



WALES **AUDIT** OFFICE  

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# Audit of the Financial Statements Report

## **Powys Pension Fund**

**Audit year:** 2011-12

**Issued:** September 2012

**Document reference:** 517A2012

# Status of report

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The team who delivered the work comprised:  
John Herniman, Anthony Veale, Gareth Rees and Andrew Davies

This document has been prepared for the internal use of Powys Pension Fund as part of work performed in accordance with statutory functions, the Code of Audit Practice and the Statement of Responsibilities issued by the Appointed Auditor.

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The 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

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## Introduction

1. The 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 2012 and its income and expenditure for the year then ended.
2. We received the draft financial statements for the year ended 31 March 2012 by 30 June 2012 deadline, 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 relevant 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 the Powys Pension Fund are £257,000 for income and expenditure items and working capital balances, and £3.7 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](#).

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## **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 some issues arising in these areas this year.

## **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.**

10. The draft financial statements were prepared to a good standard, reflecting the work undertaken by officers to prepare them by 30 June 2012 deadline. We found the information provided to be relevant, reliable, comparable, material and relatively easy to understand. Going forward, we intend to work collaboratively with officers to further streamline the preparation of the audit working papers prepared by officers.
11. We also concluded that your accounting policies and estimates are appropriate and that the financial statement disclosures are unbiased, fair and clear.

## **We did not encounter any significant difficulties during the audit**

12. We received information in a timely and helpful manner and were not restricted in our work. Both the pensions accounting and administration teams were responsive and supportive throughout the audit process.

## **There were no significant matters discussed and corresponded upon with management, which we need to report to you**

13. We did not discuss any significant matters with the Council's management, which we need to report to you.

## **There are two matters significant to the oversight of the financial process that we need to report to you**

14. We set out below the matters relating to the oversight of the financial reporting process that we need to report to you.

## **A number of retirement benefits paid in 2012-13 were identified which should have been recorded in the 2011-12 financial statements**

15. As part of our audit work, we identified a number of adjustments that required amendments to the 2011-12 draft financial statements. These were identified as a result of a post year-end review of the ledger which identified payments made in 2012-13 which should have been included in the 2011-12 financial statements. These payments primarily related to lump sum retirement payments paid out in April and May 2012 (see [Appendix 3](#)). Going forward, we recommend that the pensions accounting

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team undertake a post year-end ledger review to ensure that payments relating to the period 2011-12 are recorded in that period.

**The controls assurance statement in respect of CBRE was unavailable for the financial year 2011-12.**

16. As part of our audit work, we place a significant amount of reliance on controls assurance statements provided by Fund Managers. These statements typically provide us with sufficient assurance that controls are in place in respect of the valuation and existence of the investments held on behalf of the Pension Fund. This is particularly important where investments are unobservable, ie they cannot be agreed to the stock exchange valuation listings. During our audit, we identified that a particular controls assurance statement was unavailable for the financial year 2011-12 in respect of CBRE. The Council should ensure that these statements are made available for its own governance requirements. Where these are not available, the Council need to ascertain why they are not available and assess alternative arrangements to ensure they receive the appropriate assurance over the pension fund investment held with the Fund Manager.
17. We were eventually able to undertake additional and alternative audit work and procedures to achieve the level of assurance required to issue the audit opinion.

**We did not identify any material weaknesses in your internal controls but there are matters which we wish to bring to your attention**

18. Whilst we did not identify any material weaknesses in your internal controls, we did identify a number of additional disclosures that needed to be made in respect of the financial statements. These related to related party transactions and additional disclosures required in respect of financial instruments. These have been recorded in [Appendix 3](#).
19. In addition, we identified a particular retirement benefit calculation where evidence of the calculation could not be provided to us as the record had not been maintained by the pension's administration teams. Whilst we were able to conclude that this was an isolated issue, we would emphasise that evidence of this nature should be maintained as part of the records management and document retention procedures.
20. Our audit work also highlighted an amendment to the 2010-11 and 2011-12 figures in respect of the number of pension contributors. During the previous year, there were a number of pension contributors which remained on the pensions administration system (Altair) which should have been removed, ie a backlog had built up in the system. Appropriate amendments have been made to the financial statements in this respect. We recommend that numbers of contributors recorded on the Altair system are regularly reviewed to ensure that it is up to date.

# Appendix 1

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## Final Letter of Representation

Mr Anthony Barrett  
Appointed Auditor  
Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

28 September 2012

## Representations regarding the 2011/12 financial statements

This letter is provided in connection with your audit of the financial statements of Powys Pension Fund for the year ended 31 March 2012.

I confirm that to the best of my knowledge and belief, having made enquiries as I consider sufficient, I can make the following representations to you.

## Management representations

### Responsibilities

I have fulfilled my responsibilities for the preparation of the financial statements in accordance with legislative requirements and the 2011-12 Code of Practice on Local Authority Accounting; in particular the financial statements give a true and fair view in accordance therewith.

I acknowledge my 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;

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- 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; 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. Whilst we recognise the subjective nature of determining the fair value of private equity investments we confirm that the valuation received by the Pension Fund in respect of these investments have been properly accounted for and disclosed.

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 Powys County Council as administering authority for the Powys Pension Fund**

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 28 September 2012.

Signed by:  
Mr Geoff Petty  
Director of Finance  
Date: 28 September 2012

Signed by:  
[Officer or Member who signs on behalf of  
those charged with governance]  
Date: 28 September 2012



# Appendix 2

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## Proposed independent auditor's report to the Members of Powys County Council

I have audited the accounting statements and related notes of:

- Powys County Council; and
- Powys Pension Fund

for the year ended 31 March 2012 under the Public Audit (Wales) Act 2004.

Powys County Council's 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 2011-12 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 pages ... to ..., the responsible financial officer is responsible for the preparation of the statement of accounts and pension fund 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 the 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 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.

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### **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 2012 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 2011-12.

### **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 2012 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 2011-12.

### **Opinion on other matters**

In my opinion, the information contained in the Explanatory Foreword 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 Annual 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.

Anthony Barrett  
Appointed Auditor  
Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

**28 September 2012**

# Appendix 3

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

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
New disclosure	A new note was added to define the observable fair values of the pension fund's assets.	To comply with new disclosure requirements of the Code of Audit Practice.
Amended Note 14 disclosure	The disclosure note on related party transactions was extended to include governance arrangements.	To make the full disclosures required.
Amended Note 17 disclosure	The disclosure note on post balance sheet events was extended to refer to market volatility in relation to the pension funds' assets.	To make the full disclosures required.
Amendments to pension contributors	The number of pension contributors at 31 March 2011 and 31 March 2012 was amended to reflect the correct number shown by the pensions system.	To present the correct number of fund members in the annual report.
£488,000	Lump sum retirement grants made in the new financial year were accrued back into the year 2011-12.	To ensure the accounts reflect obligations created by events that have occurred on or before 31 March 2012.
£366,000	The debtor in respect of equal pay contributions was amended to reflect the changes to the equal pay provision included in the Powys County Council accounts.	To ensure the Pension Fund accounts are consistent with the equal and opposite entry within the Powys County Council accounts.



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