



WALES **AUDIT** OFFICE  

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Audit 2009-10

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# Audit of pension fund accounts – report to Audit Committee Powys County Council

## **Powys Pension Fund**

It is my intention as Appointed Auditor to issue an unqualified Auditor's Report on the pension fund accounts and related notes, although there are some issues to report to you prior to their approval.

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## Summary

1. Powys County Council (the Authority) is responsible for the preparation of the accounts and related notes that show a true and fair view of the financial transactions of Powys Pension Fund during the year ended 31 March 2010 and of the amount and disposition of the fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year. I am required to give my opinion as to whether the pension fund accounts give a true and fair view.
2. The Authority submitted a Statement of Accounts to me in June 2010 and I have now substantially completed the audit of the pension fund accounts. I am reporting to you the most significant issues arising which I believe you should consider prior to the approval of the pension fund accounts. I have already discussed these issues with the Director of Finance and Infrastructure and his staff.
3. I do not seek to obtain absolute assurance that the pension fund accounts are true and fair, but adopt the concept of materiality. In planning and conducting the audit, I seek to identify material misstatements in the pension fund accounts, that is, those that might result in a reader of the accounts being misled.
4. The quantitative levels at which I judge such misstatements to be material for the pension fund are £255,000 for income and expenditure items and working capital balances, and £3.2 million for other 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.
5. As required by auditing standards I report to you any pension fund issues identified with regard to:
  - accounting practices and financial reporting;
  - material internal control weaknesses;
  - matters of significant governance interest; and
  - any other relevant matters arising from my audit.
6. The issues that I wish to draw to your attention in these areas are summarised below and set out more fully in the detailed report:
  - There are inherent uncertainties relating to the valuation of unquoted investments;
  - The fund should review audited financial statements and other reports relating to their investments;
  - The risks identified at the planning stage have been addressed satisfactorily; and
  - The Council's Financial Statements are free from material misstatement.

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7. It is my intention to issue an unqualified audit report on the pension fund accounts once the Authority has provided me with a signed Letter of Representation relating to the accounts. An example of the areas we would request representations on is attached at Appendix 1.

### **There are inherent uncertainties relating to the valuation of unquoted investments**

8. As part of its investment portfolio, the pension fund has substantial holdings in unquoted investment funds of £10.425 million. In the financial statements these are valued at a fair value by fund managers, using an appropriate basis of valuation. As private-equity investments are generally crystallised through sale or flotation of the entire business, the value of the business as a whole will provide a base for estimating the fair value of an investment in that business. However, the resulting valuations are subjective as they are based on forward-looking estimates and judgements. The realisable values may differ from the fair values by material amounts.
9. In completing our audit work we have reviewed the reports provided by each private equity fund manager, their internal control reports and latest available audited financial statements of the various funds. This year I am satisfied the valuation of unquoted investments is fairly stated and I propose to issue an unqualified opinion.

### **The Fund should review audited financial statements and other reports relating to their investments**

10. Whilst the pension fund will rely on the expertise of fund managers to exercise judgement in applying appropriate methodologies and to follow valuation guidance, it is the responsibility of the pension fund to ensure that its financial statements are fairly stated.
11. To provide assurance over the valuations provided by the fund managers I anticipate the Authority should routinely review the audited accounts and internal control reports (FRAG 21 or SAS70 statements) relating to the fund and the fund manager respectively.

### **The risks identified at the audit planning stage have been addressed satisfactorily**

12. Our audit strategy reported the risks identified at the audit planning stage. Exhibit 1 summarises these risks and the way in which these have been resolved, together with the significant risks identified from our review of the draft financial statements.

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**Exhibit 1: Audit planning risks**

<b>Control environment risks</b>	<b>Findings</b>
The 2009-10 accounts of the pension fund need to be prepared in accordance with the revised pension fund statement of recommended practice issued in 2007.	My audit has not identified significant instances of non-compliance with the statement of recommended practice.
The fund includes unquoted investments that are difficult to value.	The pension fund has provided sufficient evidence from the fund manager statements and audited fund accounts. (see paragraphs 8-9 above).
There has been no internal audit coverage for 2009-10.	I have completed a programme of work based on there being no internal audit coverage.
Introduction of the 2008 Local Government Pension Scheme (Administration) Regulations led to a tiered structure for calculating employee deductions.	My testing has confirmed that new contributors' deductions in the year are correct.
At last year's audit we noted that information received from fund managers on internal control at third party service providers is variable.	I note that information received remains variable and have referred further to this in paragraphs 10 and 11 above.
The pension fund has provided information to the actuary to prepare the full actuarial valuation at 31 March 2010.	Whilst findings from the full actuarial review are not available yet, the actuary's statement for the year ended 31 March 2010 has not identified areas of concern with the information received.
Pension fund transactions generate specific fraud risks, for example, whether pensioners on the payroll continue to exist.	My testing has not identified instances of fraud.

## **The Council's Financial statements are free from material misstatement**

13. Auditing standards require us to report any matters that might result in a material misstatement in the financial statements, specifically if we identify:
  - material weaknesses in your internal controls;
  - other matters of governance interest;
  - suspected or detected fraud; and
  - inconsistencies in financial information.
14. In the course of the accounting statements audit we also consider the qualitative aspects of the financial reporting process as well as the accuracy of the statements.
15. There are no uncorrected misstatements, other than those of a clearly trivial nature, and details of the adjustments you have agreed to make are at Appendix 2 of this report.
16. I propose to issue an unqualified audit report on the pension fund accounts once the Authority has provided me with the Letter of Representation.

## Appendix 1

(Letterhead)

John Herniman  
Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ  
30 September 2010

### **Representations regarding the 2009-10 accounts**

This letter is provided in connection with the audit of the accounts and related notes of the Powys pension fund (the Pension Fund) for the year ended 31 March 2010 for the purpose of expressing an opinion as to whether they show a true and fair view, in all material respects, of the financial transactions of the Pension Fund during the year ended 31 March 2010 and of the amount and disposition of the fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year in accordance with the Accounts and Audit (Wales) Regulations 2005 (as amended) and the Code of Practice on Local Authority Accounting in the United Kingdom - a Statement of Recommended Practice 2009 (the SORP).

### **Overall representations**

All the transactions undertaken by the Pension Fund have been properly reflected and recorded in the accounting records.

The Pension Fund has complied with all aspects of contractual agreements that would require adjustment to, or disclosure in, the accounting statements and related notes.

The pension fund accounts and related notes are free of material misstatements, including omissions.

All books of account and supporting documentation and all minutes of meetings of the Pension Fund have been made available to you.

The Pension Fund has no plans or intentions that may materially alter the carrying value or classification of investments, assets and liabilities reflected in the accounting statements and related notes.

The measurement methods, including the related assumptions, used in determining fair values are appropriate and have been applied consistently. Disclosures relating to fair values are complete and appropriate.

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



## **Investments**

### **General**

All investments included in the net assets statement were in existence at the net assets statement date and owned by the Pension Fund, and free from any lien, encumbrance or charge, except as disclosed in the accounts. The net assets statement includes all investments owned by the Pension Fund. The Pension Fund's investments have been reviewed for impairment and any such impairment reflected in the accounts accordingly.

### **Current assets**

On realisation in the ordinary course of the Pension Fund's operations, the current assets in the net assets statement are expected to produce at least the amounts at which they are stated. Adequate provision has been made against all amounts owing to the Pension Fund which are known, or may be expected, to be irrecoverable.

There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

## **Liabilities**

### **General**

All liabilities, both actual and contingent, have been recorded and disclosed as appropriate as well as all guarantees that we have given to third parties.

There is no pending litigation which may result in significant loss to the Pension Fund, and which have not been disclosed in the accounting statements and related notes, either as current or contingent liabilities.

### **Results**

Except as disclosed in the accounting statements and related notes, the results for the year were not materially affected by transactions of a sort not usually undertaken by the Pension Fund, or circumstances of an exceptional or non-recurring nature.

### **Internal control**

I acknowledge my responsibility for the design and implementation of internal control to prevent and detect error. There have been no:

- irregularities involving management who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; and

- communications from regulatory agencies concerning non-compliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.

## Post balance sheet events

Except as disclosed in the pension fund accounts and related notes, there have been no material changes since the date of the net assets statement affecting liabilities and commitments, and no events or transactions have occurred which, though properly excluded from the pension fund accounts and related notes, are of such importance that they should have been brought to the notice of the auditor.

## 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 fair presentation of the pension fund accounts and related notes in accordance with the applicable financial reporting framework.

We acknowledge our collective responsibility for the preparation of the pension fund accounts and related notes, which were approved by the Powys County Council (the Authority) on 30 June 2010.

We have disclosed to you all known or possible non-compliance with laws and regulations whose effects should have been considered when preparing the pension fund accounts and related notes.

There are no other material transactions with related parties (as defined by FRS 8 and the SORP), other than those recorded and disclosed in the pension fund accounts and related notes.

We acknowledge our responsibility for the design and implementation of internal control to prevent and detect fraud and have disclosed to you the results of our assessment of the risk that the pension fund accounts may be materially misstated as a result of fraud.

We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Pension Fund's accounts and related notes communicated to the Pension Fund by employees, former employees, regulators or others.

We have disclosed to you our knowledge of fraud or suspected fraud affecting the Pension Fund involving:

- those charged with governance;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the accounting statements and related notes.

We confirm, to the best of our knowledge and belief, that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Signed by

S.151 Officer

Date

Leading Member/Chair of Pension Panel

Date

## Appendix 2

### Summary of corrections to draft pension fund accounts which should be drawn to the attention of those charged with governance

Nature of correction	Reason for correction
A line is added to Note 18 to identify the commitment with CBRE as a property investment rather than private equity.	To confirm the right classification of investment commitments.
The percentage of investment portfolio with Western Assets and Axa Rosenberg were amended to be consistent with the analysis on a previous page.	To achieve consistency with other information in the statement of accounts.
A number of amendments were made for spelling errors and incorrect line alignment.	To improve presentation of the statement of accounts.





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