



WALES **AUDIT** OFFICE

SWYDDFA **ARCHWILIO** CYMRU

Audit of Financial Statements Report

Gwynedd Pension Fund

Audit year: 2011-12

Issued: September 2012

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Status of report

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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

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 at 31 March 2012 and its income and expenditure for the year then ended.
2. In line with prescribed timetable we received the draft financial statements for the year ended 31 March 2012 on 30 June 2012. We have now substantially completed our audit work and are reporting to you the more significant issues arising from the audit, which we believe you should consider prior to approval of the financial statements. The audit team has already discussed these issues with the Council's Head of Finance and other Finance staff as relevant.
3. We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt a 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. 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

4. **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](#).
5. The proposed audit report is set out in [Appendix 2](#) of the Audit of Financial Statements Report for Gwynedd Council.

Significant issues arising from the audit

Uncorrected misstatements

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

Corrected misstatements

7. 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 2](#).

Other significant issues arising from the audit

8. 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 was one issue arising in these areas this year.

We identified one material weakness in your internal controls

9. The return on investment recognised in the Fund account includes the change in market value of investments during the financial year, which is quantifiable as the difference between the opening market value of investments plus the effect of investment purchases and sale transactions, and the closing market value.
10. Within its records the Council accounts for investments at book value, however, within the financial statements investments are required to be 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, rather than it being built up on a transactional basis.
11. The Council was unable to provide a detailed calculation to verify the change in market value disclosed in the fund account and, despite significant additional work by officers, there remains an unexplained difference of £100,000. As a result there is a risk of error in the financial statements although we have obtained sufficient assurance that the accounts are materially correct.
12. As we have reported in previous years, 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. In light of this year's audit, it is critical that this recommendation is now addressed.

We encountered some difficulties during the audit

13. The issue referred to in paragraphs 9 to 11 resulted in delay to the audit and the need to perform additional work.

We have identified no areas for improvement in the qualitative aspects of your accounting practices and financial reporting.

There are no other matters significant to the oversight of the financial reporting process that we need to report to you.

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

Appendix 1

Final Letter of Representation

Appointed Auditor
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ
27 September 2012

Dear Mr Barrett,

REPRESENTATIONS REGARDING THE 2011/12 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 2012. 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;

-
- 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:

Notwithstanding the fact that the value of investments will fluctuate between any two specific days, we agree with the Wales Audit Office that it is a priority to establish a process to independently verify the change in market value of investments between 1 April and the following 31 March. Officers have already commenced action to this effect for 2012/13.

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 Gwynedd Council's Audit Committee on 27 September 2012.

Yours sincerely,

Signed by:

DAFYDD L EDWARDS
HEAD OF FINANCE

Date: 27 September 2012

Signed by:

COUNCILLOR TREFOR O EDWARDS
AUDIT COMMITTEE CHAIRMAN

Date: 27 September 2012

Appendix 2

Summary of corrections made to the draft financial statements

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
£1,096,000	<ul style="list-style-type: none"> Note 12 – Increase Investment Income £1,096,000 Note 14 – Increase Investment Manager expenses £1,096,000 	To correctly account for fund manager rebates
£529,947,000	<ul style="list-style-type: none"> Note 16c – Valuation of financial instruments carried at fair value Decrease Quoted market price Level 1 £529,947,000 Increase Using observable inputs Level 2 £529,947,000 	To correctly classify investments to corresponding financial instrument levels.
£529,409,000	<ul style="list-style-type: none"> Note 16c valuation of financial instruments carried at fair value Decrease Quoted market price Level 1 £529,409,000 Increase Using observable inputs Level 2 £529,409,000 	To correctly classify investments to corresponding financial instrument levels for comparative year.
£9,382,000	<ul style="list-style-type: none"> Note 15a Investments analysed by fund manager Decrease Total £9,382,000 	To correct casting within note for comparative year.
£3,086,000	<ul style="list-style-type: none"> Note 15a Investments analysed by fund manager Decrease Total £3,086,000 	To correct casting within note.
£876	<ul style="list-style-type: none"> Note 26 Impairment Losses Increase amount received from Heritable Bank £876 	To correctly state the Heritable Bank position.
£78,000	<ul style="list-style-type: none"> Fund Account Increase Investment Income £78,000 Decrease CIMV £78,000 Note 12 – Investment Income Increase Overseas Equities £72,000 Increase Private Equity £5,000 Increase Interest £1,000 	To correctly classify investment income.

Value of correction	Nature of correction	Reason for correction
£16,000	<ul style="list-style-type: none"> • Note 15a Forward foreign currency Increase Local Value £16,000 Increase Asset Value £16,000 Decrease Liability Value £16,000 	To correctly classify forward currency contract values
Disclosure	Additional note regarding Purchases and Sales of investments – Note 15a	To further comply with disclosure requirements
Disclosure	Note 27 Prior Period Adjustment added to reflect changes to investment income and investment management expenses	To comply with the Code of Practice



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