

Archwilydd Cyffredinol Cymru
Auditor General for Wales



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Audit of Financial Statements Report Rhondda Cynon Taf Pension Fund

Audit year: 2013-14

Issued: September 2014

Document reference: 516A2014

Status of report

This document has been prepared for the internal use of Rhondda Cynon Taf Pension Fund as part of work performed in accordance with the statutory functions.

No responsibility is taken by the Auditor General, the staff of the Wales Audit Office or, where applicable, the appointed auditor in relation to any member, director, officer or other employee in their individual capacity, or to any third party.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales, the Wales Audit Office and, where applicable, the appointed auditor are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at infoofficer@wao.gov.uk.

The team who delivered the work were John Herniman, Jeremy Saunders, Kate Havard and Andrew Davies.

Contents

The Appointed Auditor intends to issue an unqualified audit report on the financial statements of the pension fund. There are some issues to report to you prior to their approval.

Summary report

Introduction	4
Status of the audit	4
Proposed audit report	4
Issues arising from the audit	4
Independence and objectivity	7

Appendices

Final Letter of Representation	8
Proposed audit report of the Appointed Auditor to the Members of Rhondda Cynon Taf County Borough Council	11

Summary report

Introduction

1. The Appointed Auditor is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of Rhondda Cynon Taf Pension Fund (the Pension Fund) at 31 March 2014 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 mislead a reader of the accounts.
3. The quantitative level at which we judge such misstatements to be material for the Pension Fund is £22.37 million. Whether an item is judged material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity. 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.
4. This report sets out the matters arising from the audit of the Pension Fund's financial statements for 2013-14, that require reporting under ISA 260.

Status of the audit

5. We received the draft financial statements for the year ended 31 March 2014 on 30 June 2014 which met the submission deadline and have now substantially completed the audit work on them.
6. 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 Head of Financial Reporting.

Proposed audit report

7. It is the Appointed Auditor'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](#). 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.)

Issues arising from the audit

Uncorrected misstatements

8. There are no uncorrected misstatements in the financial statements.

Corrected misstatements

9. There are misstatements that management has corrected which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. The main items are set out below along with explanations:

Description of correction	Reason for correction
<p>Note 12 Group Transfers The estimated value of the assets to be transferred out of the Pension Fund relating to the Probation Trust has been added to the disclosure note.</p>	To disclose that the value of the transfer out is estimated to be £155 million.
<p>Note 11 Membership of Fund Minor amendments were made to the note.</p>	To include information contained in the latest reports from the Pension Fund Administration System.

Significant audit risks

10. In our Financial Audit Strategy, we set out information regarding the significant and other audit risks that were identified during the audit planning process. The table below sets out the outcome of our audit procedures in respect of those risks:

Significant risks

Risks	Action taken
Control environment risks	
<p>Management override of controls In any organisation, management may be in a position to override the financial controls that you have in place. A breach of controls of this nature may result in a material misstatement.</p>	<ul style="list-style-type: none"> We understood and evaluated internal control processes and procedures as part of our planning work. We reviewed and tested the appropriateness of a sample of manual journals processed during the year. We looked carefully at management estimations and considered if they were subject to bias. We understood the business rationale for significant transactions which appeared out of the normal course of business. Our audit procedures also included an unpredictable element that varies year on year. <p>We have not identified any misstatements as a result of our testing.</p>

Risks	Action taken
<p>Revenue recognition</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>	<ul style="list-style-type: none"> • We reviewed and tested investment income transactions. • We reviewed and tested short-term investments carried out in-house <p>We have not identified any misstatements as a result of our testing.</p>

Other risks

Risks	Action taken
Preparation of accounts risks	
<p>The CIPFA Code requires the 2013-14 accounts to continue to comply with International Financial Reporting Standards (IFRS). There is a general risk that the accounts may not be compliant with one or more requirements of the Code.</p>	<ul style="list-style-type: none"> • We compared contents of the accounting statements with Code requirements. <p>We have not identified any misstatements as a result of this work.</p>
Financial Statements risks	
<p>External investment managers are appointed to manage the investment portfolio. Their own systems and records, together with the custodian's bank account information, will generate account entries made to the Pension Fund account and net assets statement. In previous years, my team had some difficulty in getting control reports for one investment manager and a re-occurrence of this could jeopardise my ability to provide the scheme with an audit opinion.</p>	<ul style="list-style-type: none"> • We reviewed and tested the Council's arrangements for obtaining direct confirmations of balances held by fund managers and the controls over them. • We obtained direct confirmation from the fund managers of year-end investment balances, and considered whether investment managers' internal control reports indicated specific risk to these balances. <p>We have not identified any misstatements as a result of our testing.</p>

Other issues arising from the audit

11. 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.** There are no matters arising that need to be reported to the Audit Committee.

-
- **We did not encounter any significant difficulties during the audit.**
We received information in a timely and helpful manner.
 - **There were no 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.** We note that Internal Audit have undertaken some work on the Pension Fund systems in 2013-14. 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. Given the significant reputational and financial risks that could arise if controls in the Pension Fund system failed, the Council should ensure that the level and frequency of coverage of the Pension Fund controls by Internal Audit is sufficient.
 - **There are not any other matters specifically relating to fraud, compliance with laws and regulations, subsequent events etc, required by auditing standards to be communicated to you.**

Independence and objectivity

12. As part of the finalisation process, we are required to provide you with representations concerning our independence.
13. 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 Rhondda Cynon Taf Pension Fund that we consider to bear on our objectivity and independence.

Appendix 1

Final Letter of Representation

Anthony Barrett
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ
[Date]

Representations regarding the 2013-14 financial statements

This letter is provided in connection with your audit of the financial statements of Rhondda Cynon Taf Pension Fund for the year ended 31 March 2014 for the purpose of expressing an opinion on their truth and their proper preparation and the regularity of income and expenditure. 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 2013-14; in particular the financial statements give a true and fair view in accordance therewith.

I acknowledge our responsibility for 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 Rhondda Cynon Taf 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 Rhondda Cynon Taf County Borough Council on 24 September 2014.

Section 151 Officer

Leader of the Council

Appendix 2

Proposed audit report of the Appointed Auditor 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 2014 under the Public Audit (Wales) Act 2004.

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

Rhondda Cynon Taf County Borough Council'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 County Borough Council 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 2013-14 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the independent auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on pages 13 and 14, the responsible financial officer is responsible for the preparation of the statement of accounts, including the Rhondda Cynon Taf County Borough Council's Group accounting statements and 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 Auditing Practices Board'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 Rhondda Cynon Taf County Borough Council; Rhondda Cynon Taf County Borough Council's Group 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 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 Rhondda Cynon Taf County Borough Council

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Rhondda Cynon Taf County Borough Council as at 31 March 2014 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 2013-14.

Opinion on the accounting statements of Rhondda Cynon Taf County Borough Council Group

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Rhondda Cynon Taf County Borough Council Group as at 31 March 2014 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 2013-14.

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 the Rhondda Cynon Taf Pension Fund during the year ended 31 March 2014 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 2013-14.

Opinion on other matters

In my opinion, the information contained in the Foreword for the financial year for which the accounting statements and related notes are prepared 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 Governance Statement on which I report to you if, in my opinion, it does not reflect compliance with 'Delivering Good Governance in Local Government: Framework' published by CIPFA/SOLACE in June 2007, or if the statement is misleading or 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 Rhondda Cynon Taf County Borough Council in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Code of Audit Practice issued by the Auditor General for Wales.

Anthony Barrett
Appointed Auditor
Wales Audit Office
24 Cathedral Road
CARDIFF
CF11 9LJ
September 2014

Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: info@wao.gov.uk

Website: www.wao.gov.uk

Swyddfa Archwilio Cymru
24 Heol y Gadeirlan
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn Testun: 029 2032 0660

E-bost: info@wao.gov.uk

Gwefan: www.wao.gov.uk