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Mr Ben Smith  
Chief Finance Officer  
City and County of Swansea Council  
Civic Centre  
Oystermouth Road  
Swansea  
SA1 3SN

Dear Ben

### **City and County of Swansea Pension Fund 2020-21**

#### **Audit enquiries to those charged with governance and management**

As you will be aware I am required to conduct my financial audit in accordance with the requirements set out in International Standards on Auditing (ISAs). As part of the requirements of the ISAs I am writing to you to formally seek your documented consideration and understanding on a number of governance areas that impact on my audit of your financial statements. These considerations are relevant to both management and 'those charged with governance'.

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

#### 1. Management 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 employees of views on business practice and ethical behaviour; and
- communication to those charged with governance of the processes for identifying and responding to fraud.

#### 2. Management's awareness of any actual or alleged instances of fraud.

#### 3. How management gain assurance 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. Management 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's arrangements and business processes and support our work in providing an audit opinion on their 2020-21 financial statements.

I have included your responses for 2019-20 in Appendix 1 and would be grateful if you could these to reflect your current arrangements. Could you please provide this information on behalf of both management and those charged with governance by 31<sup>st</sup> August 2021. In the meantime, if you have queries, please contact me on 07792 015416.

Yours sincerely

Jason Garcia  
Audit Manager

## **Appendix A**

### **International Standard for Auditing (UK and Ireland) 240 – The auditor’s responsibilities relating to fraud in an audit of financial statements**

#### **Background**

Under the ISA, the primary responsibility for preventing and detecting fraud rests with both management and ‘those charged with governance’. This includes fraud that could impact on the accuracy of the annual accounts. The ISA requires us, as external auditors, to obtain an understanding of how the Pension Fund exercises oversight of management’s processes for identifying and responding to the risks of fraud and the internal controls established to mitigate them.

What is ‘fraud’ in the context of the ISA?

The ISA views fraud as either:

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

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

We have to obtain evidence of how management and those charged with governance are discharging their responsibilities if we are to properly discharge our responsibilities under ISA240. We are therefore making requests from both management and those charged with governance:

<b>Enquiries of management</b>		
<b>Question</b>	<b>2020-21 Response</b>	<b>2019-20 Response</b>
1) What is management's assessment of the risk that the financial statements may be materially misstated due to fraud and what are the principle reasons?	<p>The assessed risk is Low/Minimal due to the following mitigating factors :</p> <ul style="list-style-type: none"> <li>• Continuity of professionally qualified staff preparing the financial statements</li> <li>• Quarterly Breaches Reporting</li> <li>• Robust framework of internal control (CPRs, FPRs, AIs)</li> <li>• Appropriate segregation of duties for appropriate key roles.</li> <li>• Internal audit reviews of key systems in year.</li> <li>• Regular national fraud initiative ( NFI )</li> <li>• data matching</li> <li>• Review by Deputy S151 &amp; S151 Officer</li> </ul>	<p>The assessed risk is Low/Minimal due to the following mitigating factors</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Continuity of professionally qualified staff preparing the financial statements</li> <li><input type="checkbox"/> Quarterly Breaches Reporting</li> <li><input type="checkbox"/> Robust framework of internal control (CPRs, FPRs, AIs)</li> <li><input type="checkbox"/> Appropriate segregation of duties for appropriate key roles.</li> <li><input type="checkbox"/> Internal audit reviews of key systems in year.</li> <li><input type="checkbox"/> Regular national fraud initiative ( NFI ) data matching</li> <li><input type="checkbox"/> Review by Deputy S151 &amp; S151 Officer</li> </ul>
2) How can management assure those charged with governance that it has not been inappropriately influenced by external pressures?	<ul style="list-style-type: none"> <li>• Independence of Monitoring Officer and S151 officer</li> <li>• Direct reporting channels to Committee/Cabinet/Council Regulators</li> <li>• Direct reporting channels to CEO</li> <li>• The Council's and The Pension Regulators' whistleblowing Policy</li> <li>• Statutory Chief Officers are equal members of CMT.</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Independence of Monitoring Officer and S151 officer</li> <li><input type="checkbox"/> Direct reporting channels to Committee/Cabinet/Council Regulators</li> <li><input type="checkbox"/> Direct reporting channels to CEO</li> <li><input type="checkbox"/> The Council's and The Pension Regulators' whistleblowing Policy</li> <li><input type="checkbox"/> Statutory Chief Officers are equal members of CMT.</li> </ul>
3) Are management aware of any	Yes – the entire public sector in Wales is subject to significant constraint in terms of likely future	<ul style="list-style-type: none"> <li>• Yes, the entire public sector in Wales is</li> </ul>

<p>organisational pressure to meet revenue and capital budgets or other financial constraints?</p>	<p>real terms resource availability. The Council has published a stretched four year medium term financial plan looking for savings albeit at a materially lower level than previous years. This is considered a statement of projected fact/expectation.</p> <p>The Covid 19 pandemic has clouded the outlook significantly and resulted in very substantial short term spending and loss of income much of which is continued to be expected to be recovered from Welsh Government for 2022-23. There are no guarantees of funding beyond this point which increases financial risks.</p> <p>Earmarked reserves have been bolstered significantly at outturn as mitigation.</p> <p>There is no pressure to achieve a certain outcome beyond that which would be reasonably expected , that is, appropriate management and Executive action to contain spending to within a balanced budget position. There is an appropriate management and Executive action to contain spending to within a balanced budget position. Appropriate resourcing for the pension fund is considered by the management and the pension fund committee in the context of the Council's obligations as the Administering Authority of the scheme.</p>	<p>subject to significant constraint in terms of likely future real terms resource availability, however the budget settlement in 2020/21 was better than envisaged. The Council has published a three year medium term financial plan looking for savings in the region of £34m. This is considered a statement of projected fact/expectation for the Council as a whole. Further pressures to the budget have arisen post Covid 19 pandemic adversely affecting income streams whilst putting additional strain on services</p> <ul style="list-style-type: none"> <li>• There is no pressure to achieve a certain outcome beyond that which would be reasonably expected. There is an appropriate management and Executive action to contain spending to within a balanced budget position. Appropriate resourcing for the pension fund is considered by the management and the</li> </ul>
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	<p>The current assets of the pension fund are maintained in a separate bank account, whilst its investment assets are maintained in custody a/cs.</p> <p>The Pension Fund is part of the Wales Pension Partnership project, a projected outcome of which shall be reduced operational fees and improved investment outcomes with enhanced opportunities to invest in scalable infrastructure/national/local impact projects.</p>	<p>pension fund committee in the context of the Council's obligations as the Administering Authority of the scheme.</p> <p>The current assets of the pension fund are maintained in a separate bank account.</p> <ul style="list-style-type: none"> <li>• The Pension Fund is part of the Wales Pension Partnership project, a projected outcome of which shall be reduced operational fees and improved investment outcomes with enhanced opportunities to invest in scalable infrastructure/national/local impact projects.</li> </ul>
<p>4) What processes are employed to identify and respond to the risks of fraud more generally and specific risks of misstatement in the financial statements?</p>	<p>5) Management review of all accounting statements.</p> <ul style="list-style-type: none"> <li>• Internal audit function of key financial systems</li> <li>• Breaches reporting</li> <li>• The Pensions Regulator Escalation Channels</li> <li>• National fraud initiative (NFI) screening and Atmos mortality screening</li> <li>• Third Party data quality assessment</li> <li>• Review by Pension Fund Committee and Audit Committee</li> </ul>	<ul style="list-style-type: none"> <li>• Management review of all accounting statements.</li> <li>• Internal audit function of key financial systems</li> <li>• Breaches reporting</li> <li>• The Pensions Regulator Escalation Channels</li> <li>• National fraud initiative (NFI) screening and Atmos mortality screening</li> <li>• Third Party data quality assessment</li> </ul>

	<ul style="list-style-type: none"> <li>• Consistency/experience of professionally qualified staff working on financial statements both in terms of central consolidation but also individually as professionals so sufficient segregation of duties and professional oversight/check.</li> <li>• Analytical Review</li> </ul> <p>Wales Pension Partnership (WPP) Practitioner Review re. WPP transactions.</p> <ul style="list-style-type: none"> <li>• Review by S151 officer &amp; Deputy S151 Officer</li> </ul>	<ul style="list-style-type: none"> <li>• Review by Pension Fund Committee and Audit Committee</li> <li>• Consistency/experience of professionally qualified staff working on financial statements both in terms of central consolidation but also individually as professionals so sufficient segregation of duties and professional oversight/check.</li> <li>• Analytical Review</li> </ul> <p>Wales Pension Partnership (WPP) Practitioner Review re. WPP transactions.</p> <ul style="list-style-type: none"> <li>• Review by S151 officer &amp; Deputy S151 Officer</li> </ul>
6) How has management communicated expectations of ethical governance and standards of conduct and behaviour to all relevant parties, and when?	<ul style="list-style-type: none"> <li>• Separate, but complementary Staff and Member Codes of Conduct are published and well publicised on the intranet.</li> <li>• Professionally qualified members of staff ( both financial and pensions) are bound by their respective professional body's codes of conduct and professional standards.</li> </ul>	<ul style="list-style-type: none"> <li>• Separate, but complementary Staff and Member Codes of Conduct are published and well publicised on the intranet.</li> <li>• Professionally qualified members of staff ( both financial and pensions) are bound by their respective professional body's codes of conduct and professional standards.</li> </ul>
7) What arrangements are in place to report	<ul style="list-style-type: none"> <li>• Right of Chief Internal Auditor and/or S151 to report to Audit Committee.</li> <li>• Audit Committee/ Pension Fund</li> </ul>	<ul style="list-style-type: none"> <li>• Right of Chief Internal Auditor and/or S151 to report to Audit Committee.</li> <li>• Audit Committee/ Pension Fund</li> </ul>

<p>about fraud to those charged with governance?</p>	<p>Committee/ Local Pension Board Right of Chief Internal Auditor and S151 officer to report directly to CEO on any material concern.</p> <ul style="list-style-type: none"> <li>• Whistleblowing Policy</li> <li>• Material individual concerns communicated by S151 to relevant member of CMT.</li> <li>• Escalation to The Pension Regulator</li> </ul>	<ul style="list-style-type: none"> <li>• Committee/ Local Pension Board</li> <li>• Right of Chief Internal Auditor and S151 officer to report directly to CEO on any material concern.</li> <li>• Whistleblowing Policy</li> <li>• Material individual concerns communicated by S151 to relevant member of CMT.</li> <li>• Escalation to The Pension Regulator</li> </ul>
<p><b>Enquiries of those charged with governance</b></p>		
<p><b>Question</b></p>	<p><b>2020-21 Response</b></p>	<p><b>2019-20 Response</b></p>
<p>1) How do those charged with governance, exercise oversight of management's processes for identifying and responding to the risks of fraud within the Pension Fund and the internal control that management has established to mitigate those risks?</p>	<ul style="list-style-type: none"> <li>• Provision of a well-resourced Internal Audit section.</li> <li>• Audit Committee.</li> <li>• Independent Audit Committee Chair.</li> <li>• Pension Fund Committee</li> <li>• Local Pension Board</li> <li>• Pension Regulator</li> <li>• Contract Procedure rules</li> <li>• Financial Procedure rules</li> <li>• Risk register</li> </ul>	<ul style="list-style-type: none"> <li>• Provision of a well-resourced Internal Audit section.</li> <li>• Audit Committee.</li> <li>• Independent Audit Committee Chair.</li> <li>• Pension Fund Committee</li> <li>• Local Pension Board</li> <li>• Pension Regulator</li> <li>• Contract Procedure rules</li> <li>• Financial Procedure rules</li> <li>• Risk register</li> </ul>
<p>2) Have those charged with</p>	<p>No material items reported or known - ongoing investigations of a range of cases is "normal</p>	<p>No material items reported or known - ongoing investigations of a range of cases is</p>



governance knowledge of any actual, suspected or alleged fraud since 1 April 2019?	business” and shared with internal/external audit as necessary e.g. deceased members	“normal business” and shared with internal/external audit as necessary e.g. deceased members
3) Have those charged with governance any suspicion that fraud may be occurring within the organisation?	No known cases reported – again “normal business” is such that there are isolated risks in an organisation of this scale. There is a resourced corporate fraud team under the Chief Internal Auditor to review and report on individual cases	No known cases reported – again “normal business” is such that there are isolated risks in an organisation of this scale. There is a resourced corporate fraud team under the Chief Internal Auditor to review and report on individual cases
4) Are those charged with governance satisfied that internal controls, including segregation of duties, exist and work effectively? If ‘yes’, please provide details. If ‘no’ what are the risk areas?	<ul style="list-style-type: none"> <li>• Yes.</li> <li>• Financial Procedure rules/Accounting</li> <li>• Instructions</li> <li>• Contract Procedure rules</li> <li>• Oracle Workflow rules requiring separate sign off of transactions above threshold levels</li> <li>• Altair workflow/authorisation rules</li> <li>• Segregation of duties re. administration duties and finance duties in relation to the fund</li> <li>• Routine internal audit of key financial systems</li> </ul>	<ul style="list-style-type: none"> <li>• Yes.</li> <li>• Financial Procedure rules/Accounting</li> <li>• Instructions</li> <li>• Contract Procedure rules</li> <li>• Oracle Workflow rules requiring separate sign off of transactions above threshold levels</li> <li>• Altair workflow/authorisation rules</li> <li>• Segregation of duties re. administration duties and finance duties in relation to the fund</li> <li>• Routine internal audit of key financial systems</li> </ul>

<p>5) How do you encourage staff to report their concerns about fraud and what concerns about fraud are staff expected to report?</p>	<ul style="list-style-type: none"> <li>• Anti fraud and corruption policy</li> <li>• Disciplinary Policy</li> <li>• Whistleblowing Policy Fraud/Whistleblowing</li> <li>• hotline/intranet/online forms</li> </ul> <p>Pensions Regulator hotline</p>	<ul style="list-style-type: none"> <li>• Anti fraud and corruption policy</li> <li>• Disciplinary Policy</li> <li>• Whistleblowing Policy Fraud/Whistleblowing</li> <li>• hotline/intranet/online forms</li> <li>• Pensions Regulator hotline</li> </ul>
<p>6) From a fraud and corruption perspective, what are considered by those charged with governance to be high risk posts within the organisation and how are the risks relating to these posts identified, assessed and managed?</p>	<ul style="list-style-type: none"> <li>• Chief Officers and Heads of Service Posts</li> <li>• A range of other senior posts</li> <li>• Finance posts above Grade 10 managed by:</li> <li>• DBS checks on identified posts</li> <li>• Contract Procedure Rules</li> <li>• Financial Procedure Rules</li> <li>• Accounting Instructions</li> <li>• Segregation of duties</li> <li>• Professional standards</li> </ul> <p>Internal audit review</p>	<ul style="list-style-type: none"> <li>• Chief Officers and Heads of Service Posts</li> <li>• A range of other senior posts</li> <li>• Finance posts above Grade 10 managed by:</li> <li>• DBS checks on identified posts</li> <li>• Contract Procedure Rules</li> <li>• Financial Procedure Rules</li> <li>• Accounting Instructions</li> <li>• Segregation of duties</li> <li>• Professional standards</li> <li>• Internal audit review</li> </ul>
<p>7) Are those charged with governance aware of any related party relationships or transactions that could give rise to instances of fraud</p>	<p>No ( save that Swansea Council is an employer within the fund) The previously mentioned management controls exist to mitigate any extant risks</p>	<p>No ( save that Swansea Council is an employer within the fund) The previously mentioned management controls exist to mitigate any extant risks</p>

<p>and how does they mitigate the risks associated with fraud related to related party relationships and transactions?</p>		
<p>8) Are those charged with governance aware of any entries made in the accounting records of the organisation that it believes or suspects are false or intentionally misleading?-</p>	<p>No</p>	<p>No</p>
<p>9) Are those charged with governance aware of any organisational, or management pressure to meet revenue and capital budgets or other financial constraints?</p>	<p>Yes – the entire public sector in Wales is subject to significant constraint in terms of likely future real terms resource availability. The Council has published a stretched four year medium term financial plan looking for savings albeit at a materially lower level than previous years. This is considered a statement of projected fact/expectation.</p> <p>The Covid 19 pandemic has clouded the outlook significantly and resulted in very substantial short term spending and loss of income much of which is continued to be expected to be recovered from</p>	<ul style="list-style-type: none"> <li>• Yes, the entire public sector in Wales is subject to significant constraint in terms of likely future real terms resource availability, however the budget settlement in 2020/21 was better than envisaged. The Council has published a three year medium term financial plan looking for savings in the region of £34m. This is considered a statement of</li> </ul>

	<p>Welsh Government for 2022-23. There are no guarantees of funding beyond this point which increases financial risks.</p> <p>Earmarked reserves have been bolstered significantly at outturn as mitigation.</p> <p>There is no pressure to achieve a certain outcome beyond that which would be reasonably expected , that is, appropriate management and Executive action to contain spending to within a balanced budget position. There is an appropriate management and Executive action to contain spending to within a balanced budget position. Appropriate resourcing for the pension fund is considered by the management and the pension fund committee in the context of the Council's obligations as the Administering Authority of the scheme.</p> <p>The current assets of the pension fund are maintained in a separate bank account. The Pension Fund is part of the Wales Pension Partnership project, a projected outcome of which shall be reduced operational fees and improved investment outcomes with enhanced opportunities to invest in scalable infrastructure/national/local impact projects.</p>	<p>projected fact/expectation for the Council as a whole. Further pressures to the budget have arisen post Covid 19 pandemic adversely affecting income streams whilst putting additional strain on services.</p> <ul style="list-style-type: none"> <li>• There is no pressure to achieve a certain outcome beyond that which would be reasonably expected. There is an appropriate management and Executive action to contain spending to within a balanced budget position. Appropriate resourcing for the pension fund is considered by the management and the pension fund committee in the context of the Council's obligations as the Administering Authority of the scheme. The current assets of the pension fund are maintained in a separate bank account.</li> <li>• The Pension Fund is part of the Wales</li> </ul>
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		<p>Pension Partnership project, a projected outcome of which shall be reduced operational fees and improved investment outcomes with enhanced opportunities to invest in scalable infrastructure/national/local impact projects.</p>
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## International Standard for Auditing (UK and Ireland) 250 – Consideration of laws and regulations in an audit of financial statements

### Background

Under the ISA, in the UK and Ireland, the primary responsibility for ensuring that the entity's operations are conducted in accordance with laws and regulations and the responsibility for the prevention and detection of non-compliance rests with both management and 'those charged with governance'. The ISA requires us, as external auditors, to obtain an understanding of how they gain assurance that all relevant laws and regulations have been complied with.

### What are we required to do?

We have to obtain evidence of how management and those charged with governance are discharging their responsibilities, if we are to properly discharge our responsibilities under ISA 250. We are therefore making requests from both management those charged with governance.

Enquiries of management		
Question	2020-21 Response	2019-20 Response
1) How have you gained assurance that all relevant laws and regulations have been complied with?	<p>The Council Constitution specifies specific officer delegation in respect of proper officer arrangements for procurement, contracting and entering into legal agreements. There is legal and finance sign off and clearance for all pension fund committee reports. There is also a robust system of management internal control which requires adherence to :</p> <ul style="list-style-type: none"> <li>• Contract procedure rules</li> <li>• Financial procedure rules</li> <li>• Accounting Instructions</li> </ul>	<p>The Council Constitution specifies specific officer delegation in respect of proper officer arrangements for procurement, contracting and entering into legal agreements. There is legal and finance sign off and clearance for all pension fund committee reports. There is also a robust system of management internal control which requires adherence to :</p> <ul style="list-style-type: none"> <li>• Contract procedure rules</li> <li>• Financial procedure rules</li> <li>• Accounting Instructions</li> <li>• The Pension Regulator</li> </ul>

	The Pension Regulator	
2) Are there any potential litigations or claims that would affect the financial statements?	<ul style="list-style-type: none"> <li>• LGPS Regulations (Admin and Investment)</li> </ul> Accounting Code of Practice 2020/21	<ul style="list-style-type: none"> <li>• LGPS Regulations (Admin and Investment)</li> <li>• Accounting Code of Practice 2019/20</li> </ul>
<b>Enquiries of those charged with governance</b>		
<b>Question</b>	<b>2020-21 Response</b>	<b>2019-20 Response</b>
1) How do those charged with governance, exercise oversight of management's processes to ensure that all relevant laws and regulations have been complied with?	Potentially yes - given the extent of the investment portfolio, there may be ongoing corporate actions involving current and historic stock holdings within the entire portfolio where we could be affected but not directly involved in the litigation as lead plaintiff on a contingent basis.	Potentially yes - given the extent of the investment portfolio, there may be ongoing corporate actions involving current and historic stock holdings within the entire portfolio where we could be affected but not directly involved in the litigation as lead plaintiff on a contingent basis.
2) Are those charged with governance aware of any non-compliance with relevant laws and regulations?	All formal reports to Pension Fund Committee/Council require legal, access to services and finance sign off.	All formal reports to Pension Fund Committee/Council require legal, access to services and finance sign off.
3) If there have been instances of non-compliance what are they, and what oversight have those charged with governance had to	No (save for reporting of operational breaches to pension fund committee/local pension board on a quarterly basis (e.g late payment of contributions, late payment of benefits)	No (save for reporting of operational breaches to pension fund committee/local pension board on a quarterly basis)

ensure that action taken by management to address and gaps in control?		
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## International Standard for Auditing (UK and Ireland) 550 – Related parties

### Background

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. For example:

- Related parties may operate through an extensive and complex range of relationships and structures, with a corresponding increase in the complexity of related party transactions.
- Information systems may be ineffective at identifying or summarising transactions and outstanding balances between an entity and its related parties.
- Related party transactions may not be conducted under normal market terms and conditions; for example, some related party transactions may be conducted with no exchange of consideration.

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.





<ul style="list-style-type: none"> <li>appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the framework.</li> </ul>		
<b>Enquiries of those charged with governance</b>		
<b>Question</b>	<b>2020-21 Response</b>	<b>2019-20 Response</b>
1) How do those charged with governance, exercise oversight of management's processes to identify, authorise, approve, account for and disclose related party transaction and relationships?	This is delegated to the S151 officer through control processes. Necessary and appropriate disclosures are made in the statement of accounts which is reviewed and approved by The Pension Fund Committee.	This is delegated to the S151 officer through control processes. Necessary and appropriate disclosures are made in the statement of accounts which is reviewed and approved by The Pension Fund Committee.