

Complete Agenda



Democratic Service
Swyddfa'r Cyngor
CAERNARFON
Gwynedd
LL55 1SH

To: Members of the Audit and Governance Committee

25/9/18

Dear Member,

AUDIT AND GOVERNANCE COMMITTEE – 27 September, 2018 LATE REPORTS

I enclose a revised version of the Pension Fund Statement of Accounts 2017/18 and the late report 'ISA260 report by Deloitte in respect of Gwynedd Pension Fund':-

6. GWYNEDD PENSION FUND FINAL ACCOUNTS 2017/18 AND 2 - 52 AUDIT REPORT

Appendix 1 REVISED - Pension Fund Statement of Accounts
2017/18

Appendix 2 - Gwynedd Pension Fund ISA 260

Yours sincerely,

Bethan Adams
Members Support Officer

Agenda Item 6

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NARRATIVE REPORT

Introduction

Gwynedd Pension Fund's accounts and notes for the year 2017/18 are presented here on pages 4 to 33.

The accounts consist of the Gwynedd Pension Fund Account and Balance Sheet.

These accounts are supported by this Narrative Report, the Accounting Policies and various notes to the accounts.

The Pension Fund accounts, and accompanying notes, summarise the financial transactions and net assets related to the provision of pensions and other benefits payable to former employees of all the Fund's employers, including Anglesey, Conwy and Gwynedd Councils, Snowdonia National Park Authority, Police and Crime Commissioner for North Wales, Cartrefi Conwy, Cartrefi Cymunedol Gwynedd, various town and community councils, and other scheduled and admitted bodies.

During the year the Fund increased in value by £73.7 million.

The Statement of Accounts and further information is available on Gwynedd Pension Fund's website www.gwyneddpensionfund.org.uk.

The Fund has two important statements which set out the strategies for ensuring pensions are funded now and in the future as follows:

- Funding Strategy Statement – the statement sets out the fund-specific strategy which will identify how employers pensions liabilities are best met going forward. It is reviewed every three years after the triennial actuarial valuation and includes individual employer rates for the following period.
- Investment Strategy Statement - the statement sets out the types of investments and broad limits on each type of investment.

Both these statements are available on the fund's website under the investments section.

An Actuarial Valuation is required every three years to establish the level of assets available to pay pensions now and in the future. The next valuation will be as at 31 March 2019 and any changes to employers contributions will be made from 1 April 2020 onwards.

Further information relating to the accounts is available from:

Caroline Roberts
Investment Manager
01286 679128

Finance Department
Gwynedd Council
Council Offices
Caernarfon
Gwynedd
LL55 1SH

It is part of the Fund's policy of providing full information relating to the Fund's affairs. In addition, interested members of the public have a statutory right to inspect the accounts before the audit is completed. The availability of the accounts for inspection only the Pension Fund website at the appropriate time.

GWYNEDD PENSION FUND

STATEMENT OF ACCOUNTS

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

THE PENSION FUND'S RESPONSIBILITIES

Gwynedd Council as administrating authority (effectively the trustee) for Gwynedd Pension Fund is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In Gwynedd Council, that "Section 151 Officer" is the Head of Finance. It is also the administrating authority's responsibility to manage its affairs to secure economic, efficient and effective use of its resources, to safeguard its assets, and to approve the Statement of Accounts.

THE HEAD OF FINANCE'S RESPONSIBILITIES

The Head of Finance is responsible for the preparation of the Pension Fund Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* ("the Code").

In preparing the statement of accounts, the Head of Finance has selected suitable accounting policies and then applied them consistently; has made judgements and estimates that were reasonable and prudent and complied with the Code.

The Head of Finance has also kept proper accounting records which were up to date, and has taken reasonable steps for the prevention and detection of fraud and other irregularities.

RESPONSIBLE FINANCIAL OFFICER'S CERTIFICATE

I certify that the Statement of Accounts has been prepared in accordance with the arrangements set out above, and presents a true and fair view of the financial position of Gwynedd Pension Fund at 31 March 2018 and the Pension Fund's income and expenditure for the year then ended.

27 September 2018

Dafydd L. Edwards B.A., C.P.F.A., I.R.R.V.
Head of Finance, Gwynedd Council

**GWYNEDD PENSION FUND ACCOUNTS
2017/18**

**THE FUND ACCOUNT FOR THE YEAR ENDED
31 MARCH 2018**

31 March 2017 £'000		Notes	31 March 2018 £'000
	Dealings with members, employers and others directly involved in the Fund		
67,695	Contributions	7	82,302
7	Interest on deferred contributions		
2	Income from divorce calculations		
0	Income from transfer value calculations		
5,893	Transfers in from other pension funds	8	4,360
73,597	Total contributions received		86,665
(53,982)	Benefits paid or payable	9	(53,911)
(3,970)	Payments to and on account of leavers	10	(2,306)
(57,952)	Total benefits paid		(56,217)
(11,641)	Management Expenses	11	(13,367)
	Returns on Investments		
12,886	Investment income	14	15,155
(378)	Taxes on income	15	(252)
322,316	Profit and (loss) on disposal of investments and changes in the market value of investments	16	41,758
334,824	Returns on investments net of tax		56,661
338,828	Increase in the net assets available for benefits during the year		73,742
	Net assets of the Fund		
1,525,405	At 1 April		1,864,233
338,828	Increase in net assets		73,742
1,864,233			1,937,975

NET ASSETS STATEMENT AS AT 31 MARCH 2018

31 March 2017 £'000		Notes	31 March 2018 £'000
1,798,325	Investment assets	16	1,859,635
49,248	Cash deposits	16	44,352
1,847,573	Total Investment assets		1,903,987
(235)	Investment liabilities	16	(4,690)
20,984	Current assets	21	42,626
(4,089)	Current liabilities	22	(3,948)
1,864,233			1,937,975

The Financial Statements do not take into account the Fund's liability to pay pensions and other benefits to all the present contributors to the Fund after the scheme year-end, but rather summarises the transactions and net assets of the Fund. The liabilities of the Fund are taken into account in the periodic actuarial valuations of the Fund (most recently as at 31 March 2016) and are reflected in the levels of employers' contributions determined at the valuation, so that the Fund will be able to meet future liabilities. The actuarial present value of promised retirement benefits is shown in Note 20.

NOTES TO THE GWYNEDD PENSION FUND ACCOUNTS

NOTE I – DESCRIPTION OF FUND

The Gwynedd Pension Fund (“the Fund”) is part of the Local Government Pension Scheme (LGPS) and is administered by Gwynedd Council. The Council is the reporting entity for this Pension Fund. The following description of the Fund is a summary only. For more detail, reference should be made to the Gwynedd Pension Fund Annual Report 2017/18 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

The Fund is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended);
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended);
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

It is a contributory defined benefit pension scheme administered by Gwynedd Council to provide pensions and other benefits for pensionable employees of Gwynedd Council, two other local authorities and other schedule, resolution and admission bodies within the former Gwynedd County Council area. Teachers, police officers and firefighters are not included as they are in other national pension schemes. The Fund is overseen by the Pensions Committee, which is a committee of Gwynedd Council.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. Organisations participating in the Gwynedd Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Resolution bodies, which are city, town and community councils. They have the power to decide if their employees can join the LGPS and pass a resolution accordingly.
- Admission bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

NOTE 1 – DESCRIPTION OF FUND (continued)

The following bodies are active employers within the Pension Fund:

Scheduled Bodies	
Gwynedd Council	Snowdonia National Park
Conwy County Borough Council	Bryn Eilian School
Isle of Anglesey County Council	Emrys ap Iwan School
Police and Crime Commissioner for North Wales	Pen y Bryn School
Llandrillo – Menai Group	Eirias High School
GWE	NWTRA
Resolution Bodies	
Llanllyfni Community Council	Ffestiniog Town Council
Bangor City Council	Llandudno Town Council
Abergele Town Council	Llangefni Town Council
Colwyn Bay Town Council	Menai Bridge Town Council
Beaumaris Town Council	Towyn and Kinnel Bay Town Council
Holyhead Town Council	Tywyn Town Council
Caernarfon Town Council	Conwy Town Council
Trefriw Community Council (joined 1 June 2017)	
Admission Bodies	
Adult Learning Wales (previously Coleg Harlech WEA)	North Wales Society for the Blind
CAIS	Conwy Voluntary Services
Conwy Citizens Advice	Careers Wales North West
Ynys Môn Citizens Advice	Mantell Gwynedd
Cwmni Cynnal	Medrwn Môn
Cwmni'r Fran Wen	Menter Môn
Holyhead Joint Burial Committee	
Community Admission Bodies	
Cartrefi Conwy	Cartrefi Cymunedol Gwynedd
Transfree Admission Bodies	
ABM Catering	Caterlink
Superclean I	Dawnus (joined 1 April 2017)

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 2.75% to 12.5% of pensionable pay for the financial year ended 31 March 2018. Employers also make contributions which are set based on triennial actuarial funding valuations. New employer contribution rates were applied for the three years from 1 April 2017 to 31 March 2020 following the actuarial valuation carried out as at 31 March 2016.

d) Benefits

Prior to 1 April 2014 pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below:

	Service pre-1 April 2008	Service post-31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

NOTE 1 – DESCRIPTION OF FUND (continued)

From 1 April 2014, the scheme became a career average scheme as summarised below:

	Service post-31 March 2014
Pension	Each year worked is worth $1/49 \times$ career average revalued earnings (CARE)
Lump Sum	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

Accrued pension is increased annually in line with the Consumer Prices Index.

There are a number of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the Gwynedd Pension Fund scheme handbook available from Gwynedd Council's Pensions Section.

Benefits are index-linked in order to keep pace with inflation.

NOTE 2 – BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2017/18 financial year and its position at year-end as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year or the actuarial present value of promised retirement benefits. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 20 of these accounts.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – revenue recognition

a) Contribution Income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

Employers deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the Fund's actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see Notes 8 and 10).

Individual transfers in and out of the Fund are accounted for on a receipts and payments basis, which is normally when the member liability is accepted or discharged.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Transfers into the Fund from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase benefits are accounted for on a receipts basis and are included in Transfers In (see Note 8).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment income

i) Interest income

Interest income is recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iii) Distributions from pooled funds including property

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iv) Movement in the net market value of investments

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund account – expense items

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

e) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

f) Management expenses

The Code does not require any breakdown of pension Fund administrative expenses. However, in the interests of greater transparency, the Council discloses its pension Fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy.

Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs, management and other overheads associated with oversight and governance are apportioned to the Fund in accordance with Council policy.

Investment management expenses

All investment management expenses are accounted for on an accruals basis.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. In addition the Fund had negotiated with Fidelity International that an element of their fee would be performance-related. This arrangement was terminated on the 30 September 2016, and since then the fee has been based on the market value of the investments under their management.

The cost of obtaining investment advice from external consultants is included in investment management charges.

A proportion of the Council's costs representing management time spent by officers on investment management is also charged to the Fund.

Net assets statement

g) Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any profits or losses arising from changes in the fair value of asset are recognised by the Fund.

The values of investments as shown in the net assets statement have been determined as follows:

- i) **Equities**
The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.
- ii) **Pooled investment vehicles**
Pooled investments vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.
- iii) **Unquoted investments**
The fair value of investments for which market quotations are not readily available is determined as follows:
 - Unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
 - Investments in unquoted property are valued at the net asset value or a single price advised by the Fund manager.
 - Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with IFRS guidelines. It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors.

h) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

j) Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

k) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Fund actuary in accordance with the requirements of IAS19 and relevant actuarial standards.

As permitted under IAS26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 20).

l) Additional voluntary contributions

Gwynedd Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. There are three AVC funds. They are held with Clerical Medical, The Equitable Life Assurance Society and Standard Life. The AVC providers secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in these arrangements each receive an annual statement made up to 31 March confirming the amounts held in their account and the movements in year.

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 23).

NOTE 4 – CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Unquoted private equity and infrastructure investments

The fair value of private equity investments and infrastructure are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities and infrastructure are valued by the investment managers using guidelines set out by IFRS accounting standards. The value of unquoted securities at 31 March 2018 was £104 million (£110 million at 31 March 2017).

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 19. This estimate is subject to significant variances based on changes to the underlying assumptions.

NOTE 5 – ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported in the accounts. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the net assets statement at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

NOTE 5 – ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY (continued)

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity and infrastructure	Private equity and infrastructure investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity and infrastructure investments in the financial statements are £104 million. There is a risk that this investment may be under or overstated in the accounts.

NOTE 6 – EVENTS AFTER THE REPORTING DATE

There are no significant events after the year end date to report.

NOTE 7 – CONTRIBUTIONS

By category

2016/17		2017/18
£'000		£'000
52,439	Employers	66,372
15,256	Employees/Members	15,930
67,695		82,302

By authority

2016/17		2017/18
£'000		£'000
23,210	Gwynedd Council	29,868
40,231	Other scheduled bodies	48,301
1,514	Admission bodies	1,674
2,215	Community admission bodies	1,957
252	Transferee admission bodies	206
219	Resolution bodies	242
54	Closed fund*	54
67,695		82,302

* Closed fund – These are contributions received from North Wales Magistrates Court Committee which was an admitted body but is now a closed fund.

By contribution

2016/17		2017/18
£'000		£'000
15,256	Employees' normal contributions	15,930
46,570	Employers' normal contributions	47,186
5,869	Employers' deficit recovery contributions	19,186
67,695		82,302

NOTE 8 – TRANSFERS IN FROM OTHER PENSION FUNDS

2016/17		2017/18
£'000		£'000
1,315	Group transfers	0
4,578	Individual transfers	4,360
5,893		4,360

NOTE 9 - BENEFITS PAID

By category

2016/17		2017/18
£'000		£'000
41,081	Pensions	42,708
11,093	Commutation and lump sum retirement benefits	9,670
1,808	Lump sum death benefits	1,533
53,982		53,911

By authority

2016/17		2017/18
£'000		£'000
15,233	Gwynedd Council	15,454
25,701	Other scheduled bodies	26,173
1,561	Admission bodies	1,615
1,095	Community admission body	812
173	Transferee admission body	42
58	Resolution body	70
10,161	Closed fund	9,745
53,982		53,911

NOTE 10 – PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2016/17		2017/18
£'000		£'000
103	Refunds to members leaving service net of tax repayments	143
11	Payments for members joining state scheme	5
3,856	Individual transfers	2,158
3,970		2,306

NOTE 11 – MANAGEMENT EXPENSES

2016/17		2017/18
£'000		£'000
1,242	Administrative costs	1,261
10,343	Investment management expenses (Note 13)	12,046
56	Oversight and governance costs	60
11,641		13,367

This analysis of the costs of managing the Gwynedd Pension Fund during the period has been prepared in accordance with CIPFA guidance.

NOTE 12 – ADMINISTRATIVE, OVERSIGHT AND GOVERNANCE COSTS

2016/17		2017/18
£'000		£'000
	Administrative costs	
486	Direct employee costs	514
293	Other direct costs	264
303	Support services, including IT	357
33	External audit fees	34
128	Actuarial fees	92
1,243		1,261
	Oversight and governance costs	
55	Pensions Committee and Local Pension Board	60
1,298		1,321

Administrative expenses include amounts charged to the Pension Fund by Gwynedd Council for staff costs, support services and accommodation. Further details are given in Note 24.

NOTE 13 – INVESTMENT MANAGEMENT EXPENSES

2016/17		2017/18
£'000		£'000
10,258	Management fees	11,933
45	Custody fees	50
3	Performance monitoring service	8
37	Investment consultancy fees	55
10,343		12,046

The management fees disclosed above include all investment management fees directly incurred by the Fund including those charged on pooled investment funds.

The investment management expenses above include £22,562 (2016/17 £322,972) in respect of performance-related fees paid to one of the Fund's investment managers. In addition to these costs, indirect costs are incurred through the bid-offer spread on investment sales and purchases. They are reflected in the cost of investment purchases and in the proceeds of sales of investments (see Note 16a).

NOTE 14 – INVESTMENT INCOME

2016/17		2017/18
£'000		£'000
6,832	Equity dividends	7,662
1,239	Private equity income	544
207	Infrastructure income	1,201
4,475	Pooled property investments	5,256
133	Interest on cash deposits	492
12,886		15,155

The Gwynedd Pension Fund has three bank accounts which are held as part of Gwynedd Council's Group of Bank Accounts. The overall surplus cash held in the Group of Bank Accounts is invested on a daily basis. At the end of the financial year, Gwynedd Council pays interest over to the Pension Fund, based on the Fund's daily balances over the year.

The Pension Fund also has a Euro account to deal with receipts and payments in Euros and to minimise the number and costs of exchange transactions.

NOTE 15 – TAXES ON INCOME

2016/17		2017/18
£'000		£'000
378	Withholding tax – equities	252
378		252

NOTE 16 – INVESTMENTS

2016/17		2017/18
£'000		£'000
	Investment assets	
236,625	Fixed interest absolute return	292,050
345,284	Equities	337,188
963,262	Pooled equity investments	961,611
142,448	Pooled property investments	159,044
82,023	Private equity	76,137
28,053	Infrastructure	28,173
1,797,695		1,854,203
49,248	Cash deposits	44,352
630	Amount receivable from sales of investments	5,432
1,847,573	Total investment assets	1,903,987
	Investment liabilities	
(235)	Amounts payable for purchases	(4,690)
(235)	Total investment liabilities	(4,690)
1,847,338	Net investment assets	1,899,297

Note 16a – Reconciliation of movements in investments and derivatives

2017/18	Market value at 1 April 2017	Purchases during the year	Sales during the year	Change in market value during the year	Market value at 31 March 2018
	£'000	£'000	£'000	£'000	£'000
Fixed interest absolute return securities	236,625	134,950	(79,950)	425	292,050
Equities	345,284	79,717	(89,912)	2,099	337,188
Pooled investments	963,262	4,840	(22,637)	16,146	961,611
Pooled property investments	142,448	13,488	(5,802)	8,910	159,044
Private equity / infrastructure	110,076	15,913	(27,847)	6,168	104,310
	1,797,695	248,908	(226,148)	33,748	1,854,203
Cash deposits	49,248			188	44,352
Amount receivable from sales of investments	630				5,432
Amounts payable for purchases of investments	(235)				(4,690)
Fees within pooled vehicles				7,822	
Net investment assets	1,847,338			41,758	1,899,297

2016/17	Market value at 1 April 2016	Purchases during the year	Sales during the year	Change in market value during the year	Market value at 31 March 2017
	£'000	£'000	£'000	£'000	£'000
Fixed interest absolute return securities	198,845	30,000	0	7,780	236,625
Equities	269,784	73,681	(76,100)	77,919	345,284
Pooled investments	746,944	15,347	(13,492)	214,463	963,262
Pooled property investments	157,734	18,373	(31,465)	(2,194)	142,448
Private equity / infrastructure	81,540	29,118	(18,212)	17,630	110,076
	1,454,847	166,519	(139,269)	315,598	1,797,695
Cash deposits	42,631			(387)	49,248
Amount receivable for sales of investments	383			(4)	630
Amounts payable for purchases of investments	(64)			(1)	(235)
Fees within pooled vehicles				7,110	
Net investment assets	1,497,797			322,316	1,847,338

Transaction costs, such as commissions, stamp duty and other transaction fees, are included in the cost of purchases and in sale proceeds. Transaction costs incurred during the year total £103,937 (2016/17 £171,393). In addition to these costs indirect costs are incurred through the bid-offer spread on investment purchases and sales.

Note 16b – Analysis of investments

31 March 2017 £'000		31 March 2018 £'000
	Equities	
37,453	UK quoted	35,413
307,832	Overseas Quoted	301,775
	Pooled funds	
236,625	Fixed Income Unit Trust	292,050
301,034	UK Unit trusts quoted	305,111
306,567	Overseas Unit trusts	319,205
355,661	Global Unit trusts (including UK)	337,295
142,447	Pooled property unit trusts	159,044
82,023	Private equity	76,137
28,053	Infrastructure	28,173
1,797,695		1,854,203

Investments analysed by fund manager

Market Value at 31 March 2017			Market Value at 31 March 2018	
£'000	%		£'000	%
601,837	32.6	BlackRock	618,768	32.6
399,686	21.6	Fidelity	384,762	20.3
236,632	12.8	Insight	292,053	15.4
39,599	2.1	Lothbury	50,372	2.6
110,076	6.0	Partners Group	104,310	5.5
16,476	0.9	Threadneedle	18,149	1.0
48,112	2.6	UBS	48,604	2.5
394,920	21.4	Veritas	382,279	20.1
1,847,338	100.0		1,899,297	100.0

The following investments represent more than 5% of the net assets of the scheme:

Market value 31 March 2017	% of total Fund	Security	Market value 31 March 2018	% of total Fund
£'000			£'000	
355,661	19.08	Fidelity Institutional Select Global Equity	337,295	17.40
301,033	16.15	Aquila Life UK Equity Index Fund	305,110	15.74
236,625	12.69	Insight Umbrella Holdings	0	0
0	0	Insight LDI Solutions Plus Bonds	292,050	15.07
129,078	6.92	Aquila Life Global Dev Fundamental Fund	129,689	6.69

Note 16c – Stock lending

The Statement of Investment Principles (SIP) states that stock lending will be permitted subject to specific approval. Currently the Fund does not undertake any stock lending.

NOTE 17 – FINANCIAL INSTRUMENTS

Note 17a – Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

As at 31 March 2017			As at 31 March 2018		
Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at cost	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at cost
£'000	£'000	£'000	£'000	£'000	£'000
Financial assets			Financial assets		
345,284			337,188		
1,199,887			1,253,661		
142,448			159,044		
82,023			76,137		
28,053			28,173		
	64,623			79,923	
	0			1,468	
	6,188			11,019	
1,797,695	70,811	0	1,854,203	92,410	0
Financial liabilities			Financial liabilities		
		(4,273)			(8,638)
		(4,273)			(8,638)
1,797,695	70,811	(4,273)	1,854,203	92,410	(8,638)

Note 17b – Net gains and losses on financial instruments

31 March 2017		31 March 2018
Fair value		Fair value
£'000		£'000
Financial assets		
315,598	Fair value through profit and loss	33,748
(392)	Loans and receivables	188
315,206	Total financial assets	33,936
Financial liabilities		
0	Fair value through profit and loss	0
0	Financial liabilities at cost	0
0	Total financial liabilities	0
315,206	Net financial assets	33,936

Note 17c – Fair value of financial instruments and liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values.

31 March 2017			31 March 2018	
Carrying value	Fair value		Carrying value	Fair value
£'000	£'000		£'000	£'000
		Financial assets		
1,120,845	1,797,695	Fair value through profit and loss	1,210,252	1,854,203
70,815	70,811	Loans and receivables	92,372	92,410
1,191,660	1,868,506	Total financial assets	1,302,624	1,946,613
		Financial liabilities		
(235)	(235)	Fair value through profit and loss	(4,675)	(4,690)
(4,038)	(4,038)	Financial liabilities at cost	(3,948)	(3,948)
(4,273)	(4,273)	Total financial liabilities	(8,623)	(8,638)
1,187,387	1,864,233	Net financial assets	1,294,001	1,937,975

The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

Note 17d – Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments could include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Gwynedd Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Note 17d – Valuation of financial instruments carried at fair value (continued)

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
Values at 31 March 2018	Level 1	Level 2	Level 3	
	£'000	£'000	£'000	£'000
Financial assets				
Financial assets at fair value through profit and loss	332,498	1,318,419	203,286	1,854,203
Loans and receivables	92,410	0	0	92,410
Total financial assets	424,908	1,318,419	203,286	1,946,613
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	(4,690)	0	(4,690)
Financial liabilities at cost	(3,948)	0	0	(3,948)
Total financial liabilities	(3,948)	(4,690)	0	(8,638)
Net financial assets	420,960	1,313,729	203,286	1,937,975

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
Values at 31 March 2017	Level 1	Level 2	Level 3	
	£'000	£'000	£'000	£'000
Financial assets				
Financial assets at fair value through profit and loss	345,285	1,302,735	149,675	1,797,695
Loans and receivables	70,811	0	0	70,811
Total financial assets	416,096	1,302,735	149,675	1,868,506
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	(235)	0	(235)
Financial liabilities at cost	(4,038)	0	0	(4,038)
Total financial liabilities	(4,038)	(235)	0	(4,273)
Net financial assets	412,058	1,302,500	149,675	1,864,233

The figures at 31 March 2017 have been changed to match the method used at 31 March 2018

NOTE 18 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manages these investment risks as part of its overall Pension Fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pensions Committee. The Pension Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to pay pensions. The Funding Strategy Statement produced by the Administering Authority in conjunction with the Fund's Actuaries states how solvency and risk will be managed in relation to liabilities. The Administering Authority has produced this Funding Strategy Statement having taken an overall view of the level of risk inherent in the investment policy set out in the Statement of Investment Principles published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the Investment Regulations) and the funding policy set out in this Statement. The Administering Authority will continue to review both documents to ensure that the overall risk profile remains appropriate.

a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk for its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks in two ways:

- the exposure of the Fund to market risk is monitored through a risk factor analysis to ensure that risk remains within tolerable levels;
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within the limits set in the Fund investment strategy.

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2017/18 reporting period.

NOTE 18 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Following analysis of the observed historical volatility of asset class returns in consultation with the Fund's investment advisors potential price changes have been determined for the various classes of assets held by the Fund. The rates to be applied to the Fund's asset categories are as follows:

Asset type	Potential market movement (+/-)	
	31 March 2017	31 March 2018
	%	%
UK Equities	15.8	16.8
Global Equities	18.4	17.9
Private Equity	28.5	28.3
Absolute Return Bonds	2.9	2.8
Alternatives (Infrastructure)	11.3	20.1
Property	14.2	14.3
Cash	0.0	0.0
Whole Fund	12.8	12.6

The potential volatilities disclosed above are consistent with a one-standard deviation movement in the change of value of the assets over the latest three years. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the Fund investments increased/decreased in line with the above, the change in the market price of the net assets available to pay benefits would have been as follows:

Asset type	Value as at 31 March 2018	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
UK Equities	340,524	16.8	397,732	283,316
Global Equities	958,275	17.9	1,129,806	786,744
Private Equity	76,137	28.3	97,684	54,590
Absolute Return Bonds	292,050	2.8	300,227	283,873
Alternatives (Infrastructure)	28,173	20.1	33,837	22,511
Property	159,044	14.3	181,787	136,300
Cash	44,352	0.0	44,352	44,352
Total assets available to pay benefits	1,898,555	12.6*	2,137,773	1,659,337

* The whole fund values in the table above are based on 12.6% rather than the total of the individual asset types.

Asset type	Value as at 31 March 2017	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
UK Equities	338,486	15.8	391,966	285,005
Global Equities	970,060	18.4	1,148,552	791,569
Private Equity	82,023	28.5	105,399	58,646
Absolute Return Bonds	236,625	2.9	243,487	229,763
Alternatives (Infrastructure)	28,053	11.3	31,223	24,883
Property	142,448	14.2	162,676	122,220
Cash	49,248	0.0	49,248	49,248
Total assets available to pay benefits	1,846,943	12.8*	2,083,352	1,610,534

* The whole fund values in the table above are based on 12.8% rather than the total of the individual asset types.

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

**NOTE 18 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS
(continued)**

The Fund's direct exposure to interest rate movements as at 31 March 2017 and 31 March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset type	As at 31 March 2017	As at 31 March 2018
	£'000	£'000
Cash and cash equivalents	15,375	37,038
Cash balances	49,248	44,352
Fixed interest securities	236,625	292,050
Total	301,248	373,440

Interest rate risk sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of net assets available to pay benefits. A 1% movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates:

Asset type	Carrying amount as at 31 March 2018	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	37,038	370	(370)
Cash balances	44,352	444	(444)
Fixed interest securities*	292,050	2,658	(2,658)
Total change in assets available	373,440	3,472	(3,472)

* A change of 1% in interest rate does not have a direct impact on fixed interest securities but does have a partial impact as calculated in the tables above.

Asset type	Carrying amount as at 31 March 2017	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	15,375	154	(154)
Cash balances	49,248	492	(492)
Fixed interest securities*	236,625	(1,538)	1,538
Total change in assets available	301,248	(892)	892

* A change of 1% in interest rate does not have a direct impact on fixed interest securities but does have a partial impact as calculated in the tables above

The impact that a 1% change in interest rates would have on interest received is minimal as the average interest rate received on cash during the year was 0.43%, amounting to interest of £127,666 for the year.

A 1% increase in interest rates will not affect the interest received on fixed income assets but will reduce their fair value, as shown in the tables above. Changes in interest rates do not impact on the value of cash / cash equivalents but they will affect the interest income received on those balances. Changes to both the fair value of assets and income received from investments impact on the net assets to pay benefits but as noted above this does not have a significant effect on the Fund.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund holds assets denominated in currencies other than £UK.

**NOTE 18 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS
(continued)**

The Fund has made commitments to private equity and infrastructure in foreign currency, (€214 million and \$88.6 million). These commitments are being drawn down on request from the investment manager over a number of years. The current commitments still outstanding are shown in Note 25. The risk is that the pound is weak relative to the dollar and euro at the time of the drawdown and then strengthens when the Fund is fully funded. The Fund has been funding the commitments since 2005 and therefore the liability is balanced out over a long period.

The Fund's currency rate risk has been calculated based on the volatility of the currencies which would affect the value of the investments and any cash held in those currencies.

The following table summarises the Fund's currency exposure as at 31 March 2018 and as at the previous year end:

Currency exposure - asset type	As at	As at
	31 March 2017	31 March 2018
	£'000	£'000
Overseas and Global Equities	970,060	958,275
Global Fixed Income	236,625	292,050
Overseas Alternatives (Private Equity and infrastructure)	110,076	104,310
Overseas Property	3,636	1,808
Overseas Currency	0	1,468
Total overseas assets	1,320,397	1,357,911

Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the Fund investment advisors, the likely volatility associated with foreign exchange rate movements has been calculated with reference to the historic volatility of the currencies and their relative amounts in the Fund's investments.

A 10% fluctuation in the currency is considered reasonable based on the Fund investment advisors' analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period to 31 March 2018. The equivalent rate for the year ended 31 March 2017 was 10%. This analysis assumes that all other variables, in particular interest rates, remain constant.

The tables below show a breakdown of the Fund's exposure to individual currencies as at March 31, 2018 and at the end of the previous financial year:

Currency exposure - by asset type	Carrying amount as at 31 March 2018	Change in year in the net assets available to pay benefits	
		Value on increase	Value on decrease
	£'000	£'000	£'000
Overseas and Global Equities	958,275	1,054,103	862,448
Global Fixed Income	292,050	321,255	262,845
Overseas Alternatives (Private Equity and infrastructure)	104,310	114,741	93,879
Overseas Property	1,808	1,989	1,628
Overseas Currency	1,468	0	0
Total change in assets available	1,357,911	1,492,088	1,220,800

**NOTE 18 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS
(continued)**

Currency exposure - by asset type	Carrying amount as at 31 March 2017	Change in year in the net assets available to pay benefits	
		Value on increase	Value on decrease
	£'000	£'000	£'000
Overseas and Global Equities	970,060	1,067,066	873,054
Global Fixed Income	236,625	260,288	212,963
Overseas Alternatives (Private Equity and infrastructure)	110,076	121,084	99,068
Overseas Property	3,636	4,000	3,273
Overseas Currency	0	0	0
Total change in assets available	1,320,397	1,452,438	1,188,358

b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The benchmark for the concentration of the funds held with investment managers is as follows.

Investment Manager	Percentage of Portfolio
BlackRock	29.5%
Fidelity	19.0%
Veritas	19.0%
Insight	15.0%
Property (UBS, Threadneedle, Lothbury, BlackRock)	10.0%
Partners Group	7.5%

All investments held by investment managers are held in the name of the Pension Fund so, if the investment manager fails, the Fund's investments are not classed amongst their assets.

Contractual credit risk is represented by the net payment or receipt that remains outstanding. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

In order to maximise the returns from Short-Term Investments and Cash Deposits, the Council invests any temporarily surplus funds in its bank accounts along with any surplus funds in the Gwynedd Pension Fund bank accounts. An appropriate share of the interest earned is paid to the Pension Fund and any losses on investment are shared with the Pension Fund in the same proportion. Due to the nature of the banking arrangements any surplus cash in the Pension Fund bank accounts is not transferred to the Council's bank accounts. As the Short-Term Investments are made in the name of Gwynedd Council they are shown in full on the Council's Balance Sheet. The Pension Fund element of the Short-Term Investments and Cash Deposits at 31 March 2018 was £37.0m (£15.4m at 31 March 2017).

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Council has also set limits as to the maximum percentage of deposits placed with any one class of financial institution. In addition, the Council invests an agreed percentage of funds in the money markets to provide diversification. Money market funds chosen all have AAA rating from a leading ratings agency. The Council believes it has managed its exposure to credit risk, and has had only one experience of default or uncollectable deposits when Heritable Bank went into administration in 2008. Full details can be seen in Note 27.

NOTE 18 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Employers in the Fund are not currently assessed for their creditworthiness or individual credit limits set. There is risk of being unable to collect contributions from employers with no contributing members (e.g. risk associated with employers with a small number of declining contributing members) so the Administering Authority monitors membership movements on an annual basis.

New employers to the Fund will need to agree to the provision of a bond or obtain a guarantee to reduce the risk of future financial loss to the Fund in the event of not being able to meet its pension liability on cessation. As shown in Note 26 two employers have provided bonds. Any future liabilities falling on the Fund as a result of cessation are borne by the whole Fund and spread across all employers. This is done to ensure that actuarial recovery periods and amounts are kept at a manageable level for smaller employers.

This risk has increased by a legal judgement, which potentially indicates that employers with no contributing members cannot be charged contributions under the LGPS Administration Regulations. This ruling, however, does not affect the ability to collect contributions following a cessation valuation under Regulation 38(2). The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions under Regulation 38 of the LGPS (Administration) Regulations 2008 between triennial valuations.

c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments to pay pensions and other costs and to meet investment commitments.

The Administering Authority has a cash flow system that seeks to ensure that cash is available if needed. In addition, current contributions received from contributing employers and members far exceed the benefits being paid. Surplus cash is invested and cannot be paid back to employers. The Fund's Actuaries establish the contributions that should be paid in order that all future liabilities can be met.

There is no limit on the amount that the Pension Fund bank account can hold. The amounts held in this account should meet the normal liquidity needs of the Fund. Any temporary surplus is invested by the Administering Authority in accordance with the Treasury Management Strategy Statement to provide additional income to the Pension Fund. Surplus cash is invested in accordance with the Statement of Investment Principles.

The Fund also has access to an overdraft facility through the Administering Authority's group bank account arrangements. This facility would only be used to meet short-term timing differences on pension payments. As these borrowings would be of a limited short-term nature, the Fund's exposure to credit risk is considered negligible.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2018 the value of illiquid assets was £202m, which represented 10.5% of the total Fund assets (31 March 2017: £198m, which represented 10.6% of the total Fund assets).

Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund investment strategy.

All financial liabilities at 31 March 2018 are due within one year as was the case at 31 March 2017.

Refinancing risk

The key risk is that the Council will be bound to replenish a significant proportion of its Pension Fund financial instruments at a time of unfavourable interest rates. The Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

NOTE 19 – FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme (Administration) Regulations 2008, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (Funding Strategy Statement) reviewed as part of the 2016 valuation.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund using a prudent long-term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment.
- to ensure that employer contribution rates are reasonably stable where appropriate.
- to minimise the long-term cash contributions which employers need to pay to the Fund by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return.
- to reflect the different characteristics of different employers in determining contribution rates by having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years.
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The Funding Strategy Statement sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the Funding Strategy Statement, there is still around a 66% chance that the Fund will return to full funding over the 20 years.

Funding Position as at the Last Formal Funding Valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £1,525 million, were sufficient to meet 91% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £145 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measured as per the Funding Strategy Statement. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its Funding Strategy Statement.

Principal Actuarial Assumptions and Method used to Value the Liabilities

Full details of the methods and assumptions used are described in the valuation report dated 31 March 2017.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

NOTE 19 – FUNDING ARRANGEMENTS (continued)

The key financial assumptions adopted for the 2016 valuation were as follows:

Financial assumptions	31 March 2016
Discount rate	3.9%
Salary increase	2.1%
Benefit increase	2.1%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long-term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

Mortality assumption	Male Years	Female Years
Current pensioners	22.0	24.2
Future pensioners (aged 45 at the 2016 valuation)	24.0	26.4

Copies of the 2016 valuation report and the Funding Strategy Statement are available on the Pension Fund's website www.gwynedd-pensionfund.org.uk

Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities. The effect of this has been broadly offset by strong asset returns. Both events have roughly cancelled each other out in terms of the impact on the funding position as at 31 March 2018.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

NOTE 20 - ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS19 basis every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund contribution rates and the Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 19) and has also used them to provide the IAS19, and FRS102 reports for individual employers in the Fund. The actuary has also valued ill health and death benefits in line with IAS19.

The actuarial present value of promised retirement benefits at 31 March 2018 and 2017 are shown below:

	31 March 2017	31 March 2018
	£m	£m
Active members	1,214	1,378
Salary increase rate	246	385
Discount rate	514	718
Total	1,974	2,481

As noted above the liabilities above are calculated on an IAS19 basis and therefore differ from the results of the 2016 triennial funding valuation (see Note 19) because IAS19 stipulates a discount rate rather than a rate that reflects market rates.

NOTE 20 - ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS (continued)

Assumptions used

The financial assumptions used are those adopted for the Administering Authority's IAS19 report as shown below:

Assumption	31 March 2017	31 March 2018
	%	%
Inflation/pension increase rate	2.4	2.4
Salary increase rate	2.4	2.4
Discount rate	2.6	2.7

The longevity assumption is the same as used for assessing the funding position as shown in Note 19 above.

The commutation assumption allows for future retirements to elect to take 50% of the maximum tax-free cash up to HMRC for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2018	Approximate % increase to liabilities	Approximate monetary amount
	%	£m
0.5% p.a. increase in the pension increase rate	8	208
0.5% p.a. increase in the salary increase rate	2	52
0.5% p.a. decrease in the discount rate	11	278

The principal demographic assumption is the longevity assumption. For sensitivity purpose the actuary estimates that a one year increase in life expectancy would increase the liabilities by approximately 3 – 5%.

NOTE 21 – CURRENT ASSETS

2016/17		2017/18
£'000		£'000
820	Contributions due - employees	842
2,845	Contributions due – employers	2,508
1,944	Sundry debtors	2,238
5,609	Total debtors	5,588
15,375	Cash	37,038
20,984	Total	42,626

Analysis of debtors

2016/17		2017/18
£'000		£'000
2,352	Gwynedd Council	2,111
560	Central government bodies	713
1,209	Other local authorities	1,074
3	NHS bodies	7
1,485	Other entities and individuals	1,683
5,609	Total	5,588

NOTE 22 – CURRENT LIABILITIES

2016/17		2017/18
£'000		£'000
2,591	Sundry creditors	2,370
282	Transfer value payable (leavers)	0
1,216	Benefits payable	1,578
4,089	Total	3,948

Analysis of creditors

2016/17		2017/18
£'000		£'000
1,051	Gwynedd Council	1,317
37	Central government bodies	70
138	Other Local Authorities	69
58	NHS bodies	0
2,805	Other entities and individuals	2,492
4,089	Total	3,948

NOTE 23 - ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC's)

The market value of the funds is stated below:

	Market value at 31 March 2017	Market value at 31 March 2018
	£'000	£'000
Clerical Medical	3,349	3,506
Equitable Life	229	226
Standard Life	53	70
Total	3,631	3,802

AVC contributions were paid directly to the three managers as follows:

	2016/2017	2017/2018
	£'000	£'000
Clerical Medical	561	591
Equitable Life	0	0
Standard Life	0	13
Total	561	604

NOTE 24 - RELATED PARTY TRANSACTIONS

Gwynedd Council

The Gwynedd Pension Fund is administered by Gwynedd Council. Consequently there is a strong relationship between the Council and the Pension Fund.

The Council incurred costs of £1,056,813 (£1,008,589 in 2016/17) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also one of the largest employers of members of the pension fund and contributed £29.87m to the Fund in 2017/18 (£23.21m in 2016/17). At the end of the year the Council owed £2.11m to the Fund (see Note 21) which was primarily in respect of contributions for

NOTE 24 - RELATED PARTY TRANSACTIONS (continued)

March 2018 and the Fund owed £1.32m to the council (see Note 22) which was primarily in respect of recharges from the Council.

The Gwynedd Pension Fund has three bank accounts which are held as part of Gwynedd Council's Group of Bank Accounts. The overall surplus cash held in the Group of Bank Accounts is invested on a daily basis. At the end of the financial year, Gwynedd Council pays interest over to the Pension Fund, based on the Fund's daily balances over the year. During 2017/18, the Fund received interest of £127,666 (£132,567 in 2016/17) from Gwynedd Council.

Governance

There were three members of the Pensions Committee who were in receipt of pension benefits from the Gwynedd Pension Fund during 2017/18 (committee members J.B. Hughes, P. Jenkins and the late T.O. Edwards). In addition, committee members S.W. Churchman, D. Cowans, S. Glyn, J.B. Hughes, A.W. Jones, H.E. Jones, W.T. Owen, and P. Read were active members of the Pension Fund.

Two members of the Pension Board were in receipt of pension benefits from the Gwynedd Pension Fund during 2017/18 (Board member H.E. Jones and S. Warnes). In addition, Board members A.W. Deakin, A.L Lloyd Evans, O. Richards and H. Trainor are active members of the Pension Fund.

Key Management Personnel

The CIPFA Code of Practice on Local Authority Accounting exempts local authorities from the key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members' allowances in the Code satisfy the key management personnel disclosure requirements of IAS24. This also applies to the accounts of Gwynedd Pension Fund.

The disclosures required can be found in the accounts of Gwynedd Council.

NOTE 25 - COMMITMENTS UNDER INVESTMENT CONTRACTS

Outstanding capital commitments (investments) at 31 March were as follows:

	Total commitments €'000	Commitment at 31 March 2017 €'000	Commitment at 31 March 2018 €'000
P.G. Direct 2006	20,000	776	776
P.G. Global Value 2006	50,000	3,477	3,477
P.G. Secondary 2008	15,000	1,960	1,960
P.G. Global Value 2011	15,000	3,372	2,712
P.G. Global Infrastructure 2012	40,000	15,894	12,133
P.G. Direct 2012	12,000	1,181	1,181
P.G. Global Value 2014	12,000	4,638	4,109
P.G. Direct 2016	50,000	34,373	29,374
Total Euros	214,000	65,671	55,722
	\$'000	\$'000	\$'000
P.G. Emerging Markets 2011	7,000	1,623	1,225
P.G. Secondary 2015	38,000	32,723	29,150
P.G. Direct Infrastructure 2015	43,600	35,219	30,896
Total Dollars	88,600	69,565	61,271

'PG' above refers to Partners Group, the investment manager which invests in 'alternatives' (private equity and infrastructure) on behalf of the Fund.

These commitments relate to outstanding call payments on unquoted limited partnership funds held in the private equity part of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a number of years from the date of the original commitment.

NOTE 26 – CONTINGENT ASSETS

Two admitted body employers in the Gwynedd Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default.

NOTE 27 – IMPAIRMENT LOSSES

a) Impairment for bad and doubtful debts

As explained in Note 5 there has not been any impairment for bad and doubtful debts.

b) Impairment of Icelandic bank deposit

During 2008/09 the Council made a deposit of £4m with Heritable Bank which is a UK registered bank under Scottish Law. The pension fund's share of that investment was £565,200. The company was placed in administration on 7 October 2008. The Council has received a return of £3,938,407, equating to 98% from the administrators up to 31 March 2018.

NOTE 28 - PENSION FUND PUBLICATIONS

A separate Annual Report is produced for the Pension Fund. This document includes the accounts for the Fund along with more information regarding the administration and investment activities. It includes the following documents:

Statement of Investment Principles
Funding Strategy Statement
Governance Policy and Governance Compliance Statement
Communications Policy Statement

Copies can be obtained from the Pension Fund website www.gwyneddpensionfund.org.uk on the investment page or by contacting Mrs Caroline Roberts on 01286 679128.



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Audit of Financial Statements Report – Gwynedd Pension Fund

Audit year: 2017/18

Date issued: September 2018

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

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.

This document is also available in Welsh.

Contents

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

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Summary report

Introduction

- 1 The Auditor General is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of Gwynedd 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 Gwynedd Pension Fund are £19,300k for income and expenditure items. 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.
- 5 This report sets out for consideration the matters arising from the audit of the financial statements of Gwynedd Pension Fund, for 2017-18 that require reporting under ISA 260.

Status of the audit

- 6 We have now substantially completed the audit work.
- 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 already discussed these issues with Caroline Roberts (Investment Manager) during our close meeting on 30 August 2018.

Proposed audit report

- 8 It is the Auditor General's intention to issue an **unqualified audit report** on the financial statements subject to satisfactory resolution of outstanding matters above and once you have provided us with a Letter of Representation based on the one set out in [Appendix 1](#).
- 9 The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

- 10 There are no misstatements identified in the financial statements, which remain uncorrected besides a minor disclosure deficiency in relation to the analysis of investment disclosures as detailed in finding 5 below.

Corrected misstatements

All corrected misstatements are disclosed in Appendix 3 of this report.

Significant Risks

Financial audit risk	Proposed audit response
<p>Management Override of Controls. 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>My audit team performed the following tests to address the significant risk around Management Override of Controls:</p> <ul style="list-style-type: none">• using enhanced data analytics to analyse the whole journal population for characteristics of interest and then substantively test the appropriateness of the journals identified;• reviewed the design and implementation of controls over journal entries to the financial ledger and accounting estimates;• reviewed accounting estimates for evidence of bias; and• evaluated the rationale for any significant transactions outside the normal course of business including those with related parties. <p>No issues were identified, other than the internal control recommendation raised. Please refer to Appendix 3 for further details.</p>

Other significant 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.
 - We did not encounter any significant difficulties during the audit.
 - 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 not any other matters specifically required by auditing standards to be communicated to those charged with governance.

Recommendations arising from our 2017/18 financial audit work

- 12 The recommendations arising from our financial audit work are set out in Appendix 3. 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

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

Appendix 1

Draft Letter of Representation

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

27 September 2018

Representations regarding the 2018 financial statements

This letter is provided in connection with your audit of the financial statements of Gwynedd 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:

1. The preparation of the financial statements in accordance with legislative requirements and Code of Practice on Local Authority Accounting in the United Kingdom 2017/18; in particular the financial statements give a true and fair view in accordance therewith.
2. The design, implementation, maintenance and review of internal control to prevent and detect fraud and error.
3. We confirm that the Fund is a Registered Pension Fund. We are not aware of any reason why the tax status of the Fund should change.
4. We have not made any reports to The Pensions Regulator nor are we aware of any such reports having been made by any of our advisors. We confirm that we are not aware of any late contributions or breaches of the payment schedule/schedule of contributions that have arisen which we considered did not require reporting. We also confirm that we are not aware of any other matters which have arisen that would require a report to The Pensions Regulator.
5. We have drawn to your attention all correspondence and notes of meetings with regulators.

6. We confirm that, under section 27 of the Pensions Act 1995, no person charged with governance of the Fund is connected with, or is an associate of Wales Audit Office, which would render Wales Audit Office ineligible to act as auditor to the Fund.
7. There have been no changes to the Fund rules during the year and up to the current date.

Information provided

We have provided you with:

Full access to:

1. 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;
2. 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;
3. The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
4. Our knowledge of fraud or suspected fraud that we are aware of and that affects Gwynedd 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.
5. Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
6. 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.
7. The identity of all related parties and all the related party relationships and transactions of which we are aware.
8. The Membership data contained within the annual report is accurate and a true and fair view of the Pension Fund's membership numbers.

Financial statement representations

9. All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.
10. Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.
11. Related party relationships and transactions have been appropriately accounted for and disclosed.

- 12. All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.
- 13. 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.
- 14. 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 aggregate, to the financial statements taken as a whole.

Representations by Gwynedd Audit & Governance 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 Gwynedd Audit & Governance Committee on 27 September 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:

.....

Dafydd L Edwards
 Head of Finance
 Gwynedd Council

Date:

.....

Signed by:

.....

Councillor R Medwyn Hughes
 Audit & Governance Committee
 Chairman

Date:

.....

Appendix 2

Proposed independent auditor's report of the Auditor General for Wales to the members of Gwynedd Council as administering authority for Gwynedd Pension Fund

Report on the audit of the financial statements

Opinion

I have audited the financial statements of Gwynedd Pension Fund for the year ended 31 March 2018 under the Public Audit (Wales) Act 2004. Gwynedd 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 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;
- 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 twelve months from the date when the financial statements are authorised for issue.

Report on other requirements

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 Gwynedd 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.

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

24 Cathedral Road
Cardiff
CF11 9LJ

Appendix 3

Recommendations arising from our 2017-18 financial audit work

We have set out below all the recommendations arising from our audit along with management's response to each of the findings. We will follow up on these recommendations next year and include any outstanding issues in next year's audit report:

1. Market value reconciliation -Insight	
Findings	<p>On review of the Insight 2017/18 report, we identified £79,950,000 of sales and £79,950,000 of purchases which should have been included within the financial statements. These are liquidity funds transactions which we are buying and selling units in a fund and these are genuine investment transactions.</p> <p>We also identified a cash account - IS 2497 totalling £20,908 at the year end, which had not been included within the financial statements.</p>
Priority	Medium
Recommendation	We recommend that a full cash reconciliation is completed quarterly to ensure all of these items are identified and accounted for going forward
Management response	<p>The £79.950m has been amended in the accounts</p> <p>The £20,908 cash is held within the Insight Fund so does not appear as a separate amount in the accounts. We have the overall value of the fund in our accounts.</p>
Implementation date	5/09/18

2. Monthly contributions reconciliation	
Findings	<p>During our review of the controls around the accuracy & completeness of contributions data received from the Fund's Employers, we noted that although the contributions received are recalculated each month, these are based purely on a monthly contribution return completed by the employer, which is not currently checked to any underlying data. The Fund has no comfort that the figures within these returns are accurate or complete.</p> <p>Though the responsibility for this does lie with the Employer, the Fund should be able to obtain a greater degree of comfort over the accuracy and completeness of contributions. Currently there is no way of knowing how many members it relates to, any changes etc.</p>
Priority	High
Recommendation	On enquiry it was confirmed that the fund administering authority's management have introduced a 'compliance checklist', which they require employers' statutory finance officers, or equivalent, to sign, confirming that various processes and checks have taken place (contributions in line with %

	bandings, starters, leavers, correct pay details etc.) and that information and contributions passed over to the fund are accurate and in line with LGPS regulations. This provides some additional comfort, though still does not give the Fund access to the detailed data. We recommend that the checklist is used in each instance going forwards and if possible, further checks performed to ensure that the underlying data is complete and accurate. We understand management are making the checklist compulsory from next year, where data integrity is not supported by 'i-Connect' on-line interfaces.
Management response	The Fund relies on the reports from the employers and the signed compliance checklist will be helpful. The Accounts team do not have the resources to reconcile back to the payroll of individual employers.
Implementation date	March 2019

3. Late monthly contributions

Findings	On our review of the key monthly controls around the receipt of contributions, we noted that if contributions are not received by their due date the pension accountant team will chase the members. On further inquiry, we confirmed that due to short staffing, the timeliness of contributions during 17/18 was not monitored at all.
Priority	Medium
Recommendation	We would recommend that contribution monitoring is resumed. Additionally, we would recommend that a process is put in place, to help mitigate late contributions before they happen, rather than purely chasing those that are already late.
Management response	Due to the staff absences over the last 16 months this was not possible. With a complete team this will be possible in 2018/19
Implementation date	N/A

4. Fair Value Hierarchy disclosure

Findings	On review of the fair value hierarchy categorisations of the Fund's financial instruments, we identified that the UBS Triton Property Trust Fund, the UBS (Lux) Core Real Estate –Euro fund and the Lothbury Property Trust fund should all be held at Level 3 due to redemption restrictions in place, however were initially held at level 2. There were also several funds held at Level 1 that should have been at Level 2 as they are not exchange traded.
Priority	Low
Recommendation	We recommend that these are reviewed carefully going forward to ensure that the categorisation is appropriate for all funds.
Management response	This has been amended in the accounts.
Implementation date	N/A

5. Investment note disclosures

Findings	<p>On review of the investment and investment income notes in the financial statements, we identified that they are not currently being analysed in-line with the current requirements of IFRS and CIPFA. The analysis should split the investments into these headings:</p> <ul style="list-style-type: none"> - Bonds (analysed between public sector and other) - Equities (including convertible shares) - Pooled investment vehicles (analysed between unit trusts, unitised insurance policies and managed funds, showing separately those funds invested in property) - Property - Cash deposits - Other investment balances <p>Further to this, the 3 lines on the financial statements shown below, should be grouped together in the fund account and called "Other income"</p> <ul style="list-style-type: none"> - Interest on deferred contributions - Income from divorce calculations - Income from transfer value calculations
Priority	Low
Recommendation	We recommend that the investment and investment income balances are reanalysed in line with the above categories.
Management response	Due to the staff absences over the last 16 months this was not possible. We will reanalyse in the 2018/19 accounts.
Implementation date	N/A

Update on 2016-17 Recommendations

1. Membership Numbers

Recommendation	<p>It is recommended that the Pension Manager develops an Altair report that can count the total (and identify individual) retrospective changes to membership data.</p> <p>In addition, it is recommended that the Pension Database Administrator runs a data extract of Membership data on, or as close to 31 March as possible.</p> <p>It is also recommended that the Pension Fund Manager performs a reconciliation between prior-year reported membership numbers and revised membership numbers.</p>
Priority	Medium
2016-17 Finding	<p>We identified that the Pension Manager could not supply a membership number reconciliation between 2015-16 and 2016-17.</p> <p>The reconciliation should show movements of members in the financial year and retrospective changes that revised any prior-year figures. This reconciliation would allow us to audit the movement of member numbers, which we have not been able to do.</p>
Management response	<p>An Altair report will be developed to produce the movements in membership between two specific dates. This should enable reconciliation.</p> <p>Running the data extract of membership data close to 31 March will not solve the problem as the March data is entered during April when it is received from employers.</p>
2017-18 Finding	<p>We identified that the Pension Manager could not supply a membership number reconciliation between 2016-17 and 2017-18.</p> <p>The reconciliation should show movements of members in the financial year and retrospective changes that revised any prior-year figures. This reconciliation would allow us to audit the movement of member numbers, which we have not been able to do.</p>
Status:	<p>Recommendation Re-raised</p> <p>Updated management comment: This is aspirational and requires third party software developments even if it is possible for it to be delivered in due course</p>

2. Improving Banking Controls

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PY Recommendation	It is recommended that the euro account is brought into the eFinancials accounting system. In addition, it is recommended that bank reconciliations are prepared and reviewed in a timely manner.
Priority	Medium
2016-17 Finding	We identified that the euro bank account is not set up on the eFinancials accounting system.
Management response	We will ensure that all bank reconciliations are reviewed by another officer. We will investigate the practicality of bringing the Euro account onto the ledger. The bank system requires three officers to process transactions, which minimises the risk of misappropriation of funds.
2017-18 Update	<p>We identified that the euro bank account is still not set up on the eFinancials accounting system.</p> <p>We investigated the practicality and have decided not to bring the account into the accounting system. Transactions are transferred to the sterling bank account group at the end of each quarter.</p>
Status	Recommendation Closed. The quarterly reconciliation is satisfactory.

3. Suspense Accounts are not Formally Reconciled

PY Recommendation	It is recommended that the Fund's suspense accounts are reviewed on a monthly basis.
Priority	Medium
2015-16 Finding	We identified that the suspense account which is used to allocate the employee and employer contributions on an almost daily basis and the suspense account which posts transactions between the Pension Fund and Gwynedd Council are not formally reconciled and signed off as prepared and then separately reviewed.
Management Response	No specific response made as recommendation largely focussed on review of journals.
2016-17 Finding	It was identified that the suspense accounts are not currently being formally reconciled on a monthly basis
Status	Recommendation Revised: It is recommended that the Fund's suspense accounts are reconciled and reviewed on a monthly basis.
Management response	Due to the staff absences over the last 16 months this was not possible. With a complete team this will be possible in 2018/19.

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