

Audit of Accounts Report – City and County of Swansea Pension Fund

Audit year: 2020-21

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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.

Contents

We intend to issue an unqualified audit report on your Accounts. There are some matters to report to you prior to their approval.

Audit of Accounts Report

Introduction	4
Impact of COVID-19 on this year's audit	4
Proposed audit opinion	6
Significant issues	6

Appendices

Appendix 1 – Final Letter of Representation	10
Appendix 2 – Proposed audit report	13
Appendix 3 – Summary of Corrections Made	18

Audit of Accounts Report

Introduction

- 1 We summarise the main findings from our audit of your 2020-21 accounts in this report.
- 2 We have already discussed these issues with the Chief Finance Officer (S151 Officer) and his team.
- 3 Auditors can never give complete assurance that accounts are correctly stated. Instead, we work to a level of 'materiality'. This level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled.
- 4 We set this level at £26.2 million for this year's audit.
- 5 There are some areas of the accounts that may be of more importance to the reader, and we have set a lower materiality level for these, as follows:
 - Key Management Personnel salaries and post-employment benefits – £1,000
 - Related Parties – £10,000
- 6 Although we have completed the majority of our audit work at the time of drafting this report, we have yet to complete:
 - the final review of our audit file
 - our final review of the revised 2020-21 financial statements; and
 - our final considerations of any post balance sheet events up until the annual report and accounts are approved at the Pension Fund Committee on 17 November 2021 and our audit opinion on 25 November 2021.
- 7 In our professional view, we have complied with the ethical standards that apply to our work; remain independent of yourselves; and, our objectivity has not been compromised in any way. There are no relationships between ourselves and yourselves that we believe could undermine our objectivity and independence.

Impact of COVID-19 on this year's audit

- 8 The COVID-19 pandemic has had a significant impact on all aspects of our society and continues to do so. You have a statutory requirement to prepare financial statements and it is of testament to the commitment of your accounts team that you have succeeded in doing so this year for a second year, in the face of the challenges posed by COVID-19. We are very grateful to the professionalism of the team in supporting us to complete our audit in such difficult circumstances.
- 9 The draft financial statements were first completed by 30 June, as agreed with the Pension Fund. These were subject to asset valuation adjustments in July on receipt of updated information available from certain fund managers. A subsequent draft of the statements was made available for audit on 29 July.

- 10 This year, the 2020-21 draft Annual Report was completed alongside the draft financial statements. In the past, this has been drafted and subject to audit later in the year and therefore the accounts team should be commended in their efforts to bring forward the completion of this report.
- 11 COVID-19 has continued to affect our audit and we summarise in **Exhibit 1** the main impacts. The exhibit is provided for information purposes only, to help you understand the pandemic's impact on this year's audit process.

Exhibit 1 – impact of COVID-19 on this year's audit

<p>Timetable</p>	<ul style="list-style-type: none"> • The draft accounts were available to audit on 29 July 2021. • The audit commenced in September 2021 as originally planned and was substantially completed by 8 October 2021. • We expect our audit report to be signed on 25 November 2021
<p>Electronic signatures</p>	<p>The current plan is for the Pension Fund Committee to approve the 2020-21 financial statements at its virtual meeting on 17 November 2021.</p> <p>The Chief Finance Officer will provide an electronic signature along with a supporting e-mail to confirm that he had certified the statement of accounts. We will continue to accept the use of electronic signatures and electronic transfer of files during the approval and signing process.</p>
<p>Audit evidence</p>	<p>As in previous years, we received the majority of audit evidence in electronic format. We have used various techniques to ensure its validity. Where we have been unable to obtain access to paper documents because of COVID-19 restrictions we have devised alternative audit methodologies to obtain sufficient audit evidence. Specifically:</p> <ul style="list-style-type: none"> • officers provided electronic working papers in accordance with our agreed Audit Deliverables Report; • officers provided audit evidence to the audit team via email or the shared folder accessible by auditors through the Council laptops; • officers were available by video conferencing for discussions, and for the sharing of on-screen information/evidence; and • Audit Wales also secured remote read only access to the ledger and Altair system which enabled the audit team to run reports and view evidence and hence reduce the burden on officers to provide this information.

Other

- Video conferencing has enabled the audit team to correspond effectively with officers throughout the audit.
- Video-conference-based Pension Fund Committee meetings have enabled us to proficiently discharge our responsibility for reporting to those charged with governance.

- 12 We will be reviewing what we have learned for our audit process from the COVID-19 pandemic and whether there are innovative practices that we might adopt in the future to enhance that process.

Proposed audit opinion

- 13 We intend to issue an unqualified audit opinion on this year's accounts once you have provided us with a Letter of Representation based on that set out in **Appendix 1**.
- 14 We issue a 'qualified' audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.
- 15 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards.
- 16 Our proposed audit report is set out in **Appendix 2**.

Significant issues

Uncorrected misstatements

- 17 There are no misstatements identified in the financial statements which remain uncorrected.

Corrected misstatements

- 18 There were initially misstatements in the accounts that have now been corrected by management. The most significant of these amendments are drawn to your attention in **Appendix 3**.

Other significant matters encountered and resolved during the audit

- 19 In the course of the audit, we considered a number of matters relating to the accounts. **Exhibit 2** includes commentary on the more significant matters we encountered and worked with management to resolve.

Exhibit 2 – significant matters encountered and resolved during the 2020-21 audit

Significant matters encountered and resolved during the 2020-21 audit		
<p>Year-end investment valuations</p>	<p>Given the ongoing impact of COVID-19, we reviewed all investment valuations to ensure these were based on valuation reports as of 31 March 2021. This allowed us to confirm that the fair value of investment assets in the 2020-21 financial statements was accurate.</p>	<p>No adjustments were required to be made to the 2020-21 financial statements.</p>
<p>Impact of McCloud Pension remedy proposals on disclosures in the Actuarial Statement</p>	<p>Our audit plan highlighted the impact of the McCloud judgement as a potential audit risk for this year's audit. We noted that final details of the Government's proposed remedy were expected to be published during 2021.</p>	<p>An estimate for this potential liability has been compiled and is included within the defined benefit obligation at 31 March 2019. This is disclosed in the Actuarial Statement in the 2020-21 financial statements. In 2019-20, we made enquiries of the actuary and concluded that the assumptions used in their estimate were similar to the subsequently proposed remedy. At present, there have been no further changes to the proposed remedy, and legislation is in the process of being passed, which will formalise the remedy. Therefore, we have been able to conclude that the estimate included in the 2020-21 financial statements disclosures is reasonable.</p>

Significant matters encountered and resolved during the 2020-21 audit

<p>Wales Pension Partnership Global Opportunities Fund 2019/20 dividend</p>	<p>In Note 9 of the draft financial statements, the Authority has disclosed that an income distribution from a Wales Pension Partnership sub-fund in respect of 2019-20 has been included in 2020-21 investment income.</p> <p>This was because the income distribution (in respect of Q4 2019-20) was not finalised until late in 2020 and therefore was not included in the 2019-20 financial statements.</p> <p>The total value of this distribution was £23.2 million.</p>	<p>Although the income should have been accounted for in 2019-20, it is an immaterial prior-period error and therefore the Code does not require restatement of 2019-20 balances. The Authority has treated the distribution as 2020-21 income due to the timing of information becoming available.</p> <p>We have agreed with the Pension Fund that the supporting disclosure is amended to specify the value of the income included in 2020-21 in respect of 2019-20.</p>
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Significant matters encountered and resolved during the 2020-21 audit

<p>Additional Voluntary Contributions (Note 20)</p>	<p>The financial information for Note 20 (Additional Voluntary Contributions) was unavailable when the financial statements were drafted. This was due to delays with the Fund's AVC providers.</p>	<p>During the course of the audit, information from the Fund's legacy providers, Aegon and Utmost, became available and has now been included within Note 20.</p> <p>The information from the Fund's main AVC provider, Prudential, is however still not available. This includes the closing value of funds, contributions in and out, sale proceeds and change in market value during the year.</p> <p>The Code requires disclosure of AVCs paid by members during the year and the value at the year-end of separately invested AVCs where these values are material.</p> <p>We have reached the conclusion that the missing Prudential figures are immaterial to the financial statements and the Pension Fund has included additional narrative disclosures to explain the reasons for the omission.</p>
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Appendix 1

Final letter of representation

[Audited body's letterhead]

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

17 November 2021

Representations regarding the 2020-21 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 2021 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 2020-21; 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; and
- 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.

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 Pension Fund Committee on 17 November 2021.

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: 17 November 2021

Signed by:

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

Date: 17 November 2021

Appendix 2

Proposed audit report

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

Opinion on the financial statements

I have audited the financial statements of the City and County of Swansea Pension Fund for the year ended 31 March 2021 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 international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21.

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 2021, and of the amount and disposition at that date of its assets and liabilities; and
- have been properly prepared in accordance with legislative requirements and international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. 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

In auditing the financial statements, I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the responsible financial officer with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. The Responsible Financial Officer is responsible for the other information contained within the annual report. 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. My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

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 annual report for the financial year for which the financial statements are prepared is consistent with the financial statements and the annual report has been prepared in accordance with the Local Government Pension Scheme Regulations 2013.

Matters on which I report by exception

In the light of the knowledge and understanding of the pension fund and its environment obtained in the course of the audit, I have not identified material misstatements in the annual report:

- I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my team;
- 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.

Responsibilities

Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the financial statements, the responsible financial officer is responsible for the preparation of the financial statements, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the responsible financial officer is responsible for assessing the pension fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

My procedures included the following:

- enquiring of management, the City and County of Swansea's Chief Internal Auditor and those charged with governance, including obtaining and reviewing supporting documentation relating to the City and County of Swansea's Pension Fund policies and procedures concerned with:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;

- detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
- the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- considering as an audit team how and where fraud might occur in the financial statements and any potential indicators of fraud;
- obtaining an understanding of the City and County of Swansea Pension Fund's framework of authority as well as other legal and regulatory frameworks that it operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on its operations.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Pension Fund Committee and legal advisors about actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the administering authority;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential fraud risks to all the audit team and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the City and County of Swansea's Pension Fund's controls, and the nature, timing and extent of the audit procedures performed.

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.

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.

Adrian Crompton
Auditor General for Wales
25 November 2021

24 Cathedral Road
Cardiff
CF11 9LJ

Appendix 3

Summary of corrections made

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 3: summary of corrections made

Value of correction	Nature of correction	Reason for correction
Various presentational amendments	Various other minor presentational amendments were made to the draft statement of accounts and annual report. There was no overall impact on the net expenditure or net investment assets of the Fund.	To ensure accuracy and completeness of the financial statements.



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