



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Audit of Financial Statements Report – **City and County of Swansea Pension Fund**

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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 the City and County of Swansea Pension Fund's 2016-17 financial statements, however, 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 the City and County of Swansea 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 gross assets controlled by the Pension Fund amount to £1.8 billion. The quantitative levels at which we judge such misstatements to be material for the Pension Fund are £18.6 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. A separate report has been issued covering the City and County of Swansea and the City and County of Swansea Group.

Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2017 on 6 June 2017, prior to the agreed deadline of 30 June 2017, and have now substantially completed our 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. We have already discussed these issues with the Head of Financial Services and Service Centre.

Proposed audit report

- 8 It is the Auditor General's intention to issue an unqualified audit report on the Pension Fund's 2016-17 financial statements once you have provided us with a Letter of Representation based on that set out in [Appendix 1](#).
- 9 The proposed audit report is set out in [Appendix 2](#). The Pension Fund is included within the Council's main financial statements and therefore the opinion shown is that proposed for the Council's main financial statements incorporating the Pension Fund.

Significant issues arising from the audit

Uncorrected misstatements

- 10 There are no 'non-trivial' misstatements from our audit which have not been corrected by management.

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 3](#). These amendments had no impact on the Fund Account but the value of investments in the Net Assets Statement was increased by £2.3 million. There were also a number of other presentational amendments made to the draft financial statements arising from the audit.

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.
- **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.** 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 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** However, we have identified that controls over year-end reconciliations between payroll and the pensions systems can be improved. Further details are set out in [Appendix 4](#).
 - **There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.**

Recommendations arising from our 2016-17 financial audit work

- 13 The recommendations arising from our financial audit work are set out in [Appendix 4](#). Management has responded to them and we will follow up progress on them during next year's audit. Where any actions are outstanding, we will continue to monitor progress and report it to you in next year's report.

Independence and objectivity

- 14 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 15 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 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

Representations regarding the 2016-17 financial statements

This letter is provided in connection with your audit of the financial statements of the City and County of Swansea Pension Fund (the Pension Fund) for the year ended 31 March 2017 for the purpose of expressing an opinion on their truth and fairness.

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; 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 the 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 City and County of Swansea

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 Members of the City and County of Swansea on 28 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:

Head of Financial Services and Service
Centre (S151 Officer)

Date:

Signed by:

Chair of the Council

Date:

Appendix 2

Auditor General for Wales' report to the Members of the City and County of Swansea

I have audited the accounting statements and related notes of:

- the City and County of Swansea;
- the City and County of Swansea Group; and
- the City and County of Swansea Pension Fund

for the year ended 31 March 2017 under the Public Audit (Wales) Act 2004.

The City and County of Swansea's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Movement on the Housing Revenue Account Statement and the Housing Revenue Account Income and Expenditure Statement.

The City and County of Swansea Group's accounting statements comprise the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement.

The City and County of Swansea Pension Fund's accounting statements comprise the Fund Account and the Net Assets Statement.

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 2016-17 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the Auditor General for Wales

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 194, the responsible financial officer is responsible for the preparation of the statement of accounts, including the City and County of Swansea's Group accounting statements and the City and County of Swansea Pension Fund's accounting statements, which gives a true and fair view.

My responsibility is to audit the accounting statements and related notes in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the City and County of Swansea and the City and County of

Swansea Group and the City and County of Swansea Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the responsible financial officer and the overall presentation of the accounting statements and related notes.

In addition, I read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited accounting statements and related notes 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.

Opinion on the accounting statements of the City and County of Swansea

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of the City and County of Swansea as at 31 March 2017 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17.

Opinion on the accounting statements of the City and County of Swansea Group

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of the City and County of Swansea Group as at 31 March 2017 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17.

Opinion on the accounting statements of the City and County of Swansea Pension Fund

In my opinion, the Pension Fund accounts and related notes:

- give a true and fair view of the financial transactions of the City and County of Swansea Pension Fund during the year ended 31 March 2017 and of the amount and disposition of the fund's assets and liabilities as at that date; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17.

Opinion on other matters

In my opinion, the information contained in the Explanatory Foreword is consistent with the accounting statements and related notes.

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 accounting 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;
- the Governance Statement does not reflect compliance with guidance.

Certificate of completion of audit

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

For and on behalf of
Huw Vaughan Thomas
Auditor General for Wales

24 Cathedral Road
Cardiff
CF11 9LJ

29 September 2017

Appendix 3

Summary of corrections made to the draft financial statements

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 1: Summary of corrections made to the draft financial statements

Value of correction	Nature of correction
+£2,444,000	<p>The HarbourVest private equity fund was undervalued by £2,444,000 in the draft financial statements. Due to HarbourVest's 90-day reporting period, the Council used an estimated figure provided by HarbourVest.</p> <p>This amendment increased the value of investments in the Net Assets Statement by £2,444,000.</p>
-£100,000	<p>The Aegon AVC fund (which is a disclosure note and is not part of the Pension Fund) was overstated by £100,000 in the draft financial statements. Last year's valuation was used as the required information from Aegon, was not received until after the draft financial statements were prepared.</p> <p>This amendment did not impact on the Net Assets Statement as it is not part of the Pension Fund.</p>
-£113,812	<p>The valuation of Partners Group Investments was overstated by £113,812 in the draft financial statements. The Council used an estimated figure within the draft financial statements due to the late receipt of the SICAR Investment Report.</p> <p>This amendment decreased the value of investments in the Net Assets Statement by £113,812.</p>
Various	<p>The related parties note was updated to include a disclosure on key management personnel. This is a requirement of CIPFA's Code.</p>
Various	<p>Various other minor presentational amendments were made to the draft financial statements.</p>

Appendix 4

Recommendations arising from our 2016-17 financial audit work

We set out our recommendations arising from our audit with management's response. We will follow this up next year:

Exhibit 2: matter arising 1: membership numbers

Matter arising 1 – Membership numbers	
Findings	<p>As reported last year, there was a net difference of 232 member numbers between the closing balance 2015-16 as reported in last year's financial statements and the opening balance for 2016-17 as produced by the membership numbers report produced from the pension systems (Note 21).</p> <p>Information is received from admitted and scheduled bodies relating to the previous financial year throughout 2016-17. The membership numbers report detailing the 2016-17 opening balances was generated on 22 May 2017. The pension database is a 'live' system, opening and closing balances are updated as information is received from external bodies by the administration team. Consequently, timing differences arise in relation to opening and closing balances dependent upon when membership number reports are generated. Throughout 2016-17, admitted and scheduled bodies were encouraged to provide more up-to-date information on deferred pensioner numbers dating back to 2013 to ensure that membership numbers recorded on the pension database were accurate.</p>
Priority	High.
Recommendation	The Council should remind all external bodies of the importance of providing accurate and timely information to the administration team to ensure the accuracy of the figures within the Pension Fund database.
Benefits of implementing the recommendation	Implementation of the recommendation would improve the reconciliation, reporting of and monitoring of membership numbers within the Council and associated bodies.
Accepted in full by management	Yes.
Management response	In line with reminders regarding year-end reconciliation, employers will also be reminded of the necessity of timely notification of accurate member data.
Implementation date	September 2017.

Exhibit 3: matter arising 2: reconciliation of the ALTAIR Database

Matter arising 2 – Reconciliation of the ALTAIR Database	
Findings	As reported last year, there have been delays in completing the year-end reconciliation of the ALTAIR (pensions) database to the payroll systems of some admitted bodies. The reconciliation work has been delayed this year for a number of reasons including a slow response rate from admitted bodies, staff absences and issues arising from the introduction of I-Connect software to interface the payroll and pensions systems.
Priority	High.
Recommendation	The Council must complete the year-end reconciliation of the ALTAIR database to the various payroll systems as soon as possible. Differences need to be resolved with admitted bodies. The Council also needs to reconcile its own records following the introduction of I-Connect.
Benefits of implementing the recommendation	Implementation of the recommendation would resolve any differences between the Council's records and those held by admitted bodies. This would improve the quality of the information held within the database.
Accepted in full by management	Yes.
Management response	Work is continuing with four of the employers to on-board them to i-Connect. It should be noted that resource has to be provided by the employer for this to be achieved. There is already regular communication with employers regarding the timeliness of submitting data and training offered each year with regard to year-end reconciliation - further training will be built in to the employers' meeting due to be held in February 2018. The Pension Section will work with the Council to reconcile data provided through i-Connect.
Implementation date	April 2018.

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