



WALES **AUDIT** OFFICE  
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# Annual Financial Audit Outline

## **City & County of Swansea Pension Fund**

**Audit year:** 2013-14

**Issued:** April 2014

# Status of document

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This document has been prepared for the City & County of Swansea Pension Fund as part of work performed in accordance with statutory functions, the Code of Audit Practice and the Statement of Responsibilities issued by the Auditor General for Wales.

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This document was produced by PricewaterhouseCoopers LLP on behalf of Anthony Barrett, the Appointed Auditor.

# Contents

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## Annual Financial Audit Outline

Introduction	4
Audit of Pension Fund accounts	4
Pension fund annual report	9
Independence	10
Fee, audit team and timetable	10

## Appendices

Roles and responsibilities	12
Electronic communication	12
Quality arrangements	13

# Annual Financial Audit Outline

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## Introduction

1. This Annual Financial Audit Outline has been prepared by PricewaterhouseCoopers LLP on behalf of Anthony Barrett, the Appointed Auditor.
2. As your external auditor, my objective is to carry out an audit which discharges my statutory duties as Appointed Auditor and fulfils my obligations under the Code of Audit Practice to examine and certify whether the City & County of Swansea Pension Fund (the Pension Fund) accounting statements are 'true and fair'.
3. The purpose of this outline is to explain to you:
  - my audit team's approach to the audit of your Pension Fund accounting statements for the year ending 31 March 2014 including the significant risks of material misstatements in your accounting statements and how we plan to address them;
  - the planned timetable, fees and audit team; and
  - the scope of the audit, our respective responsibilities and how we ensure independence and objectivity in our work.
4. There have been no limitations imposed on me in planning the scope of this audit. If there have been limitations imposed these should be stated here or at an appropriate place in the body of the document.

## Audit of Pension Fund accounts

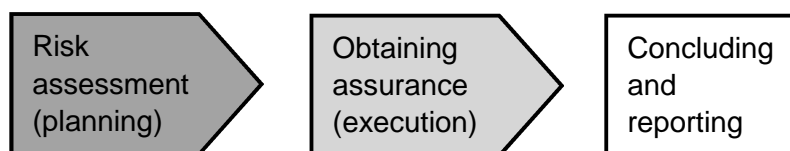
5. It is my responsibility to issue a report on the accounting statements which includes an opinion on their 'truth and fairness', providing assurance that they:
  - are free from material misstatement, whether caused by fraud or error;
  - comply with statutory and other applicable requirements; and
  - comply with all relevant requirements for accounting presentation and disclosure.

## Audit approach

6. Information regarding the financial audit team is provided in [Exhibit 5](#).
7. My team's audit work uses a range of techniques to assess risk and obtain audit evidence and assurance, and is based on a thorough understanding of your business. This understanding allows my team to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the Pension Fund accounts as a whole. Our audit approach consists of three phases as set out in [Exhibit 1](#).

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### Exhibit 1: Our audit approach

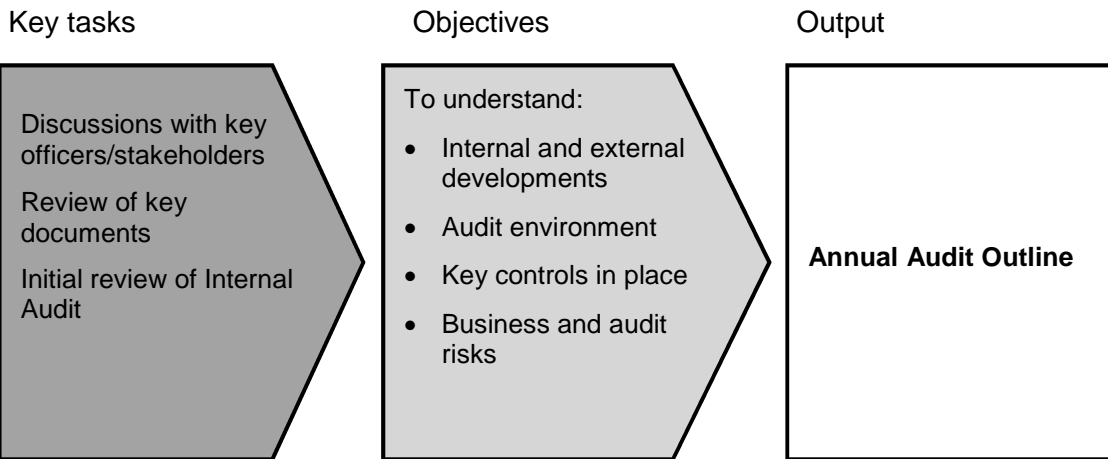


8. The work we undertake in each of these three areas is set out in more detail in [Exhibit 2](#).
9. I do not seek to obtain absolute assurance that the Pension Fund accounting statements are true and fair, but adopt a concept of materiality. In planning and executing the audit, we aim to identify material misstatements in the accounts and related notes, that is, those that might result in a reader of the accounts being misled. The levels at which I judge such misstatements to be material will be reported to the Pension Fund Panel and to those charged with governance for the City & County of Swansea (the Council), as the administering authority of the Pension Fund as a whole, prior to completion of the audit.
10. For reporting purposes we will treat any misstatements below a 'trivial' level (the lower of five per cent of materiality or £100,000) as not requiring consideration by those charged with governance and, therefore, will not report them.

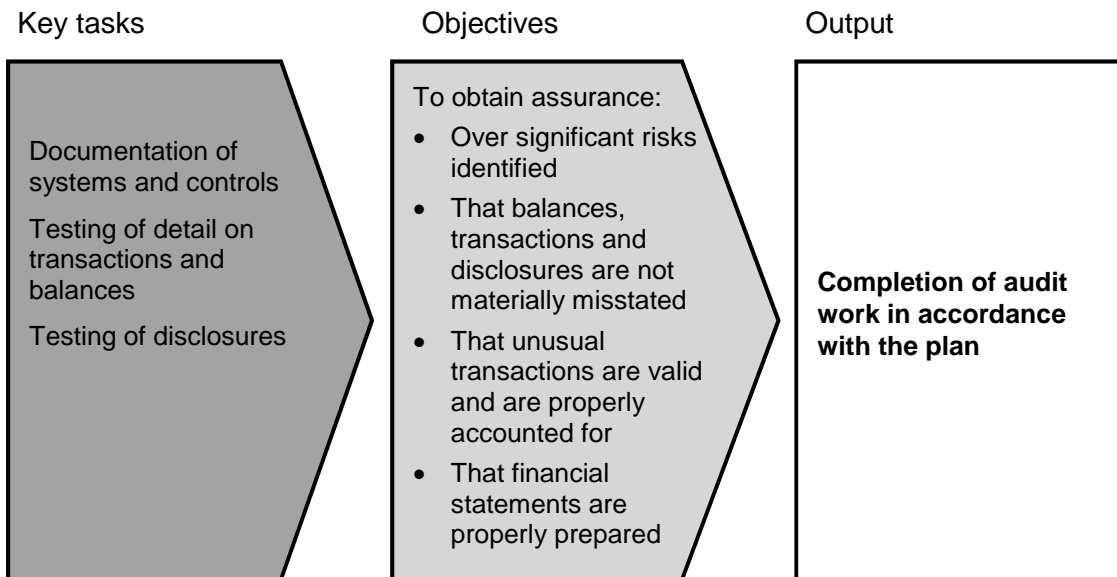
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Exhibit 2: Our audit approach

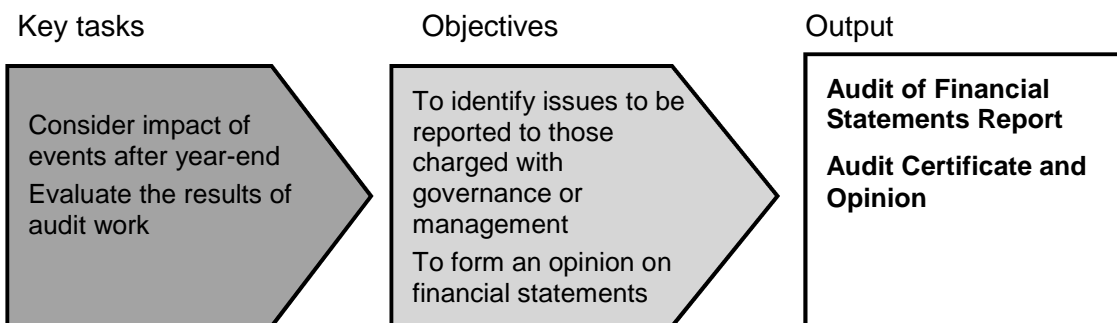
**Risk assessment (planning)**



**Obtaining assurance (execution)**



**Concluding and reporting**



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11. In planning my work and obtaining an understanding of the Pension Fund, I consider the control environment including the activities of Internal Audit to determine the potential impact of its work on my planned procedures. I use the work of Internal Audit to inform my risk assessment as part of my planning procedures.
12. As part of the planning process, my staff considered the information which would be required to support the accounts submitted for audit. The fees, once agreed, will assume that this information will be provided by the timescales agreed and to the quality standards that we expect. My other main assumptions in setting the estimated fees will be that:
- appropriate accommodation and facilities are provided to enable my audit team to deliver our audit in an efficient manner;
  - the financial statements and supporting working papers have been subject to review and validation by management, to provide the Responsible Financial Officer with assurance that they are 'true and fair';
  - all appropriate officials will be available during the audit;
  - you have all the necessary controls and checks in place to enable those charged with governance to provide all the assurances that I require in the Letter of Representation addressed to me; and
  - Internal Audit has completed its planned programme of work and that management has taken all necessary remedial action on issues that could have affected the financial statements.

### Audit risks

13. **Exhibit 3** provides information regarding the main operational and financial risks faced by the Pension Fund that could affect my audit. These are the main risks that I have identified during the initial audit planning process, based upon information currently available, and the actions proposed to address them. I may need to change the audit plan if any new risks emerge. I will not make any changes to the audit plan without first discussing them with officers and, where relevant, those charged with governance.

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### Exhibit 3: Summary of main audit risks and proposed responses

Significant Risks	Action proposed
<b>Control environment risks</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.	My audit team will: <ul style="list-style-type: none"><li>• test the appropriateness of journal entries and other adjustments made in preparing the financial statements;</li><li>• review accounting estimates for evidence of bias;</li><li>• evaluate the rationale for any significant transactions outside the normal course of business; and</li><li>• include an unpredictable element to our audit procedures that varies year on year.</li></ul>

#### Accounting and reporting issues

14. In addition to the significant risk set out above, I also need to consider any new financial accounting and reporting requirements which impact on my responsibilities.
15. There are no significant new financial accounting and reporting requirements that I wish to draw to your attention.

#### Risk of Fraud

16. International Standards on Auditing (UK&I) state that I am responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:



Auditors' responsibility	Management's responsibility	Responsibility of those charged with governance
<p>My objectives are:</p> <ul style="list-style-type: none"> <li>To identify and assess the risks of material misstatement of the financial statements due to fraud;</li> <li>To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and</li> <li>To respond appropriately to fraud or suspected fraud identified during the audit</li> </ul>	<p>Management's responsibilities in relation to fraud are:</p> <ul style="list-style-type: none"> <li>To design and implement programmes and controls to prevent, deter and detect fraud;</li> <li>To ensure that the entity's culture and environment promote ethical behaviour; and</li> <li>To perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.</li> </ul>	<p>Your responsibility as part of your governance role is:</p> <ul style="list-style-type: none"> <li>To evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate 'tone at the top'; and</li> <li>To ensure any alleged or suspected instances of fraud brought to your attention are investigated appropriately.</li> </ul>

### Your views on fraud

17. We enquire of those charged with governance:
- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
  - What fraud detection or prevention measures (e.g. whistleblower lines) are in place in the entity?
  - What role you have in relation to fraud?
  - What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

## Pension Fund annual report

18. In addition to including the Pension Fund accounts in their main accounting statements, administering authorities are required to publish a Pension Fund annual report which must include the Pension Fund accounts.
19. I am required to read the Pension Fund annual report and consider whether the information it contains is consistent with the audited Pension Fund accounts included in the Council's main accounting statements.
20. I also issue an audit statement confirming the consistency of the accounts included in the annual report with the audited Pension Fund accounts.

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## Independence

### Threats and safeguards

21. At the beginning of the audit process my audit team is required to assess their independence as your external auditor. I made enquiries of all audit teams providing services to you and in order to identify any relationships that, in my professional judgement, may be perceived to impact upon my independence and the objectivity of my audit team.

### Relationships and Investments

22. Senior officers and members should not seek or receive personal financial or tax advice from my audit team. Senior officers and members who receive such advice from us should notify me, so that I can put appropriate conflict management arrangements in place.
23. Therefore at the date of this plan I confirm that in my professional judgement, my audit team are independent accountants with respect to the Council, within the meaning of UK regulatory and professional requirements and that the objectivity of my audit team is not impaired.

## Fee, audit team and timetable

### Fee

24. We are currently unable to provide you with an estimate of our fee for our 2013-14 audit work.
25. Owing to the requirements of the Public Audit (Wales) Act 2013, we are required to revise our approach to fee setting. This act introduces a slightly revised fee-setting requirement on the new Wales Audit Office for all our audit work once its provisions come into effect from 1 April 2014. In anticipation of this new requirement we have needed to take legal advice to clarify a number of its provisions. In the light of that advice, we have reviewed our cost allocation and apportionment processes to ensure that going forward our fee setting will fully comply with these new statutory requirements. This unfortunately has been a time-consuming process. The exercise has now been completed and the Auditor General is has consulted on his fee scales, which take account of revisions made in anticipation of the new legislation. That consultation provides further information about the new legislative requirements.

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26. After the end of the consultation process (28 February 2014), and after considering the consultation responses, we will be able to provide you with an estimate of your fee for 2013-14.
27. Planning will be ongoing, and changes to my programme of audit work and, therefore, my fee may be required if any key new risks emerge. I shall make no changes without first discussing them with the Head of Financial Services. Further information on the new Wales Audit Office fee scales and fee setting will be provided once finalised.
28. Further information on the Auditor General's fee scales and fee setting can be found on our website at: [www.wao.gov.uk/aboutus/4240.asp](http://www.wao.gov.uk/aboutus/4240.asp).

## Audit team

### Exhibit 4: My team

Name	Role	Contact number	E-mail address
Anthony Barrett	Appointed Auditor	029 2032 0500	<a href="mailto:anthony.barrett@wao.gov.uk">anthony.barrett@wao.gov.uk</a>
Kevin Williams	Financial Audit Engagement Lead	029 2080 2161	<a href="mailto:kevin.a.williams@uk.pwc.com">kevin.a.williams@uk.pwc.com</a>
Stuart Austin	Audit Manager (Pensions Specialist)	0121 265 5871	<a href="mailto:stuart.austin@uk.pwc.com">stuart.austin@uk.pwc.com</a>
Ian Looker	Financial Audit Team Leader (Pensions Specialist)	029 2080 2653	<a href="mailto:ian.z.looker@uk.pwc.com">ian.z.looker@uk.pwc.com</a>

29. I can confirm that my team members are all independent of the City & County of Swansea Pension Fund and its officers. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.

## Timetable

30. I will provide reports, or other outputs as agreed, to the Pension Fund Panel, Audit Committee and Cabinet covering the areas of work identified in this document. My key milestones are set out in [Exhibit 5](#).

### Exhibit 5: Timetable

Planned output	Work undertaken	Report finalised
Annual Financial Audit Outline	March 2014	April 2014
Audit of Financial Statements (ISA 260) Report	July 2014	September 2014
Audit Opinion on the 2012-13 Financial Statements	July 2014	September 2014

# Appendix 1

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## Roles and responsibilities

The Council is the administering authority of the Pension Fund. This Annual Financial Audit Outline has been prepared to meet the requirements of auditing standards and proper audit practices. It provides the Council with an outline of the financial audit work required for the 2013-14 Pension Fund accounts.

The Public Audit (Wales) Act 2013 (the 2013 Act) sets out that the Auditor General is to be the auditor of local government bodies in Wales, and their associated pension funds. The 2013 Act does, however, provide transitional arrangements where the appointment of a person as an auditor under section 13 of the Public Audit (Wales) Act 2004 continues to have effect until the end of the period for which the appointment was made (subject to any earlier termination). The Auditor General has appointed Anthony Barrett as the auditor of the Pension Fund accounts for the year ending 31 March 2014.

As Appointed Auditor, I am required by the Public Audit (Wales) Act 2004 to examine and certify the accounts of the Pension Fund. In accordance with professional standards that apply by virtue of the Code of Audit Practice set under the act, this involves giving an opinion on whether the accounts give a true and fair view of the Pension Fund's financial transactions and of the amount and disposition of the fund's assets and liabilities. The act also requires me to satisfy myself of these things:

- that the accounts are prepared in accordance with regulations under section 39 of the act (the Accounts and Audit (Wales) Regulations 2005);
- that the accounts comply with the requirements of all other statutory provisions applicable to them; and
- that proper practices have been observed in the compilation of the accounts.

I am also required to certify that the audit has been completed in accordance with the Public Audit (Wales) Act 2004.

The audit does not relieve the Council of its responsibility regarding the Pension Fund to:

- establish systems of internal control to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
- maintain proper accounting records;
- prepare accounts in accordance with relevant requirements; and
- establish and keep under review appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Electronic communication

During the engagement my audit team may from time to time communicate electronically with you. However, the electronic transmission of information cannot be guaranteed to be secure, virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use.

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My audit team may also need to access external electronic information and resources during the engagement. You agree that there are benefits to each of us in their being able to access external networks via your internet connection and that they may do this by connecting their laptop computers to your network. We each understand that there are risks to each of us associated with such access, including in relation to security and the transmission of viruses.

We each recognise that systems and procedures cannot be a guarantee that transmissions, our respective networks and the devices connected to these networks will be unaffected by risks such as those identified in the previous two paragraphs. We each agree to accept the risks of and authorise (a) electronic communications between us and (b) the use of your network and internet connection as set out above. We each agree to use commercially reasonable procedures (i) to check for the then most commonly known viruses before either of us sends information electronically or we connect to your network and (ii) to prevent unauthorised access to each other's systems.

We shall each be responsible for protecting our own systems and interests and you and my audit team shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between you and my audit team and my audit teams reliance on such information or our use of your network and internet connection.

The exclusion of liability in the previous paragraph shall not apply to the extent that such liability cannot by law be excluded.

## Quality arrangements

I want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with me how my service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately. In this way I can ensure that your concerns are dealt with carefully and promptly. I undertake to look into any complaint carefully and promptly and to do all I can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales.

If you are not satisfied with the way your complaint has been dealt with, you can contact the Complaints Investigation Manager at the Wales Audit Office by phone on 029 2032 0500, or by email at [complaints@wao.gov.uk](mailto:complaints@wao.gov.uk). Further details about the complaints process are available at [www.wao.gov.uk/complaints](http://www.wao.gov.uk/complaints).



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