

Archwilydd Cyffredinol Cymru
Auditor General for Wales



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Audit of Financial Statements Report

Gwynedd Pension Fund

Audit year: 2015-16

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Status of report

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

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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 2016 and its income and expenditure for the year then ended.
2. We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely those that might result in a reader of the accounts being misled.
3. The quantitative levels at which we judge such misstatements to be material for Gwynedd Pension Fund are £15,254,000 for income and expenditure items and working capital balances. 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 2015-16, that require reporting under ISA 260.

Status of the audit

6. We have now substantially completed the audit work. At the date of our presentation of this report the following audit work remains outstanding:
 - finalisation of our testing including testing for post balance sheet events and committee minute reviews;
 - finalisation of our quality assurance and partner reviews; and
 - receipt of letter of representation.
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 the Investment Manager on 13 September 2016.

Proposed audit report

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

Significant issues arising from the audit

Uncorrected misstatements

- 10.** We set out below two judgemental misstatements and one factual misstatement that we have identified in the financial statements, which have been discussed with management and request that these are corrected but remain uncorrected. If you decide not to correct these misstatements, we ask that you provide us with the reasons for non-correction.
- Judgemental – Investment Valuations – Property: We developed an independent expectation for the valuation of the property funds held by Gwynedd. Our testing identified a judgemental overstatement of the property investments held (Blackrock and UBS) of £2,760,000.
 - Factual – We identified two items recorded in the debtors ledger which had actually been received in the bank before the year-end:
 - Cr Debtors £4,300,000; and
 - Dr Cash £4,300,000.

Corrected misstatements

- 11.** There are no corrected misstatements which we consider should be drawn to your attention.

Significant risks

- 12.** In our Financial Audit Plan, we set out information regarding the significant audit risks that were identified during our planning process. The table below sets out the outcome of our audit procedures in respect of those risks. We have conducted our audit in line with the Financial Audit Plan.

Potential risks assessed	Testing Completed in Gwynedd Council
<p>Accuracy of membership data</p> <p>Following an issue identified and reported in previous years there is a risk that membership records held in the pensions administration system are not up to date, as some Employer bodies do not always provide appropriate information on a timely basis.</p>	<p>On further investigation of this issue in the course of the audit, we identified that this risk was for admitted bodies rather than the pension fund.</p>
<p>Completeness and accuracy of contributions</p> <p>Unlike the position in the private sector, we are not required to issue a separate statement on contributions for the Fund. Nevertheless, in view of the complexity arising from the participation of different employers within the Fund, we have included the identification, calculation and payment of contributions as an area of significant risk.</p>	<p>My audit team performed the following tests to address the significant risk around contributions:</p> <ul style="list-style-type: none"> • We reviewed the design and implementation of controls present in the Fund for ensuring contributions from all Scheduled and Admitted bodies are identified and calculated correctly. • We performed sample tests of details to test whether each material income stream was calculated in accordance with the actuarial valuation and schedule of rates. • We developed an expectation of the expected contributions for the year. <p>No issues identified.</p>

Potential risks assessed

Valuation of investments

The Fund makes some use of investments in unquoted investment vehicles, such as private equity funds.

Market volatility raises questions about how to value private equity funds. It would normally be expected that the reasonableness of the Fund managers' valuation could be assessed by comparison with the funds' latest available audited accounts as adjusted for subsequent cash movements (investments and distributions) between the pooled investment vehicle and the investors. However, market volatility means such comparison may be inappropriate especially when there is a significant time period between the latest audited accounts and the Fund year-end.

Accuracy of benefit calculations

Changes were made to the Fund from April 2008 which introduced complexities into the calculation of both benefits in retirement and ill health and death benefits which are in addition to the annual increases required by the 1997 Regulation and Pension (Increases) Act 1971.

The risk noted was that benefits payable could be inaccurately recorded and that unauthorised payments could be made to non-existent members.

Testing Completed

My audit team performed the following tests to address the significant risk around contributions:

- We reviewed the design and implementation of controls present in the Fund for ensuring investments are valued correctly.
- We reviewed the internal control reports to gain an understanding of the control environment at the investment managers and reviewed management's consideration of these reports.
- We obtained third party confirmations of investment balances as at 31 March 2016.
- We selected a sample of investments and considered the assumptions adopted in the valuations to assess their appropriateness with reference to independently obtained valuations.
- We engaged our internal financial instrument experts to ensure our testing approach was appropriate given the Fund's specific investment strategy and portfolio.

No issues other than property were identified.

My audit team performed the following tests to address the significant risk around contributions:

- We reviewed the design and implementation of controls present at the Fund for ensuring the accuracy, completeness and validity of benefits through discussion with the pensions team and we will test that controls were in force during the year under review.
- We obtained a schedule of benefits paid and selected a sample of benefits for detailed cradle to grave testing by our pension specialist. Our selected sample was tested through agreement to supporting documentation and review of the calculation, by reference to the qualifying service, Fund rules and benefit choices made by the member.

No issues identified.

Other significant issues arising from the audit

- 13.** In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were no issues arising in these areas this year:
- We have no concerns about the qualitative aspects of your accounting practices and financial reporting.
 - We 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, however, we have raised a number of recommendations in [Appendix 3](#).
 - There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.

Recommendations arising from our 2015-16 financial audit work

- 14.** 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

- 15.** As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 16.** We have complied with ethical standards and, in our professional judgement, 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

Final Letter of Representation

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

29 September 2016

Representations regarding the 2016 financial statements

This letter is provided in connection with your audit of the financial statements (including that part of the Remuneration Report that is subject to audit) of Gwynedd Pension Fund for the year ended 31 March 2016 for the purpose of expressing an opinion on their truth and fairness and their proper preparation. We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you:

Management representations

Responsibilities

We have fulfilled our responsibilities for:

- The preparation of the financial statements in accordance with legislative requirements and Code of Practice on Local Authority Accounting in the United Kingdom 2015/16; in particular the financial statements give a true and fair view in accordance therewith.
- The design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

Information provided

We have provided you with:

- Full access to:
 - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
 - additional information that you have requested from us for the purpose of the audit; and

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- unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
 - The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
 - Our knowledge of fraud or suspected fraud that we are aware of and that affects 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.
 - Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
 - Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
 - The identity of all related parties and all the related party relationships and transactions of which we are aware.
 - 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

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in aggregate, to the financial statements taken as a whole.

Representations by Gwynedd Audit 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 Committee on 29 September 2016.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

The audit report refers to two uncorrected misstatements in Paragraph 10. The first is judgemental and not substantial in the context of the Fund's value. The second regarding debtors and cash was brought to the relevant officer's attention late during the audit and has no impact on the bottom line, but will be addressed in 2016-17.

Signed by:

Dafydd L Edwards
Head of Finance
Gwynedd Council

Date:

Signed by:

Councillor Trevor Owen Edwards
Audit Committee Chairman

Date:

Appendix 2

Proposed audit report of the Auditor General to Gwynedd Council

Auditor General for Wales' report to the Members of Gwynedd Council

I have audited the accounting statements and related notes of:

- Gwynedd Council; and
- Gwynedd Pension Fund

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

Gwynedd Council's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, and the Cash Flow Statement.

Gwynedd Pension Fund's accounting statements comprise the Fund Account and the Net Assets Statement.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the Auditor General for Wales

As explained more fully in the Statement of Responsibilities for the Statement of Accounts the responsible financial officer is responsible for the preparation of the statement of accounts and Gwynedd Pension Fund's accounting statements, which gives a true and fair view.

My responsibility is to audit the accounting statements and related notes in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to Gwynedd Council's and Gwynedd Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the responsible financial officer and the overall presentation of the accounting statements and related notes.

In addition, I read all the financial and non-financial information in the Narrative Report to identify material inconsistencies with the audited accounting statements and related notes and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on the accounting statements of Gwynedd Council

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Gwynedd Council as at 31 March 2016 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16.

Opinion on the accounting statements of Gwynedd Pension Fund

In my opinion, the pension fund accounts and related notes:

- give a true and fair view of the financial transactions of Gwynedd Pension Fund during the year ended 31 March 2016 and of the amount and disposition of the fund's assets and liabilities as at that date, and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16.

Opinion on other matters

In my opinion, the information contained in the Narrative Report is consistent with the accounting statements and related notes.

Matters on which I report by exception

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept;
- the accounting statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit;
- the Annual Governance Statement does not reflect compliance with guidance.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of Gwynedd Council in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

For and on behalf of
Huw Vaughan Thomas
Auditor General for Wales
24 Cathedral Road
Cardiff
CF11 9LJ
30 September 2016

Signed:

Appendix 3

Recommendations arising from our 2015-16 financial audit work

We set out all the recommendations arising from our audit with management's response to them. We will follow up these next year and include any outstanding issues in next year's audit report:

Improving Banking Controls	
Findings	The Fund has four bank accounts. We identified that the euro bank account is not set up on the eFinancials accounting system. We also identified that for December 2015, two bank accounts had an untimely review (prepared on 5 January 2016, and reviewed on 2 February 2016). In addition, we identified that one bank account reconciliation showed no evidence of review and that a further account reconciliation showed no evidence of sign off of preparation or review.
Priority	Medium.
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.
Benefits of implementing the recommendation	There would be improved control over the bank accounts, with management reviewing and processing reconciling items in a timely manner. In addition, ensuring the reviews are completed and in a timely manner will minimise the risk of misappropriation of funds.
Accepted in full by management	Partially.
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.
Implementation date	Immediately for the bank reconciliation review. During 2016-17 for the Euro account.

Secondary Review

Findings	We identified that journals are not reviewed by a more senior member of the team before being posted. We also 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.
Priority	Medium.
Recommendation	It is recommended that journals are authorised before being posted.
Benefits of implementing the recommendation	Improved oversight and control and also minimising the risk of management override and fraud. In addition, a regular review of the suspense account ensures that all transactions are being appropriately allocated.
Accepted in full by management	Partially.
Management response	The staff who enter journals are at a responsible level and review of each journal would take up managerial time, but we intend to generally review the processing of journals and will do so in consultation with Deloitte.
Implementation date	N/A

Investments should be held at Market Value

Findings	We identified that the Fund holds investments in the ledger at book cost, relying on a complex set of spreadsheets to reconcile and derive the year-end market value.
Priority	Medium
Recommendation	It is recommended that the Fund's investments are held at market value in the ledger.
Benefits of implementing the recommendation	Recording investments at market value in the ledger would remove the reliance on a complex manual Excel spreadsheet that reconciles the investments between market value and book value for the preparation of the year-end accounts.
Accepted in full by management	Partially.
Management response	We will consider the practicality of recording the market value on the ledger. The year-end market value is not derived from the reconciliation. It is derived from the reports from the custodian and the investment managers. The reconciliation ensures that the ledger entries are correct.
Implementation date	During 2016-17.

Membership Numbers

Findings	<p>We identified that the Pension Manager could not supply a membership number reconciliation between 2014-15 and 2015-16.</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>
Priority	Medium.
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>
Benefits of implementing the recommendation	<p>These recommendations will give better oversight to the changes to membership of the Pension Fund. In addition, these steps will also improve data accuracy for actuarial valuation and better accuracy over the liability of the Fund.</p>
Accepted in full by management	Partially.
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>
Implementation date	During 2016-17.

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