



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Audit of Financial Statements Report and Management Letter – Rhondda Cynon Taf Pension Fund

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Contents

This document summarises the conclusions on the audit of Pension Fund's financial statements for 2016-17 including our recommendations for the year. The Auditor General intends to issue an unqualified audit report on your financial statement, although there are some issues to report to you prior to their approval.

Summary report

Introduction	4
Status of the audit	4
Proposed audit report	5
Significant issues arising from the audit	5
Recommendations arising from our 2016-17 audit work	6
Independence and objectivity	6

Appendices

Appendix 1 – Suggested Letter of Representation	7
Appendix 2 – Audit report of the Auditor General to the Members of Rhondda Cynon Taf County Borough Council	10
Appendix 3 – Recommendations arising from our 2016-17 audit work	13

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 the Rhondda Cynon Taf Pension Fund (the Pension Fund), for 2016-17, that require reporting to those charged with governance, in time to enable appropriate action; and
 - to capture the recommendations arising from our audit work.
- 2 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 the Pension Fund at 31 March 2017 and its income and expenditure for the year then ended.
- 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 level at which we judge such misstatements to be material for the Pension Fund is £30 million. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and reader sensitivity.

Status of the audit

- 5 We received the draft financial statements for the year ended 31 March 2017 on 16 June 2017, in line with the timetable we had agreed, and have now substantially completed the audit work. The statutory deadlines remain as 30 June for accounts preparation and 30 September for audit certification, however from 2020/21 onwards these dates will be brought forward to 31 May and 31 July respectively.
- 6 This is a noteworthy achievement by the finance team and we would like to thank them for their efforts. Undertaking the production and audit of the accounts earlier has identified a number of learning points for both the finance team and ourselves. We will consider these in more detail at a future post project learning session to ensure they are captured and built into processes for future years. Given the earlier statutory deadlines mentioned above, the next few years are undoubtedly going to be challenging for both the Council's finance team and auditors alike.
- 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 Group Director Corporate & Frontline Services and his senior finance team.

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](#). Please note that this audit report covers both Rhondda Cynon Taf County Borough Council and RCT Pension Fund.

Significant issues arising from the audit

Uncorrected misstatements

- 10 We set out below the uncorrected misstatement we identified in the financial statements, which has been discussed with management but remains uncorrected as management consider that it does not have a material effect on the accounts. If you decide not to correct this misstatement, there will be no impact upon the opinion given in our audit report as we also consider this item to be non-material.
 - **The Cash and Current Liabilities figures on the balance sheet are overstated by £3 million.** Whilst the physical cash was held in the correct bank account, this has been accounted for incorrectly in the financial statements, due to a miscoding error. It was therefore accounted for as Pension Fund cash instead of Rhondda Cynon Taf County Borough Council cash. If corrected, both figures would be reduced by this amount.

Corrected misstatements

- 11 There were a small number of narrative and minor amendments made as a result of the audit, which we do not consider significant enough to be drawn to your attention.

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. 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.** In general 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. However, we have some made some recommendations for future improvement at [Appendix 3](#).

- **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 any material weaknesses in your internal controls.**
- **There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.**

Recommendations arising from our 2016-17 audit work

- 13 The recommendations arising from our audit work are set out in [Appendix 3](#). 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

- 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 the Pension Fund that we consider to bear on our objectivity and independence.

Appendix 1

Suggested Letter of Representation

[Audited body's letterhead]

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

[Date]

Representations regarding the 2016-17 financial statements

This letter is provided in connection with your audit of the financial statements of Rhondda Cynon Taf Pension Fund (the Pension Fund) for the year ended 31 March 2017 for the purpose of expressing an opinion on their truth and fairness.

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; 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 the 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.
- We have informed you of any concerns or comments made by regulators about the Pension Fund, its fund managers and any assets/liabilities.

Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements. The Pension Fund holds the title for the investment assets recognised at 31 March 2017.

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. A summary of these items is set out below:

- Detail required of the £3 million cash item not adjusted.

Representations by Rhondda Cynon Taf 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 Members of Rhondda Cynon Taf County Borough Council on 20 September 2017.

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

Date:

Appendix 2

Audit report of the Auditor General to the Members of Rhondda Cynon Taf County Borough Council

I have audited the accounting statements and related notes of:

- Rhondda Cynon Taf County Borough Council; and
- Rhondda Cynon Taf County Borough Council Group; and
- Rhondda Cynon Taf Pension Fund;

for the year ended 31 March 2017 under the Public Audit (Wales) Act 2004.

Rhondda Cynon Taf County Borough Council's (RCTCBC) accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, and the Cash Flow Statement.

RCTCBC's 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.

Rhondda Cynon Taf 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 2016-17 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 13, the responsible financial officer is responsible for the preparation of the statement of accounts, including RCTCBC's Group accounting statements Rhondda Cynon Taf 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 RCTCBC's, and RCTCBC Group's and Rhondda Cynon Taf 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 RCTCBC

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of RCTCBC as at 31 March 2017 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 2016-17.

Opinion on the accounting statements of RCTCBC Group

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of RCTCBC Group as at 31 March 2017 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 2016-17.

Opinion on the accounting statements of Rhondda Cynon Taf Pension fund

In my opinion, the Pension Fund accounts and related notes:

- give a true and fair view of the financial transactions of Rhondda Cynon Taf Pension Fund during the year ended 31 March 2017 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 2016-17.

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 does not reflect compliance with guidance.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of Rhondda Cynon Taf County Borough 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
September 2017

Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

Appendix 3

Recommendations arising from our 2016-17 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.

Exhibit 1: Matter arising 1

Matter arising 1 – Improvement in reporting the Fund Manager Asset Allocations in Note 5	
Findings	The market value of the investments held by the Fund Managers employed by the Fund are detailed in Note 5. These include cash held by the Fund Manager and are not readily reconcilable to the balances in the Net Assets Statement due to timing differences for transactions at the year-end.
Priority	Medium
Recommendation	The format of the Note should be reviewed to enable the reader of the accounts to readily reconcile the Note with the figures in the Net Assets Statement.
Benefits of implementing the recommendation	To demonstrate that the accounts comply with the Code of Practice on Local Authority Accounting 2016-17.
Accepted in full by management	Yes
Management response	The Note will be reviewed to improve consistency between the Note and Net Asset Statement.
Implementation date	15 June 2018

Exhibit 2: Matter arising 2

Matter arising 2 – Improvement in reporting the profits and losses on disposal of investments and changes in the value of investments in Note 7	
Findings	Note 7 reconciles the opening market value of the investments in the Net Assets Statement, the in-year purchases and sales, and the change in market value, to the closing market value of the investments. The change in market value does not agree to the figure in the Fund Account for 'Profit/loss on sale of investments and change in market value', because the sales are currently included in the Note at book cost, and not the sales proceeds.
Priority	Medium

Matter arising 2 – Improvement in reporting the profits and losses on disposal of investments and changes in the value of investments in Note 7	
Recommendation	The format of the Note should be reviewed so that the change in market value figure in the Note reconciles with the figure in the Fund Account.
Benefits of implementing the recommendation	To demonstrate that the accounts comply with the Code of Practice on Local Authority Accounting 2016-17.
Accepted in full by management	Yes
Management response	The Note will be reviewed to improve consistency between the Note and Fund Account.
Implementation date	15 June 2018

Exhibit 3: Matter arising 3

Matter arising 3 – improved clarity in the reporting in Note 13.3	
Findings	The Equities and Overseas Equities figures in Note 13.3 include both Equities and Pooled investments. As a result, the figures do not agree to the analysis of investments in Note 4, Analysis of Investments at Fair Value.
Priority	Low
Recommendation	The analysis of the investments in Note 13.3 should be on a consistent basis with the other Notes in the accounts.
Benefits of implementing the recommendation	To demonstrate that the accounts comply with the Code of Practice on Local Authority Accounting 2016-17.
Accepted in full by management	Yes
Management response	The Note will be reviewed to improve consistency between the notes relating to investments.
Implementation date	15 June 2018

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