



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

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Author: Ceri Stradling

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Audit of pension fund accounts – report to the Audit Committee

Gwynedd Council

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 show a true and fair view of the financial transactions of Gwynedd Pension Fund during the year ended 31 March 2010 and of the amount and disposition of the fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year. I am required to give my opinion as to whether the pension fund accounts give a true and fair view.
2. The Council submitted a Statement of Accounts to me in June 2010 and I have now substantially completed the audit of the pension fund accounts. I am reporting to you the most significant issues arising which I believe you should consider prior to the approval of the pension fund accounts. I have already discussed these issues with Dafydd Edwards, Head of Finance.
3. I do not seek to obtain absolute assurance that the pension fund accounts are true and fair, but adopt the concept of materiality. In planning and conducting the audit, I seek to identify material misstatements in the pension fund accounts, that is, those that might result in a reader of the accounts being misled.
4. The quantitative levels at which I judge such misstatements to be material for the pension fund are £387,000 for income and expenditure items and working capital balances, and £5.092 million for other 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.
5. As required by auditing standards I report to you any pension fund issues identified with regard to:
 - accounting practices and financial reporting;
 - material internal control weaknesses;
 - matters of significant governance interest; and
 - any other relevant matters arising from my audit.
6. I also set out in the detailed report any misstatements identified in the pension fund accounts and which remain uncorrected and request that these are corrected. If you decide not to correct these misstatements, I ask that you provide me with the reasons for non-correction.
7. The main conclusions from my audit of the accounting statements are summarised below and set out more fully in the detailed report:
 - the audit planning risks have been addressed satisfactorily;
 - the Pension Fund's accounting statements are free from material misstatement; and
 - the auditor's report has been modified to reflect the nature of private equity investment valuations.

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8. It is my intention to issue an unqualified audit report on the pension fund accounts once the Council has provided me with the Letter of Representation set out in Appendix 1.

The audit planning risks have been addressed satisfactorily

9. My audit strategy reported the risks identified at the audit planning stage. Exhibit 1 summarises these risks and the way in which these have been resolved, together with the significant risks identified from my review of the draft financial statements.

Exhibit 1: Pension Fund audit risk assessment

Accounts risk	Findings
Risk that the Pension Fund accounts and related notes do not give a true and fair view of financial transactions, assets and liabilities.	Accounting transactions and balances tested and agreed.
Risk that the ongoing economic situation impacts adversely on the value and returns of investments.	The Fund achieved a 39.7% growth on investments during the year and was the highest performing fund in Wales during the period.
Risk that the Pension Fund accounts contain a material fraud.	No significant weaknesses in internal control were identified and none of the audit adjustments were indicative of fraud.
Risk that governance arrangements are insufficient.	The Pension Fund does not fully comply with all of the best practice standards, but is addressing the issues on those standards where compliance is partial.

The Pension Fund's accounting statements are free from material misstatement

10. Auditing standards require me to report any matters that might result in a material misstatement in the financial statements, specifically if I identify:
- material weaknesses in your internal controls;
 - other matters of governance interest;
 - suspected or detected fraud; and
 - inconsistencies in financial information.
11. In the course of the accounting statements audit I also consider the qualitative aspects of the financial reporting process as well as the accuracy of the statements inconsistencies in financial information.

12. I report to you any uncorrected misstatements, other than those of a clearly trivial nature, and prepare an auditor's report that comments on whether:
- the accounting statements and related notes give a true and fair view of the Pension Fund's financial position as at 31 March 2010 and of its income and expenditure for the year then ended.
13. Exhibit 2 summarises my findings.

Exhibit 2: Accounting statements audit

Auditing standards areas	Findings
Internal controls	I did not identify any material weaknesses in your internal controls.
Governance	There are no significant matters to report.
Other matters	There are no other matters that I am required to report.
Accounting statements audit	
Qualitative aspects of your accounting practices	The accounting statements preparation is sound and results in good quality draft statements, which are supported by good working papers.
Misstatements	There are no uncorrected misstatements. A small number of amendments have been made to disclosure notes. The net impact of the changes has increased both the net additions from dealing with members and the net assets of the fund by £81,000.
Auditor's report	I intend to issue an unqualified audit opinion. I will modify my report with the inclusion of an Emphasis of Matter note to draw the reader's attention to uncertainties in relation to the valuation of private equity investments.

The auditor's report has been modified to reflect the nature of private equity investment valuations

14. As part of its investment portfolio, the pension fund has holdings in private equity investment funds (£35 million). In the financial statements, these are valued at a fair value by fund managers, using an appropriate basis of valuation. As private-equity investments are generally crystallised through sale or flotation of the entire business, the value of the business as a whole will provide a base for estimating the fair value of an investment in that business. However, the resulting valuations are subjective as they are based on forward-looking estimates and judgements. The realisable values may well differ from the fair values and the amounts may be material.
15. In completing our audit work we have reviewed the latest available audited financial statements of the funds. The audit reports on these highlight the inherent uncertainty associated with the valuation of such investment and therefore include an emphasis of matter referring to the uncertainty. I have considered the impact of this on my audit opinion.

16. Whilst my audit opinion is unqualified in this respect, because the uncertainties relating to the valuation of private equity investments could be material, I have included an 'emphasis of matter' note under my audit opinion, which draws the readers' attention to these uncertainties. The audit opinion at Appendix 3 includes the wording for the additional paragraph.

Appendix 1

Letter of Representation

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

27 September 2010

Dear Mr Barrett,

Representations regarding the 2009-10 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 2010 for the purpose of expressing an opinion as to whether they show a true and fair view, in all material respects, of the financial transactions of the Pension Fund during the year ended 31 March 2010 and of the amount and disposition of the fund's assets and liabilities as at 31 March 2010, 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 (as amended) and the Code of Practice on Local Authority Accounting in the United Kingdom - a Statement of Recommended Practice 2009 (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.

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

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.

Private Equity

Private equity has demanded pension funds' attention as an asset class because results have proved consistently high, while behaving radically different from quoted equities and bonds, thus diversifying the overall risk profile. In June 2006, after seeking advice from the Pension Fund's advisors at Hymans Robertson, the Pensions Committee decided to invest 5% of the Gwynedd Pension Fund in Private Equity. Then, in March 2007, following the tendering and interview process, Partners Group were appointed as the Pension Fund's Private Equity manager.

Due to the nature of this asset class, capital invested in private equity (venture capital or company buy-outs) will be locked up for several years before the fund sees its return, and investors cannot back out. Returns cannot be measured on an annual basis and no benchmarks exist. The only definite points for valuing investments are when capital is originally raised and when assets are finally sold.

Clearly, there is no liquid market for private equity investments (by definition), and there is inherent uncertainty associated with their valuation. Consequently, the estimated fair value of private equity investments will always differ from their "realisable values" at any particular time, and for technical reasons I understand that the external auditor must refer annually to this difference.

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 27/09/2010.

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

DAFYDD L EDWARDS
HEAD OF FINANCE

Date

COUNCILLOR JOHN PUGHE ROBERTS
AUDIT COMMITTEE CHAIRMAN

Date

Appendix 2

Summary of corrections to draft pension fund accounts which should be drawn to the attention of those charged with governance

Nature of correction	Reason for correction
Net Additions from dealing with members of the Fund Statement: Increase Contributions received £133,000 Note 6 Contributions Receivable and Note 11 Sundry Debtors: Increase Contributions receivable £133,000	To recognise income that had previously been written off.
Returns on Investments Statement: Decrease Investment income £52,000 Note 6 Sundry Debtors: Decrease Internal debtors £52,000	To correct for an incorrect allocation of the reduction in the Heritable bank investment impairment.
Note 3 Actuarial Valuation: Narrative added to disclose information about an announcement in the June 2010 Emergency Budget on the basis of future public sector pension increases.	To inform the reader of the future impact on the next actuarial valuation.
Note 6 Benefits Payable Decrease Scheduled Bodies £292,000 Increase Employers with no contributors £292,000	To correctly classify benefits payable in relation to the Magistrates Courts Committee.
Note 13 Purchases and Sales of Investments: Increase Purchases of: UK Equities £10,437,000 Overseas Equities £90,369,000 Other UK Fixed Interest Securities £1,000 Total £100,807,000	To correctly reflect the purchases in Note 13.

Appendix 3

Independent auditor's 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 2010 under the Public Audit (Wales) Act 2004. Gwynedd Council's accounting statements comprise the Income and Expenditure Account, Statement of Movement on Council Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet, Cash Flow Statement, Housing Revenue Account Income and Expenditure Account and Statement of Movement on Housing Revenue Account Balance. Gwynedd Pension Fund's accounting statements comprise the Fund Account and the Net Assets Statement. The accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to Gwynedd Council in accordance with Part 2 of the Public Audit (Wales) Act 2004 and for no other purpose, as set out in the *Statement of Responsibilities* prepared by the Auditor General.

Respective responsibilities of the responsible financial officer and the independent auditor

The responsible financial officer's responsibilities for preparing the statement of accounts, including the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2009 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements and related notes give a true and fair view, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2009:

- the financial position of the local government body and its income and expenditure for the year; and
- 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.

I review whether the Governance Statement reflects compliance with 'Delivering Good Governance in Local Government: Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I are aware of from my audit. I am not required to consider, nor have I considered, whether the Governance Statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the local government body's corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements, and related notes and consider whether it is consistent with the audited accounting statements and related notes. This other information comprises only the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Public Audit (Wales) Act 2004 , the Code of Audit Practice issued by the Auditor General, and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the local government body in the preparation of the accounting statements and of whether the accounting policies are appropriate to the local government body's and pension fund's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

Opinion on the accounting statements of Gwynedd Council

In my opinion the accounting statements and related notes give a true and fair view, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2009, the financial position of Gwynedd Council as at 31 March 2010 and its income and expenditure for the year then ended.

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, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2009, the financial transactions of Gwynedd Pension Fund during the year ended 31 March 2010 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.

Emphasis of Matter

In forming my opinion on the financial statements, which is not qualified, I have considered the adequacy of the disclosures made in the net asset statement and note 13 concerning private equity investments carried at their fair value of £35 million. Because of the inherent uncertainty associated with the valuation of such investments, arising from the absence of a liquid market, the fair value of these investments may differ from their realisable values. The difference could be material.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

My conclusion on Gwynedd Council's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010 will be reported separately in the published Annual Audit Letter.

Certificate of completion

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 Code of Audit and Practice issued by the Auditor General for Wales.

Appointed Auditor: Anthony Barrett
Address: Unit 4
Evolution
Lakeside Business Village
St David's Park
Ewloe
CH5 3XP

Signature:

Date: 30 September 2010



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
Website: www.wao.gov.uk