of pension contributions we have noted a total of 30 late payments during the year (2012/13: 19).
32. Of the 30 late payments identified 11 related to Phoenix Trust which made one annual payment of contributions relating to 2013/14 in May 2014, 9 from Pelenna Community Council, 5 from Celtic Community Leisure and 5 from University of Wales Trinity Saint David. The late paying bodies, apart from Phoenix Trust, are consistent with the prior year.
33. We recognise that management has communicated with these consistent late payers regularly during the year. We recommend that management, supported by the Pension Fund Committee, reminds the bodies concerned, of their obligations under the Local Government Pension Scheme Regulations 1997 to ensure a timely payment of contributions to the Fund.

Membership Numbers – Information Flow

34. The Pensions department of the Authority is dependent on receiving timely information from the scheduled and admitted bodies. Due to the strict accounts preparation timetable, not all information is received by the pensions' team prior to the preparation of the draft accounts. As reported previously, we have identified membership number variances that are associated with the late provision of information. As part of our audit of the Fund, we are required to review membership numbers.
35. Our review of the 2013/14 opening membership numbers identified that there was a total net difference of 366 members (2013:110) between the totals carried forward in

2012/13 when compared to the totals brought forward to 2013/14. Discussions with management confirmed that the differences have arisen as a result of the delay in the Fund administration team receiving information from the various scheduled and admitted bodies. We recommend that the Authority reminds all external bodies of the importance of the provision of accurate and timely information to the administration team to ensure the accuracy of the figures within the financial statements.

Risk of Fraud

36. International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error.
37. Your responsibility as part of your governance role is:
 - to evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate "tone at the top"; and
 - to investigate any alleged or suspected instances of fraud brought to your attention.
38. In presenting this report to you we ask for your confirmation that there have been no changes to your view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation, see [Appendix 1](#).

Independence and objectivity

39. As part of the finalisation process, we are required to provide you with representations concerning our independence.
40. 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 or PricewaterhouseCoopers LLP and the City & County of Swansea Pension Fund that we consider to bear on our objectivity and independence.

Fee Update

41. The requirements of the Public Audit (Wales) Act 2013 introduced a slightly revised fee-setting requirement on the new Wales Audit Office for all audit work once its provisions came into effect from 1 April 2014. Accordingly the Wales Audit Office have reviewed its cost allocation and apportionment processes to ensure that, going forward, our fee setting fully complies with these new statutory requirements.

42. Our fees charged are:

	2013/14 fee
City and County of Swansea Pension Fund	£50,000

Appendix 1

Letter of Representation

Appointed Auditor

Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

PricewaterhouseCoopers LLP
One Kingsway
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CF10 3PW

XX September 2014

Representations regarding the 2013-14 Financial Statements

This letter is provided in connection with your audit of the financial statements of the City & County of Swansea Pension Fund (the Fund) for the year ended 31 March 2014.

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 2013/14; in particular the financial statements give a true and fair view in accordance therewith.

We acknowledge our responsibility for 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;

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- 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 City & County of Swansea 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 those charged with governance

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 City & County of Swansea (the authority) on [insert date].

Signed by

S.151 Officer

Date

Leading Member

Date

Appendix 2

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

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
£2,062,411	Reclassification of dividends due from Current Assets to Other Investment Balances.	For compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.
£1,288,768	Harbourvest private equity fund was undervalued by this amount within the draft financial statements. Management has explained that due to the Harbourvest 90 day reporting period, they initially posted an estimated figure provided by Harbourvest, within the draft accounts.	To adjust the Harbourvest private equity fund valuation within the financial statements to that subsequently confirmed by the investment manager as at 31 March 2014.
£152,623	Within creditors as at 31 March 2014 there were two accruals relating to investment manger fees for the 12/13 period which had not been released to the fund account for Aberdeen (£111,175) and for JP Morgan (£41,448).	Accruals were not required for Aberdeen and JP Morgan as both investment managers confirmed that no fees were due.

Appendix 3 - Recommendations made to improve internal controls

Observation	Implication	Recommendation	Management Response
<p>1. Inaccurate contribution deductions from Celtic Community Leisure There have been a number of incorrect contributions received as identified from a sample of individuals tested at this admitted body.</p>	<p>Employees at Celtic Community Leisure will have been over or underpaying contributions (as applicable) during current and prior periods.</p>	<p>We would recommend that management request that Celtic Community Leisure review the contributions paid during 2013/14 to identify the actual amount of over/under payment made to the Fund and determine the appropriate correcting action.</p> <p>Risk rating: Moderate</p>	<p>Management shall write to Celtic Community Leisure to request suitable checks and controls are implemented to mitigate these instances occurring. It should be noted that the any over/under payment by an employer will be recognised at the triennial valuation and their respective contribution rate adjusted accordingly.</p>
<p>2. Late payment of contributions There have been late receipts of contributions from a number of admitted and scheduled bodies.</p>	<p>Regulation 81 (1) of the Local Government Pension Scheme Regulations 1997 requires employer authorities to pay employee contributions to the administering authority within 19 days of the end of the month to which they relate.</p>	<p>We recommend that management reminds any scheduled and/or admitted body that makes a late payment, of their obligations under the Local Government Pension Scheme Regulations 1997 to ensure a timely receipt of contributions from each of the bodies. We also recommend that appropriate penalties are introduced for those bodies that consistently breach the regulations. This should assist in improving the timeliness of the receipt of contributions.</p> <p>Risk rating: Low</p>	<p>The measures recommended are currently implemented. The impact on cashflow of the late payments identified is infinitesimal.</p>

3.Membership numbers

During our testing it was identified that there was a net difference of 366 member numbers between the closing 12/13 balance and the opening 13/14 balance.

Inaccurate data could lead to inaccurate figures in the financial statements.

We recommend that the Authority reminds all external bodies of the importance of accurate and timely information to the administration team to ensure the accuracy of the figures within the financial statements.

Risk rating: moderate

All employers have signed up to and agreed to comply with the reporting timescales within The Administering Authority Strategy Statement . Employers are also reminded of their obligations at regular roadshows and seminars.

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