



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

## 2018 Audit Plan – Dyfed Pension Fund

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This document was produced by John Herniman, Jason Garcia and Kate Havard.

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# 2018 Audit Plan

## Summary

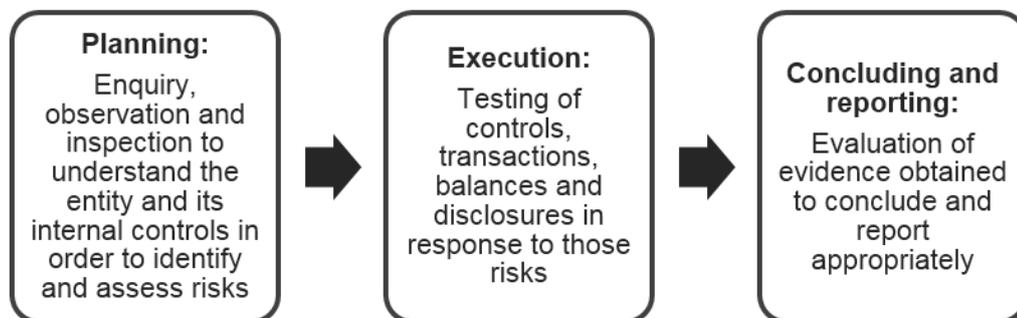
- 1 As your external auditor, my objective is to carry out an audit which discharges my statutory duties as Auditor General and fulfils my obligations under the Code of Audit Practice to examine and certify whether Dyfed Pension Fund (the Pension Fund) accounting statements are 'true and fair'.
- 2 The 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 It is my responsibility to issue a report on the accounting statements which includes an opinion on their 'truth and fairness'. This provides assurance that the accounts:
  - 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.
- 6 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



7 The risks of material misstatement, are set out in [Exhibit 2](#) along with the work I intend to undertake to address them.

**Exhibit 2: financial audit risks**

Financial audit risk	Proposed audit response
<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.</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><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 controls 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>• obtain direct confirmation from the investment managers and custodian of year-end investment balances and holdings; and</li> <li>• assess whether the investment manager's internal control reports for all investment managers provide assurance over a wide range of relevant controls, including valuation of investments held.</li> </ul>
<p><b>Unquoted investment assets</b></p> <p>Year-end valuations of unquoted property investments are provided by investment managers which are based upon forward looking estimates and judgements and industry guidelines. As there is no quoted market price, 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 valuations to audited financial statements; and</li> <li>• seek additional assurance over the valuation basis from controls assurance reports where available.</li> </ul>

Financial audit risk	Proposed audit response
<p><b>Financial Statements Production</b></p> <p>The timetable for producing the financial statements remains demanding. Management will need to ensure that appropriate arrangements are in place for the preparation and oversight of robust financial statements that comply with CIPFA's Code of Practice on Local Authority Accounting ('the Code'). In addition, ensuring good quality working papers are provided on the commencement of the audit, with both these and the statements having been subject to appropriate senior management review.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>• provide support and advice wherever possible without compromising our independence;</li> <li>• provide an audit deliverables report to assist in the preparation of relevant working papers in support of the financial statements;</li> <li>• review closedown plans to assess that arrangements are in place to produce robust financial statements within the prescribed timetable;</li> <li>• agree a timetable for the audit and certification of the financial statements; and</li> <li>• assess whether the financial statements comply with the Code.</li> </ul>
<p><b>Benefits payable</b></p> <p>The Local Government Pension Scheme has been subject to significant reform over recent years leading to changes in the benefit structure of the scheme, with transitional arrangements in place for those within ten years of retirement at the dates of these reforms. These changes, along with the complexity of the benefit structure, increase the risk that benefits may be inaccurately calculated which could potentially lead to many years of incorrect payments.</p>	<p>My audit team will assess the risks of inaccurate calculation of pension entitlements and undertake further testing as appropriate.</p>

Financial audit risk	Proposed audit response
<p><b>All Wales Pension Partnership</b></p> <p>The eight Pension Funds in Wales have created a pooled investment vehicle which will be overseen and reported on by a joint governance committee. An inter-authority agreement has been signed by the eight Welsh Pension Funds and the joint committee will be producing financial statements for the 2017-18 financial period. However, no investments will be transferred to this new management arrangement until after 1 April 2018.</p> <p>Separate financial statements will need to be prepared for the joint committee which for 2017-18 are only expected to include administration costs of setting up the joint committee. The audit of the joint committee will be subject to a separate audit plan and fee once there is more certainty about the content of the accounts.</p> <p>However, individual Pension Funds will need to consider recognising a share of the 2017-18 joint committee accounts in their financial statements.</p>	<p>My audit team will review progress on this arrangement and consider if there is an impact on the 2017-18 financial statements and what additional disclosures are required.</p>
<p><b>Triennial actuarial valuation</b></p> <p>The Pension Fund was subject to a full actuarial valuation as at 31 March 2016. The new contribution rates come into effect on 1 April 2017.</p> <p>There is a risk that these new contribution rates are not fairly reflected in the Pension Fund's financial statements.</p>	<p>My audit team will check that the revised contribution rates have been correctly calculated in the 2017-18 financial statements.</p>
<p><b>Amendments to Accounts and Audit regulations</b></p> <p>Welsh Government have issued revised Accounts and Audit regulations for Wales by 31 March 2018. This revised legislation will apply to the 2017-18 financial year.</p> <p>One of the key changes included in this legislation is that Pension Fund accounts are no longer to be incorporated into the administering authority accounts and will need to be produced as a stand-alone document.</p> <p>There is a risk that the pension fund do not comply with this legislative requirement.</p>	<p>My audit team will work with officers to ensure that the new legislative requirements are complied with.</p>

- 8 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 Panel and the Audit Committee as those charged with governance for Carmarthenshire County Council (the Council), as the administering authority of the Pension Fund as a whole, prior to completion of the audit.
- 9 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.
- 10 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.

## Statutory audit functions

- 11 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.
- 12 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.
- 13 If I do receive questions or objections, I will discuss potential audit fees at the time.

## Fee, audit team and timetable

### Fee

- 14 Your estimated fee for 2018 is set out in [Exhibit 3](#). This figure is consistent with the fee set out in the 2017 audit plan.
- 15 As per our approved Fee Scheme for 2018-19, a small increase has been applied to my fee rates (less than one per cent) which we have looked to offset by a reduction in the time taken to complete the audit.

#### Exhibit 3: audit fee

Audit area	Proposed fee for 2018 (£)	Actual fee for 2017 (£)
Audit of pension fund accounts <sup>1</sup>	28,322	28,322

- 16 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 Corporate Services.
- 17 Further information on my [fee scales and fee setting](#) can be found on the Wales Audit Office website.

### Audit team

- 18 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	029 20320566	john.herniman@audit.wales
Jason Garcia	Financial Audit Manager	07854022649	jason.garcia@audit.wales
Kate Havard	Financial Audit Team Leader	07813 449396	kate.havard@audit.wales

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

19 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

20 I will provide reports, or other outputs as agreed, to the Pension Panel and the 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>2018 Audit Plan</b>	January to February 2018	March 2018
<b>Financial accounts work</b> <ul style="list-style-type: none"> <li>• Audit of Financial Statements Report</li> <li>• Opinion on Financial Statements</li> </ul>	February to September 2018	September 2018  September 2018
<b>2019 Audit Plan</b>	October to December 2018	January 2019

## Future developments

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

21 The Well-being of Future Generations (Wales) Act 2015 (the Act) became law in April 2016. The Act requires me to report every five years to the National Assembly on how public bodies apply the sustainability principles. During 2016 I consulted on my options for reshaping public audit in Wales and this year have been working collaboratively with a small number of public bodies, to develop an audit approach which is rigorous, meaningful and proportionate. I have also undertaken my first audit work relating to the Act, the Year One Commentary. I will publish a report on my findings in spring 2018 and will share those findings at a national stakeholder event in May 2018.

## Other

- 22 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](#).
- 23 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 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

### 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.

### General Data Protection Regulation (GDPR)

The GDPR is a new data protection law for the whole of the EU applicable from 25 May 2018, which has the intention of harmonising and updating data protection laws. The UK Government has introduced the Data Protection Bill which will incorporate the GDPR into UK law and replace the 1998 Data Protection Act, and which it intends will also come into force on 25 May 2018.

The GDPR introduces new requirements for personal data processing, including an accountability principle which will require more detailed records of the processing of personal data, evidence of compliance with the data protection principles and the technical and organisational security measures taken to protect the data. We are updating our own policies, processes and documentation with a view to meeting these requirements and expect that the bodies we audit will be taking similar steps. Key areas of additional work include the use of more detailed fair processing notices, more privacy impact assessments and more extensive record keeping in relation to processing activities.

## 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 include 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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