

Audit of Financial Statements Report

City & County of Swansea Pension Fund

Audit year: 2014-15

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Purpose of this document

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Status of report

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

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Contents

Huw Vaughan Thomas, as Auditor General, intends to issue an unqualified audit report on your financial statements. There are some issues to report to you prior to their approval.

Summary report	
Introduction	4
Status of the audit	4
Proposed audit report	4
Significant issues arising from the audit	5
Recommendations arising from our 2014-15 financial audit work	6
Independence and objectivity	10
Appendices	
Final Letter of Representation	11
Summary of corrections made to the draft financial statements which should be drawn to the attention of the Pension Fund Committee	14
Recommendations arising from our 2014-15 financial audit work	15

Summary report

Introduction

1. Huw Vaughan Thomas, as 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 & County of Swansea Pension Fund as at 31 March 2015 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 quantitative levels at which we judge such misstatements to be material for the City & County of Swansea Pension Fund are £1,049,500 for the fund account and debtor/creditor balances and £15,377,060 for the net assets statement (excluding debtors & creditors balances). Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.
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 City & County of Swansea Pension Fund, for 2014-15, that require reporting under ISA 260.

Status of the audit

6. We received the draft financial statements for the City & County of Swansea (the Authority), which included the draft financial statements of the City & County of Swansea Pension Fund, for the year ended 31 March 2015 on 30 June 2015 and have now substantially completed the audit work. We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements.

Proposed audit report

7. Subject to the satisfactory completion of the outstanding work (see below), 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](#).
8. At the date of our presentation of this report the following area of audit work was outstanding:
 - Review of the City & County of Swansea Pension Fund Annual Report once it is provided.

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- Subsequent events review further to the provision of the Annual Report.

Significant issues arising from the audit

Uncorrected misstatements

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

Corrected misstatements

10. There is a misstatement that has been corrected by management, but which we consider should be drawn to your attention due to its relevance to your responsibilities over the financial reporting process. It is set out with explanations in [Appendix 2](#).

Other significant issues arising from the audit

11. In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were some issues arising in these areas this year:
 - **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.** Generally, we found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.
 - **We did not identify any new issues during the course of the audit.** During the course of the audit, we have examined progress made in relation to the group transfer between the Fund and Powys Pension Fund re Powys College, which we brought to your attention last year. This is explained in further detail below.
 - **We did not encounter any significant difficulties during the audit.** We received information in a timely and helpful manner and were not restricted in our work.
 - **There were no significant matters discussed and corresponded upon with management which we need to report to you.**
 - **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
 - **We did not identify any material weaknesses in your internal controls but have made some recommendations to enhance the control environment.** This is explained in further detail below.

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- **There are no other matters specifically required by auditing standards to be communicated to those charged with governance.**

Recommendations arising from our 2014-15 financial audit work

12. The recommendations arising from our financial audit work are set out in [Appendix 3](#). Management has responded to them.

Progress re issue identified during the course of the prior year audit

Powys College Transfer In

13. As noted in our prior year report, the employees of the former Powys College transferred to Neath Port Talbot College and, therefore, a fund transfer from the Powys Pension Fund to the City and County of Swansea Pension Fund is required.
14. In the prior year, we were advised by the auditors of the Powys Pension Fund that the Fund intended to accrue £8.9m for the bulk transfer of employees of Powys College based on an actuarial estimation of the transfer value. As a corresponding entry, this amount was booked in the financial statements of the City & County of Swansea Pension Fund during 2013/14.
15. Management has contacted the actuary for the City & County of Swansea Pension Fund, who has confirmed that, as a result of contributions expected and the change in market value of the investments held, the value of the transfer in should be increased to £9.96m, an increase of £1.06m. Management has therefore posted this increase in transfer value within the draft accounts for 2014/15.
16. No cash or investment assets have been transferred to the City & County of Swansea Pension Fund to date and the £9.96m booked is held as a debtor within the current assets section of the City & County of Swansea Pension Fund Financial Statements.
17. We recommend that the Pension Fund Committee, along with the Fund actuaries, develop a plan to finalise the arrangements and the transfer of relevant assets to bring this matter to a timely close.

There are no uncorrected misstatements

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

Significant Risks

Significant risks identified at the planning stage

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

Summary of main audit risks

Significant Risks	Action Taken
<p>Management override of controls The risk of management override of controls is present in all entities.</p> <p>Due to the unpredictable way in which such override could occur, it is viewed as a significant risk.</p>	<p>We have tested a sample of journals posted to the nominal ledger in the period, back to source documentation, without issue.</p> <p>From our consideration of management estimates, no issues have been identified.</p> <p>No significant transactions outside the normal course of business were identified.</p> <p>We have undertaken unpredictable procedures, to review bank mandates for appropriateness and recalculated the benefits payable to two higher profile retirees.</p> <p>No issues were identified.</p>

Significant Risks	Action Taken
<p>There is a risk of material misstatement due to fraud in revenue recognition and as such is treated as a significant risk</p>	<p>We have tested a sample of revenue journals posted to the nominal ledger in the period, back to source documentation, without issue.</p> <p>We have undertaken substantive testing, in terms of both analytical review of contributions received from each scheduled and admitted body and also detailed testing of a sample of contributing active members of the Fund.</p> <p>We have reviewed the recognition criteria for one off contributions/bulk transfers.</p> <p>No issues were identified.</p>

The Auditor General intends to issue an unqualified audit report

22. We report any proposed modifications to the standard auditor's report to ensure that you are aware of the reasons for the modifications and have the opportunity to provide any further information and explanations in respect of the matter giving rise to the modification.
23. The auditor's report comments on whether the accounts and related notes present fairly the financial transactions of the Fund during the year ended 31 March 2015 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2015, other than liabilities to pay pensions and other benefits after the end of the Fund year.
24. Subject to the satisfactory completion of the outstanding work, as noted earlier in this report, 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 as set out in [Appendix 1](#).

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

25. A material weakness in internal control is defined by ISA 260 as 'a deficiency in design or operation which could adversely affect the entity's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements'.

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26. We do not, however, normally report information to you concerning a material weakness you know about and have taken appropriate action to correct, unless the weakness is symptomatic of broader weaknesses in the overall control environment and there is a risk that other material weaknesses may occur.
 27. You should be aware that we do not provide a comprehensive statement of all weaknesses that may exist in the internal controls, or of all improvements that may be made, but have addressed only those matters that have come to our attention as a result of the audit procedures performed.
 28. We did not identify any material weaknesses in controls. However we did note a number of opportunities to improve controls which are included in [Appendix 3](#) to this report.

Late payment of pension contributions

29. Regulation 81 (1) of the Local Government Pension Scheme Regulations 1997 requires employer authorities to pay employee contributions to the administering authority within 19 days of the end of the month to which they relate. As reported in prior periods, we have continued to identify payments from employers exceeding the 19 day rule. During testing of pension contributions we have noted a total of 15 late payments during the year (2013/14: 30).
30. The 15 individual late payments totalled £422,014 with the number of days overdue ranging from 1 to 45 days. Of the 15 late payments identified 7 related to Pelenna Community Council, 2 related to Phoenix Trust, 3 related to Celtic Community Leisure and 3 related to University of Wales Trinity Saint David. The late paying bodies, are consistent with the prior year.
31. We recognise that management has communicated with these consistent late payers regularly during the year. We continue to recommend that management, supported by the Pension Fund Committee, reminds the bodies concerned, of their obligations under the Local Government Pension Scheme Regulations 1997 to ensure a timely payment of contributions to the Fund.

Membership Numbers – Information Flow

32. The Pensions department of the Authority is dependent on receiving timely information from the scheduled and admitted bodies. Due to the strict accounts preparation timetable, not all information is received by the pensions' team prior to the preparation of the draft accounts. As reported previously, we have identified membership number variances that are associated with the late provision of information.
33. Our review of the 2014/15 opening membership numbers identified that there was a total net difference of 243 members (2014: 366) between the totals carried forward in 2013/14 when compared to the totals brought forward to 2014/15. Discussions with

management confirmed that the differences have arisen as a result of the delay in the Fund administration team receiving information from the various scheduled and admitted bodies. We continue to recommend that the Authority reminds all external bodies of the importance of the provision of accurate and timely information to the administration team to ensure the accuracy of the figures within the financial statements.

Risk of Fraud

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

Independence and objectivity

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

Appendix 1

Final Letter of Representation

Auditor General

Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

PricewaterhouseCoopers LLP
One Kingsway
Cardiff
CF10 3PW

XX September 2015

Representations regarding the 2014-15 Financial Statements

This letter is provided in connection with your audit of the financial statements of the City & County of Swansea Pension Fund (the Fund) for the year ended 31 March 2015.

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 2014/15; in particular the financial statements give a true and fair view in accordance therewith.

We acknowledge our responsibility for the design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

Information provided

We have provided you with:

- full access to:
 - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;

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- additional information that you have requested from us for the purpose of the audit; and
 - unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
 - the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
 - our knowledge of fraud or suspected fraud that we are aware of and that affects the City & County of Swansea Pension Fund and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
 - our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
 - our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements;
 - the identity of all related parties and all the related party relationships and transactions of which we are aware;

Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Representations by those charged with governance

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by the City & County of Swansea (the Authority) on [insert date].

Signed by

S.151 Officer

Date

Leading Member

Date

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Appendix 2

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

During our audit we identified the following misstatement that has been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

Value of correction	Nature of correction	Reason for correction
£2,083,447	<p>Harbourvest private equity fund was undervalued by this amount within the draft financial statements.</p> <p>Management has explained that due to the Harbourvest 90 day reporting period, they initially posted an estimated figure provided by Harbourvest, within the draft accounts.</p>	<p>To adjust the Harbourvest private equity fund valuation within the financial statements to that subsequently confirmed by the investment manager as at 31 March 2015.</p>

Appendix 3

Recommendations arising from our 2014-15 financial audit work

We set out all the recommendations arising from our audit with management's response to them.

Matter arising 1 – Powys College Transfer In

Findings	The final value of the transfer from the Powys Pension Fund re Powys College is, as yet, to be finalised.
Priority	Medium
Recommendation	Given that Powys College joined the Fund from 1 August 2013 and the fact that the estimated transfer value is currently held in current assets within the financial statements, we recommend that the Pension Fund Committee, along with the Fund actuaries, develop a plan to finalise the arrangements and the transfer of relevant assets to bring this matter to a timely close.
Management response	The bulk transfer entails the submission and validation of historical data re. the staff and liabilities transferred to ensure service records, pensionable pay and appropriate progression has been applied. The valuation and indexation of the appropriate number of transferred fund assets also needs to be finalised by both sides. The final transfer value needs to be agreed by both parties' fund actuaries. The fund actuaries of both parties are in dialogue to finalise the value and the transfer should occur in Q4 2015.

Matter arising 2 – Late payment of contributions

Findings	There have been late receipts of contributions from a number of admitted and scheduled bodies.
Priority	Low
Recommendation	We recommend that management reminds any scheduled and/or admitted body that makes a late payment, of their obligations under the Local Government Pension Scheme Regulations 1997 to ensure a timely payment of contributions. We also recommend that appropriate penalties are introduced for those bodies that consistently breach the regulations. This should assist in improving the timeliness of the receipt of contributions.

Matter arising 2 – Late payment of contributions

Management response	The Administering Authority reinforces employer obligations through the adoption of an Administration Strategy and all employers are reminded of the same re. timeliness of contributions and the penalties arising if consistently late. Penalties for late payers have been applied. The total financial effect if considering all late contributions (in extremis) for 2014/15 would be approximately £200 of lost interest.
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Matter arising 3 – Membership numbers

Findings	There was a net difference of 243 member numbers between the closing 13/14 balance and the opening 14/15 balance.
Priority	Low
Recommendation	We recommend that the Authority reminds 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 financial statements.
Management response	All employers are reminded of the importance of timely and accurate member information flow within the administration strategy and are reminded at the regular employer roadshows and meetings.

Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ

Tel: 029 2032 0500
Fax: 029 2032 0600
Textphone: 029 2032 0660

E-mail: info@wao.gov.uk
Website: www.wao.gov.uk

Swyddfa Archwilio Cymru
24 Heol y Gadeirlan
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500
Ffacs: 029 2032 0600
Ffôn Testun: 029 2032 0660

E-bost: info@wao.gov.uk
Gwefan: www.wao.gov.uk