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Mr Ben Smith  
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Reference	CarmCC
Date	9 <sup>th</sup> April 2019
Pages	1 of 7

Dear Ben

## **City and County of Swansea Pension Fund 2018-19**

### **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 the Pension Fund's 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 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 and its business processes and support our work in providing an audit opinion on your 2018-19 financial statements.

I have attached the responses you provided for 2017-18 and would be grateful if you could update these to reflect your current arrangements. Could you please provide this information on behalf of both management and those charged with governance by 28<sup>th</sup> June 2019. 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', which for the Pension Fund is the Pension Committee. 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 the Pension Fund's 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 the Pension Committee:

Enquiries of management	
Question	2018-19 Response
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>• Robust framework of internal control (CPRs, FPRs, Als)</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 ) data matching</li></ul>

	<ul style="list-style-type: none"> <li>• Review Interim Deputy S151 &amp; S151 Officer</li> </ul>
2) How can management assure the Pension Committee 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 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>
3) Are management aware of any organisational pressure to meet revenue and capital budgets or other financial constraints?	<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. The Council has published three year medium term financial plan looking for savings in the region of £64m. This is considered a statement of projected fact/expectation for the Council as a whole.</li> <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 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 projects.</li> </ul>
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?	<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</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> <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</li> </ul>

	<p>duties and professional oversight/check.</p> <ul style="list-style-type: none"> <li>• Review by S151 officer &amp; Interim Deputy S151 Officer</li> </ul>
5) How has management communicated expectations of ethical governance and standards of conduct and behaviour to all relevant parties, and when?	<p>Separate, but complementary Staff and Member Codes of Conduct are published and well publicised on the intranet.</p> <p>Professionally qualified members of staff ( both financial and pensions) are bound by their respective professional body's codes of conduct and professional standards.</p>
6) What arrangements are in place to report about fraud to those charged with governance?	<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 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>
<b>Enquiries of those charged with governance</b>	
<b>Question</b>	<b>2018-19 Response</b>
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?	<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> </ul>

	<ul style="list-style-type: none"> <li>• Financial Procedure rules</li> <li>• Risk register</li> </ul>
2) Have those charged with governance knowledge of any actual, suspected or alleged fraud since 1 April 2018?	No material items reported or known - ongoing investigations of a range of cases is “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
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</li> <li>• Contract Procedure rules</li> <li>• Oracle Workflow rules requiring separate sign off of transactions above threshold levels</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>
5) How do you encourage staff to report their concerns about fraud and what concerns about fraud are staff expected to report?	<ul style="list-style-type: none"> <li>• Anti fraud and corruption policy</li> <li>• Disciplinary Policy</li> <li>• Whistleblowing Policy</li> <li>• Fraud/Whistleblowing hotline/intranet/online forms</li> <li>• Pensions Regulator hotline</li> </ul>
6) From a fraud and corruption perspective, what are considered by those charged with governance to be high risk posts within the	<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</li> </ul>

organisation and how are the risks relating to these posts identified, assessed and managed?	<ul style="list-style-type: none"> <li>• DBS checks on high risk posts</li> <li>• Contract Procedure Rules</li> <li>• Financial Procedure Rules</li> <li>• Accounting Instructions</li> <li>• Segregation of duties</li> </ul>
7) Are those charged with governance aware of any related party relationships or transactions that could give rise to instances of fraud and how do they mitigate the risks associated with fraud related to related party relationships and transactions?	<p>No ( save that Swansea Council is an employer within the fund)</p> <p>The previously mentioned management controls exist to mitigate any extant risks</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?·	No
9) Are those charged with governance aware of any organisational, or management pressure to meet revenue and capital budgets or other financial constraints?	<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. The Council has published three year medium term financial plan looking for savings in the region of £64m. This is considered a statement of projected fact/expectation for the Council as a whole.</li> <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 Pension Partnership project, a projected outcome of which shall be reduced investment management fees and improved investment outcomes with increased</li> </ul>

	opportunities and capacity to invest in scalable infrastructure projects both in the UK and abroad.
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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 management and 'those charged with governance', which for the Pension Fund is the Pension Committee. The ISA requires us, as external auditors, to obtain an understanding of how the Pension Fund gains 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 and the Pension Committee:

Enquiries of management	
Question	2018-19 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><li>• The Pension Regulator</li><li>• LGPS Regulations ( Admin and Investment)</li><li>• Accounting Code of Practice 2018/19</li></ul>

2) Are there any potential litigations or claims that would affect the financial statements?	Potentially yes - given the extent of the investment portfolio, there may be ongoing corporate actions involving stock holdings within the entire portfolio where we could be affected but not directly involved in the litigation as lead plaintiff.
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#### **Enquiries of those charged with governance**

<b>Question</b>	<b>2018-19 Response</b>
1) Have those charged with governance, exercise oversight of management's processes to ensure that all relevant laws and regulations have been complied with?	All formal reports to Pension Fund Committee/Council require legal, access to services and finance sign off .
2) Are those charged with governance aware of any non-compliance with relevant laws and regulations?	No ( save for reporting of operational breaches to pension fund committee on a quarterly basis)
3) If there have been instances of non-compliance what are they, and what oversight have those charged with governance had to ensure that action taken by management to address and gaps in control?	Not applicable

## 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.

As 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.

### What are we required to do?

Where the applicable financial reporting framework establishes requirements for related parties, the auditor has a responsibility to perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the requirements of the framework. We are therefore making requests from both management and the Pension Committee:

Enquiries of management	
Question	2018-19 Response
1) What controls are in place to identify, authorise, approve, account for and disclose	Material related parties transactions are regular and known and appropriate disclosures are made in the financial statements.

related party transactions and relationships?	Third party contracted relationships are subject to the Council's CPRs and OJEU regulation where applicable
2) Confirm that you have: <ul style="list-style-type: none"> <li>disclosed to the auditor the identity of the entity's related parties and all the related party relationships and transactions of which you are aware; and</li> <li>appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the framework.</li> </ul>	<p>Yes</p> <p>Yes</p>
<b>Enquiries of those charged with governance</b>	
<b>Question</b>	<b>2018-19 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 transactions 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