

Archwilydd Cyffredinol Cymru
Auditor General for Wales



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Audit of Financial Statements Report

Rhondda Cynon Taf County Borough Council Pension Fund

Audit year: 2015-16

Issued: September 2016

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Status of report

This document has been prepared as part of work performed in accordance with statutory functions.

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The Auditor General intends to issue an unqualified audit report on the Rhondda Cynon Taf County Borough Council Pension Fund's financial statements, however there are some issues to report to you prior to their approval.

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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 the Rhondda Cynon Taf County Borough Council Pension Fund (the Pension Fund) at 31 March 2016 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 financial statements being misled.
3. The gross assets controlled by the Pension Fund amount to £2.5 billion. The quantitative level at which we judge such misstatements to be material for the Pension Fund is £24.9 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 to be taken, should there be any required.
5. This report sets out for consideration the matters arising from the audit of the financial statements of the Pension Fund for 2015-16 which require reporting under ISA 260. A separate report has been issued covering the Rhondda Cynon Taf County Borough Council and the Rhondda Cynon Taf County Borough Council Group.

Status of the audit

6. We received the draft financial statements for the year ended 31 March 2016 on 30 June 2016 in line with the deadline and have now substantially completed our audit work.
7. Our Audit Plan for the Pension Fund issued in March 2016 sets out the audit opinion risks which we considered to be significant. We have undertaken audit work to assess these risks and also considered any new risks which might have arisen. A summary of the audit risks, the audit work undertaken and our conclusion is shown in [Exhibit 1](#).

Exhibit 1: Audit risks, work undertaken and conclusions

Audit risk	Work undertaken and conclusion
<p>Management override</p> <p>The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].</p>	<p>We have:</p> <ul style="list-style-type: none"> • tested the appropriateness of journal entries and other adjustments made in preparing the financial statements; • reviewed accounting estimates for biases; and • evaluated the rationale for any significant transactions outside the normal course of business. <p>We do not have any significant matters to report.</p>
<p>There is an inherent risk of material misstatement due to fraud in revenue recognition in entities with material revenue sources and as such this is treated as a significant risk. Our assessment of the Pension Fund's income sources indicates that this could apply to investment income.</p>	<p>We have reviewed investment income transactions, reviewing specifically for potential material fraud. We do not have any significant matters to report.</p>
<p>Investment Managers</p> <p>The systems and records of the investment managers generate account entries made to the Pension Fund Account and Net Assets Statement. The investment managers provide internal controls reports on the investments held on behalf of the Pension Fund. These are independently audited and provide the Pension Fund with assurance on a wide range of controls eg, valuation of the investment portfolio held.</p> <p>There is a risk that the internal control reports will not be available for assurance purposes and/or cover all our requirements.</p>	<p>We have:</p> <ul style="list-style-type: none"> • obtained confirmation from the fund managers of year-end investment balances and tested the integrity of those reports; and • confirmed that investment managers' internal control reports did not indicate specific risks, including those that may give rise to the material misstatement of the investment balances at year-end. <p>We do not have any significant matters to report.</p>
<p>Pension SORP</p> <p>A new Pension SORP, incorporating International financial Reporting Standards, has been issued in the year. There are a number of changes to the 2015-16 financial statements to present information in line with the new SORP and IFRS requirements.</p>	<p>We have completed a review of the financial statements and agreed any disclosure and presentational changes with management. We do not have any significant matters to report.</p>

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8. We are now reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. We have discussed these issues with the Group Director Corporate and Frontline Services, and his staff.

Proposed audit report

9. 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](#).
10. The proposed audit report is set out in [Appendix 2](#). The Pension Fund is included within the Council's main financial statements and therefore the opinion shown is that proposed for the Council's main financial statements incorporating the Pension Fund.

Significant issues arising from the audit

University of South Wales Merger

11. On 11 April 2013, the University of Wales, Newport (UWN) and Glamorgan University merged to form the University of South Wales. Staff of the former UWN transferred from the Greater Gwent (Torfaen) Pension Fund (GGPF) to Rhondda Cynon Taf Pension Fund as a result of this merger. The receipt of contributions and payment of benefits by GGPF stopped as at 31 March 2014 and started at the Pension Fund from 1 April 2014.
12. The Pension Fund's financial statements 2014-15 did not recognise any transactions/balances relating to this transfer. An interim payment of £40 million was made by GGPF to the Pension Fund in June 2015. This receipt is recognised in the Pension Fund's financial statements 2015-16.
13. The transfer value for the assets and liabilities relating to former UWN to the Pension Fund has not yet been finalised. However, it is our and officers' view that the transfer should have been recognised in the financial statements 2014-15, since a reasonable estimate would have been known at the time of preparing those financial statements. It is also the Pension Fund's accounting policy to account for material group transfers on an accruals basis.
14. The prior year comparatives in the financial statements 2015-16 have been restated to recognise the transfer in 2014-15. They have also been amended to recognise other transfers which, following their review officers concluded, should also have been included in the prior year since an estimate of their value was known at the time of preparing the draft financial statements 2014-15. The net impact is to reduce the value of Transfers In and Transfers Out in 2015-16 by £41.9 million and £1.8 million respectively and increase the corresponding values for 2014-15 by the same amounts. Narrative has also been included at Note 12 to make additional disclosures in respect

of Group Transfers due to take place but in respect of which officers do not have a current estimate of the related values.

Corrected misstatements

15. There were a number of other misstatements which have been corrected by management. These are set out with explanations in [Appendix 3](#). However, we note that – other than the adjustment to prior year comparatives - they are mainly presentational or narrative amendments made to the financial statements during the audit process.

Uncorrected misstatements

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

Other significant issues arising from the audit

17. 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. We found the information provided to be relevant, reliable, comparable and material. 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.
 - 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 no other matters specifically required by auditing standards to be communicated to those charged with governance.

Recommendations arising from our 2015-16 financial audit work

18. The key recommendations arising from our financial audit work are set out in [Appendix 4](#). 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

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

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

Representations regarding the 2015-16 financial statements

This letter is provided in connection with your audit of the financial statements of the Rhondda Cynon Taf County Borough Council Pension Fund (the Pension Fund) for the year ended 31 March 2016 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.
- We have informed you of any concerns raised or comments made by regulators about the pension fund, its fund managers and any assets/liabilities.
- 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. The Pension Fund holds the title for the investment assets recognised at 31 March 2016.

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. This includes material transfers to or from the Pension Fund in 2014-15 and 2015-16.

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 Rhondda Cynon Taf County Borough Council

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 28 September 2016.

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.

[Officer who signs on behalf of management]

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

Date

Date

Appendix 2

Auditor General for Wales' report 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;
- Rhondda Cynon Taf County Borough Council Group; and
- Rhondda Cynon Taf Pension Fund;

for the year ended 31 March 2016 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 2015-16 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 2016 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 2015-16.

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 2016 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 2015-16.

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 2016 and of the amount and disposition of the fund's assets and liabilities as at that date.
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16.

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 [name of local government body] 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
29 September 2016

Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

Appendix 3

Summary of corrections made to the draft financial statements

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
£41,926,955 (in) £1,824,368 (out)	Transfers to/from the Pension Fund To reduce the value of transfers in and out in 2015-16 by £41,926,955 and £1,824,368 respectively. To increase the corresponding figures for the prior year by the same values.	To recognise group transfers in and out of the Pension Fund in the prior year given that estimates of the values were known at the time of preparing the draft financial statements 2014-15.
£214,351,000	Note 4, Analysis of Investment at Fair Value – disclosure only The value of UK Fixed Interest Investments at 31 March 2016 has been increased by £214,351,000, with a corresponding decrease to the value of Overseas Fixed Interest Investments. This addresses a misstatement in the classification of this category of Fixed Interest Investments' at Note 4 to the draft financial statements 2015-16.	To amend the classification of Fixed Interest Investments: UK; and Overseas.
Various	Various additional narrative amendments or minor changes to existing wording.	To comply with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16.

Appendix 4

Recommendations arising from our 2015-6 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 – Documentation of key judgements/estimates relating to Group Transfers In/Out of the Pension Fund

Findings	We note that the accounting policy is to recognise transfers in/out of the Pension Fund <i>on a cash basis, with the exception of material group transfers</i> . We note that the working papers provided to support the draft financial statements included documentation to support the disclosure of Group Transfers at Note 12 to the financial statements. However, they did not include documentation to set out officers' assessment of transfers in respect of which discussions were underway but had not yet been completed and whether the criteria for recognition for material transfers had been met.
Priority	High
Recommendation	The working papers to include documentation to set out all Group Transfers of which officers are aware at the time of preparing the draft financial statements. These should set out the status for each, together with supporting documentation for any estimates of transfer values, officers' assessment whether they have met the criteria for recognition and/or disclosure and the proposed accounting treatment.
Benefits of implementing the recommendation	To demonstrate that the draft financial statements have been prepared in accordance with the Pension Fund's accounting policy and comply with the Code of Practice on Local Authority Accounting 2015-16.
Accepted in full by management	Yes
Management response	Documentation supporting inclusion/non-inclusion of Group Transfers to be collated prior to preparing draft financial statements. Group Transfer summary information produced throughout the year to be enhanced to include relevant information to assist assessment of recognition criteria.
Implementation date	September 2016

Matter arising 2 – Improvement to the reconciliation of Pensions Benefits Paid

Findings	We note that officers currently prepare a reconciliation between the figures included in the ledger for Pensions Benefits Paid and those as per the payroll system, used to calculate the value of payments. The results of testing showed that officers did not always set out explanations for any reconciling items. For example, the reconciliation of Payroll Number 098 at 31 March 2016. We also noted that the Pension Fund does not solely make payments to pensioners/dependants via the payroll system but also through the purchase ledger.
Priority	Medium
Recommendation	That officers ensure that explanations are documented for reconciling items, with evidence provided in support of the differences. Also, that officers reconcile, at year-end, the figure for Pensions Benefits Paid to the underlying systems.
Benefits of implementing the recommendation	This will provide officers with sufficient and appropriate assurance that the account figure for Pensions Benefits, and hence the draft financial statements, have not been materially misstated.
Accepted in full by management	Yes
Management response	Reconciliation procedures to be enhanced during 2016/17.
Implementation date	December 2016

Matter arising 3 – Reporting membership numbers

Findings	Membership of the Fund is reported at Note 11 to the draft financial statements 2015-16. We note that the source of this data is the Pension System, Altair. During our testing, we noted that Altair is a 'real time' system. Therefore, while reports can be extracted to reflect the position at a given point in time – such as those in place at the date of the financial statements, 31 March – retrospective amendments to the data will be reflected in reports extracted.
Priority	Low
Recommendation	To ensure the consistency of reporting, it is important that officers extract the reports at a given date in time and ensure that consideration is given whether, any changes subsequently reflected, should be recognised in the membership numbers reported in the draft financial statements. This should be documented as a judgement.
Benefits of implementing the recommendation	To ensure consistency in reporting membership numbers and that they are not materially misstated in the financial statements.
Accepted in full by management	Yes

Matter arising 3 – Reporting membership numbers

Management response	Arrangements will be made for extract reports to be scheduled at appropriate times to minimise the risk of misstatement.
Implementation date	April 2017

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