

Dumfries and Galloway Council Pension Fund

External audit annual report to Those Charged
with Governance and the Controller of Audit

2016/17 Financial Year



21 September
Audit Risk and Scrutiny Committee

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Summary of our audit plan:

Materiality has been updated based on the unaudited financial statements to £8.368 million (1% of net 2016/17 assets). In our plan we identified level 3 investments as an audit risk but balance at year end is £2.204 million therefore below materiality

Performance materiality is set at £5.440million and we have reported to management everything identified over £84,000(1% of materiality)

We rebutted the risk of fraud in revenue recognition. However, we identified a range of audit risks including management override of controls; and investment income is not accurately accounted for.

We determined that the Dumfries and Galloway Council Pension Fund fell under the smaller body classification in relation to wider scope so focused on going concern; financial sustainability; the “front end” of the accounts and governance.

We can confirm we are independent of the Dumfries and Galloway Council Pension Fund and our objectivity is not compromised in accordance with International standards on Auditing (UK & Ireland) and APB ethical standards for Auditors. No non-audit services have been provided to the Pension Fund in 2016/17 and our fee was as agreed and set out in our audit plan as £24,000.

Key Messages

We have issued an unqualified opinion on:

- True and fair view of the financial statements
- Other prescribed matters

This report is a summary of our findings from our external audit work for the financial year ended March 2017. Our work has been undertaken in accordance with International Standards on Auditing (UK & Ireland) and the Code of Audit Practice (2016).

Our report is addressed to those charged with governance (Elected Members on the Pensions Sub-Committee and pensions Board) and the Controller of Audit. This report will be published on the Audit Scotland website at: www.audit-scotland.gov.uk

This report has been discussed and agreed with Council Officers, and presented to the Audit Risk and Scrutiny Committee on 21 September 2017 alongside the final version of the annual report and accounts.

We would like to thank Officers for their co-operation and assistance throughout our audit work.

Our work included:

- An audit of the 2016/17 Annual report and accounts
- A review of the Management Commentary, Annual Governance Statement and Governance Compliance Statement.

Overall we believe an efficient audit process was achieved, with a good unaudited annual report and accounts being received in line with our agreed timetable. Suitable working papers were available to support the accounts. One adjustment, impacting the primary statements, has been processed in the final accounts. In addition we recommended a number of disclosure enhancements which were agreed and reflected in the final annual report and accounts. These are summarised in an appendix to this report.

We set out in our audit plan that the Dumfries and Galloway Council Pension Fund fell under the smaller body classification in the Code of Audit Practice and therefore the wider scope audit requirements do not apply. This has not changed. However, we have provided commentary in this report around certain aspects of the pension fund arrangements including consideration of going concern and future financial sustainability. We have also included commentary in respect of the key movements from prior years, linked to the Funds activities.

For and behalf of Grant Thornton UK LLP

21 September 2017



The Financial Statements Audit



Our audit plan was presented to the Pensions Sub-Committee in February 2017. Our planned audit approach as set out in the plan included a significant risk in relation to the valuation of level 3 investments. As at 31/3/17 the pension fund's Level 3 investments were valued at £2.204 million. On the grounds of materiality, we no longer consider the valuation of these investments to be a significant risk for this audit.

We have updated our final materiality figures based on the unaudited 2016/17 accounts (was £6.921 million in our plan, and based on the unaudited accounts for 2016/17 materiality was calculated as £8.368 million – calculated as 1% of total assets).

Our audit work commenced in two phases, with controls work being undertaken in May 2017 related to benefit payments and member data, and then our final substantive audit testing in late June and July 2017. A complete set of unaudited accounts were published on the Council's website before the end of June, in accordance with statutory guidance.

The supporting working papers were clearly set out and our queries were answered promptly. The annual report and accounts are prepared by the Council's Treasury and Capital Finance team and are then subject to review before being signed by the Head of Finance and Procurement. The accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 which is based upon International Reporting Standards (IFRS) as amended for the UK public sector. The accounts were in line with the CIPFA LGPS model accounts.

Internal Control Environment

During the year we have sought to understand the Pensions overall control environment as related to the annual report and accounts. In particular we have:

- Considered procedures and controls around related parties, journal entries and other key entity level controls
- Performed certain procedures around IT general controls (undertaken for the Council audit but relevant to the Pension Fund)
- Performed walkthrough procedures on key controls around investments, member data, contributions and benefit payments.

No material weaknesses in the accounting and internal control systems were identified during the audit which could have an adverse impact on the Pension Funds ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Under the relevant ISA's we are required to report to those charged with governance the main issues arising from our audit of the annual accounts and report.

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This report discharges our obligations under the relevant ISA's.

Internal Audit

As set out in our plan we have not placed formal reliance on the work of Internal Audit during 2016/17. Internal Audit is provided to the Pension Fund by the in-house Dumfries and Galloway Council team. The Internal Audit programme is risk based and covers a number of Council system and processes. The internal audit service complies with Public Sector Internal Audit Standards.

We have reviewed the internal audit plan and note that two audits (Payroll and Pensions Admin) were completed in year relating to Pension Fund Activities. The pension admin report found that Pensions Admin have good systems in place which are well managed and controlled. The payroll report found that the administration of Payroll is well managed and controlled overall. We also note the Head of Internal Audit's opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control system in the year to 31 March 2017.

Our identified audit risks

Our audit plan identified a number of significant and other audit risks and our planned approach. We have set out below a summary of the work undertaken over these risks and our conclusions.

Audit plan identified risk and work completed	Our conclusion
<p>Risk of Fraud in Revenue recognition</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Dumfries and Galloway Council Pension Scheme, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Dumfries and Galloway Council Pension Fund as the administering authority, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk for Dumfries and Galloway Council Pension Fund</p>
<p>Management override of controls</p> <p>Under ISA (UK&I) 240 there is a presumed risk that management over-ride of controls is present in all entities (fraud risk).</p> <p>Work undertaken:</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • review of accounting estimates, judgments and decisions made by management; • review of journal entry process and selection of unusual journal entries for testing back to supporting documentation; and • review of unusual significant transactions. 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>The highest value journals posted by the fund relate to investment transactions. We reviewed all journals over our performance materiality of £5.440 million and are satisfied that they were all in the ordinary course of business. We have also used our audit software, IDEA, to evaluate all journals posted in year and have not identified any unusual entries.</p>

Audit plan identified risk and work completed	Our conclusion
<p>Level 3 Investments (Valuation is incorrect)</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Work undertaken:</p> <p>Reviewed the classification of investments within the fair value hierarchy in the Financial Instruments note</p>	<p>The funds net assets included level 3 investments valued at £2.204 million at 31st March 2017. As part of our final accounts audit we have reviewed the classification of the funds investments in the fair value hierarchy and are satisfied that only the fund’s closed property fund investments meet the definition of level 3 investments. At £2.204 million, the valuation of these investments is well below our performance materiality of £5.440 million.</p> <p>As such we are satisfied that the valuation of level 3 investments does not represent a significant risk for this audit.</p>

Audit plan identified risk and work completed	Our conclusion
<p>Investment income</p> <ul style="list-style-type: none"> Investment activity not valid. Investment income not accurate. (Accuracy) <p>Work undertaken:</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances Completed a walkthrough of the controls and procedures around investment income. 	<p>Investment Income recognised in the Pension Fund account was £10.314 million in 2016/17 compared to £9.490 million in 2015/16. The increase is consistent with the growth of the funds investment assets.</p> <p>We have carried out a walkthrough of the controls around the recognition of investment income and confirmed that income recognised is consistent with both custodian and investment manager records.</p> <p>Our audit work has not identified any issues in relation to Investment Income.</p>
<p>Investment purchases and sales</p> <p>Investment activity not valid. Investment valuation not correct</p> <p>Work undertaken:</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> Gained an understanding of the processes for investment sales and purchases through discussions with relevant personnel from the Pension Scheme; Performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding; and Reviewed the reconciliation of information provided by the Scheme managers, the custodian and the Pension Scheme's own records and sought explanations for variances. 	<p>We have carried out a walkthrough of the controls around the recording of purchases and sales and checked that the reported purchases and sales in note 14(a) are consistent with custodian and fund manager records.</p> <p>Investment Purchases were £167.140 million and investment sales were £161.697 million in the draft accounts. Following audit, investment purchases are £399.548 million and sales £394.105 million. An adjustment was required to ensure a switch in funds with L&G in December 2016 was correctly reflected in note 14 (a) 'Reconciliation of Movements in Investments'. This amendment has no impact on the profit and losses on disposal of investments and changes in the market value of investments reflected in the fund account.</p> <p>With this adjustment, we are satisfied that Investment Purchases and Sales are fairly stated in the accounts.</p>
<p>Investment values – Level 2 investments</p> <p>Valuation is incorrect. (Valuation)</p> <p>Work undertaken:</p> <p>We have undertaken the following work in relation to this risk:</p> <p>gained an understanding of the process for valuing level 2 investments through discussions with relevant personnel from the Pension Scheme;</p> <p>performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding;</p> <p>we have reviewed the reconciliation of information provided by the Scheme managers, the custodian and the Pension Scheme's own records and sought explanations for variances;</p>	<p>Level 2 investments disclosed in the accounts are £452.770 million compared to £394.183 million as at 31 March 2016. These investments are the funds pooled investments (fixed income, unit trusts, overseas fixed income, overseas unit trust and property).</p> <p>During our interim audit we performed a walkthrough of the controls around the valuation of these investments and confirmed the controls were designed as expected.</p> <p>Post year end we obtained valuations from the fund manager and custodian and confirmed that these were consistent with the valuations included in the account.</p> <p>Our audit work has not identified any issues in relation to the valuation of level 2 investments.</p>

Audit plan identified risk and work completed	Our conclusion
<p>Contributions Recorded contributions not correct. (Occurrence)</p> <p>Work undertaken: We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> gained an understanding of the process for contributions through discussions with relevant personnel from the Pension Scheme; performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding; controls testing over occurrence, completeness and accuracy of contributions; and rationalised contributions received with reference to changes in member body payrolls and numbers of contributing pensioners and ensured that any unexpected trends were satisfactorily explained. 	<p>Contributions recognised in the Pension Fund account were £29.257 million compared to £28.567 million in 2015/16. We have reviewed this movement and are satisfied that it is consistent with changes in contribution rates and the number of active members of the pension fund.</p> <p>We have carried out a walkthrough and tested the controls around the collection of contribution from The Dumfries and Galloway Council, Scheduled and Admitted Bodies and are satisfied that the controls are operating effectively.</p> <p>Our audit work has not identified any issues in relation to contributions.</p>
<p>Member data Member data not correct. (Rights and Obligations)</p> <p>Work undertaken: We have undertaken the following work in relation to this risk;</p> <ul style="list-style-type: none"> gained an understanding of the process for member data administration through discussions with relevant personnel from the Pension Fund; performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding, controls testing over annual verifications with individual members, and sample tested changes to member data made during the year to source documentation. 	<p>Member numbers are disclosed in Note 1 to the accounts. We have agreed this disclosure to reports from the Pension Fund member data system.</p> <p>To gain assurance over the accuracy of member data held by the fund we have carried out a walkthrough and controls testing of the annual benefit statement process.</p> <p>We have carried out sample testing of 25 changes to member data, ensuring the change to the member data system were consistent with source documentation.</p> <p>Our audit work has not identified any issues in relation to Member Data.</p>
<p>Benefits payable Benefits improperly computed/claims liability understated. (Completeness, accuracy and occurrence)</p> <p>Work undertaken: We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> gained an understanding of the process for benefits payable through discussions with relevant personnel from the Pension Fund; performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding; performed controls testing over, completeness, accuracy and occurrence of benefit payments; tested a sample of individual pensions in payment by reference to member files; and rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year and ensured that any unusual trends were satisfactorily explained. 	<p>Benefits Payable recognised in the Pension Fund account were £32.123 million compared to £29.579 million in 2015/16. We have reviewed this movement and are satisfied that it is consistent with changes in pensioner numbers.</p> <p>We have completed a walkthrough and tested the controls around the calculation of new pensions and the authorisation of the pensioner payroll. We are satisfied that these controls are operating effectively.</p> <p>We have re-performed the calculation of 25 new pensions and lump sums and in all cases agreed that the calculation was accurate.</p> <p>Our audit work has not identified any issues in relation to Benefits payable.</p>

The narrative elements of your annual report and accounts

In accordance with our responsibilities we have reviewed your narrative aspects of the Annual Accounts and Report. We have considered the consistency of this narrative with our understanding of the Dumfries and Galloway Council Pension Fund and the financial information set out in the accounts and have set out our observations below. We have considered your report in comparison to the Local Authority Accounting Code of Practice 2016/17 and the model LGPS accounts.

Management Commentary

- We have confirmed that the information given in the Management Commentary is consistent with the financial statements.
- The Management Commentary has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003.
- The commentary is consistent with our understanding of the Fund and publically available information
- Some minor amendments were made to the management commentary following audit to ensure compliance with best practice guidance.

Annual Governance Statement

- We have confirmed that the information given in the Annual Governance Statement is consistent with the financial statements.
- The Annual Governance Statement has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).
- It presents a good overview of the key governance arrangements in place within the Fund, including the Local Code of Corporate Governance, arrangements for internal audit, and review of investment manager and custodian control procedures.
- Some minor amendments were made to the annual governance statement following audit. To improve readability and the nature of the disclosures.

Governance Compliance Statement

- We have confirmed that the information given in the Governance Compliance Statement is consistent with the financial statements.
- The Governance Compliance Statement has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2014.
- The statement provides an overview of key governance arrangements.
- The statement is consistent with our understanding of the fund and publically available information.



Judgements and estimates

We consider other aspects of your annual report and accounts, in particular key areas of judgement. We have summarised below our observations in these key areas:

Accounting Policies

- The Accounting policies are set out on page 39 of the accounts. These are consistent with prior year and in accordance with the Code of Practice on Local Authority Accounting in the UK 2016/17, which is based on International Reporting Standards (IFRS) as amended for the UK Public Sector.
- Some minor changes were made to the wording of accounting policies following audit.

Accounting estimates and judgements

- The Pension Fund's actuary, Hymans Roberston, undertakes a valuation of the Pension Fund liabilities on an IAS19 basis each year. This valuation is based on financial assumptions which include pensions increase rate, salary increase rate and discount rate. As at 31 March 2017 the Present Value of Promised Retirement Benefits was estimated to be £1.248 billion. Our audit work has confirmed that the assumptions used by the actuary were reasonable and that they were provided with accurate membership information by Dumfries and Galloway Council Pension Fund to support their calculation.
- The valuation of the fund's pooled property fund investments rely on estimates and judgements made by investment fund manager. We have confirmed that these funds, valued at £77.508 million in the accounts, have been appropriately valued.

Going Concern

- The Head of Finance and Procurement has a reasonable expectation that the services provided by the Fund will continue for the next 12 months from the date of signing, and this assessment is reflected in the accounts. We are not aware of any forthcoming pensions legislation which would impact on the fund and its ability to continue as a going concern.

Timing of transactions and period in which they are recorded (Cut off assertion)

- Through our substantive audit testing we did not identify any concerns over timing of transactions or the period in which they were recorded.

Impact on the financial statements of any uncertainties

- No uncertainties have been identified which have an impact on the final annual report and accounts and a number of areas of risk have been identified and analysed by Officers within the annual report.

Overview of the Pension Fund's arrangements



Financial Performance for 2016/17

Fund Account

There was an increase in net assets available for benefits during the year of £144.630 million. This was driven by growth of the Fund's investments with a return of 21.9% in 2016/17 compared to the funds benchmark of 19.8%

Contributions into the fund increased by £0.690 million during the year. There was a slight decrease of £0.058 million in employee contributions, reflecting the changing structure of the funds active members. Employer contributions increased by £0.748 million driven by increased employers augmentation contributions to cover costs of early retirement.

Benefits payable increased by £2.554 million driven by the Council's early retirement/ voluntary redundancy scheme. Benefits and transfers out exceeded contributions and transfers in by £3.978 million in year, meaning the pension fund had a slightly negative cash flow in year.

Investment income and Management Expenses also increased in year which is consistent with the growth in investments.

Net Assets Statement

The Fund's holding of Pooled Investments has increased by £120.604 million in year, with performance in line with benchmark for the bond mandate and above benchmark for the equity mandate. The funds diversified growth investments increased by £6.957 million, performing significantly above benchmark. There was also growth in the funds fixed interest securities and equities, with active global manager performing above benchmark. Pooled property investments increased by £2.336 million, with 2 manager performing above benchmark and 2 slightly below.

Whilst the fund has the facility to undertake stock lending, no stock was on loan as at 31st March 2017.

Valuation of pension fund liabilities

The Pension Fund's actuary, Hymans Roberston, undertakes a valuation of the Pension Fund liabilities on an IAS19 basis each year. This uses the same base data as the actuarial funding valuation, taking account of changes in membership numbers. This valuation is based on financial assumptions which include pensions increase rate, salary increase rate and discount rate.

As at 31 March 2017 the Present Value of Promised Retirement Benefits was estimated to be £1.248 billion. Taken with the funds net assets of £0.837 billion, this gives a liability of £0.411 billion.

Our audit work has confirmed that the assumptions used by the actuary were reasonable and that they were provided with accurate membership information by Dumfries and Galloway Council Pension Fund to support the calculation. The next triennial actuarial funding valuation is due to take place in March 2017, and the results of this will be reflected in the 2017/18 Pension Fund accounts alongside any updated assumptions or benchmarks including employer contribution rates.

Funds investment strategy

Setting the Fund's investment strategy is critical to the Pension Fund alongside monitoring performance against the agreed strategy. The Investment strategy is complex and needs to take into account a number of variable factors including: overall fund deficit; cash flows from dealing with members; and the maturity of fund membership. The Pension Fund takes advice on its investment strategy from professional advisors.

Financial Management arrangements

The Head of Finance and Procurement (Section 95 officer) is responsible for overseeing the Pension Fund arrangements and signing the annual report and accounts. The Head of Finance and Procurement attends the meetings of the Pension sub- committee along with relevant pension fund officers who report to the committee on the arrangements and performance of the Fund.

The financial regulations of Dumfries and Galloway Council, as the administrating authority, apply to the Pension Fund. These are reviewed regularly to ensure they still remain appropriate and are accessible on the Dumfries and Galloway Council website.

Financial sustainability

The pension fund gives its members a guarantee that in exchange for contributions during their employment, the pension fund will pay a pension until the end of each member's life. There is a timing difference of many years between the receipt of contributions and the payments of pensions. The pension fund needs to maintain capacity to meet current and future needs of its members, despite changes over time in investment performance and demographics (life expectancy).

The pension fund is a multi-employer fund with 5 scheduled bodies and 7 admitted bodies. Given the public sector nature of these employers the funding risk associated with default is viewed as relatively low by the Pension Fund and the fund plans to recoup deficits over fifteen year period for most employers.

The local government pension scheme (LGPS) includes a cost sharing arrangement which will cap employer costs in relation to current service and helps ensure that the scheme remains affordable for employers. The retirement age for most LGPS members is linked to the state retirement age, which is increasing, which may also act to limit scheme liabilities for active members.

Investment performance

Investment performance is measured through the analysis of returns achieved by the pension fund's eight external fund managers. The managers performance, in terms of achieving benchmarks, is subject to independent verification by the appointed advisors and managed through the investment mandates held by the specialist fund managers. Performance against agreed benchmarks is reviewed quarterly by the Council's finance team and reported to the Investment Sub-Committee. In the financial year the pension fund achieved a return on investments of 21.9% against their benchmark of 19.8%. Annualised investment returns over 3 years were 10.3% against a benchmark of 10.7%. Overall, given the general economy and market conditions this is considered a good outcome for 2016/17.

Risk management

Appendix C to the funding strategy statement provides a comprehensive overview of the key risks which face the fund. Risks identified include:

1. Financial Risks- performance of investments, pay and price inflation and impact of orphaned employers
2. Demographic Risks- pensioners living longer, maturing fund and reductions in payroll
3. Regulatory Risks- changes to regulations
4. Governance Risks- administering authority not being aware of structural changes to employers, actuarial or investment advice and employers ceasing to exist.

The funding strategy statement demonstrates that the fund has controls in place to mitigate against this risk.

Governance overview

The main legislation directing the governance requirements of the fund is the Local Government Pension Scheme (Governance) Scotland Regulations 2015. For the Dumfries and Galloway Council Pension Fund governance is undertaken by a Pensions Committee and Pensions Board (who meet together at the same time). The remit of this Committee includes the appointment and monitoring of investment managers.

The Council has adopted a Local Code of Corporate Governance which is consistent with the principles of the CIPFA/SOLACE framework “Delivering good governance in Local Government”. This code applies to the pension fund. In addition, the fund has a separate Governance Policy Statement.

Joint meetings of the Pensions sub-Committee and Board take place quarterly, which is in line with Fund’s Governance Compliance Statement..

Appendices

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Audit adjustments

Set out below is a summary of uncorrected and corrected misstatements.

Uncorrected misstatements

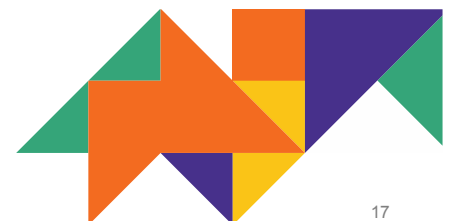
There are no uncorrected misstatements

Corrected misstatements

There was one corrected misstatement which has been reflected in the final audited annual report and accounts:

	Pension Fund Account	Net Asset Statement	Impact on total net assets
	£	£	£
<p>Management Expenses</p> <p>This was identified by Treasury Officers after the unaudited accounts were submitted but before our audit. Recorded here to show the change of figures from unaudited to audited.</p> <p>The fund had not accrued for an outstanding management fee for one of its investment managers, March 2017 custody charges and an element of the external audit fee. The results was that management expenses and current liabilities were understated by £124,456.</p>			
<p>Current Liabilities</p> <p>Management Expenses</p>	124,456	(124,456)	(124,456)

In accordance with auditing standards we are required to highlight significant disclosure misstatements to allow audit committees to evaluate the impact of these matters on the financial statements. During the course of our audit process we identified some disclosure enhancements throughout the annual report and accounts, predominantly to bring the accounts in line with the CIPFA good practice note. The key disclosure changes are set out overleaf and all have been amended in the final version of the accounts.



Summary of disclosure amendments

Account balance	Impact on financial statements
Assumptions Made about the future and other major sources of estimation uncertainty	Note 5 “Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty” has been updated to include Pooled Property Investments .
Fair Value disclosures	<p>The CIPFA Code of Practice 2016/17 included a number of new requirements, resulting from IFRS13 disclosure requirements. The following disclosure changes have been made relating to these requirements:</p> <ul style="list-style-type: none"> - The CIPFA Code of practice requires a disclosure showing the basis of valuation of the funds investments. This disclosure was not made in the draft accounts and has been added to the audited accounts at Note 15 a. - In the draft accounts, Note 14 c had only been provided by categorisation i.e. assets/liabilities held at fair value. As different risks may be expected for the different types of investment, this has been further disaggregated in note 15 b of the audited accounts. - The CIPFA Code of practice requires a reconciliation of fair value measurements within level 3. This has been added at Note 15 in the audited accounts. - In the draft accounts the fund’s Pooled Property was classified as level 3 investments in the fair value hierarchy. Following review of guidance and the nature of these investments they have been classified as level 2 investments in the audited accounts
External Auditor Remuneration	Disclosure Note added at Note 13 stating that Auditor Remuneration was £24,000 for the 2016/17 year.
Related Party Transactions	A disclosure has been added showing remuneration of key management personnel of the fund
Investment Purchases and Sales	Investment Purchases were £167.140 million and investment sales were £161.697 million in the draft accounts. Following audit, investment purchases are £399.548 million and sales £394.105 million. An adjustment was required to ensure a switch in funds with L&G in December 2016 was correctly reflected in note 14 (a) ‘Reconciliation of Movements in Investments’. This amendment has no impact on the profit and losses on disposal of investments and changes in the market value of investments reflected in the fund account.
Nature and Extent of Risks arising from Financial Instruments	The Price Risk sensitivity analysis in Note 15 of the draft accounts did not cast down correctly, with total exposure being understated by £400,000. This has been corrected in Note 16 of the audited accounts.



Action Plan for 2016/17

During the course of our 2016/17 audit work we have identified the following actions for management., which we will follow up during our 2017/18 external audit.

	Area	Issue & Risk	Priority	Recommendation
1	Reconciliations	During our interim audit we noted that the fund does not complete a monthly bank reconciliation for its main bank account. We also noted that the inter company reconciliation, showing amounts due or owed by the pension fund to the administering authority was not kept up to date on a regular basis.	Medium	<p>A bank reconciliation should be completed for the pension fund’s main bank account on a monthly basis.</p> <p>The intercompany reconciliation should be completed and reviewed on a regular basis through the course of the year.</p> <p>Officer responsible for implementation: Treasury Officer</p> <p>Date of implementation: March 2018</p>
2	Financial Reporting	We noted that the financial reporting process was heavily reliant on a single member of staff. It would provide greatly flexibility and resilience if these skills were more widely shared amongst the finance team.	Medium	<p>Look to allocate financial reporting responsibilities more widely and provide training as required.</p> <p>Officer responsible for implementation: Treasury and Capital Manager</p> <p>Date of implementation: March 2018</p>

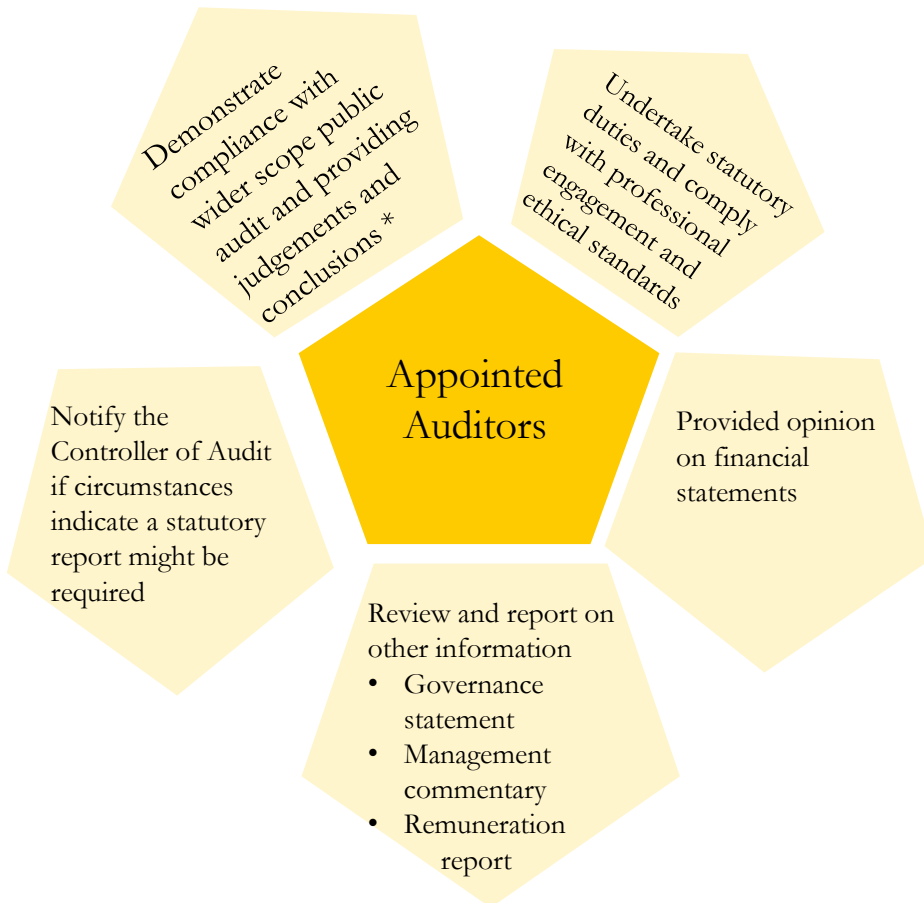
Follow up of 2015/16 external audit recommendations

In 2015/16 PricewaterhouseCoopers LLP (the Fund’s previous external auditors), made the following recommendation which have been actioned by the fund.

	Area	Issue & Risk Previously Communicated	Update on Actions taken to address the issue
1	Risk Register	The Audit and Risk Management Committee present an annually updated ‘Corporate Risk Register’ concerning Dumfries & Galloway Council as a whole, however there is no documented consideration given to the Pension Fund. It is clear that consideration has been given to Fund specific risks; through our review of the draft accounts, audit procedures performed and discussions with management – however we would recommend that this is collected in a formalised document.	A formalised Pension Fund Risk Register has now been developed. Action closed
2	Register of Interests	In a number of instances, Councillors' Register of Interests Record which is published publicly on the pensions section of the Dumfries & Galloway Council website has not been updated recently, in some cases the most recent displayed revision is in 2007. Whilst it may be the case that there were no changes requiring to be made, it is not clear whether Councillors are regularly considering their interests. PwC recognised that the Councillors Code of Conduct does not require councillors' to disclose their interests, however it is good practice, and if they are being disclosed publicly then they should be up to date.”	The Pensions Register of Interest has been kept up to date in 2016/17 and was last updated in May 2017. Action closed
3	Late Payment of Contributions	As per in prior years, PwC noted issues with delayed contribution payments from scheduled and admitted bodies. 2 instances of delayed payment were identified relating to Scottish Fire & Rescue Service, with 3 further instances relating to Crichton Trust. In all instances amounts were ultimately received by the Fund and it was not considered a significant enough issue as to warrant reporting to the Pensions Regulator. In one instance the payment was just over 1 month late (due to a handover in duties), however in the other instances the contributions were a few days late. Having consulted the Pension Regulator’s applicable code of practice, PwC agree that the amounts and circumstances surrounding the delayed payments did not lead to them being considered to be of material significance to the Regulator, and as such PwC agree that no reporting is required. PwC recommend that scheduled and admitted bodies should be reminded of their responsibilities to pay contributions over to the Fund in a timely manner, and the Fund should work to ensure that these contributions are received on time	There have been no issues around the late payment of pension contributions from scheduled and admitted bodies in 2016/17. Action closed

Reminder of Responsibilities

The Code of Audit Practice sets out responsibilities of the audited body (pages 10, 11 and 12) across: Corporate governance; financial statements and related reports; standards of conduct for prevention and detection of fraud and error; financial position; and value for money (as described in the Scottish Public Finance Manual). As appointed auditors our responsibilities are set out on page 13 and are summarised below.



An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks are only those that have come to our attention during our normal audit work in accordance with ISA's and the Code and may not be all that exist

Communication of the matters arising from our audit work does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control

** Our audit of the Dumfries and Galloway Council Pension Fund was undertaken under the smaller body exemption in the Code of Audit Practice. However, we have still considered the performance and accountability reports in the annual report and accounts; considered going concern and financial sustainability and included relevant commentary in this report to support the Pension Fund arrangements going forward.*





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