



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

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Auditor General for Wales

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

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infoofficer@audit.wales.

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.

The team who delivered the work comprised Anthony Veale, Geraint Norman, David Williams, Andrea Williams, Aneesa Ali and George Thomas.

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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 City and County of Swansea Pension Fund (the Pension Fund) at 31 March 2018 and its Fund Account 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 £1.9 billion. The quantitative levels at which we judge such misstatements to be material for the Pension Fund is £19.1 million. 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.
- 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 2017-18, 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 2018 on 25 May 2018, prior to the agreed deadline of 30 June 2018, and we have now substantially completed our audit work. The preparation of the draft financial statements within this timescale is a considerable achievement.
- 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 Chief Finance Officer (S151 Officer).

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](#). The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

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

Corrected misstatements

- 10 There are misstatements which 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 increased the value of investments in the Net Assets Statement by £2.5 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

- 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.
- **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, as reported last year, we did identify that controls over the year end reconciliations between pension and payroll systems can be further 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 2017-18 financial audit work

- 12 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

- 13 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 14 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 Pension Fund that we consider to bear on our objectivity and independence.

Appendix 1

Final Letter of Representation

Auditor General for Wales
c/o Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

Representations regarding the 2017-18 financial statements

This letter is provided in connection with your audit of the financial statements of City and County of Swansea Pension Fund for the year ended 31 March 2018 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 of Practice on Local Authority Accounting in the United Kingdom 2017-18 based on International Financial Reporting Standards (IFRSs); 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 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. There are no material misstatements which remain uncorrected.

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 20 September 2018.

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:

Chief Finance Officer (S151 Officer)

Date:

Signed by:

Chair of the Council

Date:

Appendix 2

The independent auditor's report of the Auditor General for Wales to the members of City and County of Swansea as administering authority for City and County of Swansea Pension Fund

Report on the audit of the financial statements

Opinion

I have audited the financial statements of City and County of Swansea Pension Fund (the Pension Fund) for the year ended 31 March 2018 under the Public Audit (Wales) Act 2004. The 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 2017-18 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 2018, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18.

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.

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 the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve 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 Introduction and Appendices 1 - 5 of the financial statements 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 the 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. This description forms part of my auditor's report.

Anthony Barrett
For and on behalf of the Auditor General for Wales

24 Cathedral Road
Cardiff
CF11 9LJ

25 September 2018

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.

Value of correction	Nature of correction
+£2,474,000	The HarbourVest private equity fund was undervalued by £2,474,000 in the draft financial statements. Due to HarbourVest's 90-day reporting period, the Council used an estimated figure provided by HarbourVest. This amendment increased the value of investments in the Net Assets Statement by £2,474,000.
-£5,000,000	Capital and contractual commitments disclosed in Note 17 of the draft financial statements were overstated by £5,000,000. This was a result of an error in converting monetary amounts from Euros to Sterling. This amendment did not impact on the Net Assets Statement as this is a disclosure note.
Various – membership statistics	Membership statistics in Note 21 of the draft financial statements were increased to take account of new information received post 31 March 2018.
Various – disclosures	The related parties note was updated to improve the transparency of the disclosures in relation to key management personnel. This is a requirement of CIPFA's Code. We also agreed some improvements to the Accounting Policy disclosure notes.
Various – other	Various other minor presentational amendments were made to the draft financial statements.

Appendix 4

Recommendations arising from our 2017-18 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:

Matter arising 1 – Membership Numbers	
Findings	<p>As reported in previous years, there was a net difference of 218 member numbers between the closing balance 2016-17 as reported in last years audited financial statements and the opening balance for 2017/18 as detailed by the membership numbers report produced from the pensions system (Note 21).</p> <p>Information is received from admitted and scheduled bodies relating to the previous financial year throughout 2017-18. The membership report detailing the 2017-18 opening balances was generated on 8 June 2018. The Pension database is a 'live' system, opening and closing balances are updated as information is received from external bodies by the administration team.</p> <p>Consequently, timing differences arise in relation to opening and closing balances dependent upon when membership number reports are generated. Throughout 2017-18, admitted and scheduled bodies were encouraged to provide more up to date information on pensioner numbers to ensure that membership numbers recorded on the pension database were accurate.</p>
Priority	High
Recommendation	The Council should continue to 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	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.
Accepted in full by management	It already does.
Management response	Management does and shall continue to remind employers of the importance of providing timely and accurate information.
Implementation date	Sep 2018

Matter arising 2 - Reconciliation of the ALTAIR Database	
Findings	As reported in previous years, 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 again for the same reasons as previously reported, primarily a slow response rate from admitted bodies. At the time we completed the audit fieldwork an employer return was still outstanding from Ystalyfera CC.
Priority	Medium.
Recommendation	The Council must complete the year-end reconciliation of the ALTAIR database to the payroll systems as soon as possible. Differences need to be resolved with admitted bodies.
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	Agreed.
Management response	Management undertakes to complete year end reconciliations with all employers in a timely manner, however co-operation and input from said employers is required. It should be recognised that the outstanding employer above is a newly admitted body and has one member, which should not be material for audit purposes.
Implementation date	Sep 2018

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