



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

# Audit of Financial Statements Report

## **Gwynedd Pension Fund**

**Audit year:** 2012-13

**Issued:** September 2013

**Document reference:** GPFA2013

# 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

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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 at 31 March 2013 and its income and expenditure for the year then ended.
2. 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.
3. The quantitative levels at which we judge such misstatements to be material for Gwynedd Pension Fund are £500,000 for income and expenditure items and working capital balances, and £8.775 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.
4. International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
5. This report sets out for consideration the matters arising from the audit of the financial statements of Gwynedd Pension Fund, for 2012-13, that require reporting under ISA 260.

## Status of the audit

6. We received the draft financial statements for the year ended 31 March 2013 on 28 June 2013, ahead of the 30 June statutory deadline and have now substantially completed the audit work.
7. 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 the responsible finance officer for the Council (Dafydd Edwards).

## Proposed audit report

8. 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](#).
9. The proposed audit report is set out in [Appendix 2](#).

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## Significant issues arising from the audit

### Uncorrected misstatements

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

### Corrected misstatements

11. 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](#).

### Other significant issues arising from the audit

12. 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 one concern about the qualitative aspects of your accounting practices and financial reporting.

13. As raised in previous years, 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 £710,000.

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

14. As part of our work we identified that membership records held in the pensions administration system are not up to date. It is the responsibility of the Employer bodies to notify the administering authority of changes in the status of members e.g. starters and leavers etc. Whilst, in the case of the smaller admitted bodies within the scheme records are generally up to date, for the three main employer bodies, namely Gwynedd Council, Anglesey County Council and Conwy County Borough Council, it is apparent that this is not the case, albeit for different reasons.
15. One consequence of this is that data provided to the actuary, to provide the triennial actuarial valuation and the annual IAS 19 pension disclosures for inclusion in the respective employer bodies' financial statements, may not be accurate.
16. It is essential that the Council, in its role as the administering authority for the Gwynedd Local Government Pension Scheme, works with Employer bodies to ensure that the data is brought up to date and subsequently maintained ahead of the next triennial valuation which is due in the next few months.

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- 17.** Other than the actuarial present value of promised retirement benefits being disclosed in note 19, it is worth noting that this issue does not directly impact on the financial statements of the pension fund.

**There are no other matters that we need to report to you**

- 18.** There are no other matters to report to you. In particular:
- We did not encounter any significant difficulties during the audit.
  - There were no significant matters discussed and corresponded upon with management which we need to report to you.
  - There are no other matters significant to the oversight of the financial reporting process that we need to report to you.
  - There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.
- 19.** It is also worth noting that the issue relating to the calculation of the change in market value raised in the past has now been addressed and the Council has put appropriate arrangements in place to verify this entry in the financial statements.

## **Independence and objectivity**

- 20.** As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 21.** We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office and Gwynedd Pension Fund that we consider to bear on our objectivity and independence.

# Appendix 1

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## Final Letter of Representation

Mr Anthony Barrett  
Appointed Auditor  
Wales Audit Office  
24 Cathedral Road  
CARDIFF  
CF11 9LJ  
26 September 2013

Dear Mr Barrett,

### REPRESENTATIONS REGARDING THE 2012/13 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 2013 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

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 the United Kingdom; 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;

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- 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 Pension Fund 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; and
  - 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.

Further to a pro-active exercise by the Fund administering authority to improve employers' data for the 2013 triennial valuation, it became apparent by the summer that the employee data submitted in January (for the IAS19 pension disclosures in the employers' 2012/13 financial statements) was not up to date. As the Wales Audit Office notes, this does not impact on the Pension Fund's financial statements.



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However, following developments made to the reporting capabilities of the unitary authorities' payroll systems, the Fund administering authority continues to work on the considerable task of splitting pension records into individual posts. This involves assessing working hours and contribution records going back a considerable period of time. We have contacted the three major employers and are working with them to improve the situation for both the triennial valuation and the 2013/14 financial statements.

#### REPRESENTATIONS BY GWYNEDD COUNCIL'S 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 26 September 2013.

Yours sincerely,

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DAFYDD L EDWARDS  
HEAD OF FINANCE

Date .....

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COUNCILLOR TREFOR O EDWARDS  
AUDIT COMMITTEE CHAIRMAN

Date .....

# Appendix 2

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## Proposed audit report of the Appointed Auditor to Gwynedd Pension Fund

I have audited the accounting statements and related notes of:

- Gwynedd Council; and
- Gwynedd Pension Fund

for the year ended 31 March 2013 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, and the Cash Flow 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 2012-13 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 the responsible financial officer is responsible for the preparation of the statement of accounts, including Gwynedd Pension Fund's accounting statements, 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 Gwynedd Council 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 2013 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 2012-13.

### **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 2013 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 2012-13.

### **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 Annual 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**

**27 September 2013**

## Appendix 3

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

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
£710,000	Adjustment to note 9 – lump sum liabilities for those individuals who left on 31/3/13 had not been accrued.	To ensure financial statements reflect transactions in correct period
£650,000	Adjustment to Note 16a – the derivative contract had been overstated and creditors understated by this sum	To ensure financial statement disclosures are accurately reported
£10.811 million	Adjustment to Note 16c – to correctly show this sum as a Level 2 investment rather than Level 1	To ensure the financial statements report the correct figures





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