



Dumfries & Galloway Council Pension Fund

Annual report to Those Charged
with Governance and the
Controller of Audit

Year ended 31 March 2016

September 2016

PricewaterhouseCoopers
141 Bothwell Street
Glasgow
G2 7EQ

Audit & Risk Committee
Dumfries & Galloway Council
English Street
Dumfries
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13 September 2016

Ladies and Gentleman,

We are pleased to enclose our report to the Audit & Risk Committee and the Pensions Sub-Committee in respect of our audit for the year ended 31 March 2016. The primary purpose of this report is to communicate the significant findings arising from our audit that we believe are relevant to those charged with governance.

The scope and proposed focus of our audit work was summarised in our audit plan, which we presented to the Pensions Sub-Committee in May 2016. We have subsequently reviewed our audit plan and concluded that our original risk assessment remains appropriate. The procedures we have performed in response to our assessment of significant audit risks are detailed in Section 2.

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the financial statements on 22 September 2016. At the time of writing, the key outstanding matters, where our work has commenced but is not yet finalised, are;

- Final review of financial statements and disclosures
- Final Audit review and completion procedures
- Subsequent events review
- Representation letter.

We will provide an update on these matters in due course.

Yours faithfully

PricewaterhouseCoopers LLP

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Section 1. Executive summary

Introduction

This report sets out the significant findings from our audit of Dumfries & Galloway Council Pension Fund (“the Fund”) for the year ended 31 March 2016. We presented our plan to you in May 2016, setting out the focus of our audit; we have reviewed the plan and concluded that it remains appropriate.

Framework for Our Audit

Our audit is conducted in accordance with Auditing Standards (International Standards on Auditing (‘ISAs’) (UK and Ireland)) and the Code of Audit Practice (‘the Code’).

The Code explains how external auditors should carry out their functions under the Local Government (Scotland) Act 1973. The audit of financial statements is covered by engagement and ethical standards issued by the UK Auditing Practices Board (APB), so the Code focuses more on the wider functions of public sector auditors.

Audit Summary

We have completed the majority of our audit work and expect to be able to issue an *unqualified audit opinion* on the financial statements on 22 September 2016. The key outstanding matters, where our work has commenced but is not yet finalised, are;

- Final review of financial statements and disclosures
- Final Audit review and completion procedures
- Subsequent events review
- Representation letter

Financial Statements

As a result of our work, we proposed a number of audit adjustments to the draft financial statements. There are no unadjusted misstatements at the conclusion of our audit, as these have been resolved and accepted by management.

We found that the draft financial statements and accompanying working papers were of a high standard and accounting records were appropriately maintained

Management responsibility

It is the responsibility of the Council and the Responsible Financial Officer to prepare the financial statements in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003. This means:

- selecting suitable accounting policies and applying them consistently;
- making reasonable and prudent judgements and estimates;
- maintaining proper accounting records; and
- preparing financial statements timeously which give a true and fair view of the financial position of the Fund and its expenditure and income for the year ending 31 March 2016 and which comply with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the UK 2015/16 (the Code).

Auditors' responsibilities

Our statutory responsibilities require us to provide you with an audit report stating whether, in our opinion the financial statements and the part of the remuneration report to be audited:

- give a true and fair view of the financial position of the Fund and its expenditure and income for the year;
- were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements; and
- the information which comprises the management commentary included with the financial statements is consistent with the financial statements.

We are also required to review and report as necessary on other information published with the financial statements, including the annual governance statement and the remuneration report.

Financial performance

Please see Section 3 – Financial Highlights & Audit Approach for commentary on key financial figures in the accounts & audit procedures performed.

Other Matters

Please see Section 2 below – Significant audit and accounting matters for details of:

- Results of work performed against significant and elevated risks
- Materiality
- Accounting issues
- Misstatements and significant audit adjustments
- Significant accounting principles and policies
- Judgements and accounting estimates
- Management Representations
- Related parties

Please note that copies of this report will be sent to the Audit Scotland in accordance with their requirements.

We thank the management and staff of the Council for their co-operation and assistance during the course of our work.

Section 2: Significant audit and accounting matters

Our audit approach to the audit of the financial statements was set out in our Audit Plan presented to you in May 2016.

Our audit approach was risk based, informed by a sound understanding of the operations of the Council and an assessment of the risks associated with the financial statements. We have reviewed the risks set out in our Audit Plan and considered whether there is any change to our assessment of the risk of material misstatement. On the basis of this assessment, there have been no changes to our approach.

We have set out in this section the significant matters arising from our audit.

Matters identified in our audit plan

Set out below is a summary of our response to matters identified in our audit plan:

Risk	Categorisation	Results of work performed
Management override of controls ▶	Significant	<p>In response to the risk of Management override of controls we:</p> <ul style="list-style-type: none"> • tested the appropriateness of journal entries; • reviewed accounting estimates for bias and evaluated whether circumstances producing any bias represented a risk of material misstatement due to fraud; • evaluated the business rationale underlying significant transactions; • performed 'unpredictable' procedures <p>Conclusion: <i>No issues were noted.</i></p>
Risk of fraud in revenue recognition ▶	Significant	<p>In response to the Risk of fraud in revenue recognition we:</p> <ul style="list-style-type: none"> • Performed testing of manual journals <p>Conclusion: <i>No issues were noted</i></p>
The financial statements are prepared under new legislation and guidelines for the first time ▶	Elevated	<p>In response to the risk arising through the Financial Statements being prepared under new legislation and guidelines for the first time we:</p> <p>Completed a disclosure checklist covering the whole of the annual report and assessed, amongst other things, judgements made in the selection of accounting policies, allocation of investments to a fair value category, and in arriving at the fair values of investments.</p> <p>Conclusion: <i>No issues were noted</i></p>

Materiality

	£
Overall materiality – This is the amount we have applied in assessing the overall impact on the group financial statements of potential adjustments	13,842,960
Performance materiality - We have applied this to direct the amount of work performed over each financial statement line item – for example in calculating sample sizes	10,382,220
De-Minimis posting level - Under ISA (UK & I) 450, we are required to report to the Audit Committee on all unadjusted misstatements in excess of a ‘de-minimis’ or ‘clearly trifling’ amount	250,000

Materiality was set to direct the overall audit strategy and to assess the impact of any adjustments identified. Overall materiality was set at 2% of net assets as at 31/03/2016. .

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are “clearly trivial” i.e. those which we do expect not to have a material effect on the financial statements even if accumulated. We have applied a de-minimis level of £250,000 which we have assessed as clearly trivial. This was agreed with the Audit Committee upon submission of our annual audit plan.

Accounting issues

We identified one accounting issue during the course of our work that we wish to draw to your attention

A balance of £1,286,873 owed by the Council to the Fund was included within the Fund’s cash balance in the accounts. An adjustment to move the balance to receivables was accepted by management.

We have completed our audit, subject to the following outstanding matters:

- Final review of financial statements and disclosures
- Final Audit review and completion procedures
- Subsequent events review
- Receipt of representation letter

Subject to the satisfactory resolution of these matters, the finalisation of the financial statements and their approval of them we expect to issue an unqualified audit opinion.

Misstatements and significant audit adjustments

There are no misstatements to report which have not been corrected by management.

We also bring to your attention the misstatements set out in Appendix 1 to this report which management have corrected but which we consider you should be aware of in fulfilling your governance responsibilities (which are also mentioned within the “Accounting issues” section above.

Significant accounting principles and policies

Significant accounting principles and policies are disclosed in the notes to the financial statements. We will ask Management to represent to us that the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the financial statements have been considered.

Judgments and accounting estimates

The Council is required to prepare its financial statements in accordance with the CIPFA Code of Practice for Local Authority Accounting. Nevertheless, there are still many areas where management need to apply judgement to the recognition and measurement of items in the financial statements. The following significant judgements and accounting estimates were used in the preparation of the financial statements:

Pension assumptions

Employees of the Council participate in the Dumfries & Galloway Council Pension Fund which is a local authority defined benefit pension scheme. In order to ascertain the value of scheme assets and liabilities attributable to the Council, an actuarial valuation is conducted on an annual basis by independent firm of actuaries Hymans Robertson. In financial year 2015/16 the Council recognised a pension liability of £273m (2014/15: £316m). Note that these figures relate to the liability on the Fund as a whole, incorporating Scheduled and Admitted Bodies in addition to the administering authority Dumfries & Galloway Council.

The pension liability held by the Council is based on a number of assumptions made by the actuary. We have outlined the principal assumptions applied in arriving at this estimate along with PwC's expected ranges in the table below:

Table 1: Pension assumptions

Pension assumption	Actuary assumptions	PwC expected range
Pension increase rate	2.2% (1.0% below RPI inflation)	0.8% - 1.2% below RPI (i.e. 2.0% - 2.4%)
Salary increase rate	4.2%	3.8% - 4.25% The long term pay growth assumption is RPI plus 1% per annum which is in line with our actuarial specialist's expectations.
Discount rate	3.5%	3.35% - 3.7%
Longevity – current pensioners	22.7 years for Males, 24 years for Females	The actuary has used 'Club Vita' analysis where available, or SAPS (self-administered pension scheme) tables otherwise. Review of the methodology behind the 'Club Vita' analysis should give a reasonable best estimate of current mortality rates
Longevity – future pensioners	24.5 years for Males, 26.7 years for Females	
Retail price index	3.20%	2.80% - 3.25%

Based on our work performed we have concluded that the assumptions applied are reasonable.

Our overall conclusion on these judgements and accounting estimates are that they are reasonable.

Management representations

The final draft of the representation letter that we ask management to sign is attached in Appendix 3.

Related parties

In forming an opinion on the financial statements, we are required to evaluate:

- whether identified related party relationships and transactions have been appropriately accounted for and disclosed; and
- whether the effects of the related party relationships and transactions cause the financial statements to be misleading.

We did not identify any matters during the course of our work.

Section 3. Financial Highlights & Audit Approach

Fund account		Net assets statement	
£k	2016	£k	2016
Contributions	(28,567)	Investments	689,334
Transfers in	(500)	Net current assets	2,814
Benefits, leavers and transfers	30,637	Net assets	692,148
Management expenses	2,798		
Net investment returns	14,946		
Net decrease	19,314		
Opening net assets	(711,462)		
Net assets	(692,148)		

Contributions

Key figures			Commentary
£k	2016	2015	
Employer normal	18,906	20,291	Employer normal contributions have reduced and deficit recovery contributions have increased due to a change in the applicable rates at the start of the year. For example, Dumfries & Galloway Council employer contributions rate reduced from 21.5% in 2015 to 19.5% in 2016, with a fixed deficit contribution of £1.626m introduced. Similar changes made for other employers.
Member normal	5,840	5,823	
Augmentations	1,709	1,444	
Deficit Recovery	2,112	137	
Contributions	28,567	27,695	

Average contribution per active member		
£	2016	2015
Member normal	1,009	1,078
Employer normal	3,267	3,780

Average employer contribution per active member reduced primarily due to effect of the change in the applicable rate in the year from 21.5% in 2015 to 19.5% in 2016, offset by annual salary increase, and a general reduction in the average employee salary through ongoing transition in the workforce through Council cost-saving measures. This is reflected in a reduction in the average contribution per member.

Planned approach	Matters arising
Performed an analytical review of contributions for reasonableness compared with the prior year, allowing for changes in membership, pay and rates of contributions.	None noted.
Considered the monthly contributions received and investigated any unusual fluctuations.	None noted.
Tested, on a sample basis, that the contributions were calculated and paid in accordance with the relevant Schedules.	None noted.
Reviewed the timing of the payment of contributions according to bank details compared with the requirements of the Schedules.	None noted.
Assessed whether normal contributions, both from employers and employees, have been recognised on an accruals basis in the period to which they relate and that a debtor/creditor has been recognised if appropriate.	None noted.

Benefits

Key figures

£k	2016	2015
Pensions	22,124	20,996
Lump sums - retirement	6,844	5,578
Lump sums - death	611	875
Individual transfers	1,022	807
Total	30,601	28,256

Commentary

Pensions paid rose in line with the increase in pensioners in the year, incorporating annual increase in pensions paid offset by timing of pensioner movements in the year.

Average pension per pensioner member

£	2016	2015
Pension	5,440	5,433

Planned approach	Matters arising
Reviewed the controls operated by the administration team (including over the pension payroll) and validated on a sample basis that these are operating as expected.	None noted.
Performed an analytical review of pensions paid for reasonableness compared to the prior year, allowing for changes in membership and the effects of the pensions increase.	None noted.
Reviewed the results of any pensioner existence checking exercise completed during the year.	The council participates in the National Fraud Initiative. We are not aware of any issues arising during the year.

Investments

Key figures

£k	2016	2015
Fixed interest	59,344	57,858
Equities	46,033	51,715
Pooled Investments	440,293	462,323
Pooled property investments	75,172	68,471
Diversified Growth	66,466	67,787
Cash Deposits	225	964
Investments income due	1,801	1,567
Amounts payable for purchases		(415)
Investments	689,334	710,270

Net investment returns

£k	2016	2015
Investment income	9,490	8,918
Change in market value	(24,436)	70,692
Investment management expenses	(2,433)	(2,464)
Net investment returns	(17,379)	77,146

Investment performance

%	2016	2015
Total per investment report	-2.2	12.6
Estimated* per financial statements	-1.6	14.37
Benchmark return	0.4	12.2

Commentary

Per below, the market has performed poorly in the year, reflected in the negative movement in investments held.

This change is in line with PwC expectations and experience, with poor market performance experienced in the year.

**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
Understood the Committee and management monitoring controls, including reviewing Committee meeting minutes.	None noted.
Obtained independent confirmations of assets from the custodian and investment managers.	None noted.
Tested valuation of quoted investments against third party sources.	None noted.
Reviewed valuations for pooled investment vehicles, including reviewing the most recent audited accounts for the funds and any available internal controls reports.	None noted.
Completed an analytical review of investment returns for reasonableness compared with the Fund's benchmarks and other external indices.	None noted.
Reviewed the allocation of investments compared with the requirements of the SIP.	None noted.

Other areas

Planned approach	Matters arising
Obtained independent confirmation of cash balances.	None noted.
Understood the controls that the Committee and management have over the identification of related parties and transactions with them.	None noted.
We obtained evidence from Actuarial Specialists and the Dumfries and Galloway Council audit team in order to ensure the requirements of “Audit of 2015/16 annual accounts (local authorities)”, as issued by Audit Scotland, in respect of the ‘Actuarial Present Value of Promised Future Benefits’ disclosure were met.	None noted.

Disclosure

Planned approach	Matters arising
Considered the completeness of disclosures against guidance given in “Audit of 2015/16 annual accounts (local authorities)” as issued by Audit Scotland.	None noted.
Reviewed the annual governance statement to identify any material inconsistencies with the financial statements and whether it takes the form set out in “Audit of 2015/16 annual accounts (local authorities)” as issued by Audit Scotland.	None noted.

Scottish Government Guidance on Management Commentary

The Scottish Government has issued guidance on the preparation of a management commentary which the accounts regulations require to be included in the annual accounts from 2014/15. Finance circular 5/2015 ‘*The Local Authority Accounts (Scotland) Regulations 2014*’ provides statutory guidance on the content of the management commentary within Local Authority accounts.

The statutory guidance interprets the content of the strategic report required by the Companies Act in a local authority context requiring commentary on areas including performance in the year, a description of the principal risks and uncertainties facing the authority and financial key performance indicators.

We consider the management commentary to be consistent with the financial statements.

Section 4. Governance and internal control

Governance arrangements

Dumfries and Galloway Council Pension Fund is responsible for ensuring that its activities are conducted in accordance with the law and proper standards, and that members' funds are safeguarded and accounted for properly. In discharging this overall responsibility the Fund is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions. The Council's governance arrangements are consistent with The Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 good practice guidance and the following represent its primary governance structure:

- Pensions Board
- Pensions Sub-Committee

We consider that the governance arrangements in place are appropriate.

Accounting systems and systems of internal control

Management is responsible for developing and implementing systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Weaknesses or risks identified by auditors are only those which have come to our attention during the normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

General ledger transactions

In accordance with *ISA (UK&I) 240 (revised): The Auditor's responsibilities relating to fraud in an audit of financial statements* an auditor is required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

In 2015/16 we have performed detailed testing over journal entries within the Fund ensuring we consider the complete population of manual journals and target our detailed testing on the items with the highest inherent risk, giving consideration to our materiality levels denoted under Section 2.

Control deficiencies

The significant matters that, in our professional judgement, we believe we should bring to your attention are set out in the table below. Whilst we have elected to report these deficiencies, we do not consider any of these to be significant.

Deficiency	Summary & Recommendation	Management's response
<p>The Fund has not produced and maintained a Fund specific risk register</p>	<p>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.</p>	<p>The current risk assessment processes will be formalised and a pension fund risk register will be prepared and updated on an annual basis.</p> <p>Target Date: February 17 / annually</p>
<p>'Registration of Interests' Records for Councillors who form part of the Pensions Sub-Committee have not been regularly reviewed and updated</p>	<p>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.</p>	<p>Management are currently taking advice from governance and are working to update the register of interests, particularly in relation to the pensions board. The governance team will ensure that the register of interests remains un to date.</p> <p>Target Date: October 16</p>
<p>Late payment of contributions from Scheduled & Admitted Bodies</p>	<p>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.</p> <p>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.</p> <p>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.</p>	<p>Management are constantly scrutinising contribution payments and reminding admitted bodies of the need to ensure timely payment. If payments continue to be late appropriate action will be taken.</p> <p>Target Date: September 16</p>

Based on our work performed we do not consider the systems of internal control to be appropriate in the above areas.

Risk management

As noted above, the Fund does not prepare and maintain a Fund specific Risk Register. The Council's Corporate Risk register sets out the strategic-level risks identified by the Council's most senior managers and is formally updated annually, however it does not directly cover Fund Specific risks. As noted above, 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.

Section 5. Fraud

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

Management's responsibility

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

Responsibility of the Pensions Sub-Committee

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.

Standards of conduct and prevention and detection of fraud and corruption

The Council as a whole has in place a number of arrangements in order to maintain standards of conduct, prevent and detect fraud and corruption. These include the following:

- The Council has a Code of Conduct for both employees and elected members. The Code sets out the expected behaviours and principles in conducting Council business.
- The Council has financial procedures which set out the reporting requirements for any actual or suspected frauds.
- Investigation of actual or suspected fraud is managed by the in-house internal audit team who are independent from Council services.
- The Council has a whistleblowing policy which includes access to a confidential helpline through which staff can report concerns.

The Council as a whole participates in the National Fraud Initiative (NFI). The Council participated in 2014/15 NFI exercise which was reported on as part of our 2014/15 audit. The NFI encompasses activities such as mortality checks over pensioners to ensure they exist and are legitimately drawing their pension.

In accordance with our responsibilities as your appointed auditor, we have completed the follow-up NFI questionnaire which was submitted by February 2016 and there were no matters to report impacting the Fund.

Based on audit work performed we consider the controls in place to prevent and detect fraud or corruption to be suitable for the operations of the Council.

Section 6. Independence

Independence and objectivity

We are required to follow both the International Standard on Auditing (UK and Ireland) 260 (Revised) “Communication with those charged with governance”, UK Ethical Standard 1 (Revised) “Integrity, objectivity and independence” and UK Ethical Standard 5 (Revised) “Non-audit services provided to audited entities” issued by the UK Auditing Practices Board.

Together these require that we tell you at least annually about all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers’ firms and associated entities (“PwC”) and the Authority that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

For the purposes of this engagement we have made enquiries of all PricewaterhouseCoopers’ teams and note no matters which may impact upon our independence.

Conclusion

We hereby confirm that in our professional judgement, as at the date of this document:

- we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and
- our objectivity is not compromised.

We would ask the Pensions Sub-Committee to consider the matters in this document and to confirm that they agree with our conclusion on our independence and objectivity.

Appendix 1: Identified misstatements

There are no unadjusted misstatements at the conclusion of our audit, as these have been resolved and accepted by management.

We are required to report to you any misstatements which have been corrected by management of which we believe the Audit Committee should be aware to fulfil your responsibility as those charged with governance.

No	Description of misstatement (factual, judgemental, projected)	Fund Account		Net Asset Statement	
		Dr	Cr	Dr	Cr
1	Dr Debtors Cr Cash Being an adjustment to cash balances held to recognise a receivable from the council disclosed as a cash balance.			1,286,873	1,286,873
Total corrected misstatements		-	-	1,286,873	1,286,873

Appendix 2: Action plan

Finding	Management response
<p><i>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.</i></p>	<p>The current risk assessment processes will be formalised and a pension fund risk register will be prepared and updated on an annual basis.</p> <p>Target Date: February 17 / annually</p>
<p><i>In a number of instances, Councilors’ 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 Councilors are regularly considering their interests. PwC recognised that the Councilors Code of Conduct does not require councilors’ to disclose their interests, however it is good practice, and if they are being disclosed publicly then they should be up to date.</i></p>	<p>Management are currently taking advice from governance and are working to update the register of interests, particularly in relation to the pensions board. The governance team will ensure that the register of interests remains up to date.</p> <p>Target Date: October 16</p>
<p><i>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.</i></p> <p><i>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.</i></p> <p><i>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</i></p>	<p>Management are constantly scrutinising contribution payments and reminding admitted bodies of the need to ensure timely payment. If payments continue to be late appropriate action will be taken.</p> <p>Target Date: September 16</p>

Appendix 3: Letter of representation

PricewaterhouseCoopers LLP
141 Bothwell Street
Glasgow
G2 7EQ

Your ref: MP/NDG

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Dumfries & Galloway Council Pension Fund (the “fund”) for the fund year ended 31 March 2016 (the “accounting period”) for the purpose of expressing an opinion as to whether the financial statements 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 Accounting in the United Kingdom in 2015/16.

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.

Financial statements

We have fulfilled our responsibilities, as set out in the audit engagement letter, for the preparation of the financial statements which show a true and fair view of the financial transactions of the scheme for the scheme year ended 31 March 2016 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 Accounting in the United Kingdom in 2015/16.

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

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.

The selection and application of accounting policies are appropriate.

Information provided

We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements 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 Pensions Sub-Committee member is aware, there is no relevant audit information of which you are unaware.

We have communicated to you all deficiencies in internal control of which we are aware.

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 financial statements 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 financial statements.

We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the scheme's financial statements 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 financial statements.

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 financial statements.

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 2015/2016.

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 financial statements, 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 financial statements 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 Accounting in the United Kingdom 2015/16.

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 financial statements.

Where we have assigned fair values to financial instruments and other investments, we confirm that the valuation techniques, the inputs to those techniques and assumptions that have been made are appropriate and reflect market conditions at the end of the accounting period, and are in line with the business environment in which we operate. Any significant changes in those values since the date of the financial statements have been disclosed to you. There are no restrictions on the marketability of investments other than those already disclosed in the financial statements.

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: Signature:

Name: Name:

Title: Title:

Date: Date:

In the event that, pursuant to a request which Dumfries & Galloway Council Pension Fund has received under the Freedom of Information Scotland Act 2002, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Dumfries & Galloway Council Pension Fund agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Dumfries & Galloway Council Pension Fund shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Dumfries & Galloway Council Pension Fund discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

This report has been prepared for Dumfries & Galloway Council Pension Fund and the Controller of Audit in accordance with the terms of our appointment with Audit Scotland. We accept no liability (including for negligence) to anyone else in connection with this document.

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