



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Audit 2008-09

September 2009

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Ref: 591A2009

Audit of pension fund accounts – report to
those charged with governance

Gwynedd Pension Fund

This document is a draft version pending further discussions with the audited and inspected body. Information may not yet have been fully verified and should not be widely distributed.

It is my intention as Appointed Auditor to issue an unqualified auditor's report on the pension fund accounts and related notes.

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Summary

1. Gwynedd Council (the Council) is responsible for the preparation of the accounts and related notes that present fairly the financial transactions of Gwynedd Pension Fund during the year ended 31 March 2009 and the amount and disposition of the fund's assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year. I am required to give my opinion on the fairness of the pension fund accounts.
2. The Council submitted a Statement of Accounts to me in June 2009 and I have now substantially completed the audit of the pension fund accounts and related notes. I do not seek to obtain absolute assurance that the pension fund accounts and related notes present fairly the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year, or assurance that they are accurate in every regard, but instead adopt a concept of materiality. In planning and conducting the audit of the pension fund accounts, I seek to identify material errors in the accounts and related notes, that is, those which might result in a reader of the accounts being misled.
3. The quantitative levels at which I judge such errors to be material for the Pension Fund are £341,000 for fund account items and net assets statement items relating to working capital and £6.582 million for other net assets statement items. Whether an item is judged to be material is not only affected by quantitative issues but can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.
4. Now that the pension fund audit is substantially complete, this report details the key matters arising from it. These matters must be communicated to those charged with governance, in accordance with International Standard on Auditing (ISA) 260, prior to giving an opinion on the pension fund accounts and related notes. More detailed matters arising and recommendations will be agreed with officers.
5. ISA 260 requires auditors to report to those charged with governance the following matters before they give an opinion on the accounting statements and related notes:
 - relationships that may bear on the auditor's independence;
 - audit planning information; and
 - findings from the audit, including the auditor's views on the qualitative aspects of the entity's accounting and reporting.
6. The first two matters were reported to you in the Pension Fund Audit Strategy. This report has been prepared to discharge my responsibilities with regard to the third point. My findings are:

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- I have concerns about the qualitative aspects of some of your accounting practices and financial reporting;
 - there are no uncorrected misstatements;
 - I do not expect to modify the standard auditor's report;
 - I did not identify material weaknesses in your internal controls;
 - there are no other matters that I am required by other ISAs to report to you; and
 - there is one matter of governance interest to report.
7. It is my intention to issue an unqualified auditor's report on the pension fund accounts and related notes once the Council has provided me with the Letter of Representation as set out in Appendix 1

I have concerns about the qualitative aspects of some of your accounting practices and financial reporting

8. In the course of the audit I consider qualitative aspects of the pension fund's financial reporting process. I evaluate the information provided by the pension fund accounts and related notes to determine if it is relevant, reliable, comparable, material and easy to understand.
9. I wish to draw the following matters to the attention of the Committee:
 - The Council accounts (in its records) for investments at book value, whilst in the financial statements, investments are shown at market value. As a result, the calculation of the change in the market value of investments is a one off annual exercise carried out as part of the accounts preparation. The Council does not have a process in place to independently verify the reasonableness of the movement and as result had not identified a misposting of a transaction for £1.592 million. Correction of this amount increased both the net additions from dealing with members in the year and the change in market value of investments. It did not impact on the net assets of the Fund which were correctly stated (subject to the audit adjustment for benefits payable – see point below).
 - The Council does not have a process in place to identify that it has accrued for all of the benefits payable (in lump sums or death benefits) for retirements and deaths up to the 31 March. As a result, my audit work identified that the Council had not accrued for costs of £193,000.
 - The draft statements did not adequately disclose a Forward Currency Contract held within its investment portfolio, as required by the Code of Practice on Local Authority Accounting in the United Kingdom 2008 – a Statement of Recommended Practice
 - When admitted bodies pay over the employer and employee contributions collected on a monthly basis to the Pension Fund, they provide additional information which both supports and analyses the deductions. However, Gwynedd Council itself is failing to provide this information to the Pension Fund until sometime after it is due and the Pension Fund needs to ensure it obtains this key financial information in a more timely fashion.

There are no uncorrected misstatements

10. I report to you all uncorrected misstatements other than those of a clearly trivial nature (trivial is defined as entirely inconsequential, whether taken individually or in aggregate, either quantitatively and/or qualitatively). On the basis of my standard methodology, the financial limit for what I consider trivial has been

calculated at £17,000 for fund account items and net assets statement items relating to working capital and £100,000 for other net assets statement items.

11. No non-trivial misstatements were identified during the course of my audit, that have not been corrected.
12. Appendix 2 contains a summary of the corrections that have been made to the accounts presented for audit.

I do not expect to modify the standard auditor's report

13. I report any proposed modifications to the standard auditor's report to ensure that you are aware of the reasons for the modifications and have the opportunity to provide any further information and explanations in respect of the matter(s) giving rise to the modification.
14. The report comments on whether the accounts and related notes present fairly the financial transactions of the pension fund during the year ended 31 March 2009 and the amount and disposition of the fund's assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.
15. On the basis of my audit work, no matters have been identified that would require any modification to the audit opinion.
16. A copy of the auditor's report can be found on pages 83 and 84 of the Council's 2008-09 Statement of Accounts

I did not identify material weaknesses in your internal controls

17. A material weakness in internal control is defined by ISA 260 as 'a deficiency in design or operation which could adversely affect the entity's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements'.
18. I do not, however, normally report information to you concerning a material weakness you know about and have taken appropriate action to correct, unless the weakness is symptomatic of broader weaknesses in the overall control environment and there is a risk that other material weaknesses may occur.
19. You should be aware that I do not provide a comprehensive statement of all weaknesses that may exist in the internal controls, or of all improvements that may be made, but have addressed only those matters that have come to my attention as a result of the audit procedures performed.
20. I did not identify material weaknesses in your internal controls.

There are no other matters which I am required by other ISAs to report to you

21. Other auditing standards require me to communicate with you in other specific circumstances including where:
 - I suspect or detect fraud, even if the potential effect is not material to my audit of the pension fund accounts and related notes, unless I am prohibited from doing so under money laundering regulations; and
 - information is presented within documents containing the audited statement of accounts which is misstated, or is materially inconsistent with the audited statement of accounts.
22. There are no other matters which I am required by other ISAs to report to you.

There is one matter of governance interest to report

23. I am also required to report to you any other significant audit matters of governance interest to allow you to take appropriate action.
24. As Members will be aware there is an on-going issue concerning investments held by the Authority in 4 Icelandic banks that collapsed in October 2008. As a consequence, it was necessary for the Authority to consider the extent to which these events have impaired the value of these deposits for its 2008/09 accounts.
25. CIPFA issued guidance earlier in the year outlining the expected position in terms of recovery and this guidance has been applied by all public sector bodies affected by the banks' collapse and the Authority's draft statement of accounts correctly reflected this impairment adjustment.
26. CIPFA issued revised guidance early in September outlining the latest updated position in terms of likely recovery. The Council has reviewed this updated information and has calculated that the impact of the change would be a reduction of £5,000 impairment in the value of deposits. As this amount is not material and may be subject to change no further amendment has been made to the statement of accounts.

Final Letter of Representation

Anthony Barrett
Appointed Auditor
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

28 September 2009

Dear Mr Barrett,

REPRESENTATIONS REGARDING THE 2008/2009 ACCOUNTS

This letter is provided in connection with the audit of the accounts and related notes of the Gwynedd Pension Fund (the Pension Fund) for the year ended 31 March 2009 for the purpose of expressing an opinion as to whether they present fairly, in all material respects, the financial transactions of the Pension Fund during the year ended 31 March 2009 and the amount and disposition of the fund's assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year in accordance with the Accounts and Audit (Wales) Regulations 2005 and the Code of Practice on Local Authority Accounting in the United Kingdom - a Statement of Recommended Practice 2008 (the SORP).

Overall representations

All the transactions undertaken by the Pension Fund have been properly reflected and recorded in the accounting records.

The Pension Fund has complied with all aspects of contractual agreements that would require adjustment to, or disclosure in, the accounting statements and related notes.

The pension fund accounts and related notes are free of material misstatements, including omissions.

All books of account and supporting documentation and all minutes of meetings of the Pension Fund have been made available to you.

The Pension Fund has no plans or intentions that may materially alter the carrying value or classification of investments, assets and liabilities reflected in the accounting statements and related notes.

The measurement methods, including the related assumptions, used in determining fair values are appropriate and have been applied consistently. Disclosures relating to fair values are complete and appropriate.

There are no uncorrected misstatements identified during the audit.

Investments

General

All investments included in the net assets statement were in existence at the net assets statement date and owned by the Pension Fund, and free from any lien, encumbrance or charge, except as disclosed in the accounts. The net assets statement includes all investments owned by the Pension Fund. The Pension Fund's investments have been reviewed for impairment and any such impairment reflected in the accounts accordingly.

Current assets

On realisation in the ordinary course of the Pension Fund's operations, the current assets in the net assets statement are expected to produce at least the amounts at which they are stated. Adequate provision has been made against all amounts owing to the Pension Fund which are known, or may be expected, to be irrecoverable.

There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

Liabilities

General

All liabilities, both actual and contingent, have been recorded and disclosed as appropriate as well as all guarantees that we have given to third parties.

There is no pending litigation which may result in significant loss to the Pension Fund, and which have not been disclosed in the accounting statements and related notes, either as current or contingent liabilities.

Results

Except as disclosed in the accounting statements and related notes, the results for the year were not materially affected by transactions of a sort not usually undertaken by the Pension Fund, or circumstances of an exceptional or non-recurring nature.

Internal control

I acknowledge my responsibility for the design and implementation of internal control to prevent and detect error. There have been no:

- irregularities involving management who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; and
- communications from regulatory agencies concerning non-compliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.

Post balance sheet events

Except as disclosed in the pension fund accounts and related notes, there have been no material changes since the date of the net assets statement affecting liabilities and commitments, and no events or transactions have occurred which, though properly excluded from the pension fund accounts and related notes, are of such importance that they should have been brought to the notice of the auditor.

Representations by those charged with governance

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the fair presentation of the pension fund accounts and related notes in accordance with the applicable financial reporting framework.

We acknowledge our collective responsibility for the preparation of the pension fund accounts and related notes, which were approved by Gwynedd Council's Audit Committee on 28/09/2009.

We have disclosed to you all known or possible non-compliance with laws and regulations whose effects should have been considered when preparing the pension fund accounts and related notes.

There are no other material transactions with related parties (as defined by FRS 8 and the SORP), other than those recorded and disclosed in the pension fund accounts and related notes.

We acknowledge our responsibility for the design and implementation of internal control to prevent and detect fraud and have disclosed to you the results of our assessment of the risk that the pension fund accounts may be materially misstated as a result of fraud.

We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Pension Fund's accounts and related notes communicated to the Pension Fund by employees, former employees, regulators or others.

We have disclosed to you our knowledge of fraud or suspected fraud affecting the Pension Fund involving:

- those charged with governance;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the accounting statements and related notes.

We confirm, to the best of our knowledge and belief, that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours sincerely,

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DAFYDD L EDWARDS
HEAD OF FINANCE

COUNCILLOR GWILYM WILLIAMS
AUDIT COMMITTEE CHAIRMAN

Date

Date

Appendix 2

Summary of corrections to draft pension fund accounts

Nature of correction	Reason for correction
<p>Pension Fund Accounts: Increase Employer contributions by £1.592 million to £44.154 million Increase Change in Market Value of Investments by £1.592 million to £167.317 million Corresponding adjustments were made to the Return on Investments Statement and Notes to the Pension Fund Accounts</p>	<p>To correct for the miscoding of employer contributions</p>
<p>Benefits Payable: Increase Lump Sums by £118,000 to £6.572 million Increase Death Benefits by £75,000 to £1.051 million</p> <p>Net Asset Statement: Increase Sundry Creditors by £193,000 to £839,000 Corresponding adjustments were made to the Return on Investments Statement and Notes to the Pension Fund Accounts</p>	<p>To accrue for benefits payable as a result of retirements and deaths to 31 March 2009</p>
<p>Net Asset Statement: Increase Property Unit Trusts by £153,000 to £52.771 million Increase Forward Currency Contract Asset £4.015 million (originally nil) Increase Forward Currency Contract Liability £4.168 million (originally nil) Corresponding adjustments were made to the Notes to the Pension Fund Accounts</p>	<p>To correctly disclose Forward Currency Contracts in the financial statements</p>
<p>Note 1: List of admitted bodies amended to include Eden Foods</p>	<p>To include all Admitted Bodies in the disclosure</p>



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