



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# 2019 Audit Plan – City and County of Swansea Pension Fund

Audit year: 2018-19

Date issued: March 2019

Document reference: 1149A2019-20



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

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# 2019 Audit Plan

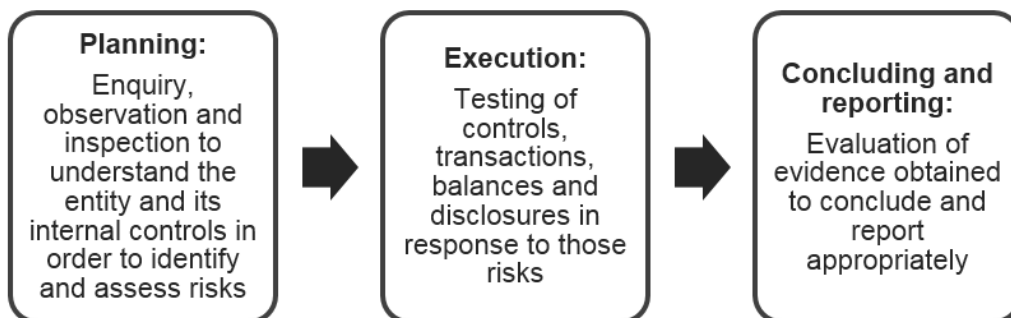
## Summary

- 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.
- 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>All 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. An inter-authority agreement has been signed by the Welsh Pension Funds and the joint committee will be producing financial statements for the 2018-19 financial year.</p> <p>We understand that the Pension Fund has transferred £907 million of funds into this new arrangement during 2018-19.</p>	<p>My audit team will review the accounting arrangements supporting the transfer of funds into the new arrangement coupled with any additional disclosures required.</p> <p>My team will also be working with the auditors of the joint governance committee to assess the most effective of obtaining the relevant assurances on the valuation and ownership of the funds transferred.</p>
<p><b>Investment Management</b></p> <p>The systems and records of the investment managers generate account entries made to the Pension Fund Account and Net Assets Statement.</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, eg 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> <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 for all investment managers provide assurance over a wide range of relevant controls, including valuation of investments held.</li> </ul>

Financial audit risks	Proposed audit response
<p><b>Private Equity Investments</b>  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>New accounting standard</b>  IFRS 9 financial instruments applies from 1 April 2018 and brings in 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 recognition of expected credit losses.</p>	<p>My audit team will assess the likely impacts of IFRS 9 and undertake work to respond to any identified risks of material misstatement.</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. When setting materiality for account balances and transactions, we take into consideration both quantitative and qualitative aspects such as legal and regulatory requirements and political sensitivity. For the purposes of our audit planning, we have identified related party transactions and fees paid to fund managers as sensitive areas of disclosure. 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 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 generally 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; and
- Internal Audit's planned programme of work is complete, and management has responded to issues that may have affected the financial statements.

## 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.

## Fee, audit team and timetable

### Fee

- 13 Your estimated fee for 2019 is set out in [Exhibit 3](#). There have been some small changes to my fee rates for 2019 however my audit teams will continue to drive efficiency in their audits to ensure any resulting increases will not be passed onto you. This represents a 2.4% decrease compared to your actual 2018 fee, which we have achieved by managing the skill mix of the audit team and reducing the number of audit days compared to 2018.

<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.

### Exhibit 3: audit fee

	Proposed fee for 2019 (£) <sup>2</sup>	Actual fee for 2018 (£)	Proposed fee for 2018
Audit of Pension Fund accounts	£42,710	£43,755	£45,000

- 14 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 Chief Finance Officer.
- 15 Further information on my [fee scales and fee setting](#) can be found on our website.

### Audit team

- 16 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 – Financial Audit	02920320585	Anthony.Veale@audit.wales
Jason Garcia	Financial Audit Manager	07792 015416	Jason.Garcia@audit.wales
David Williams	Financial Audit Team Leader	07812 670234	David.Williams@audit.wales

- 17 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.

### Timetable

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

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



#### Exhibit 5: timetable

Planned output	Work undertaken	Report finalised
<b>2019 Audit Plan</b>	December 2018 to February 2019	March 2019
<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 Pension Fund Annual Report</li><li>• Financial Accounts Memorandum</li></ul>	February to August 2019 September 2019 October 2019 October 2019	September 2019 September 2019 October 2019 October 2019
<b>2020 Audit Plan</b>	October to December 2019	January 2020

## Future developments to my audit work

- 19 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

In accordance with Article 50 of the Treaty of Rome, on 29 March 2019 the United Kingdom will cease to be a member of the European Union. Negotiations are continuing, and it currently remains unclear whether agreement will be reached on a transition period to 31 December 2020, or whether a 'no deal' immediate exit will take place next March.

The Auditor General has commenced a programme of work looking at the arrangements that the devolved public sector in Wales, including all NHS bodies, is putting in place to prepare for, and respond to, Britain's exit from the European Union. This will take the form of a high-level overview to establish what is being put in place across the Welsh public sector, and what the key issues are from the perspectives of different parts of the Welsh public service.

The Auditor General intends to carry out this initial work in two tranches. In autumn 2018, he will compile a baseline summary of arrangements being put in place. On 29 February, the Auditor General issued a report<sup>3</sup> on preparations in Wales for a 'no deal' Brexit. This will be followed up by further audit fieldwork during the rest of 2019.

<sup>3</sup> The Auditor General Report on preparations for a 'no-deal' Brexit is available [here](#).

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