

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

Audit year: 2021-22

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

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

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# Audit of Accounts Report

## Introduction

- 1 We summarise the main findings from our audit of your 2021-22 accounts in this report.
- 2 We have already discussed these issues with the Director of Finance (Section 151 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 £29.3 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 Disclosures – £1,000
  - Related Party disclosures – £10,000
- 6 We have now substantially completed this year's audit.
- 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 continuing impact on how our audit has been conducted. We summarise in **Exhibit 1** the main impacts. Other than where we specifically make recommendations, the detail in **Exhibit 1** is provided for information purposes only to help you understand the impact of the COVID-19 pandemic on this year's audit process.

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

<b>Timetable</b>	<ul style="list-style-type: none"><li>• We received the draft accounts on 30 June 2022 as planned. This is in line with last year and with regulatory deadlines.</li><li>• The Pension Fund Committee is due to consider and approve the audited statement of accounts on 16 November 2022.</li><li>• We expect your audit report to be signed on 21 November 2022.</li></ul>
<b>Audit evidence</b>	<ul style="list-style-type: none"><li>• As in previous years, our audit of the financial statements was undertaken remotely.</li><li>• Authority officers effectively supported us in this by continuing to provide us with appropriate and timely information in electronic format to inform our audit.</li><li>• Officers were available by video-conferencing for discussions, which enabled the audit team to correspond effectively with officers throughout the audit.</li></ul>

## Proposed audit opinion

- 9 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**. The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards.
- 10 We issue a ‘qualified’ audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.
- 11 Our proposed audit report is set out in **Appendix 2**.

## Significant issues arising from the audit

### Uncorrected misstatements

- 12 There are no misstatements identified in the accounts, which remain uncorrected.

### Corrected misstatements

- 13 There were initially misstatements in the accounts that have now been corrected by management. However, we believe that these should be drawn to your attention and they are set out with explanations in **Appendix 3**.

## Other significant issues arising from the audit

14 In the course of the audit, we consider a number of matters relating to the accounts and report any significant issues arising to you. There were no issues arising in these areas this year.

## Recommendations

15 During the audit, we identified one other issue which has resulted in a recommendation being made, as shown in **Exhibit 2**:

### Exhibit 2 – other issues arising from the audit

<b>Valuation of investments</b>	The fair value of investments is estimated by investment managers, which involves an element of judgement as Level 2 and 3 investments cannot be valued directly. (Quoted market prices are not available for Level 2 investments and Level 3 investments are not based on observable market data). Control assurance reports on the internal controls implemented by investment managers are not being routinely obtained and reviewed which reduces the assurance that investments are being appropriately valued and accounted for.	We have reviewed investment manager service auditor reports on the design and effectiveness of internal controls (or other alternatives) and have not identified any material issues we need to report to you. We have recommended that the Pension Fund improves its assurance arrangements in this area – see Recommendation 1 in <b>Appendix 4</b>
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16 The recommendations arising from our audit are set out in **Appendix 4**. Management has responded to them and we will follow up progress against them during next year's audit. Where any actions are outstanding, we will continue to monitor progress and report it to you in next year's report.

# Appendix 1

## Final Letter of Representation

[Audited body's letterhead]

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

16 November 2022

### Representations regarding the 2021-22 financial statements

This letter is provided in connection with your audit of the financial statements of City and Country of Swansea Pension Fund for the year ended 31 March 2022 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 2021-22; 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 City and 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; 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. There are no uncorrected misstatements in the financial statements.



## 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 16 November 2022.

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:

Signed by:

Director of Finance (S151 Officer)

Chair of the Pension Fund Committee

Date: 16 November 2022

Date: 16 November 2022

# 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 financial statements**

I have audited the financial statements of the City and County of Swansea Pension Fund for the year ended 31 March 2022 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 2021-22.

In my opinion the financial statements:

- give a true and fair view of the financial position of the City and County of Swansea Pension Fund as at 31 March 2022 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 2021-22.

#### **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. 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 statement, 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 the 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 administering authority's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the City and County of Swansea Pension Fund's 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 noncompliance 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. As part of this discussion, I identified potential for fraud in the posting of unusual journals and biases in accounting estimates.
- 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 the Pension Fund operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Pension Fund.

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, those charged with governance about actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance, the Pension Fund Committee and the administering authority; and
- 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 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 City and County of Swansea 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](http://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  
21 November 2022

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 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.

# Appendix 4

## Recommendations

We set out all the recommendations arising from our audit with management's response to them. We will follow up these next year and include any outstanding issues in next year's audit report:

### Exhibit 4: matter arising 1

<b>Matter arising 1 – Controls assurance reports</b>	
<b>Findings</b>	<p>The Pension Fund does not regularly obtain and review control assurance reports (type 2) for its investment managers. It has also not considered what alternative assurances should be sought for investments held with investment managers where these reports are not produced.</p> <p>These reports are also not presented to the Pension Fund Committee and therefore there is no opportunity for the outcomes of these reports to receive appropriate scrutiny.</p>
<b>Priority</b>	Good practice
<b>Recommendation</b>	<p>The Pension Fund should strengthen its arrangements for assuring itself that there are appropriate controls over its investments by:</p> <ul style="list-style-type: none"><li>• obtaining and reviewing controls assurance reports for all investment managers;</li><li>• considering how it can assure itself that there are appropriate controls in place where controls assurance reports are not available; and</li><li>• providing assurances to the Pension Fund Committee that there are appropriate controls over its investments.</li></ul>
<b>Benefits of implementing the recommendation</b>	Both management and those charged with governance would obtain further assurance that the controls in place at each investment manager are robust.



**Matter arising 1 – Controls assurance reports**

<b>Accepted in full by management</b>	Yes
<b>Management response</b>	<p>Management currently relies on investment partners on reporting issues arising by exception. As identified by Audit Wales, there were no issues to report to The Pension Fund Committee.</p> <p>In recognition of Audit Wales recommendation, officers shall review type 2 reports and noting volume of reports shall report issues to The Pension Fund Committee by exception.</p>
<b>Implementation date</b>	2022/23



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