



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# 2017 Audit Plan – Dyfed Pension Fund

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This document was produced by Richard Harries, Jason Garcia and Julie Owens

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# 2017 Audit Plan

## Summary

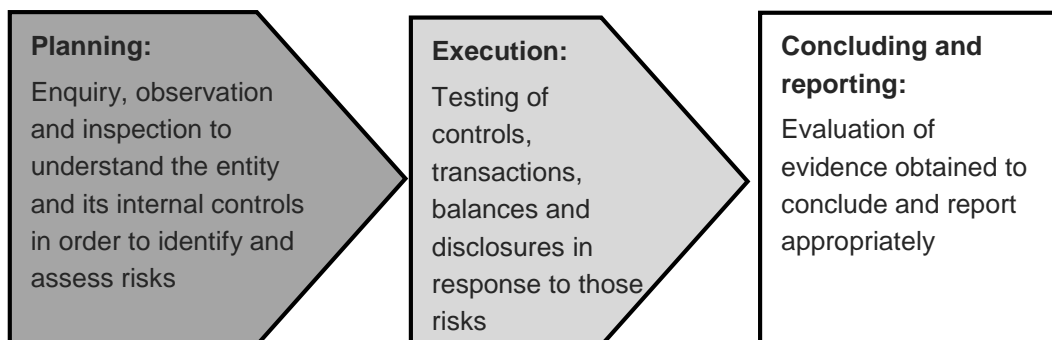
- 1 As your external auditor my objective is to carry out an audit, which discharges my statutory duties as Auditor General and fulfils my obligations under the Code of Audit Practice to examine and certify whether Dyfed Pension Fund (the Pension Fund) accounting statements are 'true and fair'.
- 2 The 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 **Exhibit 2** sets out the risks of material misstatement I have considered in planning my audit of your financial statements, along with the work I intend to undertake to address them.

**Exhibit 2: financial audit risks**

Financial audit risk	Proposed audit response
<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.</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>• 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 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>Cash at Bank</b></p> <p>Administering authorities are required to maintain a separate bank account for the pension fund.</p> <p>However, it is acceptable for an authority to enter into bank pooling arrangements with the pension fund provided there is a clear and comprehensive agreement between the two parties regarding the matter and where it is in the pension fund's best interests to do so.</p> <p>There is a risk that the Council does not have appropriate arrangements in place regarding pooled investments with Dyfed Pension Fund.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>• ensure the existing protocol is compliant with the LGPS (Management and Investment of Funds) Regulations 2009; the pooling agreement must be clear in terms of making joint money market investments with external third parties and that the risks and rewards of the pooled investments are equitably shared between the Authority and the Pension Fund; and</li> <li>• undertake a programme of substantive audit testing procedures for the year-end cash balance.</li> </ul>

Financial audit risk	Proposed audit response
<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>
<p><b>Financial Statements Production</b></p> <p>The timetable for producing the financial statements remains demanding.</p> <p>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 LGPS 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 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>
<p><b>Triennial actuarial valuation</b></p> <p>The Pension Fund has been subject to a full actuarial valuation as at 31 March 2016. Although this will not affect contribution rates and funding levels for 2016-17 (as any new rates come into effect 1 April 2017) - additional disclosures may be required in the accounts if significant issues arise.</p>	<p>My audit team will review the final actuarial valuation report and consider if there is an impact on the accounts for 2016-17 and whether any additional disclosures are required.</p>

Financial audit risk	Proposed audit response
<p><b>Pooling of investments</b></p> <p>All Wales pension funds are in the process of creating a pooled investment vehicle which will be overseen and reported on by a joint governance committee. An inter-authority agreement is in the process of being finalised and it is likely that this agreement and the joint governance committee will be formally approved by the Council by 31 March 2017.</p> <p>There is a risk that any issues arising from these new arrangements will not be fairly reflected in the 2016-17 financial statements.</p>	<p>My audit team will review progress on this arrangement and consider if there is an impact on the 2016-17 financial statements and whether any additional disclosures are required.</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 to 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.

## Pension Fund annual report

- 11 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.
- 12 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.
- 13 I also issue an audit statement confirming the consistency of the accounts included in the annual report with the audited Pension Fund accounts.

## Fee, audit team and timetable

### Fee

- 14 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 teams will continue to look for efficiencies in their audits and welcome working with you constructively on this
- 15 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 accounts	28,322	28,858

- 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 at: [www.audit.wales/about-us/fee-scales-and-fee-setting](http://www.audit.wales/about-us/fee-scales-and-fee-setting).



## 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
Richard Harries	Engagement Lead – Financial Audit	02920 320460 / 07789 397018	richard.harries@audit.wales
Jason Garcia	Financial Audit Manager	01267 224489 / 07854 022649	jason.garcia@audit.wales
Julie Owens	Financial Audit Team Leader	01267 224489 / 07581 499092	julie.owens@audit.wales

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 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>2017 Audit Plan</b>	January – March 2017	March 2017
<b>Financial accounts work:</b> <ul style="list-style-type: none"><li>Audit of Financial Statements Report/Opinion on Financial Statements</li></ul>	June – September 2017	September 2017

# 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.



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