

Audit of Financial Statements Report

Powys Pension Fund

Audit year: 2013-14

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

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Summary report

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 2014 and its income and expenditure for the year then ended.
2. 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.
3. The quantitative level at which we judge such misstatements to be material for Powys Pension Fund is £4.427 million. 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.
4. International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
5. This report sets out for consideration the matters arising from the audit of the financial statements of Powys Pension Fund, for 2013-14, that require reporting under ISA 260.

Status of the audit

6. We received the draft financial statements for the year ended 31 March 2014 on 30 June 2014 as planned, and have now substantially completed the audit work.
7. 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 officers including the Strategic Director of Resources.

Proposed audit report

8. 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](#).
9. The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

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

Corrected misstatements

11. 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 [Exhibit 1 below](#).

Exhibit 1 - Summary of corrections made to the draft financial statements which should be drawn to the attention of the Audit Committee

Value of correction	Nature of correction	Reason for correction
£8,900,000	An accrual has been included within the financial statements to account for the transfer of Coleg Powys staff from the Powys Pension Fund to the Swansea Pension Fund which took place in July 2014.	To recognise all liabilities of the pension fund as at 31 March 2014. This adjustment impacts on the Pension Fund Account statement for the 2013-14 financial year.
£1,199,714	The analysis of investment income received during the year was amended to reflect all amounts received. This income was initially posted to the ' <i>change in market value of Investments</i> ' within the Pension Fund Account.	To present accurate classification of account entries for investment income and the change in market value of investments. This adjustment has no overall impact on the Pension Fund Account statement for the 2013-14 financial year.
£17,591,642	An investment sale and subsequent purchase for this amount from the Blackrock portfolio had been omitted from the accounts. This was entered into the analysis detailed in Note 11.	To provide a complete account of investment sales and purchases made by the pension fund during the year. This adjustment has no overall impact on the Pension Fund Account statement for the 2013-14 financial year.
N/A	A number of minor adjustments (and narrative additions) were made to the financial statements. These include: <ul style="list-style-type: none"> • minor amendments to appendix 2, appendix 3, appendix 4 and various notes to the accounts; and • minor amendments to clarify a number of accounting policies included within the financial statements. 	To ensure the financial statements comply with proper accounting practice and to assist the reader of the financial statements.

Other significant issues arising from the audit

12. 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:

- **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.** There are no matters arising that need to be reported to the Audit Committee.
- **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 were no significant matters discussed and corresponded upon with management arising in the year which we need to report to you.**
- **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 any material weaknesses in your internal controls.** However, there are a number of issues we would like to report to you for further consideration. Internal Audit did not undertake any work on the pension fund systems in 2013-14, with minimal levels of work undertaken in previous years. Internal Audit is a key part of the Internal Control Framework and should provide management with assurance that key controls are in place and operating effectively. Given the significant reputational and financial risks that could arise if controls in the pension fund system failed, the Council should ensure that the level and frequency of coverage of the pension fund controls by Internal Audit is sufficient.

In addition to the above, we note that the responsibility for managing the pensions accounting function (and specifically the year-end process) is primarily vested in one officer. We understand that the time allocated to the officer to undertake these functions was less than in previous years due to the officer having to undertake additional responsibilities. This resulted in a reduction in the time input to appropriately check the quality and sufficiency of the financial statements and supporting working papers. The financial statements and working papers were not to the standard we have seen in previous years. The Council need to ensure that either appropriate time is assigned for the completion of the financial statements or that appropriate support arrangements are in place.

- **There are no other matters specifically required by auditing standards to be communicated to those charged with governance.**
- **We reported two issues to you at last year's audit and we now update the position below.**

13. In 2012-13, we reported two specific issues to the Audit Committee.

- **Updating membership statistics** - we recommended that officers continue with their arrangements to strengthen the process between employers and the Pension Fund to ensure membership statistics are updated on a timely basis

(including training for employers). We considered this important to ensure that the Pension Fund maintains accurate membership data. Our 2013-14, audit confirmed that the arrangements had not been implemented primarily due to the i-connect software purchased to read data between the payroll and pension systems, not being made operational. We recommend this is finalised as soon as possible and the recommendation is actioned.

- **Incorporating the Pension Fund within the Governance Statement for Powys County Council** – we recommended that the Governance Statement for Powys County Council needed to make specific reference to the Powys Pension Fund. The Powys Pension Fund governance arrangements form part of the overall governance arrangements for the Authority (as the designated statutory body responsible for administering the Powys Pension Fund). We are pleased to note the Annual Governance statement for 2013-14 includes reference to the Pension Fund, although disclosure in future years could be strengthened to include reference to the effectiveness of the governance arrangements and key risks facing the Powys Pension Fund.

Independence and objectivity

14. As part of the finalisation process, we are required to provide you with representations concerning our independence.
15. We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office and Powys Pension Fund that we consider to bear on our objectivity and independence.

Appendix 1

Final Letter of Representation

[Audited body's letterhead]

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

26 September 2014

Representations regarding the 2013-14 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 2014 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 the 2013-14 Code of Practice on Local Authority Accounting; 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.

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 misstatements identified in the financial statements that remain uncorrected.

Representations by Powys County Council as the 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 26 September 2014.

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:

[Officer who signs on behalf of management]

Date:

Signed by:

[Officer or Member who signs on behalf of those charged with governance (director only for companies)]

Date:

Appendix 2

Proposed audit report of the Appointed Auditor to the Members of Powys County Council

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 2014 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 2013-14 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, including Powys County Council's and Powys Pension Fund's accounting statements, 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.

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 2014 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 2013-14.

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 2014 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 2013-14.

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 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.

In respect of the Governance Statement, 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

To be completed following confirmation with the auditors of Powys County Council

Anthony Barrett

xx September 2014
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