

*Dumfries and
Galloway
Council
Pension Fund
Audit Findings
Report 2015*

*Year ended
31 March 2015*

September 2015

Strictly confidential

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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 ending 31 March 2015.

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 February 2015. 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 ending 31 March 2015 is now complete.

Our conclusions

Our final conclusions are 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 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	2015	£k	20155
Contributions	27,695	Investment assets	712,589
Transfers in	684	Investment liabilities	(1,025)
Benefits, leavers and transfers out	(28,321)	Current assets	141
Administration expenses	(554)	Current liabilities	(243)
Investment returns	77,145	Net assets	711,462
Net increase	76,649		
Opening net assets	634,813		
Net assets	711,462		

Contributions

Key figures		
£k	2015	2014
Employer normal	20,428	20,110
Member normal	5,823	5,782
Total normal contribution	26,251	25,892
Additional employer contributions	1,444	1,397
Contributions	27,695	27,289

Average contribution per active member

£	2015	2014
Member normal	1,077	1,094
Employer normal	3,780	3,804

Commentary

The increase in contributions has been driven primarily by an increase in the number of active members contributing during the year.

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

£k	2015	2014
Pensions	20,996	19,502
Lump sums – retirement	5,578	5,781
Lump sums – death	875	764
Transfers out	807	482
Total	28,256	26,529

Commentary

Pension payments have increased as a result of the annual pension increase of 2.7% combined with an increase of 188 in the number of pensioners from prior year.

Average pension per pensioner member

£	2015	2014
Pension	5,433	5,287

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.	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	2015	2014
Fixed interest	87,526	76,372
Index-linked	22,925	18,374
Equity	51,715	51,944
Pooled investment vehicles (PIVs)	545,988	479,590
Loans and Cash	2,868	8,827
Other	1,567	1,186
Liabilities	(1,025)	(481)
Investments	711,564	635,812

Investment returns

£k	2015	2014
Investment income	8,918	6,828
Change in market value (CIMV)	70,692	40,046
Investment management expenses	(2,465)	(2,335)
Investment returns	77,145	44,539

Investment performance

%	2015	2014
Total per investment report	8.8	13.1
Estimated* per accounts	7.3	12.0
Benchmark return	6.2	13.5

**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

Asset class	Value in accounts £m	Primary source of comfort	Additional source of valuation comfort
Fixed Interest Securities	87,526		Agreed prices of 100% to third party pricing sources.
Index Linked Securities	22,925		
Equities	51,715		
Total listed investment	162,166	Agreed 100% to third party confirmations	
Pooled Investment Vehicles	545,988		Obtained fact sheets and categorised funds as either complex or non-complex with reference to underlying investments. For "complex" funds – agreed price to third party source and obtained audited fund accounts or referred to controls reports (see below).
Total	708,154		

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. As part of our planning procedures, we obtained controls reports for all investment managers in considering the control environment; we specifically considered controls over valuation in support of our work over PIV valuation, as noted above.

Significant risks

Risk	Classification	Reason for risk identification	Planned audit approach	Matters arising
Management override of controls – risk of fraud	Significant	This is always considered a significant risk under ISAs. The term management includes Trustees.	Performed testing of journals. Considered appropriateness of mandates. Reviewed estimates made by management. Reviewed minutes in connection with significant or unusual transactions. Made enquiries of management.	None noted.
Revenue recognition – risk of fraud	Significant	This is presumed to be a significant risk under ISAs.	Performed testing of journals affecting revenue. Considered recognition criteria for one-off contributions.	None noted.

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 issues arising from this year's audit.

Update on matters raised in prior year

Issue	Late employee contributions from admitted bodies	MEDIUM
<i>Prior year observation, implication and recommendation</i>	<p>While testing employee contributions, PwC noted 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 19th 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> <p>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.</p>	
<i>Current year update</i>	<p>While testing employee contributions in the current year, PwC noted further issues with delayed employee contribution payments from some of the admitted bodies. We were provided with analysis showing that there were eight instances of employee contributions from admitted bodies being received by the scheme after the required deadline (the 19th day of the month following the month to which the contributions relate).</p> <p>Each of the contributions was received by the 21st of the following month 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>	
<i>Recommendation</i>	<p>We reemphasise the recommendation that all admitted bodies be made aware of the deadlines for payment of employee contributions to the scheme, and that steps be taken to minimise the instances of late payment.</p>	

Issue	Membership numbers do not agree to reports - CLOSED
<i>Prior year observation and implication</i>	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.
<i>Recommendation</i>	It was recommended that the differences between the two sets of data were fully reconciled and the reasons for the differences noted.
<i>Current year findings</i>	The Council represents one of several admitted bodies for which the membership data is managed locally and which is subsequently combined in the annual report. The Council's payroll statistics will therefore not agree directly to the data in the annual report. In the current year audit, we obtained listings of active members, pensioners and deferrals which reconciled to the membership statistics in the annual accounts. Matter closed.

Appendix I. Letter of representation

PricewaterhouseCoopers LLP
141 Bothwell Street
Glasgow
G2 7EQ

Your ref: MP/LS

Dear Sirs

Dumfries and Galloway Council Pension Fund – 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 2015 (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 2015 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.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

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 & Galloway Council Pension Fund:

Signature:

Name:

Title:

Date:

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