



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Audit of Financial Statements Report – Gwynedd Pension Fund

Audit year: 2017/18

Date issued: September 2018



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This document is also available in Welsh.

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The Auditor General intends to issue **an unqualified** audit report on your financial statements. There are no material issues to report to you prior to their approval.

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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 2018 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 £19,300k for income and expenditure items. 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 2017-18 that require reporting under ISA 260.

Status of the audit

- 6 We 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 Caroline Roberts (Investment Manager) during our close meeting on 30 August 2018.

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](#).

Significant issues arising from the audit

Uncorrected misstatements

- 10 There are no misstatements identified in the financial statements, which remain uncorrected besides a minor disclosure deficiency in relation to the analysis of investment disclosures as detailed in finding 5 below.

Corrected misstatements

All corrected misstatements are disclosed in Appendix 3 of this report.

Significant Risks

Financial audit risk	Proposed audit response
<p>Management Override of Controls. 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">• using enhanced data analytics to analyse the whole journal population for characteristics of interest and then substantively test the appropriateness of the journals identified;• reviewed the design and implementation of controls over journal entries to the financial ledger and accounting estimates;• reviewed accounting estimates for evidence of bias; and• evaluated the rationale for any significant transactions outside the normal course of business including those with related parties. <p>No issues were identified, other than the internal control recommendation raised. Please refer to Appendix 3 for further details.</p>

Other significant issues arising from the audit

- 11 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 that we have not reported to you already.
 - There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.

Recommendations arising from our 2017/18 financial audit work

- 12 The recommendations arising from our financial audit work are set out in Appendix 3. Management has responded to them and we will follow up progress on them during next year's 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

- 13 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 14 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

Draft Letter of Representation

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

27 September 2018

Representations regarding the 2018 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 2018 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 2017/18; 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 Fund is a Registered Pension Fund. We are not aware of any reason why the tax status of the Fund 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. We have drawn to your attention all correspondence and notes of meetings with regulators.

6. We confirm that, under section 27 of the Pensions Act 1995, no person charged with governance of the Fund is connected with, or is an associate of Wales Audit Office, which would render Wales Audit Office ineligible to act as auditor to the Fund.
7. There have been no changes to the Fund rules during the year and up to the current date.

Information provided

We have provided you with:

Full access to:

1. 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;
2. 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;
3. The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
4. 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.
5. Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
6. 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.
7. The identity of all related parties and all the related party relationships and transactions of which we are aware.
8. 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

9. All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.
10. Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.
11. Related party relationships and transactions have been appropriately accounted for and disclosed.

12. All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.
13. 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.
14. 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 Audit & 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 Audit & Governance Committee on 27 September 2018.

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.

Signed by:

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Dafydd L Edwards
 Head of Finance
 Gwynedd Council

Date:

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Signed by:

.....

Councillor R Medwyn Hughes
 Audit & Governance Committee
 Chairman

Date:

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Appendix 2

Proposed independent auditor's report of the Auditor General for Wales to the members of Gwynedd Council as administering authority for Gwynedd Pension Fund

Report on the audit of the financial statements

Opinion

I have audited the financial statements of Gwynedd Pension Fund for the year ended 31 March 2018 under the Public Audit (Wales) Act 2004. Gwynedd Pension Fund's financial statements comprise the fund account, the net assets statement and the related notes, including a summary of significant accounting policies. 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 2018 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2018.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the pension fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the responsible financial officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of

accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Report on other requirements

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 financial 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.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of Gwynedd Pension Fund in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

Responsibilities

Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the financial statements, the responsible financial officer is responsible for the preparation of the financial statements, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the responsible financial officer is responsible for assessing the pension fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Anthony J Barrett
For and on behalf of the Auditor General for Wales
[Date]

24 Cathedral Road
Cardiff
CF11 9LJ

Appendix 3

Recommendations arising from our 2017-18 financial audit work

We have set out below all the recommendations arising from our audit along with management's response to each of the findings. We will follow up on these recommendations next year and include any outstanding issues in next year's audit report:

1. Market value reconciliation -Insight	
Findings	<p>On review of the Insight 2017/18 report, we identified £79,950,000 of sales and £79,950,000 of purchases which should have been included within the financial statements. These are liquidity funds transactions which we are buying and selling units in a fund and these are genuine investment transactions.</p> <p>We also identified a cash account - IS 2497 totalling £20,908 at the year end, which had not been included within the financial statements.</p>
Priority	Medium
Recommendation	We recommend that a full cash reconciliation is completed quarterly to ensure all of these items are identified and accounted for going forward
Management response	<p>The £79.950m has been amended in the accounts</p> <p>The £20,908 cash is held within the Insight Fund so does not appear as a separate amount in the accounts. We have the overall value of the fund in our accounts.</p>
Implementation date	5/09/18

2. Monthly contributions reconciliation	
Findings	<p>During our review of the controls around the accuracy & completeness of contributions data received from the Fund's Employers, we noted that although the contributions received are recalculated each month, these are based purely on a monthly contribution return completed by the employer, which is not currently checked to any underlying data. The Fund has no comfort that the figures within these returns are accurate or complete.</p> <p>Though the responsibility for this does lie with the Employer, the Fund should be able to obtain a greater degree of comfort over the accuracy and completeness of contributions. Currently there is no way of knowing how many members it relates to, any changes etc.</p>
Priority	High
Recommendation	On enquiry it was confirmed that the fund administering authority's management have introduced a 'compliance checklist', which they require employers' statutory finance officers, or equivalent, to sign, confirming that various processes and checks have taken place (contributions in line with %

	bandings, starters, leavers, correct pay details etc.) and that information and contributions passed over to the fund are accurate and in line with LGPS regulations. This provides some additional comfort, though still does not give the Fund access to the detailed data. We recommend that the checklist is used in each instance going forwards and if possible, further checks performed to ensure that the underlying data is complete and accurate. We understand management are making the checklist compulsory from next year, where data integrity is not supported by 'i-Connect' on-line interfaces.
Management response	The Fund relies on the reports from the employers and the signed compliance checklist will be helpful. The Accounts team do not have the resources to reconcile back to the payroll of individual employers.
Implementation date	March 2019

3. Late monthly contributions

Findings	On our review of the key monthly controls around the receipt of contributions, we noted that if contributions are not received by their due date the pension accountant team will chase the members. On further inquiry, we confirmed that due to short staffing, the timeliness of contributions during 17/18 was not monitored at all.
Priority	Medium
Recommendation	We would recommend that contribution monitoring is resumed. Additionally, we would recommend that a process is put in place, to help mitigate late contributions before they happen, rather than purely chasing those that are already late.
Management response	Due to the staff absences over the last 16 months this was not possible. With a complete team this will be possible in 2018/19
Implementation date	N/A

4. Fair Value Hierarchy disclosure

Findings	On review of the fair value hierarchy categorisations of the Fund's financial instruments, we identified that the UBS Triton Property Trust Fund, the UBS (Lux) Core Real Estate –Euro fund and the Lothbury Property Trust fund should all be held at Level 3 due to redemption restrictions in place, however were initially held at level 2. There were also several funds held at Level 1 that should have been at Level 2 as they are not exchange traded.
Priority	Low
Recommendation	We recommend that these are reviewed carefully going forward to ensure that the categorisation is appropriate for all funds.
Management response	This has been amended in the accounts.
Implementation date	N/A

5. Investment note disclosures

Findings	<p>On review of the investment and investment income notes in the financial statements, we identified that they are not currently being analysed in-line with the current requirements of IFRS and CIPFA. The analysis should split the investments into these headings:</p> <ul style="list-style-type: none"> - Bonds (analysed between public sector and other) - Equities (including convertible shares) - Pooled investment vehicles (analysed between unit trusts, unitised insurance policies and managed funds, showing separately those funds invested in property) - Property - Cash deposits - Other investment balances <p>Further to this, the 3 lines on the financial statements shown below, should be grouped together in the fund account and called "Other income"</p> <ul style="list-style-type: none"> - Interest on deferred contributions - Income from divorce calculations - Income from transfer value calculations
Priority	Low
Recommendation	We recommend that the investment and investment income balances are reanalysed in line with the above categories.
Management response	Due to the staff absences over the last 16 months this was not possible. We will reanalyse in the 2018/19 accounts.
Implementation date	N/A

Update on 2016-17 Recommendations

1. Membership Numbers

Recommendation	<p>It is recommended that the Pension Manager develops an Altair report that can count the total (and identify individual) retrospective changes to membership data.</p> <p>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.</p> <p>It is also recommended that the Pension Fund Manager performs a reconciliation between prior-year reported membership numbers and revised membership numbers.</p>
Priority	Medium
2016-17 Finding	<p>We identified that the Pension Manager could not supply a membership number reconciliation between 2015-16 and 2016-17.</p> <p>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>
Management response	<p>An Altair report will be developed to produce the movements in membership between two specific dates. This should enable reconciliation.</p> <p>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.</p>
2017-18 Finding	<p>We identified that the Pension Manager could not supply a membership number reconciliation between 2016-17 and 2017-18.</p> <p>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>
Status:	<p>Recommendation Re-raised</p> <p>Updated management comment: This is aspirational and requires third party software developments even if it is possible for it to be delivered in due course</p>

2. Improving Banking Controls

2. Improving Banking Controls

PY Recommendation	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.
Priority	Medium
2016-17 Finding	We identified that the euro bank account is not set up on the eFinancials accounting system.
Management response	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.
2017-18 Update	<p>We identified that the euro bank account is still not set up on the eFinancials accounting system.</p> <p>We investigated the practicality and have decided not to bring the account into the accounting system. Transactions are transferred to the sterling bank account group at the end of each quarter.</p>
Status	Recommendation Closed. The quarterly reconciliation is satisfactory.

3. Suspense Accounts are not Formally Reconciled

PY Recommendation	It is recommended that the Fund's suspense accounts are reviewed on a monthly basis.
Priority	Medium
2015-16 Finding	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.
Management Response	No specific response made as recommendation largely focussed on review of journals.
2016-17 Finding	It was identified that the suspense accounts are not currently being formally reconciled on a monthly basis
Status	Recommendation Revised: It is recommended that the Fund's suspense accounts are reconciled and reviewed on a monthly basis.
Management response	Due to the staff absences over the last 16 months this was not possible. With a complete team this will be possible in 2018/19.

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