



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# 2020 Audit Plan – City and County of Swansea Pension Fund

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

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# 2020 Audit Plan

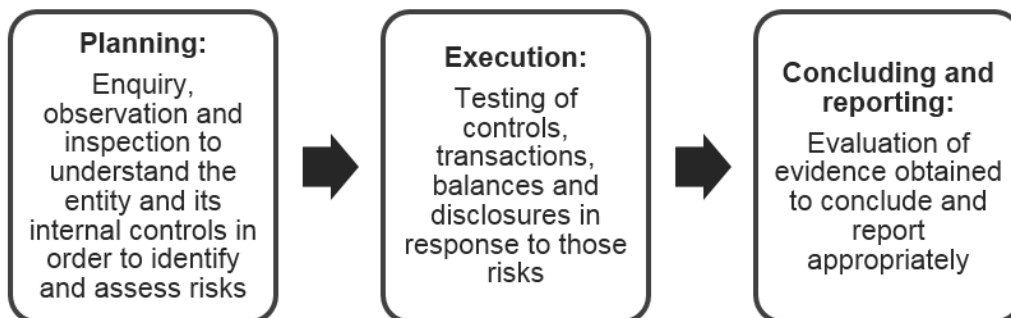
## Summary

- 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's (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.
- 4 My responsibilities, along with those of management and those charged with governance, are set out in [Appendix 1](#).

## Audit of Pension Fund accounts

- 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 accounts 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 material misstatement which I consider to be significant and which therefore require special audit consideration, are set out in **Exhibit 2** along with the work I intend to undertake to address them. Also included are other key areas of audit attention my team will be focusing on.

**Exhibit 2: financial audit risks**

Financial audit risks	Proposed audit response
<b>Significant risks</b>	
<p><b>Management Override</b></p> <p>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 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>
<b>Other areas of audit attention</b>	
<p><b>Wales Pension Partnership</b></p> <p>The eight Pension Funds in Wales have created an ‘all-Wales’ pooled investment vehicle which will be overseen and reported on by a joint governance committee the Wales Pension Partnership.</p> <p>2019-20 will be the first year that this joint committee will produce full financial statements overseen by the Carmarthenshire County Council Finance Department.</p> <p>City and County of Swansea Pension Fund transferred £907 million of funds into this new arrangement during 2018-19 but nothing further has been transferred during 2019-20.</p> <p>A consistent disclosure note will be provided to all Pension Funds by the lead authority for inclusion in individual pension fund financial statements.</p>	<p>My team will work with the auditors of the joint governance committee to:</p> <ul style="list-style-type: none"> <li>• Obtain the assurances needed on the valuation of the funds transferred into the Wales Pension Partnership arrangement.</li> <li>• Obtain the assurances needed on the disclosure note provided for individual pension funds by the lead authority</li> </ul>

Financial audit risks	Proposed audit response
<p><b>McCloud Judgement</b></p> <p>In 2015 the Government introduced reforms to public sector pensions, meaning most public sector workers were moved into new pension schemes.</p> <p>In December 2018, the Court of Appeal ruled that the ‘transitional protection’ offered to some members of the judges’ and firefighters’ schemes, as part of the reforms, amounted to unlawful discrimination. On 15 July 2019 the Government announced that they accept that the judgment applies to all of the main public service pension schemes.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>• review how the Pension Fund has assessed the impact of the McCloud judgement on the financial statements; and</li> <li>• ensure that where appropriate, this is adequately disclosed in the financial statements.</li> </ul>
<p><b>Guaranteed Minimum Pension (GMP)</b></p> <p>GMPs were the minimum pensions employers had to provide when they opted their employees out of the State Earnings Related Pensions Scheme (SERPS) between 1978 and 1997, usually through a defined benefit scheme.</p> <p>GMPs were calculated by reference to state pension age which used to be 60 for women and 65 for men. That made pension payments unequal and contravened the 1990 Barbour judgement.</p> <p>The 2018 Lloyds Banking Group judgement has provided clarification on whether and how GMPs should be equalised and creates an obligation to equalise GMPs dating back to 1990.</p> <p>No allowances have previously been made for GMPs in pension liability calculations as HM Treasury made an announcement in 2019 that public service schemes already had a method in place to achieve equalisation. However, further guidance is anticipated in the coming months, including relating to the calculation of indexation/pension increases on GMPs.</p> <p>There is a risk that appropriate allowances are not made in 2019-20 pension liability calculations for the impact of GMPs.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>• review any provision made by the actuary relating to the outstanding GMP issues and monitor progress on the development of guidance and clarification of the potential impact; and</li> <li>• ensure that this is adequately disclosed in the financial statements.</li> </ul>

Financial audit risks	Proposed audit response
<p><b>Private Equity Investments</b></p> <p>Year-end valuation of private equity investments is provided by investment managers which is based upon forward-looking estimates and judgements and industry guidelines. As there is no quoted market process, there is a greater risk for the reasonableness of valuation bases of these investments.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>• confirm the investment valuation to audited financial statements; and</li> <li>• seek additional assurance over the valuation basis from control assurance reports.</li> </ul>
<p><b>Investment Management</b></p> <p>The investment managers provide internal control reports 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, e.g. valuation of the investment portfolio held.</p> <p>There is a risk that the internal controls' reports will not be available in the necessary timescales and, when received, highlight specific control weaknesses</p>	<p>My audit team will:</p> <p>assess whether the investment managers' internal control reports for all investment managers provide sufficient, appropriate assurance over the key controls.</p>

- 7 I do not seek to obtain absolute assurance that the Pension Fund accounting 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 accounts being misled. The levels at which I judge such misstatements to be material will be reported to the Pension Committee as those charged with governance for City and County of Swansea Council (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 and planned timescales for completion of the audit are based on the following assumptions:
- the financial statements are provided in accordance with the agreed timescales, to the quality expected and have been subject to a robust quality assurance review;
  - information provided to support the financial statements is in accordance with the agreed audit deliverables document<sup>1</sup>;
  - 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;
  - Internal Audit's planned programme of work is complete, and management has responded to issues that may have affected the financial statements; and
  - controls assurance reports are received from fund managers in accordance with agreed timescales and action has been taken to address any controls weaknesses.

## Statutory audit functions

- 10 In addition to the audit of the accounts, I have statutory responsibilities to receive questions and objections to the accounts from local electors. These responsibilities are set out in the Public Audit (Wales) Act 2004:
- Section 30 Inspection of documents and questions at audit; and
  - Section 31 Right to make objections at audit.
- 11 Audit fees will be chargeable for work undertaken in dealing with electors' questions and objections. Because audit work will depend upon the number and nature of any questions and objections, it is not possible to estimate an audit fee for this work.
- 12 If I do receive questions or objections, I will discuss potential audit fees at the time.

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<sup>1</sup> The agreed audit deliverables document sets out the expected working paper requirements to support the financial statements and include timescales and responsibilities.



## Fee, audit team and timetable

### Fee

- 13 Your estimated fee for 2020 is set out in [Exhibit 3](#). There have been some changes to my fee rate structure for 2020, however my audit teams will continue to drive efficiency in their audits to ensure any resulting increases will not be passed onto you.

#### Exhibit 3: audit fee

	Proposed fee for 2020 (£) <sup>2</sup>	Actual fee for 2019 (£)
Audit of pension fund accounts	£42,710	£42,710

- 14 The fee for the financial audit is driven by the skill mix required to deliver the work, together with the daily charge rate for each grade of staff member.
- 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 Head of Finance.
- 16 Further information on my [fee scales and fee setting](#) can be found on our website.

### Audit team

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

#### Exhibit 4: my audit team

Name	Role	Contact number	E-mail address
Anthony Veale	Engagement Lead	02920 320500	<a href="mailto:anthony.veale@audit.wales">anthony.veale@audit.wales</a>
Jason Garcia	Audit Manager	07792 015416	<a href="mailto:jason.garcia@audit.wales">jason.garcia@audit.wales</a>
Leanne Malough	Audit Lead – Senior Auditor	07973 699131	<a href="mailto:leanne.malough@audit.wales">leanne.malough@audit.wales</a>

- 18 I can confirm that my team members are all independent of the 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.

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<sup>2</sup> The fees shown in this document are exclusive of VAT, which is not charged to you.

## Timetable

- 19 I will provide reports, or other outputs as agreed, to the Pension Committee and the Council's Audit Committee, 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>2020 Audit Plan</b>	January – March 2020	March 2020
<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>• Opinion on Summarised Financial Information in Annual Report</li></ul>	March – September 2020  November 2020	September 2020  November 2020
<b>2021 Audit Plan</b>	November – December 2020	February 2021

## Future developments to my audit work

- 20 Details of other future developments including the Wales Audit Office's Good Practice Exchange (GPX) seminars and my planned work on the readiness of the Welsh public sector for Brexit are set out in [Appendix 2](#).

# 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 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 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

### A. Good Practice Exchange

The Wales Audit Office's 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 main areas of work are regarding 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](#).

### B. Brexit: preparations for the United Kingdom's departure from membership of the European Union

The Auditor General has reported on preparations in Wales for a 'no-deal Brexit', publishing a report in February 2019 and a follow-up letter to the External Affairs and Additional Legislation Committee in September 2019. At the time of reporting, there was a possibility that the UK would leave the EU without a Withdrawal Agreement in place (the no-deal scenario), which would potentially have had significant consequences for Welsh public services and the wider economy and society.

Following the general election, the United Kingdom left membership of the European Union on 31 January 2020 under the terms of the Withdrawal Agreement concluded between the EU and UK in October 2019. The next phase will involve negotiating and agreeing the future relationship between the UK and EU.

There will be a transition period to 31 December 2020, during which the UK will continue to participate in EU programmes and follow EU regulations. The Withdrawal Agreement provides for the transition period to be extended by up to two years, with the agreement of the UK and EU. The deadline for agreeing to extend the transition period is 30 June 2020. The UK Government has said that it does not intend to extend the transition period.

Despite there being an agreement on the terms of withdrawal, there remain some significant uncertainties:

- Given the very tight timetable for reaching agreement, there is a possibility of the UK leaving the transition period at the end of 2020 without an agreement about the future relationship in place. In this scenario many of the issues previously identified around a 'no-deal Brexit', such as disruption to supply chains, would arise again.
- The UK Government's position of seeking a future relationship based on a free trade agreement (rather than a closer relationship aligned to the single market) has implications that are not yet clear but which create opportunities and risks for Wales' economy, society and environment.

- There are also significant unresolved constitutional questions around how powers in areas where devolved governments were directly applying EU law, such as regional development and agriculture, will be exercised across the UK after the transition period.

In light of these uncertainties, the Auditor General will continue to keep a watching brief over developments and will make a decision later in the year as to what, if any, further work is required to look at public bodies' preparations for either a new relationship or a no-trade deal exit from the transition period.

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