



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# Audit of Financial Statements Report – **Greater Gwent (Torfaen) Pension Fund**

Audit year: 2017-18

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[infoofficer@audit.wales](mailto:infoofficer@audit.wales).

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.

The team who delivered the work comprised Julie Masci, Gail Turner-Radcliffe and Anopa Gumbie of Grant Thornton UK LLP, for and on behalf of the Auditor General for Wales.

# Contents

The Auditor General intends to issue an unqualified audit report on your financial statements. There are no significant issues to report to you prior to their approval.

## Summary report

Introduction	4
Status of the audit	4
Proposed audit report	5
Responses to financial audit risks	5
Significant issues arising from the audit	8
Recommendations arising from our 2017-18 financial audit work	9
Independence and objectivity	9

## Appendices

Appendix 1 – Final Letter of Representation	10
Appendix 2 – proposed audit report of the Auditor General to the Members of the Administering Authority of Greater Gwent (Torfaen) Pension Fund	13
Appendix 3 – summary of corrections made to the draft financial statements which should be drawn to the attention of those charged with governance	17
Appendix 4 – recommendations arising from our 2017-18 financial audit work	18

# 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 Greater Gwent (Torfaen) Pension Fund at 31 March 2018 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 accounts being misled.
- 3 The quantitative levels at which we judge such misstatements to be material for the Greater Gwent (Torfaen) Pension Fund is £26,996,000, representing 1% of net assets to the Fund. This figure has not been changed from that reported to you in the Audit Plan issued in March 2018.
- 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.
- 5 This report sets out for consideration the matters arising from the audit of the financial statements of the Greater Gwent (Torfaen) Pension Fund, for 2017-18, that require reporting under ISA 260.

## Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2018 on 11 May 2018, in line with the agreed deadline, and have now substantially completed the audit work with the following items outstanding at the date of our report:
  - a) update of our post balance sheet events to the date of signing our audit report;
  - b) review of the final version of the financial statements and annual report;
  - c) receipt and review of the signed Letter of Representation; and
  - d) finalisation of our audit procedures in the following area:
    - unit price third party confirmations of investments.

7 We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has discussed these issues with the Head of Human Resources and Pensions.

## Proposed audit report

- 8 It is the Auditor General’s intention to issue an unqualified audit report on the financial statements once you have provided us with a Letter of Representation based on that set out in [Appendix 1](#).
- 9 The proposed audit report is set out in [Appendix 2](#).

## Responses to financial audit risks

10 Below is a summary of the risks identified at the planning stage, as communicated to you in our Audit Plan dated March 2018, and our responses to these risks.

### Exhibit 1: Summary of the risks identified at the planning stage

Financial audit risk – Significant Risk	Audit response
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>We completed the following audit work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• testing of significant and unusual journals; and</li> <li>• review of significant estimates and judgements made by management.</li> </ul> <p>We have raised a control recommendation in <a href="#">Appendix 4</a> in relation to the journal authorisation procedure. This is consistent with our findings in this area in previous years. Our testing has not identified any other issues to bring to your attention.</p>

Financial audit risk – Significant Risk	Audit response
<p><b>Contributions</b></p> <ul style="list-style-type: none"> <li>• There have been changes to the Pension’s Administration team during 2017/18 which could impact upon the overall control environment.</li> <li>• There is a risk that recorded contributions are not correct.</li> <li>• To verify the completeness of these contributions we need to ensure that all amounts due to the Fund have been paid over and that the amounts calculated as due are based on the correct contribution rates and the actual pensionable pay received by the members.</li> </ul>	<p>We completed the following audit work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• we have discussed the Pension’s Administration team changes during the year with management. The Pension Manager position was filled internally and therefore knowledge was retained within the Fund.</li> <li>• testing of controls implemented over contributions transactions.</li> <li>• confirmed that in all material respects contributions have been remitted to the Pension Fund at the correct rates and on a timely basis.</li> <li>• determined that any contributions outstanding at period end were subsequently collected by reviewing scheme cash records.</li> <li>• substantive sample testing of the calculation of individual contribution deductions.</li> <li>• considered the reasonableness of total contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends were satisfactorily explained.</li> </ul> <p>Our testing has identified that Newport Transport Limited has continued to make irregular payments of contributions in the 2017/18 financial year. This has resulted in an underpayment of contributions of £78,000 in the 2017/18 financial year. £31,000 of the outstanding balance has been paid since 31 March 2018. We understand that there is a signed guarantor agreement with Newport City Council in respect of Newport Transport Limited, which mitigates the risk of non-payment of contributions by Newport Transport Limited to the Fund.</p> <p>Our testing has not identified any other issues to bring to your attention.</p>

Financial audit risk – Significant Risk	Audit response
<p><b>Investments assets and income</b></p> <ul style="list-style-type: none"> <li>• The Fund holds a number of different investments, the majority with investment managers, but also a Property Unit Trust portfolio that is self-administered.</li> <li>• There is a risk that investment activity is not valid or valued correctly and that associated investment income is not accurately reported.</li> </ul>	<p>We completed the following audit work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• obtained independent valuation reports from the Fund’s investment managers and custodian and completed a three-way reconciliation to confirm the reasonableness of the year-end investment balances.</li> <li>• sample testing of in-year investment purchases and sales back to supporting documentation to ensure that they were correctly recognised.</li> <li>• reviewed interest income and confirmed this back to third-party confirmation.</li> <li>• reviewed the year-end investments against the Investment Strategy Statement. Where there are variations in the year-end holdings against those specified in the Investment Strategy Statement, this has been adequately disclosed in the accounts.</li> <li>• review of a sample of Level 2 investments to agree their market value back to third-party evidence.</li> </ul> <p>In our audit plan, which we presented in March 2018, we stated that an audit risk was that investment income was not accurately recorded. During our audit fieldwork, we noted that the level of investment income was below our materiality figure and therefore whilst undertaking analytical review, no further audit procedures were undertaken as we no longer considered this to be an audit risk of material misstatement.</p> <p>Our testing has not identified any issues to bring to your attention.</p>
<p><b>Benefits payable</b></p> <ul style="list-style-type: none"> <li>• The Fund has a duty to ensure that benefits are only paid to those members entitled to receive them and that the amounts received are in accordance with the latest LGPS regulations.</li> <li>• There is a risk that benefits have been improperly calculated or that associated liabilities have been understated.</li> </ul>	<p>We completed the following audit work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• testing of a sample of new pension benefits coming into payment back to calculations and supporting member files;</li> <li>• reviewed post year-end benefit payments to ensure that they were correctly accounted for;</li> <li>• sample tested transfers out of the scheme back to supporting calculations and member files; and</li> <li>• sample tested death grants paid in-year back to supporting calculations and member files.</li> </ul>

## Significant issues arising from the audit

### Uncorrected misstatements

- 11 There are no uncorrected misstatements arising from our work to be brought to your attention.

### Corrected misstatements

- 12 There are 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. Further details are set out in [Appendix 3](#).

### 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. 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.** 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 that we have not reported to you already.**
  - **There are no any other matters specifically required by auditing standards to be communicated to those charged with governance.**

14 We wish to draw the following matters to the Committee's attention:

**Exhibit 2: Other significant issues arising from the audit**

<b>Findings</b>	<b>Audit conclusions</b>
<p><b>Journals</b></p> <p>We identified one matter in relation to your internal controls relating to journals. As reported in previous years, we have identified that all journals over £200,000 are subject to review, however, those charged with governance should be aware that journals below £200,000 are not always subject to review. There remains a risk that inappropriate or erroneous journals below £200,000 could be processed and could have an impact on the financial statements.</p>	<p>Whilst we consider that this is unlikely to result in a material misstatement in the financial statements, those charged with governance are to note the adopted approach and confirm they are satisfied with this policy.</p>

## Recommendations arising from our 2017-18 financial audit work

15 The 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

- 16 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 17 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 Auditor General for Wales, the Wales Audit Office, Grant Thornton UK LLP and the Greater Gwent (Torfaen) 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

26 June 2018

## Representations regarding the 2017-18 financial statements

This letter is provided in connection with your audit of the financial statements of the Greater Gwent (Torfaen) Pension Fund for the year ended 31 March 2018 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 the CIPFA Code of Practice on Local Authority Accounting; 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 Greater Gwent (Torfaen) 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 the Pensions Committee

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 Council on 26 June 2018.

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:

Signed by:

Nigel Aurelius  
Assistant Chief Executive (Resources)

Councillor Glyn Caron  
Chair of Pensions Committee

Date:

Date:

# Appendix 2

## Proposed audit report of the Auditor General to the Members of the Administering Authority of Greater Gwent (Torfaen) Pension Fund

### The independent auditor's report of the Auditor General for Wales to the members of Torfaen County Borough Council as administering authority for Greater Gwent (Torfaen) Pension Fund

#### Report on the audit of the financial statements

##### **Opinion**

I have audited the financial statements of Greater Gwent (Torfaen) Pension Fund for the year ended 31 March 2018 under the Public Audit (Wales) Act 2004. Greater Gwent (Torfaen) Pension Fund 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 2018 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 2018, 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 2018.

##### **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.

### **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 annual report. The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. 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 annual report for the financial year for which the financial statements are prepared is consistent with the financial statements and the annual report has been prepared in accordance with Local Government Pension Scheme Regulations 2013.

### **Matters on which I report by exception**

In the light of the knowledge and understanding of the pension fund and its environment obtained in the course of the audit, I have not identified material misstatements in the annual report.

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 Greater Gwent (Torfaen) 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 set out on page 1, 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

Anthony J Barrett  
For and on behalf of the Auditor General for Wales  
[Date]

24 Cathedral Road  
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# Appendix 3

## Summary of corrections made to the draft financial statements which should be drawn to the attention of those charged with governance

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 to the draft financial statements

Value of correction	Nature of correction	Reason for correction
N/A	A small number of minor typographical errors and updates required to disclosures were identified and discussed with officers. We have recommended that these errors and updates are corrected.	Adjustments were made to ensure a consistently high standard of presentation and disclosure throughout the accounts.

# Appendix 4

## Recommendations arising from our 2017-18 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:

### Exhibit 4: Recommendations arising from our 2017-18 financial audit work

<b>Matter arising 1 – Journal authorisation</b>	
<b>Findings</b>	As part of our audit we have identified that not all journals below £200,000 are subject to review.
<b>Priority</b>	Low
<b>Recommendation</b>	It is recommended that Those Charged with Governance consider implementing a review process over all journals, in order to gain comfort over the balances being recorded in the accounts or confirm that they are satisfied that the current process is appropriate.
<b>Benefits of implementing the recommendation</b>	There is a risk that inappropriate or erroneous journals below £200,000 could be processed and impact upon the financial statements.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	The Council continues to operate a quarterly historic review of journals posted over £200,000. Each journal posted in the review period is reviewed for relevance and accuracy by an appropriate officer as defined by journal value. It is considered that this current control mechanism is proportionate and effective.
<b>Implementation date</b>	



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