

Dumfries and Galloway Council Pension Fund Report 2013

*Year ended
31 March 2013
14 September 2013*

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Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In April 2010, Audit Scotland issued a revised version of the ‘Statement of responsibilities of auditors and audited bodies’. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

1 Executive summary

The purpose of this report is to provide you with feedback from the work we have performed and to communicate relevant issues which have come to our attention during the audit for the year ended 31 March 2013.

Scope of our work

Our audit was performed under International Standards on Auditing (UK & Ireland) and followed the approach set out in our Audit Plan prepared for the Pension Sub Committee dated 27 February 2013. We have included a summary of our audit approach and specific findings from our audit work for each of the key areas within section 2 of this report. There has been no cause for us to vary the planned scope of work.

Audit status

Our audit of the accounts of the Dumfries and Galloway Council Pension Fund (“the Fund”) for the year ended 31 March 2013 is complete.

Our conclusions

Our final conclusions are subject to satisfactory completion of the outstanding matters above but are expected to be as follows:

- Our audit report on the truth and fairness of the accounts will be unqualified.
- No matters have arisen that we have been required to report to the Pensions Regulator in accordance with our whistle-blowing responsibilities under the Pensions Act 2004.

We have not identified any material uncorrected misstatements in the accounts that require representation from the Pension Sub Committee.

Audit issues, findings and internal control recommendations

The main issues and findings from our audit are included in section 2, along with internal control recommendations which are detailed in section 3.

Independence and objectivity

Our reputation and continued success as a firm depends on our maintaining auditor independence. We are required to communicate with you matters that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity. We have no matters to report to you in this regard.

2 Audit findings

Financial highlights

Fund account

£m	2013
Contributions	25.9
Transfers in	0.7
Benefits, leavers and transfers out	(24.0)
Administration expenses	(0.3)
Investment returns	66.1
Net increase	68.4
Opening net assets	520.8
Net assets	589.2

Net assets statement

£m	2013
Investment assets	590.4
Investment liabilities	(1.0)
Current assets	0.1
Current liabilities	(0.3)
Net assets	589.2

Contributions

Key figures

£m	2013	2012
Employer normal	19.8	19.4
Member normal	5.7	5.7
Total normal contribution	25.5	25.1
Additional employer contributions	0.4	2.7
Total	25.9	27.8

Average contribution per active member

£	2013	2012
Member normal	1,078	1,049
Employer normal	3,744	3,569

Commentary

Following the 2011 valuation, the employer contribution rate was increased to 21.5% from 21% for the 3 years to March 2015. The increase was offset this year by a 4% fall in the average number of contributors from 2012 to 2013, resulting in normal contributions remaining relatively constant. The main cause for the fall in total contributions has been the decrease in employer Strain on the Fund contributions.

Planned approach	Matters arising
We visited the selected employer payroll site to gain assurance that pensionable salary is being calculated correctly and the appropriate contribution rates applied. Payroll sites selected for a visit/ detailed testing: <ul style="list-style-type: none"> Head Office – Dumfries. 	No issues noted.
We performed an analytical review of contributions compared with the prior year and reviewed the ratio of member to employer contributions on a month-by-month basis.	No issues noted.
We reviewed the timeliness of the payment of contributions to the Fund in accordance with fund guidance and other documentation.	No issues noted.

Benefits

Key figures

£m	2013	2012
Pensions	18.5	17.1
Lump sums – retirement	4.3	7.1
Lump sums – death	0.4	0.4
Transfers out	0.8	1.1
Total	24.0	25.7

Commentary

Pension payments have increased as a result of the annual pension increase of 2.2% combined with an increase of 216 in the average number of pensioners from prior year.

Average pension per pensioner member

£	2013	2012
Pension	5,143	4,962

Planned approach	Matters arising
We review the principal controls in place over the accuracy of benefit calculations, assessed their effectiveness and carried out procedures to confirm that they have been operating effectively throughout the year. This included a review of the key controls over the IT environment at your Head Office.	No issues noted.
We performed an analytical review of the pensioner payroll.	No issues noted.
We placed reliance on the most recent pensioner existence exercise.	The council participates in the National Fraud Initiative. We are not aware of any issues arising during the year.

Investments

Key figures

£m	2013	2012
Fixed interest	124.7	111.1
Index-linked	24.8	22.8
Pooled investment vehicles (PIVs)	429.8	376.6
Loans and Cash	9.3	12.0
Other	1.7	3.5
Liabilities	(0.9)	(5.4)
Total	589.4	520.6

Investment returns

£m	2013	2012
Investment income	5.5	8.2
Change in market value (CIMV)	62.2	0.9
Investment management expenses	(1.6)	(1.8)
Investment returns	66.1	7.3

Investment performance

%	2013	2012
Total per investment report	13.1	1.7
Estimated* per accounts	12.0	1.5
Benchmark return	13.5	5.5

Commentary

The Fund have disposed of all overseas fixed interest securities over the year (£10m). The main increase in NAV of investments has been in pooled investments vehicles. The increase in value of the PIVs of £52m is due almost entirely to positive changes in market value.

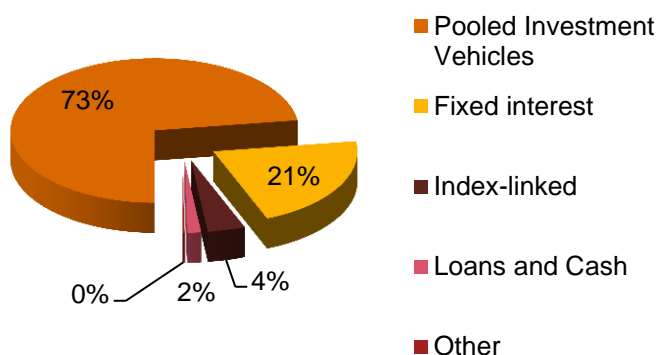
The increase in market value is reflective of positive market conditions impacting the underlying investments.

**The estimated return based on the financial statements noted above is a simple calculation comparing investment income and change in market value with the average investments held during the year, which we have calculated to assess reasonableness compared with other investment return figures disclosed.*

Planned approach	Matters arising
We obtained third party confirmations and reviewed the investment reconciliations performed between the investment manager and custodian records. We reviewed a reconciliation of cash movements between the Fund bank account and investment managers.	No issues noted.
We performed tests of valuation of listed investments against third party sources, using electronic software to perform a comprehensive check of the year end valuation of quoted investments. We considered whether market conditions may indicate an impairment of the reported values of securities which are no longer actively traded. We confirmed the valuation of pooled investment vehicles (PIVs) by reference to unit prices supplied by the manager, and assessed the reasonableness of these unit prices.	See p7 for summary of valuation comfort obtained.
We performed a high level review of reconciliations prepared by your accountants/advisers to demonstrate completeness of transaction recording and appropriateness of disclosure.	No issues noted.

Summary of investment valuation comfort

Investments



Fair value hierarchy: Local Government Pension Schemes comply with the requirements of IFRS 7. IFRS 7 requires disclosure of investment assets in a 3-level hierarchy. The three levels are:

Level 1: Quoted prices (unadjusted) in active markets for identical assets, ie easy to value;

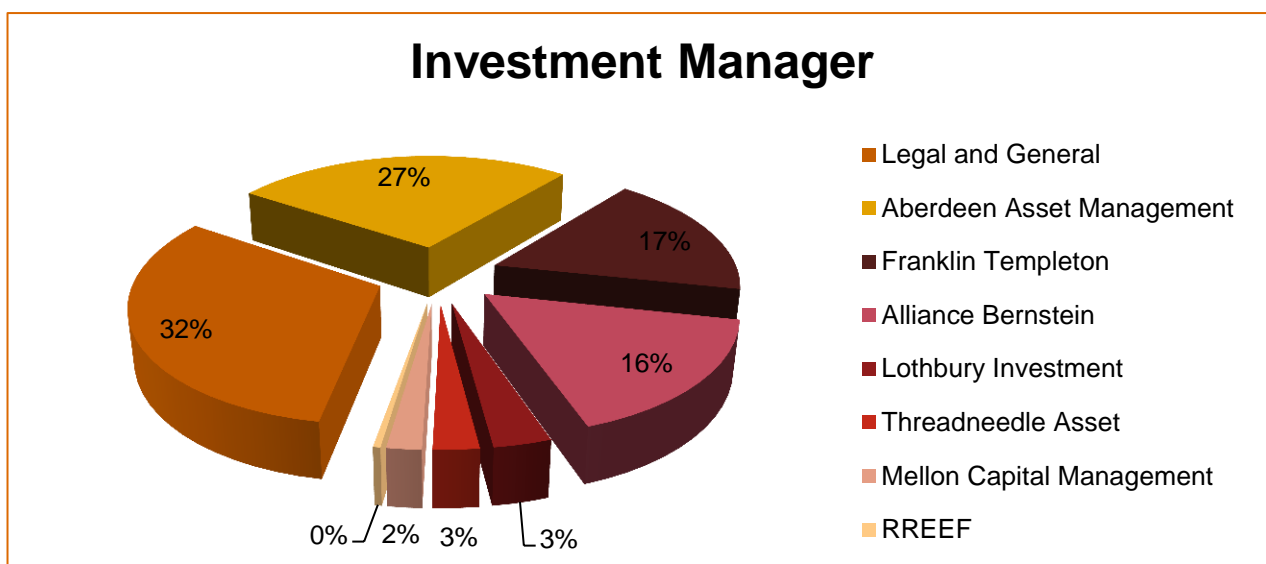
Level 2: Valuation inputs are observable directly (prices) or indirectly (derived from prices), ie moderately difficult to value; and

Level 3: Valuation inputs not based on observable market data, ie difficult to value.

Adoption of this disclosure by UK pension schemes is currently expected from 2015.

Type	Comment
Fixed interest and index-linked (Level 1)	Agreed to third party confirmations. Agreed to external price feeds. No indication of stale prices.
PIVs (Level 1 and level 2)	Agreed to third party confirmations. Agreed to external price feeds and controls reports.
Forward currency contracts (Levels 2 and 3)	Not material.

Controls reports provide evidence of the existence of controls over selected control objectives at outsourced organisations such as investment managers and custodians. Where these are “type II” reports, they also provide comfort that the controls have been operating effectively over the period covered by the report.



Date of most recent controls reports

Dec 2012	Legal and General (0 exceptions)	RREEF (6 exceptions)
	Aberdeen Asset (6 exceptions)	BNY Mellon (6 exceptions)
	Franklin Templeton (3 exceptions)	Threadneedle (7 exceptions)

Significant risks

ISAs recommend that we communicate how we propose to respond to significant risks (those which require special audit consideration) identified during the audit. Because of the potential link to fraud, the risk of management override of controls is always considered a significant risk. We addressed this risk by performing testing of journals, reviewing estimates made by management, and reviewing minutes in connection with significant or unusual transactions. There are no matters to report as a result of this testing.

3 Internal control recommendations

Significant internal control recommendations from this year's audit

We have graded the impact of the matters in this section on the following basis:

HIGH	A significant issue which could result in material financial, regulatory or reputational risk.
MEDIUM	A less significant issue but still relating to an area where we think controls should be improved as a priority.
LOW	Areas where we recommend enhancements be made to existing controls or matters of best practice.

There are no new matters to report arising from this year's audit.

Update on matters raised in prior year

Issue 3.1	Membership numbers do not agree to reports	MEDIUM
<i>Prior year observation and implication</i>	On comparison of active and pensioner membership figures in the accounts to those reported in the supporting administrative data, it was noted that the accounts listed 213 more active members and 13 more pensioners at the 2012 year end.	
<i>Recommendation</i>	In both cases there were fewer members on the administrative records which indicated that there was unlikely to be fictitious payments being made; however, it was recommended that the differences between the two sets of data were fully reconciled and the reasons for the differences identified.	
<i>Current year findings</i>	<p>Dumfries and Galloway Council have had difficulty in reconciling the membership table included in the annual report, which is driven by the HR system, to the details of active members making contributions to the scheme and pensioners receiving benefits from the scheme. This is due to a number of issues, such as the timing that the reports from these two systems are run, and well as the fact that there are some individuals with more than one pension and so are on the HR listing once but the active member listing/pensioner listing more than once.</p> <p>From the work we have performed, we are comfortable that the financial impact on the Fund of having active members and pensioners (contributions income and benefits payable) are supported by the member and pensioner payroll systems, and so the financial statements are likely to be free from material misstatement. However we believe management should implement more robust processes regarding the recording and disclosure of membership statistics, with a view to eliminating the variances that currently arise.</p>	

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