



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# 2017 Audit Plan – Cardiff and Vale of Glamorgan Pension Fund

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# 2017 Audit Plan

## Summary

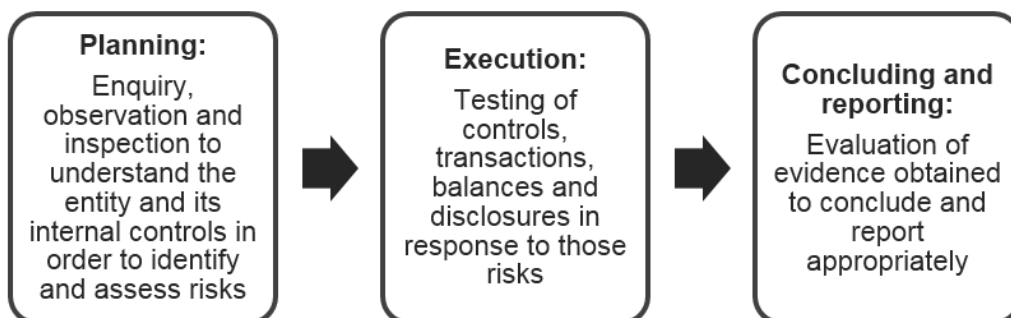
- 1 As your external auditor, my objective is to carry out an audit which discharges my statutory duties as Auditor General and fulfils my obligations under the Code of Audit Practice to examine and certify whether Cardiff and Vale of Glamorgan Pension Fund (the Pension Fund) accounting statements are '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 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.

**Exhibit 2: financial audit risks**

<b>Financial audit risk</b>	<b>Proposed audit response</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>
<p><b>Fraud</b></p> <p>There is a risk of material misstatement due to fraud in revenue recognition and as such is treated as a significant risk [ISA 240.26-27]. Our assessment of the Pension Fund's income sources indicates that this could apply to investment income.</p>	<p>My audit team will review investment income transactions, reviewing specifically for potential material fraud.</p>
<p><b>All Wales Investment Pool</b></p> <p>The 8 Pension funds in Wales are setting up a formal All Wales Investment Pool which will be overseen by a Joint Governance Committee. In 2016-17 arrangements were overseen by an Interim Joint Chairs Group. No pooling of funds has taken place yet, however some joint investment decisions were made and a material movement in the Asset allocation occurred in the year. There is a risk of material misstatement due to the new and interim arrangements in place at the time.</p>	<p>My audit team will review the assets of the fund, and any material movements in year. They will also review the interim arrangements in place within the reporting period.</p>
<p><b>I-connect system</b></p> <p>We are aware of a new ICT system 'i-connect' which will be used to transfer data from the Pension Payroll into Altair (the pensions system). This was due to be completed in 2016-17 but as a result of ongoing testing it is due to be implemented from April 2017. The development of the system and any impact on 2016-17 found as a result of testing will need to be considered.</p>	<p>My audit team will gain an understanding of the system, the various testing strategies that have been carried out in the reporting period and assess any impact this may have had on the preparation of the accounts.</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 Audit Committee, and to those charged with governance for City of Cardiff 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 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.
- 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](#). This figure represents a £479 (2%) increase compared to the fee set out in the 2016 annual audit outline.

#### Exhibit 3: audit fee

Audit area	Proposed fee for 2017 (£)	Actual fee for 2016 (£)
Audit of pension fund accounts <sup>1</sup>	32,256	31,777

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

- 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 Finance.
- 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
Ann-Marie Harkin	Engagement Lead – Financial Audit	02920 320652 / 07967 321350	<a href="mailto:ann-marie@audit.wales">ann-marie@audit.wales</a>
Matthew Coe	Financial Audit Manager	02920 320626	<a href="mailto:matthew.coe@audit.wales">matthew.coe@audit.wales</a>
Tony Era	Financial Audit Team Leader	02920 872258	<a href="mailto:tony.era@audit.wales">tony.era@audit.wales</a>

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.

## Staff secondment

20 A trainee accountant employed by the Wales Audit Office has been seconded to the Council for the period 13 December 2016 to 28 April 2017. This secondment is part of an initiative funded by the Welsh Consolidated Fund designed to allow trainee accountants to broaden their skills and to gain experience of working across different parts of the Welsh public sector.

21 In order to safeguard against any potential threats to auditor independence and objectivity, the Wales Audit Office and the Council have agreed the following safeguards:

- secondees will not perform duties prohibited by the FRC’s Revised Ethical Standard 2016 and will not be able to exercise discretionary authority to commit the Council to a particular position or accounting treatment;
- the secondee will undertake tasks at a relatively junior level, will be properly supervised and will not undertake a management role or be involved in the decision taking of the Council; and
- the secondment will be for a short period of time within the meaning of the FRC’s Revised Ethical Standard 2016.

## Timetable

22 I will provide reports, or other outputs as agreed, to the Pension Investment Advisory Panel and Audit Committee and where necessary to the 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>	November 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> </ul>	February to September 2017	September 2017
<b>2018 Audit Plan</b>	November 2017 to February 2018	March 2018



## Future developments

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

- 23 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 well-being 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

- 24 Details of other future developments including general changes to key IFRS that may or may not affect the Pension Fund, and of the Wales Audit Office's Good Practice Exchange (GPX) seminars are set out for information in [Appendix 2](#).
- 25 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 timelier 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 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 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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