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Report to those charged with governance (ISA 260) 2014/15

Dorset County Pension Fund

14 September 2015





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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 issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psa.co.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.

We are committed to providing you with a high quality service. 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 engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Trevor Rees (on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

This document 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 2015.

Scope of this report

The 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. 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. It summarises the key issues identified during our audit of the Fund's financial statements for the year ended 31 March 2015.

Financial statements

As with the main audit of Dorset County Council (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 during July and August 2015.

Some of our responsibilities under ISA 260 relate to the Authority as administering authority as a whole and are discharged through our separate ISA 260 Report and Annual Audit Letter for the Authority. This specifically includes our work in the completion stage:

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

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out the findings from our audit work on the Fund's financial statements in more detail.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.



Section two Headlines

This table summarises the headline messages. Sections three and four of this report provide further details on each area.

Proposed audit opinion	<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 2015.</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>
Audit adjustments	<p>We are pleased to report that our audit of the Fund's financial statements did not identify any material adjustments.</p>
Accounts production and audit process	<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>
Control environment	<p>The Fund's organisational and IT control environment is generally effective overall. However we have identified two control weaknesses which we have reported in Appendix 1.</p>



Section three

Financial Statements

Proposed opinion and audit differences

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

Proposed audit opinion

We anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by the Audit & Scrutiny Committee on 15 September.

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 did identify one significant audit difference, which is set out in Appendix 2. We have not requested that Fund adjusts the financial statements for this as it is well below our materiality threshold

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 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

At the time of drafting this report, the Pension Fund Annual Report has not been prepared yet and we are yet to confirm that:

- the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

The statutory deadline for publishing the document is 1 December 2015. We will 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.

Section three

Financial Statements

Significant risks and key areas of audit focus

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus

This section sets out our detailed findings on those risks

In our *External Audit Plan 2014/15*, presented to the Audit & Scrutiny Committee in May 2015, we identified the significant risks affecting the Fund's 2014/15 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

Significant audit risk	Issue	Findings
	<p>From 1 April 2014, all members of the LGPS have automatically joined the new career average defined benefit scheme. The new scheme provides more flexibility on when members can take their pension and also how much they pay in. There is a risk that pension administration systems have not been set up to correctly reflect the changes resulting from LGPS 2014 and will therefore not accurately calculate the pension benefits due to members. While any errors in the system are unlikely to result in material misstatements in 14/15, the possible cumulative effect in future years means that specific audit work is needed on ensuring that the changes required to the system have been accurately reflected.</p>	<p>We have reviewed the controls and processes that the Pension Fund has put in place to accurately capture the data required by LGPS 2014 and have not identified any issues.</p> <p>We have also tested a sample of new pensioners in the year and confirmed that the system has been set up to accurately calculate benefit entitlement under the new career average arrangements.</p>



In our *External Audit Plan 2014/15*, we also identified one area of audit focus. This was not considered a significant risk but an area of importance where we would carry out some audit procedures to ensure there is no risk of material misstatement. The table sets out our findings in this area.

Significant audit risk	Issue	Findings
	<p>From 1 April 2015, the Pensions Regulator is responsible for regulating the governance and administration of public service pension schemes, which includes the Local Government Pension Scheme. The pension scheme must comply with a number of legal requirements, such as the establishment of a pension board with an equal number of employer representatives and member representatives. Pension board members for a public service pension scheme must also meet certain legal requirements that relate to their knowledge and understanding.</p>	<p>Setting up the Pensions Board has been a significant task but good progress has been made. The Board has been established and has held its first meeting. Work has been done to ensure the composition is compliant with the requirements of the Pensions Regulator and the Board is already considering matters such as LGPS reporting and its functions.</p>

Section three
Financial Statements
Significant risks and key areas of audit focus (continued)

In our *External Audit Plan 2014/15* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Areas of significant risk	Summary of findings
 <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ All areas 	<p>Our audit methodology incorporates the risk of management override as a default significant risk. Management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit.</p> <p>In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.</p> <p>There are no matters arising from this work that we need to bring to your attention.</p>
 <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ None 	<p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p> <p>In our <i>External Audit Plan 2014/15</i> we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.</p> <p>This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.</p>



Section three
Financial Statements
Accounts production and audit process

The quality of the accounts and the supporting working papers continues to be good.

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
Accounting practices and financial reporting	The Authority has good financial reporting arrangements over the Fund’s financial statements in place. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts prior to the start of our audit.
Quality of supporting working papers	Our working paper requirements for the audit were discussed with management prior to the final audit. The quality of working papers provided was good and met the standards required.

Element	Commentary
Critical accounting matters (key audit risks)	We have discussed with officers throughout the year the areas of specific audit risk and undertaken specific audit procedures. There are no matters to draw to your attention.
Response to audit queries	Officers resolved audit queries in a reasonable time.



Section three Control environment

The controls over the Fund's key financial systems are generally sound.

During July 2015 we completed our control evaluation work. We identified two control weaknesses relating to the timeliness of completion of bank reconciliations, and to the availability of supporting documentation in relation to new members or leavers from the scheme. Further details are reported in Appendix 1.

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.

Most of the controls we look at do not just relate to the Fund but the Authority as a whole. However, we also specifically looked at controls over contributions received and benefits paid, focusing on joiners and leavers to the Fund.

We found that your organisational and IT control environment is effective overall.

Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations

1 **Priority one:** issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.

2 **Priority two:** issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.

3 **Priority three:** issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	2	<p>Supporting evidence for starters and leavers to the pension fund</p> <p>For 7 new members of the pension fund in the year, out of a sample of 25, we were unable to agree that the correct contribution rate had been applied as the supporting documentation was still in the process of being scanned so was not available to review. Some of the documentation had been sent off for scanning several months ago and was still not available.</p> <p>Similarly, for 4 leavers of the scheme, out of a sample of 25, we were unable to agree to member records as the files were still being scanned.</p> <p>Recommendation</p> <p>Documents should be scanned onto the system on a timely basis to ensure that the data on the system is supported by evidence.</p>	<p>Documents to be scanned are sent to the external provider every two weeks and are usually returned 2 weeks later. There was a period over year-end where the turnaround from the provider was nearly six weeks. If, however, the team urgently needs any of the documents whilst they are with the external provider a request can be made and a scanned version of the documents is securely sent to the team by the provider by the end of the next day.</p> <p>It is in the Pension Fund business plan to investigate scanning documents within the team, and this will therefore remove any potential for these occurrences in the future.</p> <p>Nick Buckland Chief Treasury & Pensions Manager</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
2	3	<p>Timeliness of pension fund bank reconciliations</p> <p>Bank reconciliations are completed on a weekly basis and should be reviewed within a week of the date of preparation. Our testing identified that the year end bank reconciliations had been marked as prepared over a month after year end and reviewed two weeks after that. The delay in preparation and review means any issues will not be identified on a timely basis and may be more difficult to resolve as a result.</p> <p>Recommendation</p> <p>Bank reconciliations should be prepared and reviewed on a more timely basis after the date of the reconciliation.</p>	<p>Bank reconciliations are completed on a weekly basis and issues cleared as they arise. However, at year end the issue is that all old year documents must be cleared before the weekly reconciliations can be marked as final. The approval delay was a result of staff absence on long-term sickness along with pressure of other work which is inevitably becoming more common across the Service.</p> <p>Sarah Baker Group Finance Manager (Corporate Finance)</p>



Appendices

Appendix 2: Audit differences

The cumulative impact of uncorrected audit differences is to increase Investments by £2.8m.

This is below our materiality level for the Fund of £23.4 million.

Uncorrected audit differences

The following table sets out the uncorrected audit differences identified by our audit of the Fund's financial statements for the year ended 31 March 2015.

No.	Impact				Basis of audit difference
	Fund Account – Dealings with Members	Fund Account – Returns on Investments	Net Assets Statement – Investment Assets	Net Assets Statement – Net Current Assets	
1		Cr Change in market value of investments (£2,793k)	Dr Investments £2,793k		The year end valuation of the HarbourVest investment is an estimated valuation based on data as at 31 December. The final valuation is not produced until 90 days after the year end, which is too late for the purposes of producing the accounts by the 30 June statutory deadline. The direct confirmation we received as part of our audit was £2.8m higher than the initial estimate the Fund had received from HarbourVest and had been recorded in the financial statements.
	-	(£2,793k)	£2,793k	-	Total impact of uncorrected audit differences



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