



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Audit 2009-10

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Author: Ceri Stradling

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# Financial Audit Strategy 2009-10

## **Gwynedd Pension Fund**

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### **Financial Audit Strategy**

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### Introduction

1. Gwynedd Council (the Council) is the administering authority for the Gwynedd Pension Fund (the Pension Fund). This Financial Audit Strategy sets out the audit work to be undertaken by the Appointed Auditor at the Pension Fund under the Public Audit (Wales) Act 2004 (the 2004 Act).
2. The formal roles and responsibilities of the Appointed Auditor are outlined in Appendix 1. The Auditor General has appointed me, Anthony Barrett, as the external auditor to the Council and I am therefore the Appointed Auditor for the Pension Fund. I will be supported by Ceri Stradling as the Engagement Partner.
3. This Strategy has been prepared on the basis of my assessment of the financial and operational risks the Pension Fund is facing that could impact on the audit.

### Audit of the accounts of Gwynedd Pension Fund administered by Gwynedd Council

4. The Council is the administering authority for the Pension Fund. Until 2008-09, the Pension Fund audit was undertaken as part of the audit of the Council's accounts.
5. However, the Auditor General determined that in 2008-09 and future years the audit of pension funds must be treated, as far as possible, as separate audits. This requires Pension Fund related work to be planned, undertaken and reported separately rather than in the context of the Council as a whole. It must also be fully compliant with International Standards on Auditing (ISA) requirements.
6. This change improves the audit's contribution to maintaining high standards of governance and ensures that undivided attention is given to Pension Fund specific accounting and auditing requirements.
7. Separate audit plans, fees, ISA 260 reports and Annual Letters are therefore required. However, there will not be a separate audit report or Use of Resources conclusion for the Pension Fund as these remain within the auditor's report to the Council.
8. The Council has established a Pension Committee responsible for Pension Fund governance to oversee the work of the Pension Fund and accordingly I am submitting this report to advise you of the proposed Audit Strategy for the Pension Fund for 2009-10. The report will also be submitted to those charged with governance for the Council as a whole.

## Approach

9. I am required to issue an audit opinion which states whether the Pension Fund accounts and related notes give a true and fair view of 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. This will provide assurance that the Pension Fund accounts:
  - are free from material misstatement, whether caused by fraud or other irregularity or error;
  - comply with the statutory and other applicable requirements; and
  - comply with all relevant requirements for accounting presentation and disclosure.
10. The opinion will be included as a separate section in the administering authority's audit report.
11. In carrying out my work and forming an opinion, in accordance with auditing standards, I have regard to the concept of materiality. A matter is material if its omission or misstatement could influence the economic decisions of the users of the accounts. Both quantitative and qualitative factors are considered.
12. I obtain an understanding of the internal controls which are relevant to my audit. This understanding helps me to identify types of potential misstatement, consider factors that affect the risks of material misstatement and to decide the nature, timing and extent of audit procedures. I consider the 'high-level' controls (including controls over the accounting and budgetary systems and the financial statements preparation process) as well as controls which operate over individual financial systems.
13. In planning my work, I consider the activities of Internal Audit to determine the potential impact of their work on my planned procedures and to evaluate the extent to which I can rely on that work. Discussions are ongoing with Internal Audit as to the extent their work is relevant to my audit.
14. In order to issue the audit report on the Pension Fund accounts, I must ensure that all significant operational and financial risks that could impact on the audit are identified and addressed. An initial assessment of these risks has been undertaken, and these are set out in Exhibit 1.

**Exhibit 1: Pension Fund audit risk assessment**

<b>Accounts risk</b>	<b>Action proposed</b>
Risk that the Pension Fund accounts and related notes do not give a true and fair view of financial transactions, assets and liabilities.	Detailed testing of systems, transactions and balances to be undertaken.
Risk that the ongoing economic situation impacts adversely on the value and returns of investments.	Review budgetary control arrangements and the Pension Fund investment strategy.
Risk that the Pension Fund accounts contain a material fraud.	Fraud risk assessment to be undertaken along with detailed testing of risk areas as required.
Risk that governance arrangements are insufficient.	Undertake a review of governance arrangements.

15. Administering bodies are also required to publish a pension fund annual report which must include the Pension Fund accounts.
16. I am required:
- to read the Pension Fund annual report and consider whether the information it contains is consistent with the Pension Fund accounts; and
  - to issue an audit statement confirming the consistency of the accounts included in the annual report with the audited Pension Fund accounts included in the administering authority's Statement of Accounts.

**Audit fee**

17. The Auditor General's fees letter for 2009-10 sets a 'scale minima' of £25,000 for pension funds with a 'scale maxima' of £45,000. I have considered this fee scale against my knowledge of the specific characteristics, internal controls and governance arrangements that are in place for the Pension Fund. On this basis, I have concluded that the audit fee for 2009-10 should be set at the minimum level of £25,000 (plus VAT). The audit fee charged for 2008-09 was £20,032 (plus VAT). Of this increase, £4,618 has been met by a corresponding decrease in the main Gwynedd Council audit fee. The balance is an inflationary uplift of 1.75 per cent as set out in the fees letter.
18. The audit fee has been determined on the basis of the work necessary to discharge my duties as external auditor. You have agreed that this work is necessary to address the issues identified by the risk assessment. Planning will be ongoing, and changes to the Strategy may be needed if any significant new risks emerge which may impact on the audit.

19. As part of the planning process, the audit team considered in some detail with your staff, the information which would be required to support the accounts submitted for audit. The fee quoted above assumes that this information will be provided on a timely basis as agreed. The other main assumptions in setting this fee are that:
- the accounts have been subject to review and validation by management to provide the Responsible Financial Officer with assurance that they ‘give a true and fair view’;
  - appropriate Gwynedd Pension Fund staff will be available during the audit;
  - you have all the necessary controls and checks in place to enable you to provide all the assurances required in your Letter of Representation; and
  - Internal Audit has completed its programme of work as planned and that management has taken all necessary remedial action on issues that could have affected the accounts.
20. The quoted fee will be subject to adjustment if exceptional circumstances occur which result in additional audit work. In such cases, any adjustment will be discussed in advance with your staff.

## The audit team

21. The main members of the audit team, together with their contact details, are summarised in Exhibit 2.

### Exhibit 2: The audit team

Main team members and contact details

Name	Role	Contact number	E-mail address
Anthony Barrett	Appointed Auditor	01244 525970	anthony.barrett@wao.gov.uk
Ceri Stradling	Financial Audit Engagement Partner	01244 525970	ceri.stradling@wao.gov.uk
Amanda Hughes	Audit Manager	01286 679974	amanda.hughes@wao.gov.uk
Alan Hughes	Financial Audit Team Leader	01286 679158	alan.hughes@wao.gov.uk

## Delivering the work

22. We will provide reports, or other output as agreed, and our key milestones are set out below.

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### Exhibit 3: Key milestones

Planned outputs and targets

Planned output	Planned start date	Report finalised
Audit Strategy	February 2010	May 2010
Financial statements report – to those charged with governance	September 2010	September 2010
Annual Audit Letter	October 2010	November 2010



## Appendix 1

## Roles and responsibilities

The office of the Auditor General was re-established under the Government of Wales Act 2006. From 1 April 2005, the 2004 Act extended the Auditor General's functions to include the appointment of external auditors for local government bodies.

### Appointed auditors

Appointed auditors must carry out an audit that discharges the statutory duties placed upon them by the Local Government Act 1999 and the 2004 Act. The Auditor General publishes a Code of Audit Practice (the Code) which prescribes the way in which auditors are to carry out their functions. The Auditor General is currently consulting on a revised Code.

Regulation 7 of the Accounts and Audit (Wales) Regulations 2005 (as amended) requires local government bodies in Wales to produce annual statements of accounts<sup>1</sup>, prepared in accordance with the proper practices set out in the relevant *Code of Practice on Local Authority Accounting in the United Kingdom – a Statement of Recommended Practice*.

The Assembly Government's Social Justice and Local Government Department also supplements these regulations with guidance to assist local government bodies in their operation of the accounting regime. That guidance is not intended to be part of the statutory framework but is an informal commentary that includes ideas of good practice and practical advice and provides details of where generally recognised published codes setting out proper practice may be found.

Section 13 of the 2004 Act requires local government bodies in Wales to ensure that their accounts are audited by one or more auditors appointed by the Auditor General under Section 14 of the Act. Sections 17 and 23 of the Act require appointed auditors to examine and certify the accounts, satisfying themselves that:

- the accounts:
  - give a true and fair view of the Council's financial position and transactions;
  - give a true and fair view of the financial transactions of the Pension Fund 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;
  - comply with legislative requirements; and
  - have been prepared in accordance with proper practice.
- the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources; and
- the audited body has made such arrangements for collecting, recording and publishing information on standards of performance as are required by any direction under Section 47 of the Act.

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<sup>1</sup> These regulations are made by the Assembly under the statutory powers contained in Section 39 of the 2004 Act.

## **Communication of audit matters with those charged with governance – International Standards on Auditing (UK and Ireland) 260**

International Standards on Auditing (UK and Ireland) 260:

- provides guidance on the communication of 'relevant matters relating to the audit' of financial statements between auditors, and those charged with governance of an audited body; and
- requires the auditor to report to those charged with governance (as distinct from management), certain matters before they give an opinion on the financial statements.

The Appointed Auditor will discharge the responsibility to report to those charged with governance by submitting reports either to the Pension Committee or to the Audit Committee, as appropriate, in a timely manner, prior to the completion of audit.

## Appendix 2

## Key elements of the audit engagement

Key elements	Requirements	Position at Gwynedd Pension Fund
<b>Engagement activities</b>		
Terms of the audit engagement	The 2004 Act sets out responsibility for appointment of local government external auditors in Wales.	Roles and responsibilities of appointed auditors outlined above and in Appendix 1. The full statement of responsibilities can be found at: <a href="http://www.wao.gov.uk/assets/englishdocuments/statement_of_responsibilities_of_auditors_eng.pdf">http://www.wao.gov.uk/assets/englishdocuments/statement_of_responsibilities_of_auditors_eng.pdf</a>
Appointment of auditors and engagement partners	It is the Auditor General's responsibility to appoint local government external auditors and to assign responsibility for each engagement to an engagement partner.	The Appointed Auditor is Anthony Barrett, who will be supported by Ceri Stradling as the Engagement Partner.
'Non-statutory' work	The Auditor General has set out clear criteria for approval of any 'non-statutory' work requested by audited and inspected bodies.	No 'non-statutory' work has been requested or is proposed.
<b>Ethical considerations</b>		
Independence	Appointed auditors are required to consider the following: <ul style="list-style-type: none"> <li>• threats to auditor independence (including litigation);</li> <li>• family and other personal relationships;</li> <li>• long association with the audited body, based on the Wales Audit Office rotation of audits policy; and</li> <li>• contentious or difficult issues.</li> </ul>	We can confirm that there are no known threats to the independence of the Appointed Auditor or other audit staff and we have complied with the Wales Audit Office rotation policy.
Engagement performance	Engagement partners need to consider what level of quality assurance and review levels are appropriate.	Wales Audit Office quality control review mechanisms are in place for all audits, and the Engagement Partner has established appropriate review levels based on the experience of the staff undertaking the audit work.



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Wales Audit Office  
24 Cathedral Road  
Cardiff CF11 9LJ  
Tel: 029 2032 0500  
Fax: 029 2032 0600  
Textphone: 029 2032 0660  
E-mail: [info@wao.gov.uk](mailto:info@wao.gov.uk)  
Website: [www.wao.gov.uk](http://www.wao.gov.uk)