



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# 2017 Audit Plan – City and County of Swansea Pension Fund

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This document was produced by John Herniman, Geraint Norman and David Williams.

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# 2017 Audit Plan

## Summary

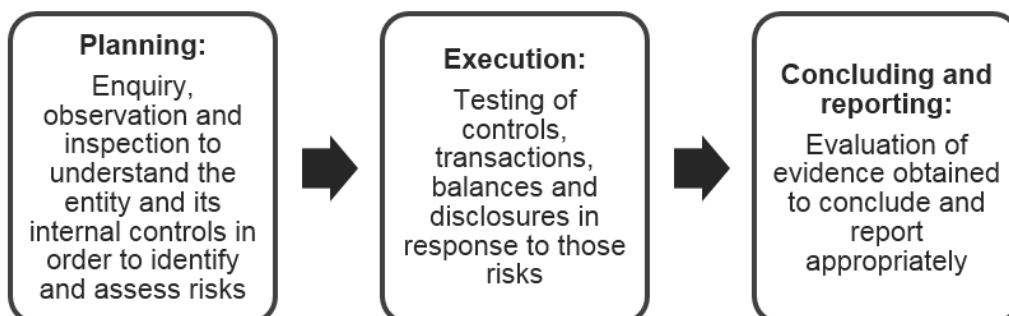
- 1 As your external auditor, my objective is to carry out an audit which discharges my statutory duties as Auditor General and fulfils my obligations under the Code of Audit Practice to examine and certify whether City and County of Swansea Pension Fund (the Pension Fund) accounting statements are 'true and fair'.
- 2 The purpose of this plan is to set out my proposed work, when it will be undertaken, how much it will cost and who will undertake it.
- 3 There have been no limitations imposed on me in planning the scope of this audit. My responsibilities, along with those of management and those charged with governance, are set out in [Appendix 1](#).

## Audit of Pension Fund financial statements

- 4 It is my responsibility to issue a report on the financial statements which includes an opinion on their 'truth and fairness'. This provides assurance that the financial statements:
  - 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.

[Appendix 1](#) sets out my responsibilities in full.
- 5 The audit work I undertake to fulfil my responsibilities responds to my assessment of risks. This understanding allows us to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the Pension Fund financial statements as a whole. My audit approach consists of three phases as set out in [Exhibit 1](#).

### Exhibit 1: my audit approach



6 The risks of identified to my audit of your financial statements and the work I intend to undertake to address them are shown in [Exhibit 2](#).

**Exhibit 2: financial statement risks**

Financial statement risk	Proposed audit response
<p>The risk of <b>management override</b> 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 in accordance with International Standards on Auditing 240.</p>	<p>My audit team will:</p> <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 biases; and</li> <li>• evaluate the rationale for any significant transactions outside the normal course of business.</li> </ul>
<p>The systems and records of the investment managers generate account entries made to the Pension Fund Account and Net Assets Statement. The investment managers provide <b>internal controls reports</b> on the investments held on behalf of the Pension Fund. These are independently audited and provide the Pension Fund with assurance on a wide range of controls eg valuation of the investment portfolio held.</p> <p>There is a risk that the internal control reports will not be available, or not provide sufficient assurance for audit purposes.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>• assess the investment managers as a service organisation;</li> <li>• check that investments have been made in accordance with the Statement of Investment Principles;</li> <li>• obtain direct confirmation from the investment managers and custodian of year-end investment balances and holdings; and</li> <li>• assess whether the investment managers' internal control reports provide assurance over the relevant controls, including the valuation of investments held.</li> </ul>
<p>Year-end <b>valuation of private equity investments</b> are provided by investment managers which are based on forward looking estimates and judgements. As there is no quoted market price, there is a greater risk for the reasonableness or valuation bases of these investments.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>• confirm the investment valuations to audited financial statements; and</li> <li>• seek additional assurance over the valuation basis from controls assurance reports where available.</li> </ul>

Financial statement risk	Proposed audit response
<p>There are a number of risks relating to the <b>preparation of the financial statements</b>:</p> <ul style="list-style-type: none"> <li>• risk of material misstatement arising from changes to CIPFA's Code of Practice on Local Authority Accounting; and</li> <li>• risk of material misstatement in the financial statements arising from error or omission of transactions, balances and disclosure.</li> </ul>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>• review the new reporting requirements to ensure that the financial statements comply, in all material respects, with the CIPFA Code of Practice on Local Authority Accounting; and</li> <li>• undertake a programme of audit testing to address risks identified as part of the planning work and review of the draft financial statements.</li> </ul>

- 7 I do not seek to obtain absolute assurance that the Pension Fund financial statements are true and fair, but adopt a concept of materiality. My aim is to identify material misstatements, that is, those that might result in a reader of the financial statements being misled. The levels at which I judge such misstatements to be material will be reported to the Pension Fund Committee and the Audit Committee and to those charged with governance (the Council), as the administering authority of the Pension Fund as a whole, prior to completion of the audit.
- 8 For reporting purposes, I will treat any misstatements below a trivial level (set at 5% of materiality) as not requiring consideration by those charged with governance and therefore I will not report them.
- 9 My fees are based on the following assumptions:
- information provided to support the financial statements is timely, to the quality expected and has been subject to quality assurance review;
  - appropriate accommodation and facilities are provided to enable my audit team to deliver my audit in an efficient manner;
  - all appropriate officials will be available during the audit;
  - you have all the necessary controls and checks in place to enable the Responsible Financial Officer to provide all the assurances that I require in the Letter of Representation addressed to me; and
  - Internal Audit's planned programme of work is complete and management has responded to issues that may have affected the financial statements.

## Pension Fund annual report

- 10 In addition to including the Pension Fund's financial statements in their main financial statements, administering authorities are required to publish a Pension Fund annual report which must include the Pension Fund financial statements.

- 11 I am required to read the Pension Fund annual report and consider whether the information it contains is consistent with the audited Pension Fund financial statements included in the Council's main financial statements.
- 12 I also issue an audit statement confirming the consistency of the financial statements included in the annual report with the audited Pension Fund financial statements.

## Fee, audit team and timetable

### Fee

- 13 The Wales Audit Office does not generate profits on fees. Legislation requires that the fees charged may not exceed the full cost of exercising the function to which the fee relates. The fee rates are set at a level to recover that full cost. My fee rates have been held static for 2017 and my audit team will continue to look for efficiencies in their audit.
- 14 Your estimated fee for 2017 is set out in [Exhibit 3](#).

#### Exhibit 3: audit fee

Audit area	Proposed fee for 2017 (£)	Actual fee for 2016 (£)
Audit of Pension Fund financial statements <sup>1</sup>	50,000	50,000

<sup>1</sup> The fees shown in this document are exclusive of VAT, which is no longer charged.

- 15 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 Director of Resources.
- 16 Further information on my [fee scales and fee setting](#) can be found on the Wales Audit Office website.

### Audit team

- 17 The main members of my team, together with their contact details, are summarised in [Exhibit 4](#).

#### Exhibit 4: my team

Name	Role	Contact number	E-mail address
John Herniman	Engagement Lead – Financial Audit	02920 320500	<a href="mailto:john.herniman@audit.wales">john.herniman@audit.wales</a>
Geraint Norman	Financial Audit Manager	07810 056683	<a href="mailto:geraint.norman@audit.wales">geraint.norman@audit.wales</a>
David Williams	Financial Audit Team Leader	07812 670234	<a href="mailto:david.williams@audit.wales">david.williams@audit.wales</a>

18 There are no independence issues to report to you.

#### Timetable

19 I will provide reports, or other outputs as agreed, to the Pension Fund Committee and the Audit Committee and where necessary to the Cabinet/Council, 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
<b>2017 Audit Plan</b>	January 2016 to February 2017	March 2017
<b>Financial accounts work:</b> <ul style="list-style-type: none"><li>• Audit of Financial Statements Report</li><li>• Opinion on Financial Statements</li><li>• Financial Accounts Memorandum</li></ul>	March to September 2017	September 2017 September 2017 October 2017
<b>2018 Audit Plan</b>	October to December 2017	January 2018

## Future developments

### Well-being of Future Generations (Wales) Act 2015

20 The Well-being of Future Generations (Wales) Act 2015 (the Act) became law in April 2015. The Act requires me to report before the next National Assembly election on how public bodies are acting in accordance with the sustainable development principle when setting their wellbeing objectives and taking steps to meet them. In 2017 I will conduct my first work under the Act – the Year One



Commentary – to understand how bodies are beginning to respond to the requirements. I will also work collaboratively with a small number of public bodies, including the central government sector, to develop an audit approach that is meaningful and proportionate and can be adopted in subsequent years.

## Other

- 21 Details of other future developments including changes to key International Financial Reporting Standards (IFRS) and of the Wales Audit Office's Good Practice Exchange (GPX) seminars are set out in [Appendix 2](#).
- 22 The Wales Audit Office's GPX programme seeks to support the improvement of public services across Wales by identifying and sharing good practice. The GPX seminars bring a range of public sector bodies together to share their practical experiences and learning in areas we consider would benefit from sharing good practice. The seminars are provided free of charge to delegates.

# Appendix 1

## Respective responsibilities

The Council is the administering authority of the Pension Fund. This Audit Plan 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 Pension Fund accounts.

As amended by the Public Audit (Wales) Act 2013, the Public Audit (Wales) Act 2004 sets out my powers and duties to undertake your financial audit. It is my responsibility to issue a certificate and report on the Pension Fund financial 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 the statutory and other applicable requirements; and
- comply with all relevant requirements for accounting presentation and disclosure.

My audit work does not relieve management and those charged with governance of their responsibilities which include:

- the preparation of the financial statements and Annual Report in accordance with applicable accounting standards and guidance;
- the keeping of proper accounting records;
- ensuring the regularity of financial transactions; and
- securing value for money in the use of resources.

Management agrees to provide me with:

- access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- additional information that I may request from management for the purpose of the audit; and
- unrestricted access to persons within the authority from whom I determine it necessary to obtain audit evidence.

Management will need to provide me with written representations to confirm:

- that it has fulfilled its responsibilities for the preparation of the financial statements;
- that all transactions have been recorded and are reflected in the financial statements;
- the completeness of the information provided to me for the purposes of the audit; and
- to support other audit evidence relevant to the financial statements or specific assertions in the financial statements if I deem it necessary or if required by ISAs.

# Appendix 2

## Other future developments

### Forthcoming IFRS changes

Exhibit 6: forthcoming IFRS changes

Standard	Effective date	Further details
IFRS 9 financial instruments	2018-19	IFRS 9 financial instruments will replace IAS 39 and includes a new principles-based approach for the classification and measurement of financial assets. It also introduces a new impairment methodology for financial assets based on expected losses rather than incurred losses. This will result in earlier and more timely recognition of expected credit losses. The accounting requirements for financial liabilities are almost all carried forward unchanged from IAS 39.
IFRS 15 revenue from contracts with customers	2018-19	IFRS 15 revenue from contracts with customers introduces a principles-based five-step model for recognising revenue arising from contracts with customers. It is based on a core principle requiring revenue recognition to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration the body expects to be entitled to, in exchange for those goods or services. It will also require more extensive disclosures than are currently required.
IFRS 16 leases	2019-20	IFRS 16 will replace the current leases standard IAS 17. The key change is that it largely removes the distinction between operating and finance leases for lessees by introducing a single lessee accounting model that requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. It will lead to all leases being recognised on the balance sheet as an asset based on a right of use principle with a corresponding liability for future rentals. This is a significant change in lessee accounting.

## Good Practice Exchange

The Wales Audit Office's Good Practice Exchange (GPX) helps public services improve by sharing knowledge and practices that work. Events are held where knowledge can be exchanged face-to-face and resources shared online.

The focus of GPX events includes financial management, public sector staff and governance. Further information, including details of forthcoming GPX events and outputs from past seminars, can be found on the [GPX section of the Wales Audit Office website](#).



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