

Audit of Accounts Report – Dyfed Pension Fund

Audit year: 2019-20

Date issued: October 2020

Document reference: 2072A2020-21

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We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

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We intend to issue an unqualified audit report on your Accounts. There are some matters to report to you prior to their approval.

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Audit of Accounts Report

Introduction

- 1 We summarise the main findings from our audit of your 2019-20 accounts in this report.
- 2 We have already discussed these issues with the Director of Corporate Services and his team.
- 3 Auditors can never give complete assurance that accounts are correctly stated. Instead, we work to a level of 'materiality'. This level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled.
- 4 We set this level at £23.7 million for this year's audit.
- 5 There are some areas of the accounts that may be of more importance to the reader and we have set a lower materiality level for these, as follows:
 - Key Management Personnel Salaries - £1,000
 - Related Parties - £10,000
- 6 Although we have completed the majority of our audit work at the time of drafting this report, we have yet to complete:
 - the final review of our audit file; and
 - our final review of the revised 2019-20 financial statements;
- 7 In our professional view, we have complied with the ethical standards that apply to our work; remain independent of yourselves; and, our objectivity has not been compromised in any way. There are no relationships between ourselves and yourselves that we believe could undermine our objectivity and independence.

Impact of COVID-19 on this year's audit

- 8 The COVID-19 pandemic has had a significant impact on all aspects of our society and continues to do so. You were required by law to prepare accounts and it is of testament to the commitment of your accounts team that you have succeeded in doing so this year in the face of the challenges posed by this pandemic. We are extremely grateful for the professionalism of the team in supporting us to complete our audit in such difficult circumstances.
- 9 Due to the impact of the COVID-19 pandemic this year, we received the Pension Fund's draft statement of accounts on 12 June 2020, which was slightly after the original planned date of 29 May 2020.
- 10 The pandemic has unsurprisingly affected our audit and we summarise in **Exhibit 1** the main impacts. Other than where we specifically make recommendations, the detail in **Exhibit 1** is provided for information purposes only to help you understand the impact of the COVID-19 pandemic on this year's audit process.

Exhibit 1 – impact of COVID-19 on this year’s audit

<p>Timetable</p>	<ul style="list-style-type: none"> • The agreed date for providing the draft statement of accounts for audit was 29 May 2020. • We received the draft accounts on 12 June 2020. • We agreed that the Pension Fund audit would commence upon the completion of our local Council audits. • The audit was substantially completed by 25 September 2020.
<p>Electronic signatures</p>	<p>The current plan is for the Audit Committee to approve the 2019-20 financial statements at its virtual meeting on 16 October 2020. The Section 151 officer will then arrange for manual signatures to be obtained prior to the audit opinion being issued.</p> <p>There are no current plans to use electronic signatures, however, should the Council decide they should proceed on this basis then we can accept the use of electronic signatures and electronic transfer of files during the approval and signing process.</p>
<p>Audit evidence</p>	<p>As in previous years, we received the majority of audit evidence in electronic format. We have used various techniques to ensure its validity. Where we have been unable to obtain access to paper documents because of COVID-19 restrictions, we have devised alternative audit methodologies to obtain sufficient audit evidence. Specifically:</p> <ul style="list-style-type: none"> • officers provided electronic working papers in accordance with our agreed Audit Deliverables Report; • officers provided audit evidence to the audit team via e-mail or the shared folder accessible by auditors through the Council laptops; • officers were available by video conferencing for discussions, and for the sharing of on-screen information/evidence; and • Audit Wales also secured remote read-only access to the Agresso ledger system which enabled the audit team to run reports and view evidence and hence reduce the burden on officers to provide this information.
<p>Other</p>	<ul style="list-style-type: none"> • Video conferencing has enabled the audit team to correspond effectively with officers throughout the audit. • Video-conference-based Audit Committee meetings have enabled us to proficiently discharge our responsibility for reporting to those charged with governance.

- 11 We will be reviewing what we have learned for our audit process from the COVID-19 pandemic and whether there are innovative practices that we might adopt in the future to enhance that process.

Proposed audit opinion

- 12 We intend to issue an unqualified audit opinion on this year's accounts once you have provided us with a Letter of Representation based on that set out in **Appendix 1**.
- 13 We issue a 'qualified' audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.
- 14 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards.
- 15 Our proposed audit report is set out in **Appendix 2**. This audit report includes an emphasis of matter paragraph. The aim of this paragraph is to draw the attention of the reader of the accounts to Note 11 in the financial statements.
- 16 Note 11 includes reference to material uncertainty clauses disclosed in year-end valuation reports for a pooled property fund and the Strategic Alternative Income Fund (SAIF). The total value of these funds as at 31 March 2020 is £296 million and £53 million respectively.
- 17 The audit opinion is not modified in respect of this matter.

Significant issues arising from the audit

Uncorrected misstatements

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

Corrected misstatements

- 19 There were initially misstatements in the accounts that have now been corrected by management. The most significant of these amendments are drawn to your attention in **Appendix 3**.

Other significant matters encountered and resolved during the audit

- 20 In the course of the audit, we considered a number of matters relating to the accounts. **Exhibit 2** includes commentary on the more significant matters we encountered and worked with management to resolve.

Exhibit 2 – Significant matters encountered and resolved during the 2019-20 audit

Significant matters encountered and resolved during the 2019-20 audit		
<p>Material uncertainty in relation to property assets</p>	<p>We have requested that the Council sets out in Note 11 additional narrative to disclose the material uncertainty in relation to property asset investments.</p>	<p>The Council has included the additional narrative disclosure. We have also drawn the reader's attention to this disclosure in an emphasis of matter paragraph in our audit report.</p> <p>The audit opinion is not modified in respect of this matter.</p>
<p>Year-end investment valuations</p>	<p>Given the impact of COVID 19 and the potential of significant market volatility around the year-end, we reviewed all investment valuations to ensure these were based on actual figures. This allowed us to confirm that the fair value of investment assets in the 2019-20 financial statements was reasonable.</p>	<p>No adjustments were required to be made to the 2019-20 financial statements.</p>
<p>Impact of McCloud Pension remedy proposals on disclosures in the Actuarial Statement</p>	<p>Our audit plan highlighted the impact of the McCloud judgement as a potential audit risk for this year's audit. An estimate for this potential liability was compiled prior to the proposed remedy being known and is included in the Actuarial Statement in the 2019-20 financial statements.</p> <p>On 16 July 2020 the UK government proposed its remedy, and this had the potential to significantly impact this estimate.</p>	<p>We corresponded with management and their actuary to assess whether the estimate for this potential liability was in line with the proposed remedy. We have received confirmation from the actuary that their assumptions were similar to the subsequently proposed remedy. Therefore, we were able to conclude that the estimate included in the 2019-20 financial statements disclosures was reasonable.</p>

Appendix 1

Final letter of representation

[Audited body's letterhead]

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

[Date]

Representations regarding the 2019-20 financial statements

This letter is provided in connection with your audit of the financial statements of Dyfed Pension Fund for the year ended 31 March 2020 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 CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom UK 2019-20; 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 the Council/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.

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 Audit Committee on 16 October 2020.

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:

Director of Corporate Services

Date:

Signed by:

Chair of the Audit Committee

Date:

Appendix 2

Proposed Audit Report

The independent auditor's report of the Auditor General for Wales to the Members of Carmarthenshire County Council as administering authority for Dyfed Pension Fund

Report on the audit of the financial statements

Opinion

I have audited the financial statements of Dyfed Pension Fund for the year ended 31 March 2020 under the Public Audit (Wales) Act 2004. Dyfed 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 2019-20 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 2020, 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 2019-20.

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.

Emphasis of matter – effects of the COVID-19 pandemic on the valuation of property fund and alternative assets

I draw attention to Note 11 of the financial statements, which describes the impact of a material uncertainty disclosed in the fund managers year-end valuation reports for the UK property fund and alternatives fund they manage on behalf of the Dyfed Pension Fund. The Fund has disclosed this material uncertainty and my audit opinion is not modified in respect of this matter.

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 statement of accounts. The other information comprises the narrative report. 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.

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 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 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.

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.

Adrian Crompton
Auditor General for Wales
October 2020

24 Cathedral Road
Cardiff
CF11 9LJ

Appendix 3

Summary of corrections made

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.

Exhibit 3: summary of corrections made

Value of correction	Nature of correction	Reason for correction
2019-20 £6.99 million 2018-19 £4.53million	<p>Indirect investment management fees included transaction and implicit costs but did not result in any cash movement between the pension fund and investment managers.</p> <p>These fees were correctly included in investment management fee expenditure. However, the double entry was a credit to investment income in the fund account rather than a movement to the net asset value in the balance sheet.</p> <p>Adjustments have been made to both the 2018-19 and 2019-20 figures to rectify the accounting for these transactions. These adjustments did not alter the net expenditure nor net investments assets figures in the financial statements.</p>	<p>To ensure compliance with CIPFA guidance around transparency of investment management fees.</p>
Various presentational amendments	<p>Various other minor presentational amendments were made to the narrative report and draft statement of accounts. There was no overall impact on the net expenditure or net investment assets of the Fund.</p>	<p>To ensure accuracy and completeness of the financial statements.</p>



Audit Wales

24 Cathedral Road
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: info@audit.wales

Website: www.audit.wales

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