

Archwilydd Cyffredinol Cymru  
Auditor General for Wales



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

# Audit of Financial Statements Report

## **Dyfed Pension Fund**

**Audit year:** 2015-16

**Issued:** September 2016

**Document reference:** 521A2016

# Status of report

---

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

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 and the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at [info.officer@audit.wales](mailto:info.officer@audit.wales).

# Contents

---

The Auditor General intends to issue an unqualified audit report on the Dyfed Pension Fund financial statements, however there are some issues to report to you prior to their approval.

---

Summary report	4
Introduction	4
Status of the audit	4
Proposed audit report	8
Significant issues arising from the audit	8
Independence and objectivity	9
<b>Appendices</b>	
Final Letter of Representation	10
Auditor General for Wales' report to the Members of the Carmarthenshire County Council and Dyfed Pension Fund	13

---

# 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 Dyfed 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 £1.9 billion. The quantitative level at which we judge such misstatements to be material for the Pension Fund is £19.1 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 Dyfed Pension Fund for 2015-16 which require reporting under ISA 260.

## Status of the audit

6. We received the draft financial statements for the year ended 31 March 2016 in advance of the deadline of 30 June 2016 and have now substantially completed our audit work.
7. Our Audit Plan for the Pension Fund issued in March 2016 sets out the financial audit 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 financial audit risks, the audit work undertaken and our conclusion is shown in [Exhibit 1](#).

Exhibit 1: Financial audit risks, audit work undertaken and conclusion

Financial audit risk	Audit work undertaken	Conclusion
<p><b>Management override</b></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"> <li>• tested the appropriateness of journal entries and other adjustments made in preparing the financial statements;</li> <li>• reviewed accounting estimates for biases; and</li> <li>• evaluated the rationale for any significant transactions outside the normal course of business.</li> </ul>	<p>We have no issues to report.</p>
<p><b>Investment Management</b></p> <p>The systems and records of the investment managers generate account entries made to the Pension Fund Account and Net Assets Statement.</p> <p>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 controls reports will not be available for assurance purposes, and/or cover all our required audit assertions.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• assessed the investment managers as a service organisation;</li> <li>• checked that investments have been made in accordance with the Statement of Investment Principles;</li> <li>• obtained direct confirmation from investment managers and custodians of year-end investment balances and holdings; and</li> <li>• assessed whether the investment managers' internal control reports for all investment managers provide assurance over a wide range of relevant controls, including valuation of investments held.</li> </ul>	<p>We do not have any significant matters to report.</p>
<p><b>Cash at Bank</b></p> <p>Administering authorities are required to maintain a separate bank account for</p>	<p>We have:-</p> <ul style="list-style-type: none"> <li>• ensured the existing protocol is compliant with the LGPS (Management</li> </ul>	<p>We do not have any significant matters to report.</p>

Financial audit risk	Audit work undertaken	Conclusion
<p>the pension fund. However, it is acceptable for an authority to enter into pooling arrangements with the pension fund provided there is a clear and comprehensive agreement between the two parties regarding the matter, and where it is in the pension fund's best interests to do so. There is a risk that the Council does not have appropriate arrangements in place regarding pooled investments with Dyfed Pension Fund.</p>	<p>and Investment of Funds) Regulations 2009; the pooling agreement is clear in terms of making joint money market investments with external third parties and that the risks and rewards of the pooled investments are equitably shared between the Authority and the Pension Fund; and</p> <ul style="list-style-type: none"> <li>undertaken a programme of substantive audit testing procedures for the year-end cash balance.</li> </ul>	
<p><b>Unquoted investment assets</b> Year-end valuations of unquoted property investments are provided by investment managers which are based upon forward looking estimates and judgements and industry guidelines. As there is no quoted market price, there is a greater risk for the reasonableness of valuation bases of these investments.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>confirmed the investment valuations to audited financial statements; and</li> <li>sought additional assurance over the valuation basis from controls assurance reports where available.</li> </ul>	<p>We do not have any significant matters to report.</p>
<p><b>Financial Statements Production</b> The timetable for producing the financial statements remains demanding. Management will need to ensure that appropriate arrangements for the preparation and oversight of robust financial statements, in addition to good quality working papers, are provided on the commencement of the audit, with both having been subject to appropriate senior management review.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>provided support and advice, wherever possible, without compromising our independence;</li> <li>provided an audit deliverables report to assist in the preparation of relevant working papers in support of the financial statements;</li> <li>reviewed closedown plans to assess that arrangements are in place to produce robust financial statements within</li> </ul>	<p>We do not have any significant matters to report.</p>

Financial audit risk	Audit work undertaken	Conclusion
	<p>the prescribed timetable; and</p> <ul style="list-style-type: none"> <li>agree a timetable for the audit and certification of the financial statements.</li> </ul>	
<p><b>Benefits payable</b></p> <p>The LGPS has been subject to significant reform over recent years leading to changes in the benefit structure of the scheme, with transitional arrangements in place for those within 10 years of retirement at the dates of these reforms. These changes, along with the complexity of the benefit structure, increase the risk that benefits may be inaccurately calculated which could lead to many years of incorrect payments.</p>	<p>We have assessed the risks of inaccurate calculation of pension entitlements and undertaken further testing as appropriate.</p>	<p>We do not have any significant matters to report.</p>
<p><b>Governance arrangements</b></p> <p>The Public Service Pensions Act (PSPA) 2013 introduced a number of changes to public service pension schemes, including a number of key changes impacting on the governance of these schemes from 1 April 2015. One key change is the requirement to create a 'Local Pension Board' whose role is to assist the scheme manager (administering authority) comply with LGPS regulations and to ensure effective governance, although with no day-to-day role in scheme administration. There is a risk that administering authorities are not complying with the requirements of the 2013 Act.</p>	<p>We have assessed whether the administering authority has governance arrangements in place that comply with the requirements of the 2013 Act.</p>	<p>We do not have any significant matters to report.</p>

- 
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 Director of Corporate Services.

## 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

### Uncorrected misstatements

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

### Corrected misstatements

12. There were some 'non-material' disclosure amendments that have been corrected by management. We wish to draw these to your attention due to their relevance to your responsibilities over the financial reporting process. They are set out with explanations below. There were no identified material misstatements requiring amendment.

#### Exhibit 2: Summary of corrections

Value of correction	Nature of correction	Reason for correction
£1,260,000	<b>Note 17 – Current liabilities</b> Unpaid benefits increased by £1.260 million, with a corresponding decrease in creditors of the same amount.	To correctly reflect the classification between unpaid benefits and creditors.
£7,685,000	<b>Note 21 – contributions receivable and benefits payable</b> Total contributions disclosed in Note 21 increased by £7.685 million.	To ensure the amount disclosed in Note 21 for contributions agrees to the corresponding figure disclosed in the Fund account.
Various	<b>Other presentational corrections</b> We have agreed several presentational amendments to the	To ensure consistency between the statement of accounts and the supporting notes and to ensure



Value of correction	Nature of correction	Reason for correction
	financial statements and the supporting narrative, to aid the understanding of the financial statements and to correct some typographical and rounding errors.	presentational accuracy in line with International Financial Reporting Standards.

### Other significant issues arising from the audit

13. 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, 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.
  - 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.

### Independence and objectivity

14. 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

Date:

## Representations regarding the 2015-16 financial statements

This letter is provided in connection with your audit of the financial statements of the Dyfed 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.

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 Carmarthenshire County Council as the Administering Authority for the Dyfed 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 the Audit Committee on 30 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.

Director of Corporate Services

Date .....

Chair of the Audit Committee

Date .....

# Appendix 2

---

## Auditor General for Wales' report to the Members of the Carmarthenshire County Council and Dyfed Pension Fund

I have audited the accounting statements and related notes of:

- Carmarthenshire County Council
- the Dyfed Pension Fund Pension Fund

for the year ended 31 March 2016 under the Public Audit (Wales) Act 2004.

Carmarthenshire County 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 Dyfed 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 xxx the responsible financial officer is responsible for the preparation of the statement of accounts, including Dyfed 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 Carmarthenshire County Council and Dyfed 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 narrative report 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 Carmarthenshire County Council**

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Carmarthenshire County Council 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 the Dyfed Pension Fund**

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

- give a true and fair view of the financial transactions of Dyfed 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; and
- 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 narrative report 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 the Dyfed Pension Fund 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

c/o Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

30 September 2016



Wales Audit Office  
24 Cathedral Road  
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: [info@audit.wales](mailto:info@audit.wales)

Website: [www.audit.wales](http://www.audit.wales)

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: [post@archwilio.cymru](mailto:post@archwilio.cymru)

Gwefan: [www.archwilio.cymru](http://www.archwilio.cymru)