

Audit of Accounts Report – Gwynedd Pension Fund

Audit year: 2019-20

Date issued: October 2020

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

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The Auditor General intends to issue an **unqualified audit opinion** which includes an emphasis of matter paragraph regarding the valuation uncertainty for the UK property funds on your financial statements. There are no material issues to report to you prior to their approval.

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Audit of Accounts Report

Introduction

- 1 We summarise the main findings from our audit of your 2019-20 accounts in this report.
- 2 We have already discussed these issues with Delyth Wyn Jones-Thomas (Investment manager)
- 3 Auditors can never give complete assurance that accounts are correctly stated. Instead, we work to a level of 'materiality'. This level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled.
- 4 We set this level at £19,000,000 for this year's audit.
- 5 We have now substantially completed this year's audit. All outstanding areas of testing are detailed below:
 - a. Completion of subsequent events review
 - b. Final quality assurance procedures
 - c. Receipt of signed management representation letter
- 6 In our professional view, we have complied with the ethical standards that apply to our work; remain independent of yourselves; and, our objectivity has not been compromised in any way. There are no relationships between ourselves and yourselves that we believe could undermine our objectivity and independence.

Impact of Covid-19 on this Year's Audit

- 7 The Covid-19 pandemic has had a significant impact on all aspects of our society and continues to do so. You are required to prepare accounts and it is of considerable testament to the commitment of your accounts team that you have succeeded in doing so this year in the face of the challenges posed by this pandemic. We are extremely grateful to the professionalism of the team in supporting us to complete our audit in such difficult circumstances.
- 8 The pandemic has unsurprisingly affected our audit and we summarise in **Exhibit 1** the main impacts. Other than where we specifically make recommendations, the detail in **Exhibit 1** is provided for information purposes only to help you understand the impact of the Covid-19 pandemic on this year's audit process.

Exhibit 1 – impact of Covid-19 on this year’s audit

Timetable	<ul style="list-style-type: none">• The deadline for completing your accounts has been changed.• We expect your audit report to be signed in October 2020.
Electronic signatures	Electronic signatures can be used by the audited body and Audit Wales.
Audit evidence	This year journal testing and benefit payments were tested remotely. Usually, this is completed during a site visit by the audit team.
Other	<p>Other challenges we faced included:</p> <ul style="list-style-type: none">• Real Estate specialists were used to assist in the audit of the property funds as they were subject to material valuation uncertainty disclaimer by the valuer;• Receiving third party confirmation information from investment managers later than usual; and• Bank confirmations were requested differently in line with the banks changes to processes due to COVID-19.

- 9 We will be reviewing what we have learned for our audit process from the Covid-19 pandemic and whether there are innovative practices that we might adopt in the future to enhance that process.

Proposed Audit Opinion

- 10 We intend to issue an **unqualified audit opinion** which includes an emphasis of matter paragraph regarding the valuation uncertainty for the UK property funds on your financial statements once you have provided us with a Letter of Representation based on that set out in **Appendix 1**.
- 11 We issue a ‘qualified’ audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.
- 12 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards along with confirmation of other specific information you have provided to us during our audit.
- 13 Our proposed audit report is set out in **Appendix 2**.

Significant Issues arising from the Audit

Uncorrected misstatements

14 The misstatements identified in the accounts, which remain uncorrected are noted below:

[i] GMP equalisation - Adjustments were made as part of the 2019 Valuation and these totalled around £4m additional liabilities. This relates to 0.2% of total liabilities. The estimate is not material and has not yet been split between past and future costs. As a result, we have included the £4m in the uncorrected misstatement schedule as the 'worst case' provision required. We would expect the past amount to be much lower than this total figure.

[ii] McCloud – The actuary confirmed the McCloud adjustment included in this year's IAS26 report was 0.5% of the active liabilities. An amount of 0.5% of the liability (£1,925m) would be £9.625m based on the 31 March 2019 valuation. The estimate is not material and has not yet been split between past and future costs. As a result, we have included the £9.625m in the uncorrected misstatement schedule as the 'worst case' provision required. We would expect the past amount to be much lower than this total figure.

[iii] Goodwin – The actuary has confirmed this is in the early stages but his initial understanding is that it only affects a very small proportion of Fund members. Quotes in external papers have implied impacts of c0.1-0.2% of total liabilities. An amount of 0.2% of the liability would be £3.85m based on the 31 March 2019 valuation. This is a total amount and not based on a past future split. As a result, we have included the £3.85m in the uncorrected misstatement schedule as the 'worst case' provision required. We would expect the past amount to be much lower than this total figure. No disclosure has been made in the financial statements with respect to Goodwin.

A summary of uncorrected misstatements is set out in **Appendix 3**.

Corrected misstatements

15 Corrections have been made to add estimation uncertainty disclosures regarding the property funds as a result of COVID-19 and all property funds have been reclassified to Level 3 assets due to redemption restrictions.

A summary of corrected misstatements is set out in **Appendix 3**.

Significant Risk and other areas of audit attention

Financial audit risk	Proposed audit response
Significant risk	
<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 noted other than the control observation in respect of a lack of review of journal entries.</p>
Other areas of audit attention	
<p>Valuation of investments The valuation of investments is an area of focus due to the impact of COVID-19 at the balance sheet date.</p>	<p>My audit team performed the following tests to address the other areas of audit attention:</p> <ul style="list-style-type: none"> • reviewed the design and implementation of key controls over the valuation of investments by obtaining the investment manager internal controls reports (where applicable) and evaluating the implications for our audit of any exceptions noted; • agreed the year end valuations as reported in the financial statements to reports received directly from the investment managers; • performed independent valuation testing for a sample of year end holdings using procedures such as rolling forward the valuation from the

Other areas of audit attention

	<p>most recently available audited financial statements of the Fund to the balance sheet date using an appropriate benchmark;</p> <ul style="list-style-type: none"> • engaged Real Estate experts to assist in the audit of the property funds; and • ensured that appropriate stale price adjustments have been posted to the financial statements. <p>We have confirmed all valuations are as at 31 March 2020 and there are no stale pricing concerns.</p> <p>UK property funds at 31 March 2020 are £191m, representing 10% of the total assets. The valuation statements include a statement that there is a material valuation uncertainty related to the UK property fund. In line with Audit Wales guidance, an emphasis of matter paragraph will be included in the audit report as the property funds are material.</p> <p>Corrections have been made to add estimation uncertainty disclosures regarding the property funds as a result of COVID-19 and all property funds have been reclassified to Level 3 assets due to redemption restrictions.</p>
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During the year there were no further transfers to the Welsh Pension Partnership's Investment Pool. Carmarthenshire County Council (CCC) is the host authority for the Wales Pension Partnership joint committee (WPP). Gwynedd Pension Fund (GPF) (administered by Gwynedd County Council) had transferred funds to the WPP Global Opportunities and Global Growth sub-funds in January 2019. The audit team based at CCC has provided audit assurance to the audit teams at the other pension funds in Wales. They have:

- obtained, reviewed and drawn conclusions on the control assurance reports for both the fund operator, relevant fund managers and the custodian for the funds;

- provided confirmation of the year end balances in each equity sub fund; and
- reviewed the committee disclosure note that has been provided to all individual administering bodies along with confirmation that the disclosure note is consistent with the Committee's 2019-20 financial statements.

No issues were noted with their testing.

Other Significant Issues arising from the Audit

16 In the course of the audit, we consider a number of matters relating to the accounts and report any significant issues arising to you including:

- Concerns about the qualitative aspects of accounting practices and financial reporting.
- Any significant difficulties during the audit.
- Significant matters discussed and corresponded upon with management which we need to report to those charged with governance, eg business conditions affecting the entity, significant risks, unusual transactions, factors affecting asset and liability carrying values, selective correction of misstatements, concerns over management contacting other accountants or third parties on accounting or auditing matters.
- Any other matters significant to the oversight of the financial reporting process that we need to report, eg, material misstatements, reporting inconsistencies etc.
- Any identified material weaknesses in internal controls that we have not reported to you already.
- Any other matters specifically required by auditing standards to be communicated to those charged with governance, eg, issues relating to fraud, compliance with laws and regulations, audit of the group, non-disclosure of information such as related parties or significant related party transactions, going concern, subsequent events etc.

There were no issues arising in these areas this year.

Recommendations

- 17 The recommendations arising from our audit are set out in **Appendix 4**. Management has responded to them and we will follow up progress against 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.

Appendix 1

Final Letter of Representation

Auditor General for Wales

Wales Audit Office

24 Cathedral Road

Cardiff

CF11 9LJ

[Date]

Representations regarding the 2020 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 2020 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 Code of Practice on Local Authority Accounting in the United Kingdom 2019/20; in particular the financial statements give a true and fair view in accordance therewith.
- The design, implementation, maintenance and review of internal control to prevent and detect fraud and error.
- 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.
- 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 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.

- We have drawn to your attention all correspondence and notes of meetings with regulators.
- We confirm that 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.
- 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:
 - 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 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.
- The identity of all related parties and all the related party relationships and transactions of which we are aware.

- 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 and assessing the impact of Covid-19 on the Fund, 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, including disclosure of the impact that Covid-19 has had over the Fund financial statements.
- 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 in Appendix 1.
- We confirm that the financial statements have been prepared on the going concern basis and disclose in accordance with the Code all matters of which we are aware that are relevant to the Fund's ability to continue as a going concern, including principal conditions or events and our plans. We do not intend to wind up the Fund. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Fund's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.
- We confirm that:
 - (i) we consider that the Fund has appropriate processes to prevent and identify any cyber breaches other than those that are clearly inconsequential; and

- (ii) we have disclosed to you all cyber breaches of which we are aware that have resulted in more than inconsequential unauthorised access of data, applications, services, networks and/or devices.
- We acknowledge that ‘GMP equalisation’, ‘McCloud’, ‘Goodwin’, and ‘UK property funds’ are generic issues raised by auditors in respect of all LGPS funds’ financial statements for the year ended 31 March 2020, and are not unique to Gwynedd Pension Fund.
- The Net Asset Value (NAV) of property funds are not expected to be adversely affected when suspension of the NAV is lifted and trading recommences, in October for some funds.

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 ensuring that the Fund maintains adequate accounting records.

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 [Date].

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:

Signed by:

Dafydd L Edwards

Councillor John Brynmor Hughes

Head of Finance

Chairman

Gwynedd Council

Audit & Governance Committee

Date:

Date:

Appendix 2

Proposed Audit Opinion

The 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 2020 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 2020 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 2020, 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 2020.

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.

Emphasis of Matter - UK property funds

I draw attention to Note 4 to the financial statements which describes a material uncertainty regarding the valuation of the UK property funds. My opinion is not modified in respect of this matter.

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 [set out on pages ... to ...], 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

24 Cathedral Road

For and on behalf of the Auditor General for Wales

Cardiff

[Date]

CF11 9LJ

Appendix 3

Summary of Uncorrected Misstatements

During our audit we identified the following misstatements that have been corrected by management.

Exhibit 3a: summary of uncorrected misstatements

Value of uncorrected misstatement	Nature of the uncorrected misstatement	Reason for no correction
Dr Pensions paid £4m Cr Accruals £4m	GMP equalisation - Adjustments were made as part of the 2019 Valuation and these totalled around £4m additional liabilities. This relates to 0.2% of total liabilities. The estimate is not material and has not yet been split between past and future costs. As a result, we have included the £4m in the uncorrected misstatement schedule as the 'worst case' provision required. We would expect the past amount to be much lower than this total figure.	Not material
Dr Pensions paid £9.625m Cr Accruals £9.625m	McCloud – The actuary confirmed the McCloud adjustment included in this year's IAS26 report was 0.5% of the active liabilities. An amount of 0.5% of the liability (£1,925m) would be £9.625m based on the 31 March 2019 valuation. The estimate is not material and has not yet been split between past and future costs. As a result, we have included the £9.625m in the uncorrected misstatement schedule as the 'worst case' provision required. We would expect the past amount to be much lower than this total figure.	Not material
Dr Pensions paid £3.85m Cr Accruals £3.85m	Goodwin – The actuary has confirmed this is in the early stages but his initial understanding is that it only affects a very small proportion of Fund members. Quotes in external papers have implied impacts of c0.1-0.2% of total liabilities. An amount of 0.2% of the liability would be £3.85m based on the 31 March 2019 valuation. This is a total amount and not based on a	Not material

Value of uncorrected misstatement	Nature of the uncorrected misstatement	Reason for no correction
	<p>past future split. As a result, we have included the £3.85m in the uncorrected misstatement schedule as the 'worst case' provision required. We would expect the past amount to be much lower than this total figure. No disclosure has been made in the financial statements with respect to Goodwin.</p>	
<p>Total: Dr Pensions paid £17.475m Cr Accruals £17.475m</p>		

Summary of Corrected misstatements

During our audit we identified the below misstatements and disclosure deficiencies 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.

Corrections have been made to add estimation uncertainty disclosures regarding the property funds as a result of COVID-19 and all property funds have been reclassified to Level 3 assets due to redemption restrictions.

Appendix 4

Recommendations

We set out all the recommendations arising from our audit with management's response to them. We will follow up these next year and include any outstanding issues in next year's audit report:

Exhibit 4

Matter arising 1 – Journal authorisation	
Findings	We identified that journals are not reviewed by a more senior member of the team before being posted.
Priority	Medium
Recommendation	All journals should be independently reviewed prior to posting.
Benefits of implementing the recommendation	To ensure proper governance over posting correct and valid journals.
Accepted in full by management	Yes
Management response	A process will be introduced to improve authorisation of journals posted
Implementation date	March 2021

Matter arising 2 – Holding Investments at Market Value in the Trial Balance

Findings	Investments are recorded at cost in the trial balance. The fair value is recorded in an excel spreadsheet to compile the financial statements.
Priority	Low
Recommendation	It is recommended that the Fund hold its investments at Fair Value in the ledger, rather than at book cost.
Benefits of implementing the recommendation	Recording investments at fair value in the ledger would remove the reliance on a complex manual excel spreadsheet that reconciles the investments between fair value and book value for the preparation of the year end accounts.
Accepted in full by management	Yes
Management response	We will look at the possibility of recording the investments fair value on the ledger
Implementation date	March 2021

Follow up of recommendations arising from our previous financial audit work

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>
Recommendation	<p>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.</p>
Management response	<p>All employers are now on the iconnect system and the accounts team does now reconcile the information received from the employers to the information from iConnect.</p>
Status	Closed

Membership Numbers	
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>
Recommendation	<p>a) 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>b) It is also recommended that the Pension Fund Manager performs a reconciliation between prior-year reported membership numbers and revised membership numbers.</p>
Management response	<p>a) This is aspirational and requires third party software developments even if it is possible for it to be delivered in due course.</p> <p>b) This was carried out for the 2019 triannual valuation and we plan to undertake this on an annual basis from 2020/21.</p>
Status	<p>a) Open</p> <p>b) Closed</p>

Suspense Accounts are not Formally Reconciled

Finding	It was identified that the suspense accounts are not currently being formally reconciled on a monthly basis
Recommendation	It is recommended that the Fund's suspense accounts are reviewed on a monthly basis.
Management response	The suspense accounts have been reconciled on a regular basis during 2019/20.
Status	Closed

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We welcome correspondence and
telephone calls in Welsh and English. Rydym



yn croesawu gohebiaeth a galwadau ffôn yn
Gymraeg a Saesneg.