



WALES **AUDIT** OFFICE
SWYDDFA **ARCHWILIO** CYMRU

Annual Financial Audit Outline

Gwynedd Pension Fund

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Status of document

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This document was produced by Derwyn Owen and Amanda Hughes.

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Annual Financial Audit Outline

Roles and responsibilities

1. Gwynedd Council (the Council) is the administering authority of the Gwynedd Pension Fund (the Pension Fund). This Annual 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 2011-12 Pension Fund accounts.
2. Since 1 April 2005, under 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 in preventing and detecting material errors in the accounting statements;
 - review the performance of Internal Audit in meeting their professional standards and seek to place reliance upon their work wherever possible; and
 - develop control and substantive procedures to respond to specific risks of material misstatement in the accounting statements.
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.

Risks of material misstatement in the Pension Fund accounts

12. **Exhibit 1** provides information regarding the main operational and financial risks faced by the Fund that could impact on my audit. These are the main 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: Summary of main audit risks and proposed responses

| Risks | Action proposed |
|---|---|
| Control environment risks | |
| <p>The Hutton Report was issued in March 2011 and this has wide-ranging recommendations for all of local government pension funds. This creates uncertainties around the future nature of the fund and member contribution rates.</p> | <p>We will monitor these ongoing developments.</p> |
| <p>There is a continuing requirement to include a governance statement (that will cover the Pension Fund's governance arrangements) and a risk that the Council will not have the systems in place to produce such a statement or may not comply with all areas of good practice for Local Government Pension Schemes.</p> <p>In addition, in September 2011 CIPFA published its <i>Code of Practice on Public Sector Pensions Knowledge and Skills</i>, which, for 2011-12 onwards, requires schemes to adopt a framework to ensure that all relevant staff and members are equipped with the necessary skills to discharge their duties in respect of the Fund.</p> | <p>We will undertake a detailed review of the governance statement and review compliance with the new Code.</p> |
| Financial systems risks | |
| <p>There are two issues arising from my previous audits where improvements were required to processes and controls. In particular, the need to:</p> <ul style="list-style-type: none"> • independently calculate the change in market value to ensure that a balancing figure does not mask underlying errors in the account balances and disclosures; and • ensure that retirement and death benefits occurring up to and including 31 March are fully accrued for. | <p>We will assess the arrangements in place for the preparation of the 2011-12 accounts and conduct audit testing to specifically follow up the issues identified in our previous audit work.</p> |
| Preparation of the accounts risks | |
| <p>Local Government pension scheme fund accounts need to be prepared in accordance with the <i>Code of Practice on Local Authority Accounting in the UK 2011/12</i>.</p> <p>CIPFA have published, for the first time, <i>Pension scheme fund example accounts and disclosure checklist</i>, for use as an aide memoire to ensure compliance with the Code requirements.</p> | <p>We will review the pension fund accounts and completed disclosure checklist to ensure that it has been prepared, in all material respects, with the Code.</p> |

| Risks | Action proposed |
|---|--|
| Financial statements risks | |
| External investment managers are appointed to manage the investment portfolio. Their own systems and records will generate account entries made to the Pension Fund account and net assets statement. | We will obtain direct confirmation from the fund managers of year-end investment balances, and consider whether investment managers' internal control reports indicate specific risks to these balances. |

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 (ISA) 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 Cabinet 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 | Planned start date | Report finalised |
|---|--------------------|------------------|
| Annual Financial Audit Outline | May 2012 | May 2012 |
| Audit of Financial Statements (ISA 260) Report | July 2012 | September 2012 |
| Audit Opinion on the 2011-12 Financial Statements | July 2012 | September 2012 |

Audit fee

19. The proposed fee for 2011-12 financial audit work is £25,095 (plus VAT) and will be charged in equal instalments between November 2011 and October 2012. This fee is in line with the Auditor General's fees letter and is based on the zero-based fee model for financial audit.
20. The 2011-12 financial audit fee has been set at the same level as the 2010-11 fee. The fee quoted assumes working papers supporting the financial statements are complete, available on timely basis and prepared to a good standard. It also assumes appropriate staff being available during the audit.

Other matters

Pension Fund annual report

21. In addition to including the Pension Fund accounts in their main Statement of Accounts, 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 the Gwynedd Pension Fund |
|--|--|--|
| Engagement activities | | |
| Terms of the audit engagement | The Public Audit (Wales) Act 2004 sets out responsibility for appointment of local government external auditors in Wales. | Roles and responsibilities of appointed auditors are 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 leads | It is the Auditor General's responsibility to appoint local government external auditors and to assign responsibility for each engagement to an engagement lead. | 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. |

| Key elements | Requirements | Position at the Gwynedd Pension Fund |
|------------------------|--|--|
| Engagement performance | Engagement leads 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 Lead has established appropriate review levels based on the experience of the staff undertaking the audit work. |

Appendix 2

Financial audit team

Anthony Barrett is the appointed auditor, the team responsible for your audit will be:

| Name | Role | Contact number | E-mail address |
|-----------------|---------------------------------|----------------|----------------------------|
| Derwyn Owen | Financial Audit Engagement Lead | 07909 882609 | derwyn.owen@wao.gov.uk |
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