

Audit of Financial Statements Report

Powys Pension Fund

Audit year: 2014-15

Issued: September 2015

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The team who delivered the work comprised Anthony Barrett, Helen Goddard, Gareth Rees, and Andrew Davies.

Contents

The Auditor General intends to issue an unqualified audit report on your financial statements. There are some issues to report to you prior to their approval. This document summarises the conclusions on the 2014-15 audit including our recommendations for the year.

Summary report

Introduction	4
Status of the audit	4
Proposed audit report	5
Significant issues arising from the audit	5
Recommendations arising from our 2014-15 financial audit work	6
Independence and objectivity	6

Appendices

Final Letter of Representation	7
Proposed audit report of the Auditor General to the Members of Powys County Council	10
Summary of corrections made to the draft financial statements which should be drawn to the attention of the Audit Committee	13
Wales Audit Office performance measures	15
Recommendations arising from our 2014-15 financial audit work	16

Summary report

Introduction

1. The purpose of this report is twofold:
 - to set out for consideration the matters arising from the audit of the financial statements of Powys Pension Fund for 2014-15, that require reporting to those charged with governance, in time to enable appropriate action; and
 - to formally communicate the completion of our audit and capture the recommendations arising from our audit work for the year.
2. The Auditor General's responsibilities were set out in our audit plan along with your responsibilities as those charged with governance; we do not repeat them in detail again here.
3. We confirm we have undertaken the audit as planned and our performance against the agreed measures are reported in [Appendix 4](#). We have no other issues to report to you other than in this report.
4. We are particularly grateful to the staff of the Council who administer the Powys Pension Fund for their assistance, good-quality working papers and draft accounts provided during the course of our audit.
5. The Auditor General 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 2015 and its income and expenditure for the year then ended.
6. 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.
7. The quantitative level at which we judge such misstatements to be material for Powys Pension Fund is £5.029 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.

Status of the audit

8. We received the draft financial statements for the year ended 31 March 2015 on 30 June 2015, which was in accordance with the date we agreed, and have now substantially completed the audit work.
9. 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 Professional Lead Finance.

Proposed audit report

10. It is the Auditor General'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](#).
11. The proposed audit report is set out in [Appendix 2](#) (this is the full report that will be provided on conclusion of the audit of the Council's accounts as the Powys Pension Fund statements are included within them).

Significant issues arising from the audit

Uncorrected misstatements

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

Corrected misstatements

13. 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

14. 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 some concerns about the qualitative aspects of your accounting practices and financial reporting.** We found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies are appropriate and financial statement disclosures unbiased, fair and clear. However, we note that the estimates of the value of private equity investments within the draft account are overstated by £1.140m. The year end estimates are primarily based upon an average of the performance of the investments over the first three quarters of the financial year, but for two investment holdings, distributions were erroneously omitted from the calculations. The difference is not material to the financial statements and no amendment is proposed. Accordingly, we recommend that the pensions accountant reviews the method of estimation for 2015-16 and the calculation spreadsheet to ensure the resulting valuations are robust.
 - **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 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 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. We reported last year that Internal Audit did not undertake work on the pension fund systems in 2013-14, with minimal levels of work undertaken in previous years. It is pleasing to note that Internal Audit have completed a programme of work on the pension fund systems in 2014-15 which provided a qualified assurance opinion, denoting the majority of key controls exist, but there are some areas of inconsistent application which the pensions team need to address.
 - **There are no other matters specifically required by auditing standards to be communicated to those charged with governance.**

Recommendations arising from our 2014-15 financial audit work

15. The recommendations arising from our financial audit work are set out in [Appendix 5](#). Management has responded to them and we will follow up progress on 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.

Independence and objectivity

16. As part of the finalisation process, we are required to provide you with representations concerning our independence.
17. 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 Auditor General, 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]

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

30 September 2015

Representations regarding the 2014-15 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 2015 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 2014-15 Code of Practice on Local Authority Accounting; in particular the financial statements give a true and fair view in accordance therewith.
- 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 were no uncorrected misstatements.

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 Audit Committee on 28 September 2015.

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 Auditor General 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 2015 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 2014-15 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the Auditor General for Wales

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 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 Financial Reporting Council'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 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. 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 2015 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 2014-15.

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 2015 and of the amount and disposition of the fund's assets and liabilities as at that date, other than liabilities to pay pensions and benefits after the end of the scheme year; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15.

Opinion on other matters

In my opinion, the information contained in the Explanatory Foreword 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 following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept;
- the accounting 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;
- the Governance Statement contains material misstatements of fact or is 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 Auditor General for Wales' Code of Audit Practice.

For and on behalf of
Huw Vaughan Thomas
Auditor General for Wales
24 Cathedral Road
Cardiff CF11 9LJ
30 September 2015

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
£2,875,000	Within the Fund Account, investment income was increased by £2,875,000, with a corresponding decrease in the change in market value of investments. Notes 10 and 11 have also been amended accordingly.	To correctly classify investment income received and funds reinvested resulting in a change in the market value of investments.
£1,300,000	An increase of £1,300,000 to payment of account of leavers within the Fund Account, and a corresponding increase in the year end current liabilities within the net Asset Statement. Notes 8 and 14 have also been amended accordingly.	To correctly accrue for the cost of the bulk transfer of the Probation Service to the Greater Manchester Pension Fund in accordance with the accounting policy.
Note 7: Benefits Payable	For 2014-15, £4,897,000 was incorrectly included within Scheduled Bodies, now correctly included within Powys CC £4,880,000 and Admitted Bodies £17,000. For 2013-14, comparatives have been restated to transfer £5,000,000 incorrectly included within Scheduled Bodies to Powys CC.	To correctly classify benefits payable between Powys CC, Scheduled and Admitted Bodies within disclosure Note 7. Error resulted from an incorrect formula within the working paper.
Note 23 Liquidity Risk	Correct disclosure of the proportion of illiquid assets in the fund at 31 March 2015 to £105m and 31 March 2014 to £86m.	To provide accurate information in the account disclosures.
Note 15 Related Party Transactions	The total combined contributions of members and officers into the Fund were increased to £32,555. A note has also been added to clarify that the	To provide accurate information in the account disclosures.

	chairman of the Pensions and Investment Committee is in receipt of a pension from the Fund.	
Various other disclosure notes	A number of narrative and disclosure amendments, not identified separately in this table, as not regarded material to the financial statements.	To ensure completeness, clarity, accuracy and consistency throughout the financial statements.

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Appendix 4

Wales Audit Office performance measures

We have agreed a range of targets for the delivery of our work and I have summarised our assessment of achievements against these targets below:

Planned output	Target	Outcome
2015 Audit Plan	January – March 2015	March 2015
Financial accounts work: <ul style="list-style-type: none">• Audit of Financial Statements Report• Opinion on Financial Statements	June – August 2015	September 2015

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Appendix 5

Recommendations arising from our 2014-15 financial audit work

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:

Matter arising 1 – Pension Fund disclosures within the Council's Annual Governance Statement require strengthening

Findings	In 2013-14 we reported the Annual Governance Statement made reference to the Pension Fund, however, references were brief and further disclosure was recommended. We note that this recommendation has not been implemented, there has been no change to disclosures within the 2014-15 statement.
Priority	Medium
Recommendation	We recommend that Pension Fund disclosures within the Council's Annual Governance Statement are reviewed and strengthened, for example, the inclusion of key risks facing the pension fund, the effectiveness of its controls (result of any internal audit reviews), updates on its funded status/actuarial valuations, implementation of the Pensions Board from 1 April 2015, etc.
Accepted in full by management	Yes
Management response	Incorporate recommendation into the Statement of Accounts Project plan.
Implementation date	31 March 2016

Appendix 5

Matter arising 2 – The Pension Fund should produce an Annual Business Plan and develop its own risk register

Findings	<p>We note that currently, the Pension Fund does not produce an Annual Business Plan for consideration by the Pensions and Investments Committee. This is a key oversight role of the committee.</p> <p>We also note that the Pension Fund does not have its own Risk Register, neither does it feature within the Council's overall Risk Register. Risk management should be a key feature of the Pension Fund's system of internal control.</p>
Priority	Medium
Recommendation	<p>We recommend that:</p> <ul style="list-style-type: none"> • A Business Plan for 2016-17 is drafted during 2015-16 for presentation to the Pensions and Investments Committee. • Risk management is introduced to Pension Fund's system of internal control by establishing its own risk register and review thereof, or feeding into the Council's overall Risk Register.
Accepted in full by management	Yes
Management response	A business plan for 2016-17 and a risk register to be produced.
Implementation date	31 March 2016

Matter arising 3 – A detailed closedown checklist should be established for production of the Pension Fund Financial Statements

Findings	<p>In our Audit Plan 2015 we drew attention to the fact that the timetable for producing the Pension Fund Financial Statements remains demanding, with reliance on one key member of staff.</p> <p>We note that currently there is no detailed year end closedown checklist for the production of the financial statements and associated working papers.</p>
Priority	Medium
Recommendation	In order to mitigate any risk of slippage in the timing or quality of financial statements in future years should key staff be absent, we recommend that a year end closedown checklist is established with approximate dates/deadlines for the production of the financial statements and associated working papers.
Accepted in full by management	Yes
Management response	A checklist to be produced as part of the Statement of Accounts project plan for 2015-16.
Implementation date	30 June 2016

Appendix 5

Matter arising 4 – Management should consider enhanced disclosures for Additional Voluntary Contributions in accordance with recommended best practice

Findings	We note that currently that the Additional Voluntary Contributions (AVCs) disclosures at Note 16 within the financial statements do not accord with recommended best practice.
Priority	Low
Recommendation	We recommend for 2015-16 financial statements the inclusion of: <ul style="list-style-type: none">• Accounting policy for AVCs; and• AVCs note disclosing the value of AVCs paid into relevant fund(s) in year, and also the year end market value of those fund(s).
Accepted in full by management	Yes
Management response	AVC providers to be contacted to provide relevant information.
Implementation date	20 April 2016

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