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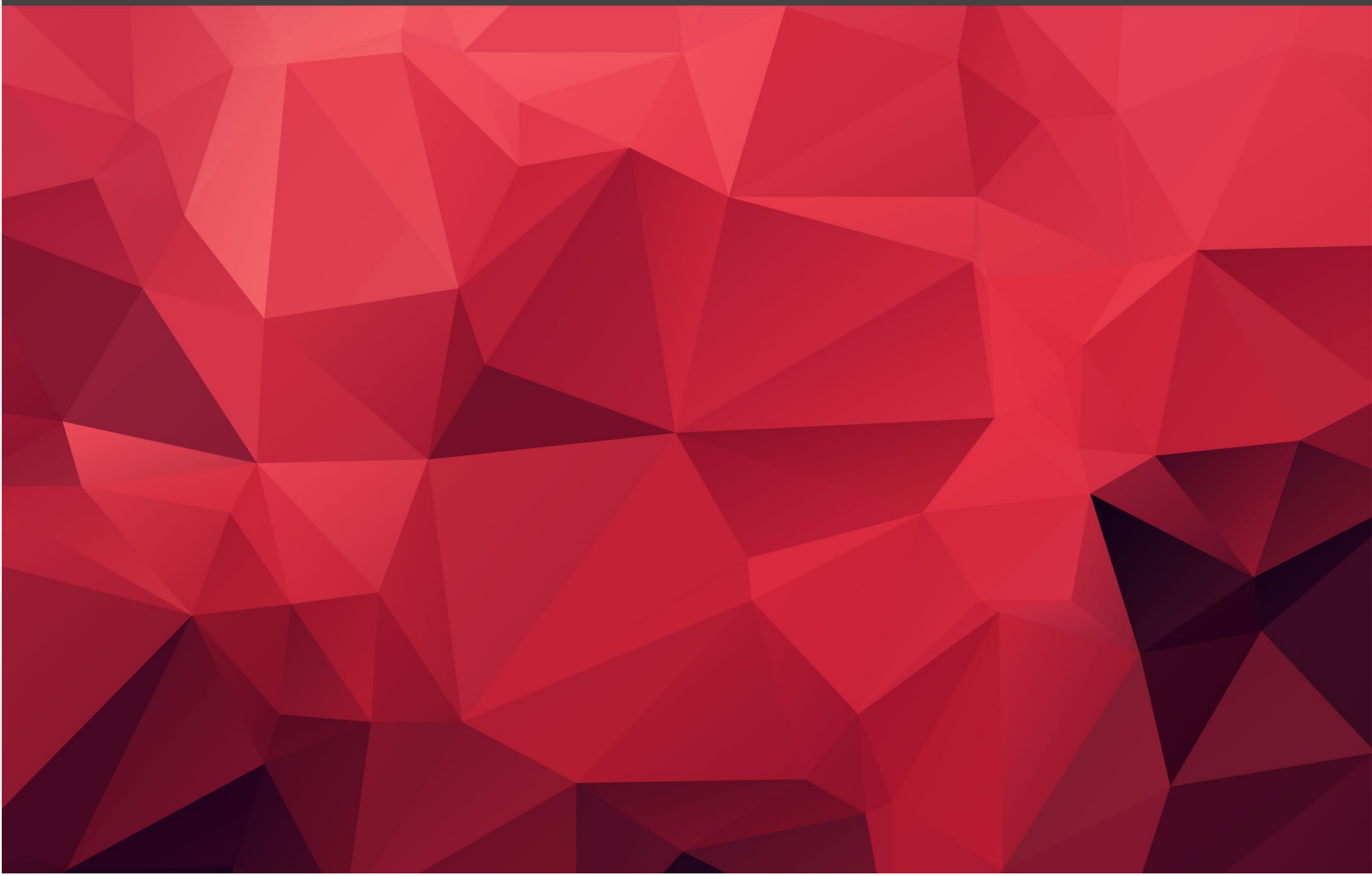
Archwilydd Cyffredinol Cymru
Auditor General for Wales

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

Audit year: 2018-19

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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, Jason Garcia, David Williams and the City and County of Swansea audit team.

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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 2019 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 quantitative levels at which we judge such misstatements to be material for the Pension Fund are £20.4 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 2018-19, that require reporting under ISA 260. A separate report has been issued covering the City and County of Swansea (including its Group).

Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2019 on 21 May 2019 prior to the agreed deadline of 3 June 2019. Whilst we have completed the majority of our audit work at the time of drafting this report, the final review of the audit file is to be completed.
- 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 the Chief Finance 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](#).
- 9 The proposed audit report is set out in [Appendix 2](#).

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 3](#).
- 12 'Note 18 - Statement of the Actuary' has been amended to include disclosures relating to two recent legal judgements. The draft financial statements were prepared before the Supreme Court denied the Government's application for leave to appeal the legal judgement about age discrimination in public sector pension schemes, including the local government pension scheme. These changes surrounded a move from final salary to a career average basis and is referred to as the McCloud judgement.
- 13 There has also recently been a judgement which held that pension schemes must adjust scheme benefits to remove gender inequalities caused by Guaranteed Minimum Pensions (GMPs) earned in the period 17 May 1990 to 5 April 1997.
- 14 The Pension Fund was required to assess the actuarial present value of promised retirement benefits and these recent rulings will impact on the amounts reported within this assessment. The Fund reports the pension liability as at the 2016 valuation (the most recent actuarial valuation) and does not report rolled forward liabilities. Management's view is that since this estimate is based on the 2016 actuarial valuation the estimate is not sufficiently certain or accurate to be included in the 2018-19 core financial statements.
- 15 Consequently, Note 18 has been amended and contains additional information in respect of these matters. In summary, based on actuarial advice, the Pension Fund has estimated there would be a potential increase in the actuarial present value of promised benefits of around £50 million relating to the McCloud judgement and around £10 million for the GMP equalisation judgement.
- 16 We have reviewed and challenged the supporting assumptions and calculations made by management and we acknowledge the significant uncertainties relating to this estimation of the impact on the Pension Fund's liability. We are satisfied that the disclosure made by management is appropriate given the uncertainties surrounding the estimate.

Other significant issues arising from the audit

17 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 no issues arising in these areas this year:

- **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.**

We found the financial statements were compiled to a good standard. 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 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 2018-19 financial audit work

18 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

- 19 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 20 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
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

12 September 2019

Representations regarding the 2018-19 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 2019 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 and CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom UK 2018-19; 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.

All contingent liabilities have been identified and properly assessed. Contingent liabilities are considered to be not material to the financial statements.

The financial statements are free of material misstatements, including omissions.

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 Pension Fund Committee on 12 September 2019.

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: 12 September 2019

Signed by:

Chair of the Pension Fund Committee –
signed on behalf of those charged with
governance

Date: 12 September 2019

Appendix 2

The report of the Auditor General to the Members of the City and County of Swansea as administering authority for the City and County of Swansea Pension Fund

Report on the audit of the financial statements

Opinion

I have audited the financial statements of the City and County of Swansea Pension Fund for the year ended 31 March 2019 under the Public Audit (Wales) Act 2004. The City and County of Swansea 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 2018-19 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 2019, and of the amount and disposition at that date of its assets and liabilities; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19.

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 12 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 City and County of Swansea Pension Fund 2018-19 financial statements. The other information comprises the information included in the Introduction and Appendices 1 to 5 of the financial statements. 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 for the financial year for which the financial statements are prepared is consistent with the financial statements.

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 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 City and County of Swansea 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 set out on page 2, 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 J Barrett
For and on behalf of the Auditor General for Wales

24 Cathedral Road
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CF11 9LJ

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
Revised actuarial statement – Note 18 (Page 25)	A revised actuarial statement has been included in the final statement of accounts as a result of the actuarial advice received following two recent legal judgements: McCloud judgement - the actuary has assessed that based on an approximate assessment as at 31 March 2019, there would be a potential increase in the actuarial present value of promised benefits of around £50 million for the Fund. GMP Equalisation and Indexation - the actuary has assessed that based on an approximate assessment as at 31 March 2019, there would be a potential increase in the actuarial present value of promised benefits of around £10 million for the Fund.
+£6,978,773	The HarbourVest private equity fund was undervalued by £6,978,773 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 £6,978,773.
+£4,461,575	Transition costs relating to the Wales Pension Partnership had not been correctly treated in line with CIPFA guidance. This amendment increased the net return on investment figure shown in the Fund Account but had no impact on the closing net assets of the Fund.
Various – membership statistics	Membership statistics in Note 21 of the draft financial statements were decreased by 1,455 to correct the pensioners' figure. The reports used to compile the membership figures included unfunded teachers' pensions. These should have been excluded.
Various – other	Various other minor presentational amendments were made to the draft financial statements.

Appendix 4

Recommendation arising from our 2018-19 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:

Exhibit 2: recommendation arising from our 2018-19 financial audit work

Matter arising 1 – Membership Numbers	
Findings	<p>As reported in previous years, there was a net difference of 381 member numbers between the closing 2017-18 balance as reported in last year's audited financial statements and the opening balance for 2018-19. as detailed by the membership numbers report produced from the pensions system (Note 21).</p> <p>Information is received from admitted and scheduled bodies periodically and this information is sometimes delayed and results in amendments to prior-year membership numbers.</p> <p>The difference identified has been caused by information being submitted by some admitted or scheduled bodies late.</p> <p>Admitted and scheduled bodies have been requested to provide membership data promptly to the Pension Fund to ensure that membership numbers recorded on the pension database were accurate.</p>
Recommendation	<p>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.</p>
Accepted in full by management	<p>Agreed</p>
Management response	<p>The Administration Authority continues to try to improve the information/data flow from employers to the scheme administrator. Improvements include the rollout of i-connect to smaller employers and continued training to remind employers of their responsibilities. The goal of ensuring data is entirely accurate for 'cut-off' purposes, as at 31 March, shall always remain a challenge.</p>
Implementation date	<p>Immediate</p>

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