



WALES AUDIT OFFICE

SWYDDFA ARCHWILIO CYMRU

2010-11

June 2011

Author: Anthony Barrett

Ref: 312A2011

Financial Audit Outline

Gwynedd Pension Fund

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Roles and responsibilities

1. Gwynedd Council (the Council) is the administering authority of the Gwynedd Pension Fund (the Pension Fund). This Financial Audit Outline has been prepared to meet the requirements of auditing standards and proper audit practices. It provides the Council with an outline of the financial audit work required for the 2010-11 Pension Fund accounts.
2. Since 1 April 2005, the Public Audit (Wales) Act 2004 the Auditor General's functions have included the appointment of external auditors (Appointed Auditors) for local government bodies.
3. As Appointed Auditor, I am required by the Public Audit (Wales) Act 2004 to examine and certify the Pension Fund accounts, satisfying myself that the accounts:
 - 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;
 - comply with all relevant legislative requirements; and
 - have been prepared in accordance with proper accounting practices.
4. I am also required to:
 - satisfy myself that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources; and
 - certify that the audit has been completed in accordance with the Public Audit (Wales) Act 2004.
5. The audit does not relieve the Pension Fund of its responsibility to:
 - put systems of internal control in place to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
 - maintain proper accounting records;
 - prepare accounts in accordance with relevant requirements; and
 - establish and keep under review appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.
6. The key requirements of the Auditor General and the Appointed Auditor are set out in Appendix 1.

The audit approach

7. Information regarding the financial audit team is provided in Appendix 2.

Audit of Pension Fund accounts

8. Internal controls are designed, implemented and maintained to address identified business risks that threaten the achievement of an audited body's objectives regarding:
 - the reliability of its financial reporting;
 - the effectiveness and efficiency of its operations; and
 - its compliance with applicable laws and regulations.
9. I will:
 - assess the effectiveness of high level internal controls and key system level internal controls in preventing and detecting material errors in the accounting statements;
 - assess the effectiveness of Internal Audit;
 - review and seek to place reliance upon work undertaken by Internal Audit, as appropriate; and
 - develop substantive procedures to respond to specific significant risks.
10. I do not seek to obtain absolute assurance that the Pension Fund accounts and related notes are true and fair, but adopt a concept of materiality. In planning and conducting the audit, I seek to identify material misstatements in the Pension Fund accounts and related notes, that is, those that might result in a reader of the accounts being misled.
11. The levels at which I judge such misstatements to be material will be reported in my report to the Audit Committee as those charged with governance for the Council as a whole prior to completion of the audit.

Audit risks

12. Exhibit 1 provides information regarding the audit risks that have been identified during the initial audit planning process, based upon information currently available, and the actions proposed to address them. Changes to the audit may be required if any new risks emerge. No changes will be made without first discussing them with officers and, where relevant, those charged with governance.

Exhibit 1: Audit risks

Control environment risks	Action proposed
<p>Overall</p> <p>Risk that financial management and governance controls are insufficient, or are not operating as intended.</p> <p>In particular, the latest actuarial valuation shows that the funding deficit of the Pension Fund has increased from £160 million as at 31 March 2007 to £183 million at 31 March 2010.</p>	<p>We will assess the robustness of the Pension Fund's arrangements for:</p> <ul style="list-style-type: none"> • financial management and investment strategy; • governance; • risk management, including anti-fraud and corruption; and • internal audit scope and quality.
Financial systems risks	Action proposed
<p>Overall</p> <p>Risk that the Council's high level financial controls are not designed or operating effectively to prevent and detect material misstatements in the financial statements.</p>	<p>We will review the design and test the operation of high level controls in the:</p> <ul style="list-style-type: none"> • main accounting system; • budgetary control system; and • the accounts preparation process.
Preparation of the accounts risks	Action proposed
<p>International Financial Reporting Standards (IFRS) and the Code of Practice for Local Authority Accounting</p> <p>The Statement of Accounts for 2010-11 will be the first to be prepared in accordance with IFRS and with the Code of Practice on Local Authority Accounting (the Code).</p>	<p>We will review the Pension Fund accounts to ensure that they have been prepared, in all material respects, in accordance with IFRS and the Code.</p>
<p>Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009</p> <p>The regulations introduce a number of changes in relation to how the Council may invest Pension Fund assets. The new provisions apply in stages from 1 January 2010.</p>	<p>We will review the Council's arrangements to ensure compliance with the new provisions.</p>
Financial statements risks	Action proposed
<p>Overall</p> <p>There is a risk of material misstatement in the financial statements arising from error or omission of transactions, balances and disclosure.</p>	<p>We will undertake a series of audit tests and procedures to seek to identify any material misstatements.</p>
<p>Unquoted Investments</p> <p>There is an inherent uncertainty in the valuation of unquoted investments because they rely on forward looking estimates and judgements.</p>	<p>We will review the Council's arrangements for obtaining assurance on the valuation of unquoted investments.</p>

Reporting

13. The Code of Audit Practice issued by the Auditor General requires Appointed Auditors to comply with auditing and ethical standards. International Standards on Auditing (ISAs) require formal reporting at various stages during the audit to those charged with governance.
14. In particular, auditors must report:
 - relationships that may bear on the auditor's independence;
 - audit planning information; and
 - certain matters to those charged with governance (as distinct from management) before they give an opinion on the financial statements.
15. Appendix 1 highlights the key elements of the audit engagement at Gwynedd Pension Fund, and confirms that there are no known threats to the independence of the Appointed Auditor or other audit staff.
16. This document provides information regarding the planning of the audit.
17. I will submit reports to the Audit Committee and where necessary to the Council in a timely manner, prior to the completion of the audit.
18. I will provide reports, or other output as agreed. The key milestones are set out in Exhibit 2.

Exhibit 2: Key milestones

Planned output	Target Date
Financial audit outline	May 2011
Financial statements report to those charged with governance	September 2011
Opinion on the financial statements	September 2011
Consistency audit statement for inclusion in the Pension Fund annual report	September 2011
Annual Audit Letter	November 2011

Audit fee

19. The proposed fee for 2010-11 financial audit work is £25,095 (plus VAT) (£25,000 in 2009-10) and will be charged in equal instalments between November 2010 and October 2011. This fee is in line with the Auditor General's fees letter and is based on the new zero-based fee model for financial audit.
20. I am required to undertake additional audit work arising from the change to International Financial Reporting Standards. I have decided to bear the cost of this work without passing it on to the Pension Fund.

Other matters

Pension Fund annual report

21. Administering authorities are required to publish a Pension Fund annual report which must include the Pension Fund accounts.
22. 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.

Appendix 1

Key elements of the audit engagement

Key elements	Requirements	Position at Gwynedd Pension Fund
Engagement activities		
Terms of the audit engagement	The Public Audit (Wales) Act 2004 sets out responsibility for the appointment of local government external auditors in Wales.	Roles and responsibilities of appointed auditors outlined above. The full statement of responsibilities can be found at: http://www.wao.gov.uk/assets/englishdocuments/statement_of_responsibilities_of_auditors_eng.pdf
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.	Details of the Appointed Auditor and the Engagement Lead are provided in Appendix 2 of this document.
'Non-statutory' work	The Auditor General has set out clear criteria for approval of any 'non-statutory' work requested by audited bodies.	No 'non-statutory' work has been requested or is proposed.
Limitations on audit work	I am required to advise you of any limitations on the work that I propose to undertake, including limitations imposed by management.	No limitations have been placed on the work that I propose to undertake.
Ethical considerations		
Independence	Appointed auditors are required to consider the following: <ul style="list-style-type: none"> • threats to auditor independence (including litigation); • family and other personal relationships; • long association with the audited body, based on the Wales Audit Office rotation of audits policy; and • contentious or difficult issues. 	I can confirm that there are no known threats to the independence of the Appointed Auditor or other audit staff and I 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.

Appendix 2

Financial audit team**The financial audit team**

Name	Role	Contact Number	E-mail address
Anthony Barrett	Appointed Auditor and Engagement Lead	07771 505882 02920 320685	Anthony.Barrett@wao.gov.uk
Amanda Hughes	Audit Manager	07969 919986 01286 679974	Amanda.Hughes@wao.gov.uk
Alan Hughes	Team Leader	07791 411985 01286 679158	Alan.Hughes@wao.gov.uk



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