



Grant Thornton

Dumfries and Galloway Pension Fund

External Audit Plan for the financial year ending 31 March 2018

Pensions Sub Committee March 2018 and finalised 29 March 2018

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Manager



Our audit at a glance



We fulfil our responsibilities per ISAs (UK) and the Audit Scotland Code of Audit Practice throughout our work.



Materiality is set at 1% of net assets of the pension fund, based on 2016/17 audited information (£8.368 million). This is consistent with the prior year.



Significant audit risks are: management override of controls as set out in International Standards on Auditing (ISAs UK), and valuation of level 3 investments.

An audit underpinned by quality and adding value to you



Performance materiality is set at 75% of materiality and trivial is set at £250,000, in accordance with the Code of Audit Practice. Our performance materiality reflects minimal audit adjustments in prior year and our understanding of the Pension Fund in a year 2 of our audit cycle.



At the planning stage we have identified other areas of audit focus around: recognition of pension contributions; movement on investments including investment income recognition; recognition of pension benefits payable; and the valuation of level 2 investments.



Our audit is undertaken in accordance with the Code of Audit Practice and reflects the wider scope nature of public audit. We do not consider a full wider scope audit scope is appropriate to the Dumfries and Galloway Pension Fund (“the Pension Fund”). However, we will consider the Pension Fund’s governance arrangements and financial sustainability as part of our audit.

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Overarching principles of our audit

Our audit is risk based and undertaken in accordance with the relevant International Auditing Standards (ISAs) (UK and Ireland) and the Audit Scotland Code of Audit Practice 2016.

Our overall objective is a robust, quality-focused external audit which adds value through wider insights and challenge. Our audit foundations are:

- professional scepticism
- a focus on audit risks and key areas of management judgement
- sharing our wider insights relevant to Pension Funds (Scotland and UK)
- use of specialists to support our work where relevant
- using IDEA our data analytical software to effectively and efficiently test your balances
- clear and upfront communications, with regular updates during the year
- clear reporting with focused actions which will support you in improving your controls/operations
- we will liaise with Internal Audit.

Adding value

Specific areas we will look to add value to the Pension Fund 2017/18, identified as part of our planning work and reflection on prior year include:

- We will act on the 'learning the lessons' sessions we held after the first year audit and ensure that there is a smooth handover to the new audit team.
- We will actively share relevant Audit Scotland and Grant Thornton publications with Senior Management and the Pensions Sub Committee, identifying particular areas for consideration.
- Should any new accounting changes or governance updates emerge during the year we will providing a briefing for the Pensions Sub Committee. We will also pro-actively work with management during the year to discuss any emerging matters and seek to reach agreement on the treatment of these in advance of year-end.



External Audit deliverables for 2017/18 – Pension Committee

- External Audit Plan (this document)
- Annual Report to those Charged with Governance and the Controller of Audit (September 2018)
- Audit opinion (September 2018)
- Management letter of representation (September 2018)



2017/18 Deliverables as set out in the Audit Scotland planning guidance (October 2017)

- Confirmation of agreed fee by end of March 2018 and submission of final plan
- Current issues return for Pension Funds to Audit Scotland (19 January 2018, 23 March 2018, 20 July 2018 and 19 October 2018)
- Submission of fraud returns to Audit Scotland – 27 April 2018



Planned Audit Scotland publications which may be relevant to the Dumfries and Galloway Pension Fund

- Digital developments and projects – risks and issues
- Supporting Scotland's economic growth (Spring 2018) – Auditors impact assessment return

Audit approach and materiality

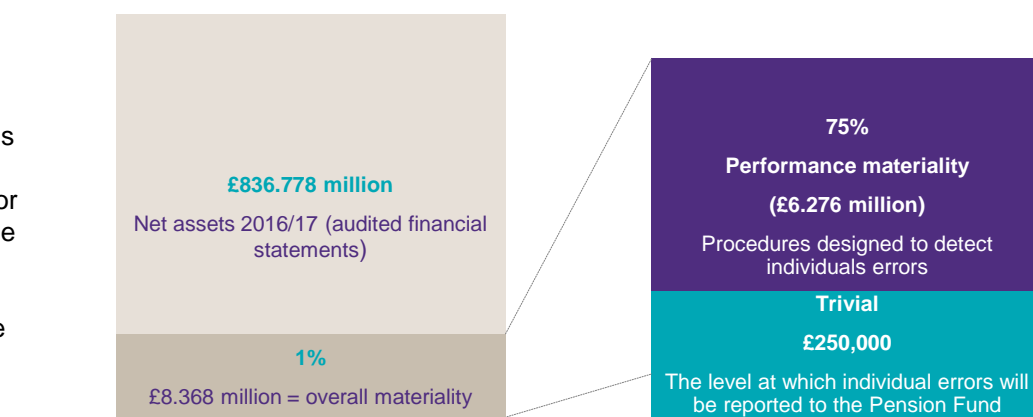


We undertake your audit in accordance with International Standards on Auditing (UK) (ISAs) and the Audit Scotland Code of Audit Practice (May 2016). On an annual basis we are required to give an opinion as to whether the Financial Statements:

- give a true and fair view
- have been properly prepared in accordance with relevant legislation and standards
- the wider information contained in the annual report and accounts e.g. the Governance Compliance Statement, the Annual Governance Statement and the management commentary, are consistent with the disclosures in the financial statements

Materiality

In performing our audit we apply International Standards on Auditing (UK) 320: *Materiality*. Our materiality for 2017/18 is shown below. We will revise this on receipt of the unaudited financial statements for 2017/18 once received.



Overall materiality

We have calculated overall materiality in line with net assets, as is recognised as a common measure in the public sector. This is in line with prior year. We feel it is appropriate to retain our materiality benchmark at 1% (1% in 2016/17). Under our audit methodology we typically set materiality within the benchmark range of 0.5% up to 3% for pension funds.

Performance materiality

Performance materiality represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality. Based on our audit experience in 2016/17 we have increased this for 2017/18 to 75% (65% in prior year). This does not impact on the financial statement balances we undertake substantive testing on, as all balances are in scope per prior year, but will impact on sample sizes.

Trivial

Under ISA 540 we are required to set an amount below which we consider misstatements would be clearly trivial, and therefore when accumulated we would not expect that they would have a material impact on the financial statements. In accordance with the Audit Scotland Code of Audit Practice, we report on any misstatements above £250,000. Misstatements above trivial (corrected and uncorrected) will be reported to the Pension Sub Committee in our Annual Report to those charged with governance.

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management’s use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity’s ability to continue as a going concern” (ISA (UK) 570). We will review management’s assessment of the going concern assumption and evaluate the disclosures in the financial statements.

A risk based audit methodology

Our understanding of the Dumfries and Galloway Pension Fund (“the Pension Fund”)

This is the second year as external auditors of the Pension Fund appointed under the Audit Scotland framework. Under the Local Government Pension Scheme (LGPS), Dumfries and Galloway is designated as an “Administering Authority” for the fund and is required to operate and maintain the fund. The Pension Fund provides benefits for employees of the Dumfries and Galloway and five scheduled bodies and seven admitted bodies. As at 31 March 2017, the fund had 5,824 contributing members, 4,448 deferred pensioners and 4,277 pensioners.

Area of understanding

Our response

Financial position of the Pension Fund

Financial pressures

As at 31 March 2017, the Pension Fund had net assets of £837 million. The last triennial valuation was 31 March 2017 and the impact of this valuation will be reflected within the 2017/18 Pension fund accounts. As employees benefits are guaranteed by the LGPS Regulations, and that these regulations define the level of employees’ contributions at a fixed level, it is essential that Pension Funds have clearly defined investment and funding strategies to define how future obligations will be met. This includes establishing sustainable employer contribution rates. Following the full triennial valuation is it likely that these will need to be revisited to ensure they remain appropriate.

- We will consider whether your financial position leads to uncertainty about the going concern assumption and will review related disclosures in the accounts
- Consider the impact of the latest triennial valuation and impact on funding and investment strategies

Financial Reporting

Changes to the CIPFA 2017/18 Accounting Code

CIPFA have introduced minor changes to the 2017/18 Code, these include a new disclosure of investment manager transaction costs and clarification on the approach to investment concentration disclosure

- We will review the financial statements disclosure to ensure in line with 2017/18 Code.

Changes to Service delivery

General Data Protection Regulations (GDPR)

GDPR comes into effect in May 2018 and replaces the Data Protection Act 1998. It introduces new obligations on data controllers. The Fund is both a data controller and a data processor and needs to ensure that it has appropriate processes in place to comply with the changes being introduced

Markets in Financial Instrument Directive (MiFID II)

January 2018 see the implementation of MiFID II. The impact for Fund is that to be able to continue to access the same investments as previously, they need to apply to ‘opt up’ and gain election to professional status. Without this change in status some financial institutions could terminate their relationship with the fund, which may have an adverse impact on the achievement of the investment strategy.

- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions and annual audit report.
- We will consider the impact of any changing or emerging legislation on your financial reporting arrangements and disclosure within the accounts.

Other on-going matters

- Indexation and equalisation of GMP in public service pensions schemes
- Reforms to public sector exit packages and the application, or not, of the 2013 Fair Deal changes to the LGPS

Significant audit risks

As part of our audit planning procedures, we identify risks that represent a significant risk of material misstatement to the financial statements. These risk are detailed below.

Overview of our audit risks identified at planning and our proposed approach

	Risk of fraud in revenue and expenditure	Management override of controls	Valuation of level 3 investments is incorrect
The Risk	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. Furthermore, for public entities, Practice Note 10 extends this presumed risk to fraud around expenditure manipulation.</p> <p>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>As set out in ISA 240, across all entities there is a presumed risk of fraud being perpetrated by management through its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. override of controls is present in all entities.</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>
Our planned response	<p>Having considered the risk factors set out in ISA240 and Practice Note 10 and the nature of the revenue and expenditure streams of the Fund, 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 and expenditure recognition • opportunities to manipulate revenue and expenditure recognition are very limited • the culture and ethical frameworks of local authorities, including Dumfries and Galloway as the Administering Authority of the Pension Fund, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for the Pension Fund.</p>	<ul style="list-style-type: none"> • We will gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness • we will obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness • evaluation of the rationale for any changes in accounting policies or significant unusual transactions. 	<ul style="list-style-type: none"> • We will gain an understanding of the Fund's process for valuing level 3 investments and evaluate the design of the associated controls • we will review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments. • we will consider the competence and expertise of the fund managers as experts to value Level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached. • for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2017 with reference to known movements in the intervening period.

Other areas of audit focus

Through our audit planning process we identify areas and accounts that due to the nature of a transaction, disclosure or account balance in the financial statements that are inherently more at risk of material misstatement within the financial statements. These are areas where the potential risk of material misstatement cannot be reduced to remote. While we do not consider these to represent significant risk we highlight them as areas of specific audit focus.

Overview of our audit risks identified at planning and our proposed approach

	Contributions	Investment purchases, sales and income	Pension benefits payable	Valuation of level 2 investments is incorrect
The Risk	<p>Contributions from employers and employees' represents a significant percentage of the funds revenue. While not considered a significant risk, there is an increased risk that these are materiality misstated.</p>	<p>Investment purchases, sales and income recorded are not valid and the investment valuation is therefore not correct.</p>	<p>Pension benefits payable represents a significant percentage of the Funds expenditure. While not considered a significant risk, there is an increased risk that these are materiality misstated.</p>	<p>While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly.</p>
Our planned response	<ul style="list-style-type: none"> Evaluate the Fund's accounting policy for recognition of contributions for appropriateness; gain an understanding of the Fund's system for accounting for contribution income and evaluate the design of the associated controls; test a sample of contributions to source data to gain assurance over their accuracy and occurrence; rationalise contributions received with reference to changes in member body payrolls and the number of contributing pensioners to ensure that any unusual trends are satisfactorily explained 	<ul style="list-style-type: none"> Complete a walkthrough of the controls and procedures around investment purchases, sales and income to consider the adequacy of the design of these controls Review the reconciliation of the information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances. 	<ul style="list-style-type: none"> Evaluate the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness; gain an understanding of the Fund's system for accounting for pension benefits expenditure and evaluate the design of the associated controls; test a sample of individual pensions in payment by reference to member files; rationalise pensions paid with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends are satisfactorily explained. 	<ul style="list-style-type: none"> Obtain an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls. review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments. consider the competence, expertise and objectivity of any management experts used including those involved in the valuation of level 2 investments for a sample of investments, test the valuation by obtaining independent information from fund manager

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report. During the course of our audit we may apply a lower level of materiality to specific balances or transactions in the financial statements. This reflects areas where there is a greater degree of interest or sensitivity on the amounts reported in the financial statements.

Wider Scope – tailored response

Under the Audit Scotland Code of Audit Practice, reflecting the nature and size of the Dumfries and Galloway Pension Fund, we have determined that the full wider scope audit is not appropriate. However, as set out in the Code we will ensure our work allows us to make suitable conclusions in respect of the appropriateness of disclosures in the governance statement and the funding position of the Pension Fund over the medium to long term.

Appendices

Key audit deliverables and our team

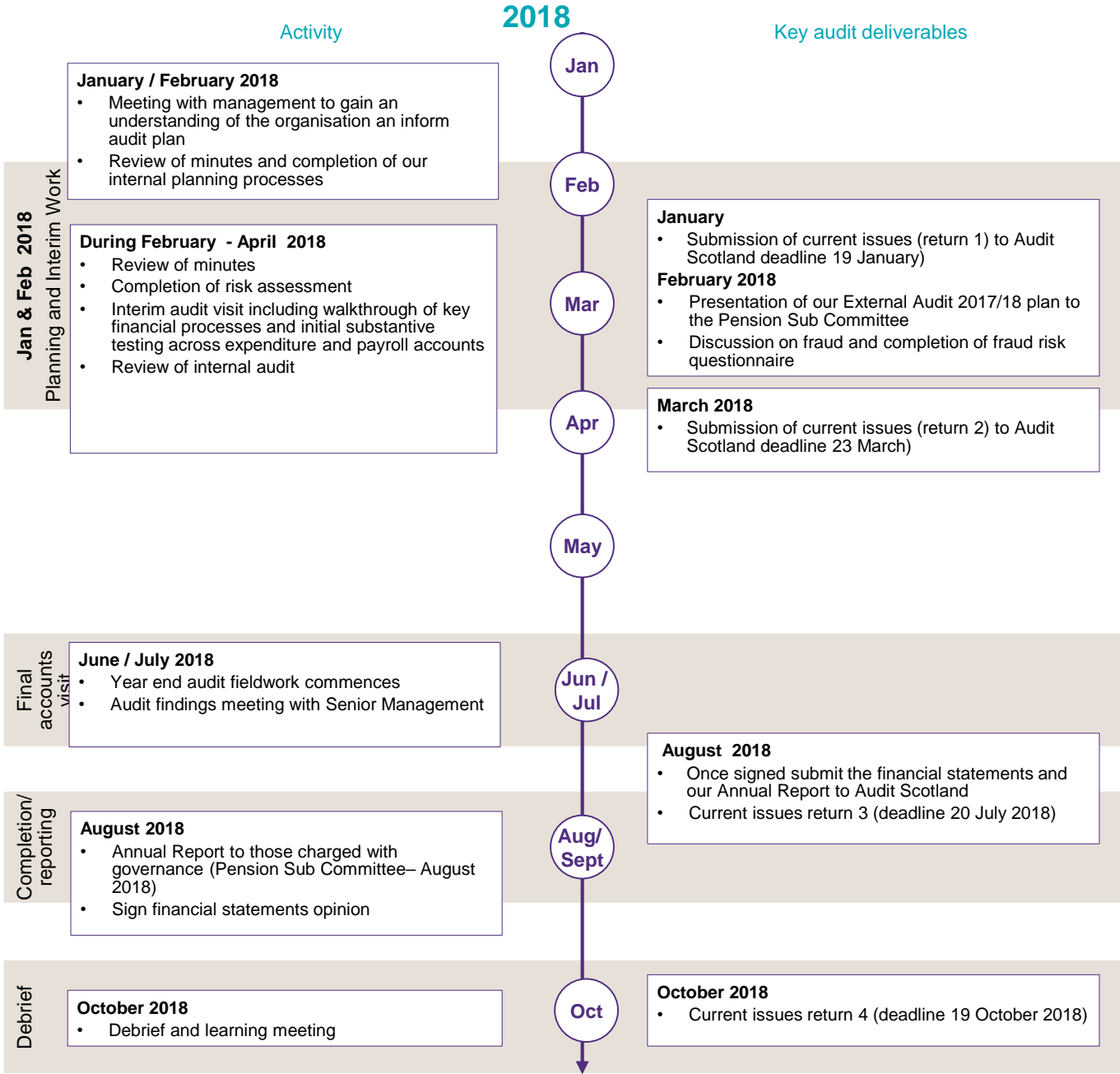
Independence and fees

Fraud arrangements

Respective responsibilities

Communication of audit matters with those charged with governance

Key audit deliverables and our team



Our team

<p>Joanne Brown Director T 0141 223 0848 E joanne.e.brown@uk.gt.com</p>	<p>Angelo Gustinelli Manager E angelo.gustinelli@uk.gt.com</p>
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In addition we will use our pensions team (assumptions) and our Accounting technical team as required

Fees and independence

External Audit Fee

Service	Fees £
External Auditor Remuneration	21,140
Pooled Costs	1,880
Contribution to Audit Scotland costs	1,340
Contribution to Performance Audit and Best Value	0
2017-18 Fee	24,360

Fees for other services

Service	Fees £
At planning stage we confirm there are no non-audit fees	Nil

The audit fee is calculated in accordance with guidance issued by Audit Scotland. In accordance with the Audit Scotland guidance we can increase the fee by up to 10% from the base fee set by Audit Scotland, depending on risk factors identified by us as your external auditors. We cannot reduce the fee from the baseline set out by Audit Scotland. The above proposed fee, set at the base fee, has been agreed with management. The fee is based on the following assumptions:

- supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- the scope of the audit, and the Pension Fund's activities will not change significantly from planned
- The Pension Fund will make available management and accounting staff to help us locate information and to provide explanations. We reserve the right to charge an additional fee for any additional work.
- We will only receive (and audit) 3 sets of accounts (1st draft; amended draft and final)
- Specific balances such valuations of assets are supported by an independent specialist

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw your attention.

We have complied with the Auditing Practices Committee's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Annual Report to those charged with governance at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Committee's Ethical Standards.

We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.

We can confirm no independence concerns have been identified.

Fraud arrangements

The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is alert to the possibility of fraud at the Pension Fund.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relations to management override of controls.
- Leading a discussion with those charged of governance on their view of fraud. Typically we do this when presenting our audit plan and in the form of management and those charged with governance questionnaires.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud
- responding appropriately to any fraud or suspected fraud identified during the audit.

As auditors we obtain reasonable but not absolute assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

It is the Pension Fund's responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we work with the Pension Fund to review specific areas of fraud risk, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control.

All suspected frauds and/or irregularities over £5,000 are reported to Audit Scotland by us as your auditors on an annual basis (no later than end of April 2018)

Respective responsibilities

As set out in the Code of Audit Practice (pages 10 to 16) there are a number of key responsibilities you as an organisation are responsible for, and others, as appointed auditors we are responsible for. These are summarised below:

Area	the Pension Fund's Responsibilities
Corporate governance	<ul style="list-style-type: none"> Establishing arrangements for proper conduct of its affairs Legality of activities and transactions Monitoring adequacy and effectiveness of arrangements (inc role of those charged with governance)
Financial statements	<ul style="list-style-type: none"> Preparing financial statements which give a true and fair view of their financial position Maintaining accounting records and working papers Putting in place systems of Internal Control Maintaining proper accounting records Preparing and publishing an annual governance statement, governance compliance statement and management commentary Effective systems of internal control as well as financial, operational and compliance controls – supporting achievement of objectives and secure value for money
Financial position	<ul style="list-style-type: none"> Proper arrangements to ensure financial position is soundly based and responsibility to ensure arrangements secure best value
Fraud and error	<ul style="list-style-type: none"> Establishing appropriate arrangements for prevention and detection of fraud, error, irregularities, bribery and corruption and affairs are properly managed

Our responsibilities



- Undertake statutory duties and comply with professional engagement and ethical standards
- Provide an opinion on financial statements
- Review and report on, as appropriate, other information eg annual governance statements, governance compliance statement and management commentary,
- Notify the Controller of Audit when circumstances indicate a statutory report may be required
- Demonstrate compliance with wider public audit scope

How do we do this in practice



- By reviewing and providing judgements and conclusions on the Pension Fund's arrangements including those across the wider scope of audit dimensions.
- Consideration of the effectiveness of performance management arrangements
- Suitability and effectiveness of corporate governance arrangements in year
- Financial position and arrangements for ensuring financial sustainability in the medium to longer term
- Review of other information in line with our knowledge and understanding of the Pension Fund
- Ongoing dialogue and engagement with Audit Scotland during the year

Weaknesses and risks identified by us as your auditors are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist. Communication by us 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.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Views about the qualitative aspects of the Pension Fund accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issues arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

International Standards on Auditing (UK) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table above.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while our Annual Report to those Charged with Governance will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Pension Fund Management and the Pension Fund Committee.

