

*Dumfries and  
Galloway  
Council  
Pension Fund  
Audit Findings  
Report 2014*

*Year ended  
31 March 20124*

*14 September 20124*

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# Table of Contents

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1	Executive summary.....	3
2	Audit findings .....	4
3	Internal control recommendations.....	9
Appendix I.	Draft letter of representation.....	12

## ***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 2014.

## ***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 1 August 20124. 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 20124 is substantially complete, subject to:

- approval of the accounts by the Pension Sub Committee

## ***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		Net assets statement	
£k	2014	£k	20124
Contributions	27,289	Investment assets	636,293
Transfers in	686	Investment liabilities	(481)
Benefits, leavers and transfers out	(26,587)	Current assets	170
Administration expenses	(305)	Current liabilities	(1,169)
Investment returns	44,539	<b>Net assets</b>	<b>634,813</b>
<b>Net increase</b>	<b>45,622</b>		
Opening net assets	589,191		
<b>Net assets</b>	<b>634,813</b>		

### Contributions

#### Key figures

£k	20124	20113
Employer normal	20,110	19,807
Member normal	5,782	5,704
<b>Total normal contribution</b>	<b>25,892</b>	<b>25,511</b>
Additional employer contributions	1,397	454
<b>Contributions</b>	<b>27,289</b>	<b>25,965</b>
<b>Average contribution per active member</b>		
£	20124	20113
Member normal	1,094	1,079
Employer normal	3,804	3,746

#### Commentary

The increase in contributions has been driven primarily by a 1% pay rise awarded to Council employees during 2013.

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"> <li>Head Office – Dumfries.</li> </ul>	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

£k	20124	20113
Pensions	19,502	18,498
Lump sums – retirement	5,781	4,316
Lump sums – death	764	405
Transfers out	482	727
<b>Total</b>	<b>26,529</b>	<b>23,946</b>

### Average pension per pensioner member

£	20124	20113
Pension	5,158	5,143

### Commentary

Pension payments have increased as a result of the annual pension increase of 2.2% combined with an increase of 184 in the number of pensioners from prior year.

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

£k	20124	20113
Fixed interest	76,372	124,744
Index-linked	18,374	24,841
Equity	51,944	-
Pooled investment vehicles (PIVs)	479,590	429,791
Loans and Cash	8,827	9,284
Other	1,186	1,709
Liabilities	(481)	(980)
<b>Investments</b>	<b>635,812</b>	<b>589,389</b>

### Investment returns

£k	20124	20113
Investment income	6,630	5,484
Change in market value (CIMV)	39,961	62,240
Investment management expenses	(2,052)	(1,641)
<b>Investment returns</b>	<b>44,539</b>	<b>66,083</b>

### Investment performance

%	20124	20113
Total per investment report	8.8	13.1
Estimated* per accounts	7.3	12.0
Benchmark return	6.2	13.5

### Commentary

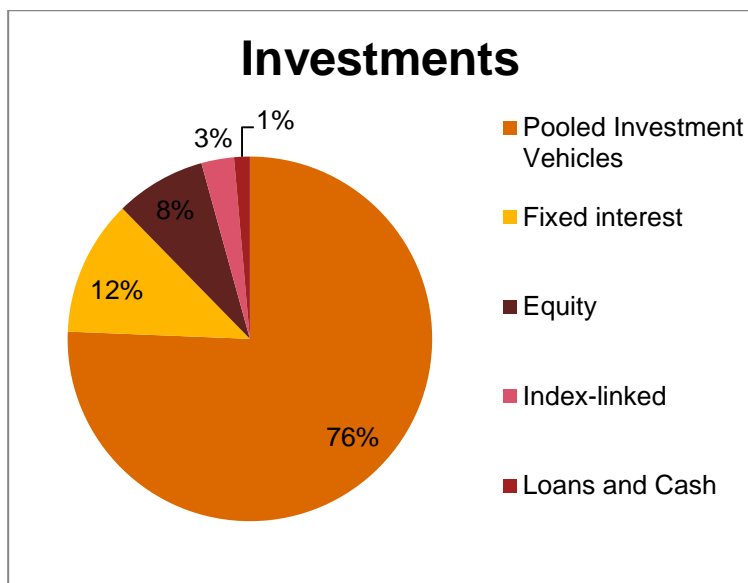
Some of the fixed interest mandate was reinvested into a diversified growth fund with Baillie Gifford. The main cause for the increase in NAV has been a change in the market value of investments at 31 March 2014.

The reduction in the change in market value reflects a slowing in the rate of growth in underlying investments from 2012/13 to 2013/14.

*\*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



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;

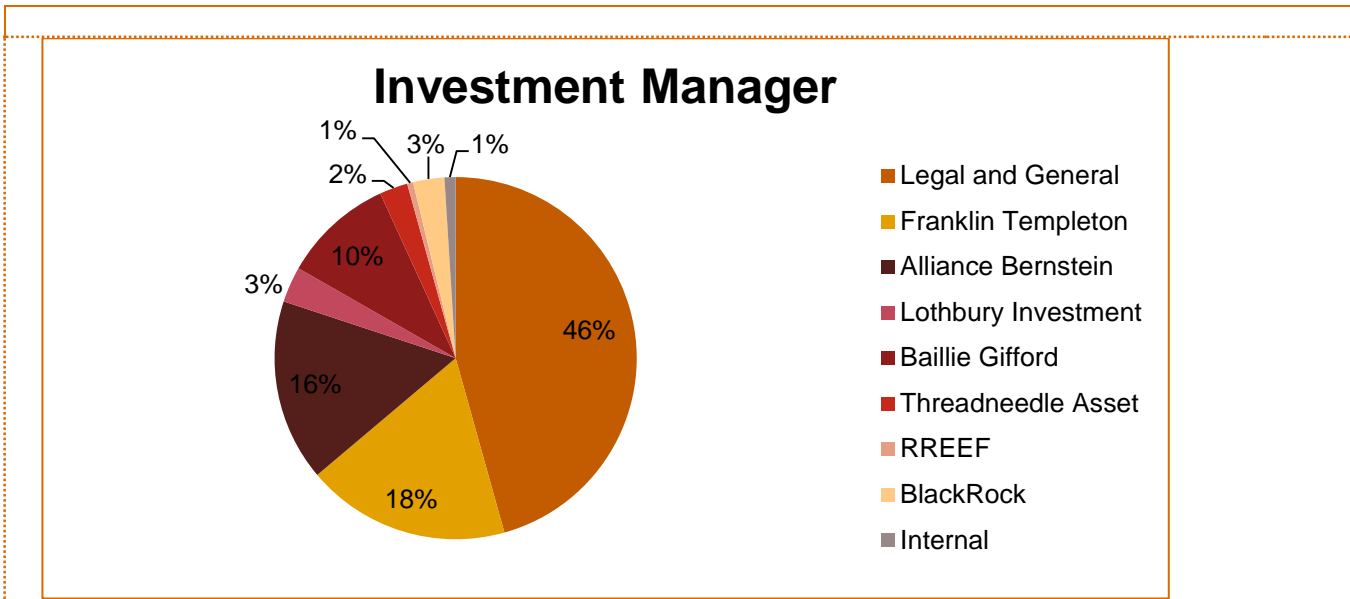
Level 2: Valuation inputs are observable directly (prices) or indirectly (derived from prices), ie moderately difficult to value; and

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.
(Levels 2 and 3)	This type consists of an investment in the Legal & General UK Equity Index and has been agreed to controls report.

**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.




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**Date of most recent controls reports**

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Dec 2013	Legal and General (7 exceptions) Franklin Templeton (0 exceptions) Lothbury (14 exceptions) Threadneedle (7 exceptions) BlackRock (2 exceptions)
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### *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:

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

Issue	Late addition of new members to the pension records	MEDIUM
<i>Current year findings</i>	<p>During testing performed by the Council audit team, a number of instances were noted where new employees who were to be members of the scheme had not been added to the Axise pension system in a timely manner. There were also cases of leavers not being removed from Axise in a timely manner.</p> <p>In the case of the joiners, the contributions had been correctly recorded within the payroll system (iTrent), however the corresponding pension record within Axise was not kept up to date.</p> <p>There is a risk that incorrect information on the number of active, deferred and pension members is reported during the year and there is a risk that retrospective correction of this data could result in errors.</p>	
<i>Recommendation</i>	We recommend that the pension database is kept up to date throughout the year.	

Issue	Late employee contributions from admitted bodies	MEDIUM
<i>Current year findings</i>	<p>While testing employee contributions, PwC learned that there had been issues with delayed employee contribution payments from some of the admitted bodies. PwC obtained an analysis showing that there were 6 instances of employee contributions from Police Scotland and the Scottish Fire and Rescue Service being received by the scheme after the required deadline (the 19<sup>th</sup> day of the month following the month to which the contributions relate).</p> <p>Each of the contributions was eventually received and the Scheme did not deem these delayed contributions to be significant enough to warrant them being reported to the Pensions Regulator. Having consulted the Pensions Regulator's applicable code of practice, PwC agree that these late contributions do not need to be reported.</p>	

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<b>Issue</b>	<b>Late employee contributions from admitted bodies</b>	<b>MEDIUM</b>
<i>Recommendation</i>	All admitted bodies should be made aware of the deadlines for payment of employee contributions to the scheme, and the scheme should work to ensure that these contributions are received on time.	

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## Update on matters raised in prior year

### Issue

### Membership numbers do not agree to reports

**MEDIUM**

#### *Prior year observation and implication*

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.

#### *Recommendation*

It was recommended that the differences between the two sets of data were fully reconciled and the reasons for the differences noted.

#### *Current year findings*

PwC understand that the Council's payroll data will never agree to the active members disclosed in the annual report. This is because it is only one of several employers within the fund, each of which handles its own payroll records. In the current year audit, PwC were able to obtain listings of active members, pensioners and deferrals which tied to the membership statistics in the annual accounts.

However during testing of joiners to and leavers from the Council and pension scheme, it was noted that there are sometimes delays between an employee joining or leaving the Council and being added to or removed from the pension scheme's records. These delays are unlikely to materially impact the pension scheme. It is recommended that procedures around updating the pension records for leavers and joiners are tightened to ensure that these delays do not occur.

## **Appendix I. Draft letter of representation**

[On trustees' normal letterhead]

PricewaterhouseCoopers LLP  
141 Bothwell Street  
Glasgow  
G2 7EQ

Your ref: MP/LS

Dear Sirs

### ***Dumfries & Galloway Council Pension Scheme – Letter of representation***

This representation letter is provided in connection with your audit of the accounts of Dumfries & Galloway Council Pension Scheme (the “scheme”) for the scheme year ended 31 March 2014 (the “accounting period”) for the purpose of expressing an opinion as to whether the accounts of the scheme show a true and fair view of the financial transactions of the scheme during the accounting period and of the amount and disposition at the end of the accounting period of its assets and liabilities (other than liabilities to pay pensions and benefits after the end of the accounting period) in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union, and adapted by the Code of Practice on Local Authority in the United Kingdom 2013/14.

We confirm that the following representations are made on the basis of enquiries of management and advisors to the scheme with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy ourselves that we can properly make each of the following representations to you.

We confirm, at the date this representation letter is approved, to the best of our knowledge and belief, and having made the appropriate enquiries, the representations set out below.

#### ***Accounts***

We have fulfilled our responsibilities, as set out in the audit engagement letter, for the preparation of the accounts which show a true and fair view of the financial transactions of the scheme for the scheme year ended 31 March 2014 and of the amount and disposition of its assets and liabilities at that date, other than liabilities to pay pensions and benefits after the end of the accounting period, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and adapted by the Code of Practice on Local Authority in the United Kingdom 2013/14.

All transactions have been recorded in the accounting records and are reflected in the accounts.

Significant assumptions used by us in making accounting estimates, including those surrounding measurement at fair value, are reasonable.

There are no known uncorrected misstatements.

In addition, we acknowledge our responsibilities under the Local Government Pension Scheme (Administration) Regulations 2008 for keeping records in respect of contributions received in respect of any active member of the scheme.

#### ***Information provided***

We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the accounts such as records, documentation and other matters
- Additional information that you have requested from us for the purpose of the audit

- Unrestricted access to persons connected with the scheme from whom you determined it necessary to obtain audit evidence.

So far as each trustee is aware, there is no relevant audit information of which you are unaware.

### ***Fraud and non-compliance with laws and regulations***

We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

We have disclosed to you the results of our assessment of the risk that the accounts may be materially misstated as a result of fraud.

We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the scheme and involves:

- Management,
- Third party providers who have significant roles in internal control, or
- Others where the fraud could have a material effect on the accounts.

We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the scheme's accounts communicated by employers, members, former members, advisors, former advisors, regulators or others.

We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the accounts.

We have disclosed details of all known instances of irregularities, or, allegations of irregularities, involving the trustees or parties acting on behalf of the trustees who have a significant role in the accounting and internal control systems, or that could have a material effect on the accounts.

### ***Independence***

We confirm that, under section 27 of the Pensions Act 1995, no trustee of the scheme is connected with, or is an associate of, PricewaterhouseCoopers LLP, which would render PricewaterhouseCoopers LLP ineligible to act as auditors to the scheme.

### ***Related parties***

We confirm the completeness of the information provided to you regarding the identification of related parties and transactions with such parties. We have disclosed all related party transactions in the accounts and we are not aware of any other such matters required to be disclosed in the accounts.

### ***Contractual arrangements/agreements***

All contractual arrangements (including side-letters to agreements) entered into by the trustees have been properly reflected in the accounting records or, where material (or potentially material) to the accounts, have been disclosed to you.

### ***Litigation and claims***

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the accounts and such matters have been appropriately accounted for and disclosed in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority in the United Kingdom 2013/14.

### ***Assets and liabilities***

We confirm that all known assets, liabilities (other than liabilities to pay pensions and benefits after the end of the accounting period) and contingent liabilities, as at the end of the accounting period, have been taken into account or referred to in the accounts.

The scheme has satisfactory title to all assets and there are no liens or encumbrances on the scheme's assets other than those already disclosed to you.

In our opinion, the value at which assets and liabilities are recorded in the net assets statement is the market value. We acknowledge our responsibility for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the scheme. Any significant changes in those values since the date of the accounts have been disclosed to you. There are no restrictions on the marketability of investments other than those already disclosed in the accounts.

No derivative financial instruments have been entered into by the trustees during the accounting period or remain unsettled at the end of the accounting period.

**Bank accounts**

We confirm that we have informed you of all bank accounts that pertain to the scheme.

**Registered status**

We confirm that the scheme is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

**Subsequent events**

We have reviewed the material events subsequent to the end of the accounting period and confirm that we have adjusted the accounts for any conditions that existed at that date and made full disclosure of any events that are indicative of conditions that occurred after that date to ensure the accounts are not misleading.

Yours faithfully

On behalf of Dumfries and Galloway Council Pension Fund:

Signature: .....

Name: .....

Title: .....

Date: .....