



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# Audit of Financial Statements Report – **Gwynedd Pension Fund**

Audit year: 2016-17

Date issued: September 2017



This document has been prepared as part of work performed in accordance with statutory functions.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000.

The section 45 code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at

[infoofficer@audit.wales](mailto:infoofficer@audit.wales).

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

This document is also available in Welsh.

# Contents

The Auditor General intends to issue an **unqualified audit report** on your financial statements subject to satisfactory resolution of outstanding matters noted on page four. There are no issues to report to you prior to their approval.

## Summary report

Introduction	4
Status of the audit	4
Proposed audit report	4
Audit outcomes	5
Recommendations arising from our 2016-17 financial audit work	7
Independence and objectivity	7

## Appendices

Appendix 1 – Draft Letter of Representation	8
Appendix 2 – Proposed audit report of the Auditor General to the Gwynedd Council and Gwynedd Pension Fund	11
Appendix 3 – Recommendations arising from our 2015-16 financial audit work	13

# Summary report

## Introduction

- 1 The Auditor General 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 2017 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 £18,642k for income and expenditure items and working capital 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 2016-17 that require reporting under ISA 260.

## Status of the audit

- 6 We have now substantially completed the audit work. When we issued this report we had not yet finalised:
  - Our testing including testing of underlying membership data, approach to uprating in relation to the triennial valuation, journals testing and review of employer contributions made within 19 day of the month end;
  - Our completion of review of annual report and accounts; and
  - Our quality assurance and partner reviews.
- 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 Investment Manager on the 13 September 2017 and communicated to the S151 Officer at a later date.

## Proposed audit report

- 8 It is the Auditor General's intention to issue an **unqualified audit report** on the financial statements subject to satisfactory resolution of outstanding matters above and once you have provided us with a Letter of Representation based on the one set out in [Appendix 1](#).

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

## Audit outcomes

### Uncorrected misstatements

- 10 We set out below one judgemental misstatement that we have identified, which has been discussed with management but remains uncorrected. We request that this is corrected. If you decide not to correct this misstatement, we ask that you provide us with the reasons for non-correction.
- **Judgemental - Investment Valuations – Property & Private Equity:** We developed an independent expectation for the valuation of the property funds held by Gwynedd Pension Fund based on the draft statement of accounts, taking the Net Asset Value and flexing by an appropriate property benchmark to roll forward to the year-end. Our testing identified an overstatement of the property and private equity investments held (Partners and UBS) of £1,421k compared to managements calculations.

### Corrected misstatements

- 11 There are no corrected misstatements which we consider should be drawn to your attention.

## Significant Risks

Financial audit risk	Proposed audit response
<p><b>Management Override of Controls.</b> The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].</p>	<p>My audit team performed the following tests to address the significant risk around Management Override of Controls:</p> <ul style="list-style-type: none"> <li>• tested the appropriateness of journal entries and other adjustments made in preparing the financial statements using enhanced data analytics to analyse the whole journal population for characteristics of interest;</li> <li>• reviewed the design and implementation of controls over journal entries to the financial ledger and accounting estimates;</li> <li>• reviewed accounting estimates for evidence of bias; and</li> <li>• evaluated the rationale for any significant transactions outside the</li> </ul>

Financial audit risk	Proposed audit response
	<p>normal course of business including those with related parties.</p> <p><b>No issues identified, other than internal control recommendation raised. See Appendix 3.</b></p>
<p><b>Valuation of investments</b></p> <p>The Fund makes some use of investments in unquoted investment vehicles, such as private equity funds.</p> <p>Market volatility raises questions about how to value private equity funds. It would normally be expected that the reasonableness of the Fund managers' valuation could be assessed by comparison with the funds' latest available audited accounts as adjusted for subsequent cash movements (investments and distributions) between the pooled investment vehicle and the investors. However, market volatility means such comparison may be inappropriate especially when there is a significant time period between the latest audited accounts and the Fund year-end.</p>	<p>My audit team performed the following tests to address the significant risk around valuation of investments:</p> <ul style="list-style-type: none"> <li>• we identified and tested the design and implementation of controls present which ensure investments are valued correctly;</li> <li>• we reviewed the internal control reports to gain an understanding of the control environment at the investment managers and reviewed management's consideration of these reports;</li> <li>• we obtained third-party confirmations of investment balances as at 31 March 2017;</li> <li>• we selected a sample of investments and recalculated the valuations; and</li> <li>• we engaged our internal financial instrument experts to ensure our testing approach was appropriate given the Fund's specific investment strategy and portfolio.</li> </ul> <p><b>No issues identified.</b></p>
<p><b>Triennial Valuation Data</b></p> <p>During the year, the Local Government Pension Scheme for Gwynedd Pension Fund has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The Authority provides the actuary with a large volume of data in relation to admitted bodies including their share of pensions assets and liabilities to carry out this triennial valuation.</p> <p>There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts.</p>	<p>My audit team performed the following tests to address the significant risk around the Triennial Valuation Data:</p> <ul style="list-style-type: none"> <li>• we identified and tested the design and implementation of controls around the transfer of the data;</li> <li>• reviewed and inspected and tested the processes for cleansing the data;</li> <li>• engaged with the actuary to discuss the data used in the valuation, and;</li> <li>• we reviewed the data reports from the actuary.</li> </ul> <p><b>Testing is ongoing with no issues identified to date, however, understanding the uprating of data and testing of underlying accuracy of</b></p>

Financial audit risk	Proposed audit response
	<b>membership data in relation to the triennial valuation remains outstanding which is being completed by specialists.</b>

## 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 **no** issues arising in these areas this year:

- We have no concerns about the qualitative aspects of your accounting practices and financial reporting.
- 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.
- We did not identify any material weaknesses in your internal controls. However we have raised one control observation in Appendix 3. The audit team has already discussed these issues with the Investment Manager on the 13 September 2017 and these have been subsequently shared with the S151 Officer.
- There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.

## Recommendations arising from our 2016-17 financial audit work

13 There are no new recommendations arising from our financial audit work, other than revised recommendations being raised as a result of the follow up of 2015-16 financial audit work, see below.

## Recommendations arising from our 2015-16 financial audit work

14 The recommendations arising from our financial audit work are set out in **Appendix 3**. Management has responded to them and we have followed up on progress during the 2016-17 audit. Where any actions are outstanding, we will continue to monitor progress and report it to you in next year's report.

## Independence and objectivity

- 15 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 16 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 the Gwynedd Pension Fund that we consider to bear on our objectivity and independence.



# Appendix 1

---

## Draft Letter of Representation

Auditor General for Wales  
Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

28 September 2017

Dear Sir,

## Representations regarding the 2016-17 financial statements

This letter is provided in connection with your audit of the financial statements of Gwynedd Pension Fund for the year ended 31 March 2017 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:

1. The preparation of the financial statements in accordance with legislative requirements and Code of Practice on Local Authority Accounting in the United Kingdom 2016/17; in particular the financial statements give a true and fair view in accordance therewith.
2. The design, implementation, maintenance and review of internal control to prevent and detect fraud and error.
3. We confirm that the Scheme is a Registered Pension Scheme. We are not aware of any reason why the tax status of the Scheme should change.
4. We have not made any reports to The Pensions Regulator nor are we aware of any such reports having been made by any of our advisors. We confirm that we are not aware of any late contributions or breaches of the payment schedule/schedule of contributions that have arisen which we considered did not require reporting. We also confirm that we are not aware of any other matters which have arisen that would require a report to The Pensions Regulator.
5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Scheme year or subsequently concerning matters of noncompliance with any legal duty / We have drawn to your attention all correspondence and notes of meetings with regulators.

# Appendix 1

---

6. We confirm that, under section 27 of the Pensions Act 1995, no trustee of the Scheme is connected with, or is an associate of Deloitte LLP, which would render Deloitte LLP ineligible to act as auditor to the Scheme.
7. There have been no changes to the Scheme rules during the year and up to the current date.

## Information provided

We have provided you with:

1. 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.
2. The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
3. Our knowledge of fraud or suspected fraud that we are aware of and that affects Gwynedd 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.
4. Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
5. 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.
6. The identity of all related parties and all the related party relationships and transactions of which we are aware.
7. The Membership data contained within the annual report is accurate and a true and fair view of the Pension Fund's membership numbers.

## 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.

# Appendix 1

---

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 aggregate, to the financial statements taken as a whole

## Representations by Gwynedd Council's Audit and Governance 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 and Governance Committee on 28 September 2017.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Yours faithfully,

Signed by: .....

**Dafydd L Edwards**

**Head of Finance**

**Gwynedd Council**

**Date: 28 September 2017**

Signed by: .....

**Councillor R Medwyn Hughes**

**Audit and Governance Committee Chairman**

**Gwynedd Council**

**Date: 28 September 2017**

# Appendix 2

---

## Proposed audit report of the Auditor General to Gwynedd Council and the Gwynedd Pension Fund

### **Auditor General for Wales' report to the Members of Gwynedd Council**

I have audited the accounting statements and related notes of:

- Gwynedd Council; and
- Gwynedd Pension Fund

for the year ended 31 March 2017 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 2016-17 based on International Financial Reporting Standards (IFRSs).

### **Respective responsibilities of the responsible financial officer and the Auditor General for Wales**

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 and 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 Financial Reporting Council'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 Narrative Report to identify material inconsistencies with the audited accounting statements and related notes and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

# Appendix 2

## **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 2017 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 2016-17.

## **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 2017 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 2016-17.

## **Opinion on other matters**

In my opinion, the information contained in the Narrative Report 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 following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept;
- the accounting statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit;
- the Annual Governance Statement does not reflect compliance with guidance.

## **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 Auditor General for Wales' Code of Audit Practice.

For and on behalf of  
Huw Vaughan Thomas  
Auditor General for Wales  
29 September 2017

Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

# Appendix 3

## Recommendations arising from our 2015-16 financial audit work

We set out all the recommendations arising from our 2015-16 audit with management's response to them. We have followed these up during the 2016-17 audit and have recorded the results below.

<b>Suspense Accounts are not Formally Reconciled</b>	
<b>PY Recommendation</b>	It is recommended that the Fund's suspense accounts are reviewed on a monthly basis.
<b>Priority</b>	Medium
<b>2015-16 Finding</b>	We identified that the suspense account which is used to allocate the employee and employer contributions on an almost daily basis and the suspense account which posts transactions between the Pension Fund and Gwynedd Council are not formally reconciled and signed off as prepared and then separately reviewed.
<b>Management Response</b>	No specific response made as recommendation largely focussed on review of journals.
<b>2016-17 Finding</b>	It was identified that the suspense accounts are not currently being formally reconciled on a monthly basis
<b>Status</b>	<b>Recommendation Revised:</b> It is recommended that the Fund's suspense accounts are reconciled and reviewed on a monthly basis.
<b>Management response</b>	We intend to clear, rather than reconcile, the relevant suspense account on a weekly, rather than monthly basis.
<b>Journal Authorisation</b>	
<b>PY Recommendation</b>	It is recommended that journals are authorised before being posted.
<b>Priority</b>	Medium
<b>2015-16 Finding</b>	We identified that there is no process in place for the authorisation of journals. Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls, and therefore management override is required to be a presumed risk for all audits carried out under International Standards of Auditing.
<b>Management response</b>	The staff who enter journals are at a responsible level and review of each journal would take up managerial time, but we intend to generally review the processing of journals and will do so in consultation with Deloitte.

# Appendix 3

<b>2016-17 Finding</b>	We identified that there is no process in place for the authorisation of journals prior to them being posted, however, we are satisfied that there are sufficient reviews undertaken by management which mitigate the risk of management override.
<b>Status:</b>	<b>N/a - Recommendation implemented.</b>

## Investments Should be held at Market Value

<b>PY Recommendation</b>	It is recommended that the Fund's investments are held at market value in the ledger.  We identified that the Fund holds investments in the ledger at book cost, relying on a complex set of spreadsheets to reconcile and derive the year-end market value.
<b>Priority</b>	Medium
<b>2015-16 Finding</b>	We identified that the Fund holds investments in the ledger at book cost, relying on a complex set of spreadsheets to reconcile and derive the year-end market value.
<b>Management response</b>	We will consider the practicality of recording the market value on the ledger. The year-end market value is not derived from the reconciliation. It is derived from the reports from the custodian and the investment managers. The reconciliation ensures that the ledger entries are correct.
<b>2016-17 Finding</b>	We identified that the Fund continues holds investments in the ledger at book cost, relying on a complex set of spreadsheets to reconcile and derive the year-end market value.
<b>Status</b>	<b>Recommendation Re-raised</b>
<b>Management response</b>	We will implement this recommendation when the equity investments have been transferred to the Wales Pool.  The year-end market value is not derived from the reconciliation. It is derived from the reports from the custodian and the investment managers. The reconciliation ensures that the ledger entries are correct.

## Improving Banking Controls

<b>PY Recommendation</b>	It is recommended that the euro account is brought into the eFinancials accounting system. In addition, it is recommended that bank reconciliations are prepared and reviewed in a timely manner.
<b>Priority</b>	Medium

# Appendix 3

<b>2015-16 Finding</b>	The Fund has four bank accounts. We identified that the euro bank account is not set up on the eFinancials accounting system. We also identified that for December 2015, two bank accounts had an untimely review (prepared on 5 January 2016, and reviewed on 2 February 2016). In addition, we identified that one bank account reconciliation showed no evidence of review and that a further account reconciliation showed no evidence of sign off of preparation or review.
<b>Management response</b>	We will ensure that all bank reconciliations are reviewed by another officer. We will investigate the practicality of bringing the Euro account onto the ledger. The bank system requires three officers to process transactions, which minimises the risk of misappropriation of funds.
<b>2016-17 Finding</b>	We identified that the euro bank account is not set up on the eFinancials accounting system.
<b>Status</b>	<b>Recommendation Revised:</b> It is recommended that the euro account is brought into the eFinancials accounting system.
<b>Management Response</b>	We are still investigating the practicality of bringing the Euro account onto the ledger and the exchange rate to use for this purpose.
<b>Membership Numbers</b>	
<b>Recommendation</b>	It is recommended that the Pension Manager develops an Altair report that can count the total (and identify individual) retrospective changes to membership data. In addition, it is recommended that the Pension Database Administrator runs a data extract of Membership data on, or as close to 31 March as possible. It is also recommended that the Pension Fund Manager performs a reconciliation between prior-year reported membership numbers and revised membership numbers.
<b>Priority</b>	Medium
<b>2015-16 Finding</b>	We identified that the Pension Manager could not supply a membership number reconciliation between 2014-15 and 2015-16. The reconciliation should show movements of members in the financial year and retrospective changes that revised any prior-year figures. This reconciliation would allow us to audit the movement of member numbers, which we have not been able to do.
<b>Management response</b>	An Altair report will be developed to produce the movements in membership between two specific dates. This should enable reconciliation.  Running the data extract of membership data close to 31 March will not solve the problem as the March data is entered during April when it is received from employers.



# Appendix 3

<b>2016-17 Finding</b>	<p>We identified that the Pension Manager could not supply a membership number reconciliation between 2015-16 and 2016-17. The reconciliation should show movements of members in the financial year and retrospective changes that revised any prior-year figures. This reconciliation would allow us to audit the movement of member numbers, which we have not been able to do.</p>
<b>Status:</b>	<b>Recommendation Re-raised</b>
<b>Management response</b>	<p>Data reports from our pensions system (Altair) are produced at the end of each financial year and have been presented to the Auditors as requested. These reports show figures in relation to all records held on the system at any given time, and the numbers that fall into each type of status e.g. active members, deferred members or pensioners etc. Other reports show the movement between different statuses between two specific dates (movement analysis reports). However, it should be noted that the data for the end of the financial year (31<sup>st</sup> March) is not immediately accepted (it can take a substantial number of weeks to receive data from employers), and therefore, the quality of the data extracted from the system on certain dates can be incorrect in relation to the true situation.</p> <p>It should be noted that the pensions system is a system in constant use changing from day to day with new records being created, modified and deleted, as members of staff respond to new information received by employers and by processing members pension benefits. Our opinion is that it would be difficult or impossible to store evidence other than the documents held on individual member records in order to show, for example, why the number of pension records increase or decrease between two dates.</p> <p>A request has been made to employers that they provide their data to the Pensions Section using the system "I-Connect" which facilitates the process of transferring data accurately and regularly on a monthly basis between the employers and the pension system Altair. It is believed that this method of transferring data will greatly improve the accuracy of the data held and the efficiency of administering the pension scheme.</p>

Wales Audit Office  
24 Cathedral Road  
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone.: 029 2032 0660

E-mail: [info@audit.wales](mailto:info@audit.wales)

Website: [www.audit.wales](http://www.audit.wales)

Swyddfa Archwilio Cymru  
24 Heol y Gadeirlan  
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn testun: 029 2032 0660

E-bost: [post@archwilio.cymru](mailto:post@archwilio.cymru)

Gwefan: [www.archwilio.cymru](http://www.archwilio.cymru)