



WALES **AUDIT** OFFICE
SWYDDFA **ARCHWILIO** CYMRU

Audit of Financial Statements Report

Powys Pension Fund

Audit year: 2010-11

Issued: September 2011

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This document is a draft version pending further discussions with the audited and inspected body. Information may not yet have been fully verified and should not be widely distributed.

Status of report

The team who delivered the work comprised: John Herniman, Mike Jones, Gareth Rees, Andrew Davies.

DRAFT

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John Herniman, as Appointed Auditor, intends to issue an unqualified audit report on your financial statements. There are some issues to report to you prior to their approval

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Summary report

Introduction

1. John Herniman, as Appointed Auditor, is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of Powys Pension Fund at 31 March 2011 and its income and expenditure for the year then ended.
2. We received the draft financial statements for the year ended 31 March 2011 on 5 July 2011, 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. The audit team has already discussed these issues with the council's financial officers.
3. 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.
4. The quantitative levels at which we judge such misstatements to be material for Powys Pension Fund are £261,000 for income and expenditure items and working capital balances, and £3.45 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.

Proposed audit report

5. It is the Appointed Auditor'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](#).
6. The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

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

Corrected misstatements

8. There are 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. They are set out with explanations in [Appendix 3](#).

Other significant issues arising from the audit

9. 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 no issues arising in these areas this year:
- **We have no concerns about the qualitative aspects of your accounting practices and financial reporting but there is one matter I want to emphasise to you.** 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. In line with my report to you last year I draw your attention to the following;
 - As part of its investment portfolio, the pension fund has substantial holdings in unquoted investment funds of £12.684 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.
 - 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.
 - **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 was one significant matter discussed and corresponded upon with management which we need to report to you.** Since the balance sheet date concerns relating to global economic growth and European sovereign debt have resulted in significant falls in the market indices. The market value of the pension fund's investments has fallen significantly.
 - **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 material weaknesses in your internal controls that we have not reported to you already.** We report these where you are not already aware of them or where they may be symptomatic of broader weaknesses in the overall control environment.

Appendix 1

Final Letter of Representation

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

29 September 2011

Representations regarding the 2010-11 Financial Statements

This letter is provided in connection with your audit of the financial statements of **Powys County Council Pension Fund** for the Year ended 31st March 2011.

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 CIPFA Code of Practice 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;
 - 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 Powys 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; and
- our knowledge of all possible and actual instances of irregular transactions.

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 Audit Committee

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 Audit Committee on 29 September 2011.

Signed by:

Signed by:

Geoff Petty
S151 Officer

Sandra Davies
Chair of Audit Committee

Date:

Date:

Appendix 2

Proposed audit report of the Appointed Auditor to the Audit Committee

I have audited the accounting statements and related notes of Powys County Council, and Powys Pension Fund for the year ended 31 March 2011 under the Public Audit (Wales) Act 2004.

Powys County Council accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Movement on the Housing Revenue Account Statement and the Housing Revenue Account Income and Expenditure Statement.

Powys Pension Fund's accounting statements comprise the Fund Account and the Net Assets Statement.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2010-11 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the independent auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 17, the responsible financial officer is responsible for the preparation of the statement of accounts, which gives a true and fair view.

My responsibility is to audit the accounting statements and related notes in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to Powys County Council's and Powys Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the responsible financial officer and the overall presentation of the accounting statements and related notes.

In addition, I read all the financial and non-financial information in the Explanatory Foreword and Chairman's statement to identify material inconsistencies with the audited accounting statements and related notes. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on the accounting statements of Powys County Council

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Powys County Council as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010-11.

Opinion on the accounting statements of Powys Pension Fund

In my opinion, the pension fund accounts and related notes:

- give a true and fair view of the financial transactions of Powys Pension Fund during the year ended 31 March 2011 and of the amount and disposition of the fund's assets and liabilities as at that date, and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

Opinion on other matters

In my opinion, the information contained in the Explanatory Foreword and Chairman's Statement for the financial year for which the accounting statements and related notes are prepared is consistent with the accounting statements and related notes.

Matters on which I report by exception

I have nothing to report in respect of the Governance Statement on which I report to you if, in my opinion, it does not reflect compliance with *Delivering Good Governance in Local Government: Framework* published by CIPFA/SOLACE in June 2007, or if the statement is misleading or inconsistent with other information I am aware of from my audit.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of Powys County Council in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Code of Audit Practice issued by the Auditor General for Wales.

John Herniman
Appointed Auditor
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ
30 September 2011

Appendix 3

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

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.

Value of correction	Nature of correction	Reason for correction
£102,546	Reduce transfers in at Note 4 by this miscoding.	To ensure transfers in are fairly stated.
£1,882,634	Including the pensions adjusted pensions accrual contained in the administering authority accounts.	To ensure contributions income is fairly stated.
£43,000	Amend capital commitments at Note 18 to agree with working papers.	To ensure the disclosure of capital commitments accords with the records.
	Insert the actuarial net present value of retirement benefits to a disclosure note.	To comply with new financial reporting requirements in 2010-11.
n/a	Amended the wording of 'change in market value of investments' to record 'Profit and Losses on disposal of investments and changes in value of investments'.	To comply with revised presentation requirements of the Accounting Code of Practice.
£16,653	Corrects a miscoding between direct administration fees and actuarial fees.	To ensure the analysis of administration expenses is fairly stated.



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

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