



WALES **AUDIT** OFFICE  

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# Audit of the Financial Statements Report

## **Gwynedd Pension Fund**

**Audit year:** 2010-11

**Issued:** September 2011

**Document reference:** 486A2011

**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.**

# Status of report

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# Contents

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The Appointed Auditor intends to issue an unqualified audit report on your financial statements. There are some issues to report to you prior to their approval.

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## Summary report

Introduction	4
Proposed audit report	4
Significant issues arising from the audit	4

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## Appendices

Final Letter of Representation	7
Proposed audit report of the Appointed Auditor to Gwynedd Council	10
Summary of corrections made to the draft financial statements which should be drawn to the attention of the Audit Committee	12

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# Summary report

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## Introduction

1. The Appointed Auditor 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 (the Fund) at 31 March 2011 and its income and expenditure for the year then ended.
2. We received the draft financial statements for the year ended 31 March 2011 on 30 June 2011, and have now substantially completed the audit work. 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 Dafydd Edwards, Head of Finance.
3. 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.
4. The quantitative levels at which we judge such misstatements to be material for the Fund are £622,000 for income and expenditure items and working capital balances, and £10.014 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.

## Proposed audit report

5. **It is the Appointed Auditor'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](#).
6. The proposed audit report is set out in [Appendix 2](#).

## Significant issues arising from the audit

### Uncorrected misstatements

7. There are no misstatements identified in the financial statements, which remain uncorrected.

### Corrected misstatements

8. There are misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. They are set out with explanations in [Appendix 3](#).

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9. 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 some issues arising in these areas this year.

### **We have some concerns about the qualitative aspects of your accounting practices and financial reporting**

10. We set out below two concerns about the qualitative aspect of your accounting practices and financial reporting:
- During the year, the Fund transferred investments from Legal & General to Blackrock. In a memorandum note (note 13) to the accounts, this should have been recognised as a purchase of investments. However, this was omitted in the draft accounts and purchases were understated by £124.633 million. Although this did not impact on the financial statements, it would have been identified if the Council had a process in place to verify the change in market value of investments, which is referred to in paragraph 20.
  - 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 31 March. As a result, my audit work identified that the Council had not accrued for costs of £1,356,000.

### **We did not encounter any significant difficulties during the audit**

11. We received information in a timely and helpful manner and were not restricted in our work.

### **There were no significant matters discussed and corresponded upon with management which we need to report to you**

12. We did not discuss any significant matters with the Council's management, which we need to report to you.

### **There are two other matters significant to the oversight of the financial reporting process that we need to report to you**

13. We set out below the other matters relating to the oversight of the financial reporting process that we need to report to you.

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## **A number of employing authorities have not recognised a liability for pension contributions on the back pay element of their equal pay settlements**

14. Most local authorities in Wales have agreed, or are in the process of agreeing, equal pay settlements with their workforces. Such settlements may consist of several elements, commonly:
  - ‘back-pay’ payments;
  - ‘forward looking’ payments; and
  - ‘ex gratia’ payments.
15. Legal advice commissioned by the Appointed Auditor has, in our view, confirmed that under the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended), pension contributions must be paid on the back pay element of equal pay settlements, and, subject to any compromise agreements, should on balance be paid in respect of forward-looking and ex gratia elements.
16. As employing authorities, Gwynedd Council and Conwy County Council have, in their 2010-11 accounts, provided for equal pay claims upon which contributions are payable.
17. Under the Local Government Pension Scheme (Administration) Regulations 2008 the onus is on employing authorities to determine the amount of pension contributions due to the Fund and to pay over this amount.
18. As the administering authority for the Fund, Gwynedd Council should consider what action, if any, it is required to take, to ensure that the contributions on equal pay back pay are made in accordance with the Pension Regulations.

## **Not all members of the Pension Committee made declarations of interest to ensure that related party transactions are disclosed**

19. The Code of Practice requires the Fund to disclose details of related party transactions within its accounts. In order to gather the relevant information, the Council wrote to the members of the Pension Committee seeking details of related party interests by 26 April 2011. On issue of this report, three members’ returns remain outstanding.

## **We identified one material weakness in your internal controls**

20. 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 shown in the financial statements is a balancing figure. The Council needs to put a process in place to independently verify the figure which will provide additional control over the integrity of the statements.

# Appendix 1

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## Final Letter of Representation

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

29 September 2011

Dear Mr Barrett,

### REPRESENTATIONS REGARDING THE 2010/11 FINANCIAL STATEMENTS

This letter is provided in connection with your audit of the financial statements of Gwynedd Council Pension Fund for the year ended 31 March 2011. 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 the Code of Practice on Local Authority Accounting, in particular the financial statements give a true and fair view in accordance therewith.

We acknowledge our responsibility for 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 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;

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- our knowledge of fraud or suspected fraud that we are aware of and that affects Gwynedd Council 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;

### **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 the aggregate, to the financial statements taken as a whole. A summary of these items is set out below:

Nationally, several local authority employers have interpreted that settlements paid to their employees for the loss of the right to bring an equal pay claim are "compensation" as defined under LGPS Regulation 4(2)(g), and are therefore excluded from the definition of "pensionable pay" in Regulation 4(1). The WAO circulated guidance for their local auditors late in the current audit period which argues that such settlements paid after 31/03/2008 are not "true" compensation, and therefore the WAO are not persuaded that they're exempt from being "pensionable pay".

One employer within Gwynedd Pension Fund, Gwynedd Council, settled most claims prior to 31/03/2008 and there is no doubt that such compensation payments could be exempt from "pensionable pay". The employer's rationale to pay the compensation in 2008 was that employers believed there was no case to answer, but were willing to pay a lesser sum in order to avoid litigating to prove that.



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We understand that the view that compensation payments for equal pay after 31/03/2008 are non pensionable was supported by one Counsel, but contradicted by another, and some tax advisors have suggested that local authorities should treat them as non-pensionable. The legal interpretation might depend how the compensation payments are constructed.

Whether such settlements are treated as "pensionable pay" or (exempt) "compensation", the employer's actual pension liabilities will remain unchanged, as these are determined by ongoing pay which was assessed by the actuary in the valuation as at 31/03/2010 (after the compensation was paid in 2008). Consequently, the Pension Fund administering authority does not consider that any further action is required.

In order to finally resolve this matter prior to closure of the 2011/12 accounts, it may be necessary for the employer to seek specific legal advice. In the interim, the settlements paid to date have not been treated as "pensionable pay" in the employer's financial statements from 2007/08 to 2010/11, and no provision has been set aside for retrospective pension contributions. As such, it is accepted that WAO's appointed auditor will comment accordingly on both the employer's and the Pension Fund's 2010/11 financial statements.

**REPRESENTATIONS BY GWYNEDD COUNCIL 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 the Audit Committee on 29 September 2011.

Yours sincerely,

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**DAFYDD L EDWARDS**  
**HEAD OF FINANCE**

**COUNCILLOR JOHN PUGHE ROBERTS**  
**AUDIT COMMITTEE CHAIRMAN**

Date .....

Date .....

# Appendix 2

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## Proposed audit report of the Appointed Auditor to Gwynedd Council

I have audited the accounting statements and related notes of:

- Gwynedd Council; and
- Gwynedd Pension Fund

for the year ended 31 March 2011 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, the Cash Flow Statement, the Movement on the Housing Revenue Account Statement and the Housing Revenue Account Income and Expenditure 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 2010-11 based on International Financial Reporting Standards (IFRSs).

## Respective responsibilities of the responsible financial officer and the independent auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on pages ... to ..., the responsible financial officer is responsible for the preparation of the statement of accounts, including group and pension fund accounts, 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 Auditing Practices Board'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 the 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 Explanatory Foreword to identify material inconsistencies with the audited accounting statements and related notes. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

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## **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 2011 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 2010-11.

## **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 2011 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 2010-11.

## **Opinion on other matters**

In my opinion, the information contained in the Explanatory Foreword for the financial year for which the accounting statements and related notes are prepared 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 Governance Statement on which I report to you if, in my opinion, it does not reflect compliance with *Delivering Good Governance in Local Government: Framework* published by CIPFA/SOLACE in June 2007, or if the statement is misleading or inconsistent with other information I am aware of from my audit.

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

**Anthony Barrett**  
**Appointed Auditor**  
**Wales Audit Office**  
**24 Cathedral Road**  
**Cardiff**  
**CF11 9LJ**  
**29 September 2011**

## Appendix 3

### Summary of corrections made to the draft financial statements which should be drawn to the attention of the Audit Committee

During our audit we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

Value of correction	Nature of correction	Reason for correction
£1,356,000	<ul style="list-style-type: none"> <li>Fund Account – Benefits Payable Increase Lump Sums £1,356,000</li> <li>Note 15 Sundry Creditors Increase Benefits due £1,356,000</li> </ul>	To account for under accrual of unpaid benefits.
£367,000	<ul style="list-style-type: none"> <li>Note 15 Sundry Creditors Decrease Tax by £140,000</li> <li>Note 14 Sundry Debtors Increase Tax by £227,000</li> <li>Note 9 Investment Income Increase Property income £367,000</li> </ul>	Correction to Tax accounting on property unit trust income.
£217,000	<ul style="list-style-type: none"> <li>Note 7 Investments at Market Value Increase Property Unit Trust £217,000</li> <li>Net Return on Investments Increase Change in market value £217,000</li> </ul>	Correction to value of Property Unit Trusts.
£124,633,000	<ul style="list-style-type: none"> <li>Note 16 Purchases and Sales of Investments Increase UK Equity £113,043,000</li> <li>Increase Overseas Equity £11,590,000</li> </ul>	To correctly account for in-specie transfer between investment managers.
£3,024,000	<ul style="list-style-type: none"> <li>Note 14 Sundry Debtors Increase Contributions Receivable £3,024,000</li> <li>Decrease Debtor Invoices £3,024,000</li> </ul>	To correctly class contributions receivable.
Disclosure	Additional note regarding financial instruments	To comply with disclosure requirements.
Disclosure	Additional note regarding non-adjusting post balance sheet event	Note to reflect the change from RPI to CPI indexation and the post balance sheet reduction in investment values.





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