

Audit of Financial Statements Report and Management Letter

Cardiff and Vale of Glamorgan Pension Fund

Audit year: 2014-15

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The team who delivered the work comprised Ann-Marie Harkin, Helen Goddard, David Williams and David Phillips.

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This document summarises the conclusions on the 2014-15 audit including our recommendations for the year. The Auditor General intends to issue an unqualified audit report on your financial statements.

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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 Cardiff and Vale of Glamorgan 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 Cardiff and Vale of Glamorgan 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 Cardiff and Vale of Glamorgan 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 Cardiff and Vale of Glamorgan Pension Fund audited body are £16.791 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 29 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 Pension Fund Manager and the Head of Technical Accountancy.

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 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. 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.** 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.
 - **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. However, we note at the time of preparing this report, we await assurances from a small number of investment fund managers which are required to confirm the controls in place to manage funds on behalf of the Pension Fund are in place and operating effectively. We require these assurances prior to audit certification.
 - **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 any material weaknesses in your internal controls.**
However, we note a continued absence of Internal Audit coverage of systems relating to the Pension Fund. 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, via a cyclical programme of work, if not annual.
 - **There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.**

Recommendation arising from our 2014-15 audit work

15. A recommendation arising from our audit work is set out in [Appendix 5](#). Management has responded to it and we will follow up progress 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 Wales Audit Office and Cardiff and Vale of Glamorgan Pension Fund that we consider to bear on our objectivity and independence.

Appendix 1

Final Letter of Representation

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

[Date]

Representations regarding the 2014-15 financial statements

This letter is provided in connection with your audit of the financial statements of Cardiff and Vale of Glamorgan 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.

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 2014-15 Code of Practice on Local Authority Accounting in the United Kingdom; 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 Cardiff and Vale of Glamorgan 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 County Council of the City and County of Cardiff on 24 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 the City of Cardiff Council

I have audited the accounting statements and related notes of:

- The City of Cardiff Council
- The City of Cardiff Council Group
- The Cardiff and Vale of Glamorgan Pension Fund

for the year ended 31 March 2015 under the Public Audit (Wales) Act 2004.

The City of Cardiff 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.

The City of Cardiff Council Group accounting statements comprise the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement.

The Cardiff and the Vale of Glamorgan 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 page xx, the responsible financial officer is responsible for the preparation of the statement of accounts, including the City of Cardiff Council's Group accounting statements and the Cardiff and Vale of Glamorgan 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 the City of Cardiff Council's, the City of Cardiff Council's Group's and the Cardiff and Vale of Glamorgan 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 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 the City of Cardiff Council

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of the City of Cardiff 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 the City of Cardiff Council Group

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of City of Cardiff Council Group 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 the Cardiff and Vale of Glamorgan Pension Fund

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

- give a true and fair view of the financial transactions of the Cardiff and Vale of Glamorgan 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 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;
- I have not received all the information and explanations I require for my audit; or
- 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 the City of Cardiff 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
Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ
[Date]

Appendix 3

Summary of corrections made to the draft financial statements which should be drawn to the attention of those charged with governance

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
£622,000	Investments within the Net Asset statement were increased by £622,000, with corresponding increase in the change in market value of investments within the fund account.	To correct the valuation of Schroders Property Unit Trusts. The initial valuation was recorded at the incorrect date.
£205,000	Investments within the Net Asset statement were decreased by £205,000, with corresponding decrease in the change in market value of investments within the fund account.	To ensure the correct valuation basis for Blackrock investments.
Narrative disclosure	The market value of separately invested Additional Voluntary Contributions included within Note 15 was reduced to £3.167 million.	To ensure a consistent approach to the value of the disclosure compared to prior years.
Narrative disclosure	The number of active contributors to the pension scheme as detailed in Note 10 was amended for both the current and prior year to more accurately reflect membership numbers. The figure for 2014-15 was increased by 793 to 14,145 contributors. The figure for 2013-14 was increased by 376 to 13,922.	To correct the number of active contributors to the pension scheme given updated information input into the Altair system post production of the draft financial statements.
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.

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

Appendix 5

Recommendations arising from our 2014-15 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 – controls over the input of data into the ALTAIR system and its ongoing integrity requires strengthening

Findings	We identified through completing our predictive analytical review on employee and employer contributions that active membership numbers had not been maintained up to date in the ALTAIR system. A processing lag had developed following the migration last year of the Pension Fund data to the new ALTAIR system. As a consequence, the initial membership figures presented in the draft financial statements required amendment.
Priority	Medium
Recommendation	<p>We recommend that the Pension Fund determines a cut-off policy for the amendment of active membership numbers for inclusion within the draft financial statements, whilst ensuring a more-timely processing of amendments to membership data throughout the year.</p> <p>We also recommend that membership number data is reconciled on a more formal basis; in the past it has been completed informally, often after the audit has been completed. Regular reconciliation of this data would provide a key internal control to the pension fund and consequently provide additional assurance over the accuracy of this data.</p>
Accepted in full by management	Yes
Management response	<i>The Pensions Section will establish a monthly membership update process for major employers and quarterly reconciliations of membership data. The final reconciliation at year end to be completed before the submission of draft financial statements for audit.</i>
Implementation date	<i>1st October 2015</i>

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