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# Report to those charged with governance (ISA 260) 2012/13

**Dorset County Pension Fund**

Draft For Discussion Purposes

9 September 2013



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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at [www.auditcommission.gov.uk](http://www.auditcommission.gov.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Harry Mears, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3<sup>rd</sup> Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to [complaints@audit-commission.gsi.gov.uk](mailto:complaints@audit-commission.gsi.gov.uk). Their telephone number is 03034448330.

This report summarises the key issues identified during our audit of Dorset County Pension Fund's (the Fund's) financial statements for the year ended 31 March 2013.

### Scope of this report

The Audit Commission's *Code of Audit Practice* requires us to summarise the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified and report to those charged with governance (in this case the Pension Fund Committee). We are also required to comply with International Standard on Auditing ('ISA') 260 which sets out our responsibilities for communicating with those charged with governance.

This report meets both these requirements as appropriate. It summarises the key issues identified during our audit of the Fund's financial statements for the year ended 31 March 2013.

Some of our responsibilities under ISA 260 relate to Dorset County Council ('the Authority') as administering authority as a whole and are discharged through our reporting to the Authority's Audit & Scrutiny Committee. These include:

- Declaring our independence and objectivity;
- Obtaining management representations; and
- Reporting matters of governance interest.

### Audit of the pension fund

As with the main audit of the Authority, our audit of the Fund follows a four stage audit process.



This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place in July and August 2013.

We carried out the following work:

<b>Control Evaluation</b>	<ul style="list-style-type: none"> <li>■ Evaluate and test selected controls over key financial systems</li> <li>■ Review accounts production process</li> <li>■ Review progress on critical accounting matters</li> </ul>
<b>Substantive Procedures</b>	<ul style="list-style-type: none"> <li>■ Plan and perform substantive audit procedures</li> <li>■ Conclude on critical accounting matters</li> <li>■ Identify audit adjustments</li> </ul>

### Structure of this report

This report is structured as follows:

- Our headline messages are summarised on page 3
- Pages 4 to 6 set out the findings from our audit work on the Fund's accounts in more detail.

### Acknowledgements

We would like to take this opportunity to thank Gus Stout, Tom Wilkinson and all other Officers and Members for their continuing help and co-operation throughout our audit work.

This table summarises the headline messages. The remainder of this report provides further details on each area.

<b>Proposed audit opinion</b>	<p>We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2013.</p> <p>At the date of this report our audit of the Fund's financial statements is substantially complete. Our remaining completion procedures are carried out jointly with those for the main audit. This includes obtaining a signed management representation letter, which covers the financial statements of both the Authority and the Fund.</p>
<b>Audit adjustments</b>	<p>We are pleased to report that our audit of the Fund's financial statements did not identify any material adjustments. A small number of non trivial adjustments have been made to the Fund's accounts</p> <p>For completeness, we have included a list of all non-trivial audit differences in Appendix 1. The Authority have agreed that all of these will be adjusted.</p>
<b>Accounts production and audit process</b>	<p>The Authority has good processes in place for the production of the Fund's financial statements and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p> <p>We have worked with Officers throughout the year to discuss the specific risk areas for this year's audit. The Authority addressed the issues appropriately.</p>
<b>Control environment</b>	<p>Controls over the Fund's key financial systems are sound. We did not identify any specific issues we wish to highlight to you.</p>

**We have identified no issues in the course of the audit that are considered to be material.**

**We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2013 and 1 December 2013 respectively.**

### Proposed audit opinion

We anticipate issuing an unqualified audit opinion by 30 September 2013 and an unqualified consistency opinion on the Annual Report by 1 December 2013.

### Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

We did not identify any material misstatements

Our audit identified a total of 2 non-trivial audit differences, which we set out in Appendix 1. It is our understanding that these will be adjusted in the final version of the financial statements.

### Completion

At the date of this report, our audit of the Fund's financial statements is substantially complete.

Before we can issue our opinion we require a signed management representation letter. The representations in relation to the Fund will be included in the Authority's representation letter.

We confirm that we have complied with the requirements on objectivity and independence in relation to this year's audit of the Fund's financial statements. A full declaration of our independence is set out in the main *ISA 260 Report* for the Authority.

### Annual Report

The statutory deadline for publishing the document is 1 December 2013. Our audit will remain open until this is approved by the Pension Fund Committee and we will not be able to issue our certificate until that time. We will also need to complete additional work in respect of subsequent events to cover the period between signing our opinions on the Statement of Accounts and the Pension Fund Annual Report.

The Authority has good processes in place for the production of the Fund's financial statements and good quality supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

### Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the accounting practices and financial reporting relating to the Fund. We also assessed the Authority's process for preparing the Fund's financial statements and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
<b>Accounting practices and financial reporting</b>	<p>The Authority has good financial reporting arrangements over the Fund's financial statements in place.</p> <p>We consider that accounting practices are appropriate.</p>
<b>Quality of supporting working papers</b>	<p>Our working paper requirements for the audit were discussed in detail with management prior to the final audit. The quality of working papers provided met the standards specified.</p>
<b>Response to audit queries</b>	<p>Officers resolved audit queries in a reasonable time.</p>

Element	Commentary
<b>Critical accounting matters (key audit risks)</b>	<p>We have identified one critical accounting matter regarding the valuation of the Fund's investment portfolio.</p> <p>We have obtained independent price confirmations for all investments in the Fund's portfolio.</p> <p>We have performed pricing reviews against published sources for a sample of investments and performed reviews for potential impairment indicators. Additionally we have reviewed the investment manager's internal controls reports for exceptions relating to pricing.</p> <p>There are no matters to draw to your attention other than two non-trivial audit adjustments as detailed in Appendix 1.</p>

**Controls over the Fund's key financial systems are sound.**

**Recommendations have been raised in respect of the IT control environment which have been included within the ISA 260 report issued to the Audit & Scrutiny Committee of Dorset County Council.**

During July 2013 we completed our control evaluation work. We did not issue an interim report as there were no significant issues arising from this work. For completeness we reflect on key findings from this work.

#### **Organisational and IT control environment**

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We therefore obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented.

The Authority also relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

As separately communicated to the Audit & Scrutiny Committee as part of our ISA 260 reporting requirements, a significant deficiency has been identified regarding the IT environment and further improvement has been set out.

#### **Controls over key financial systems**

Where we have determined that this is the most efficient audit approach to take, we test selected controls that address key risks within the financial systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Based on our own work on controls over the year end process, the controls over the financial systems are sound.

## Appendix 1: Audit differences

This appendix sets out the significant audit differences.

It is our understanding that both of these will be adjusted.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in the case of the Fund is the Pension Fund Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

### Corrected audit differences

The following table sets out the non-trivial audit differences identified by our audit of the Fund's financial statements for the year ended 31 March 2013. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

No.	Impact (£)		Basis of audit difference
	Fund Account	Net Assets Statement	
1	Cr Change In Market Value £999,808	Dr HarbourVest Investment £999,808	Represents a difference arising on external confirmations received by fund management and by KPMG, due to confirmations received by fund management representing estimated capital values.
2	Dr Change In Market Value £565,626	Cr Royal London Investment £565,626	Represents a difference arising on external confirmations received by fund management and by KPMG due to an error by the investment manager in the unit prices confirmed.
	<b>Cr £434,182</b>	<b>Dr £434,182</b>	<b>Total impact of adjustments</b>





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