



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Audit of Financial Statements Report – **Cardiff & Vale of Glamorgan Pension Fund**

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infoofficer@audit.wales.

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Summary report

Introduction

- 1 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 & Vale of Glamorgan Pension Fund (the Pension Fund) at 31 March 2019 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 levels at which we judge such misstatements to be material for the Pension Fund is £21.804 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 the Pension Fund for 2019-20, that require reporting under ISA 260.

Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2019 on 11 June 2019 a few a days after the agreed deadline of 7 June 2019 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 Corporate Head of Resources and Head of Finance.

Proposed audit report

- 8 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](#).
- 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 is one misstatement that has been corrected by management within 'Note 15 Actuarial Present Value of Promised Retirement Benefits' which relates to a recent legal judgement. The draft financial statements were prepared before the Supreme Court denied the Government's application for leave to appeal the legal judgement about age discrimination in public sector pension schemes, including the local government pension scheme. These changes surrounded a move from final salary to a career average basis and is referred to as the McCloud judgement.
- 12 The pension fund is required to assess the actuarial present value of promised retirement benefits and this recent ruling will impact on the amounts reported within this assessment. The Pension Fund has estimated the potential impact of the McCloud ruling as being a possible increase in pension liabilities of £17.1 million and is potentially material to the financial statements. Cardiff & Vale of Glamorgan Pension Fund reports the pension liability as at the 2016 valuation (the most recent actuarial valuation) and does not report rolled forward liabilities. Management's view is that since this estimate is based on the 2016 actuarial valuation the estimate is not sufficiently certain or accurate to be included in the 2018-19 financial statements. Consequently, Note 15 has been amended and contains additional information in respect of this matter.
- 13 We have reviewed and challenged the supporting assumptions and calculations made by management and we acknowledge the significant uncertainties relating to this estimation of the impact on the Pension Fund's liability. We are satisfied that the disclosure made by management is appropriate given the uncertainties surrounding the estimate including the fact that it is based on the 2016 actuarial valuation.
- 14 In addition, following actuarial advice, Note 15 has increased by a further £6.8 million as a result of the High Court ruling on the Guaranteed Minimum Pension (GMP) equalisation which requires pension schemes to remove gender inequalities caused by GMPs earned in the period 17 May 1990 to 5 April 1997.

Other significant issues arising from the audit

- 15 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

- 16 We received the draft financial statements on 11 June 2019 which was a week earlier than in 2017-18. 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.
- 17 Overall, we found that the quality of the draft financial statements presented to us for audit was of a good quality.
- 18 This year we agreed an 'Audit Deliverables' with management during the year. The purpose of this was to facilitate the achievement of the account's preparation and certification deadlines and to set out the initial information and working papers required by the audit team. It is pleasing to note that the working papers were both of a good quality and were received in line with the required timescales.

We did not encounter any significant difficulties during the audit

- 19 In addition to issuing our 'Audit Deliverables', we also maintained regular engagement with management throughout the accounts production and audit process which has been very helpful. As a result, we did not encounter any significant difficulties during the audit, and we were not restricted in our work. We are grateful for the help and assistance provided to us by the staff of the finance and other departments throughout the audit.

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

- 20 We have not identified any other matters 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

- 21 We have not identified any 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:

- 22 We have not identified any matters, which are material to the accuracy and completeness of the financial statements, or any matters which are significant enough to be brought to your attention.

There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.

- 23 There are no other matters (such as those relating to fraud, compliance with laws and regulations or subsequent events) that we need to report to you.

Independence and objectivity

- 24 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 25 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 the 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

12 September 2019

Representations regarding the 2018-19 financial statements

This letter is provided in connection with your audit of the financial statements of Cardiff & Vale of Glamorgan Pension Fund for the year ended 31 March 2019 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 Code of Practice on Local Authority Accounting in the United Kingdom 2018-19; in particular the financial statements give a true and fair view in accordance therewith; and
- 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 & 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. 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 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 Council on 12 September 2019.

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: 12 September 2019

Signed by:

[Officer or Member who signs on behalf
of those charged with governance]

Date: 12 September 2019

Appendix 2

Proposed audit report of the Auditor General to the Members of the County Council of the City and County of Cardiff

The independent auditor's report of the Auditor General for Wales to the members of the County Council of the City and County of Cardiff as administering authority for the Cardiff and Vale of Glamorgan Pension Fund

Report on the audit of the financial statements

Opinion

I have audited the financial statements of Cardiff and Vale of Glamorgan Pension Fund for the year ended 31 March 2019 under the Public Audit (Wales) Act 2004. Cardiff and Vale of Glamorgan Pension Fund's financial statements comprise the fund account, the net assets statement and the related notes, including a summary of significant accounting policies. 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 2018-19 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019, and of the amount and disposition at that date of its assets and liabilities; and
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the pension fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the responsible financial officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

Other information

The responsible financial officer is responsible for the other information in the annual report. The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements 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.

Report on other requirements

Opinion on other matters

In my opinion, based on the work undertaken in the course of my audit:

- the information contained in the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Narrative Report has been prepared in accordance with the Local Government Pension Scheme Regulations 2013.

Matters on which I report by exception

In the light of the knowledge and understanding of the pension fund and its environment obtained in the course of the audit, I have not identified material misstatements in the Narrative Report.

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 financial 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.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of Cardiff and Vale of Glamorgan Pension Fund in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

Responsibilities

Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the financial statements, the responsible financial officer is responsible for the preparation of the financial statements, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the responsible financial officer is responsible for assessing the pension fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Anthony J Barrett
For and on behalf of the Auditor General for Wales
13 September 2019

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