



External Audit Report 2017/18



Dorset County Pension Fund

September 2018

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This report is addressed to Dorset County Council (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. Public Sector Audit Appointments 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.psaa.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 Darren Gilbert, 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, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@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 3H.

Summary for Pension Fund Committee

Financial statements

This document summarises the key findings in relation to our 2017-18 external audit at Dorset County Pension Fund ('the Pension Fund').

This report covers our final on-site work which was completed in June 2018 on the Pension Fund's significant risk areas, as well as other areas of your financial statements. Our findings are summarised on pages 3-9

Based upon our initial assessment of risks to the Pension Fund financial statements (as reporting to you in our External Audit Plan 2017/18 and updated during our interim visit) we have identified the following significant risks (excluding those mandated by International Standards on Auditing – see Page 5):

- Valuation of hard to price investments – we have reviewed the process of the year end revaluations and substantively agreed the year end investment figures to external valuations. We have reviewed the assumptions made by property valuers over the directly owned properties, and these appear reasonable.

We issued an unqualified audit opinion in relation to the Pension Fund's financial statements on 23 July 2018.

There were no audit adjustments identified as a result of our audit work.

Based on our work we have raised one recommendation. Details of our recommendations can be found in Appendix 1.

Acknowledgements

We would like to take this opportunity to thank the officers and members for their continuing help and cooperation throughout our audit work.

We ask the Pension Fund Committee to note this report.

An overhead view of four business professionals (three men and one woman) sitting around a white conference table. They are dressed in business attire. Two laptops are open on the table. The scene is brightly lit, with shadows cast across the floor and table. A blue horizontal bar is positioned across the middle of the image, containing the title text.

Section one

Financial Statements

We issued an unqualified audit opinion on the Pension Fund financial statements on 23 July 2018

We have reviewed the Pension Fund Annual Report. The financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.



Considerations required by professional standards

Auditing standards require us to consider two standard risks for all organisations. We consider these as a matter of course in our audit and will have set out the findings arising from our work in our ISA 260 Report below.

01

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because 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.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

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.

There are no matters arising from this work that we need to bring to your attention.

02

Fraudulent revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2017-18* 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.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Specific audit areas

Significant Audit Risks – Pension Fund

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Pension Fund.

Risk:	Valuation of harder to price investments <p>The Pension Fund invests in a wide range of assets and investment funds, some of which are inherently harder to value or do not have publicly available quoted prices, requiring professional judgement or assumptions to be made at year end. The pricing of complex investment assets may also be susceptible to pricing variances given the number of assumptions underlying the valuation.</p> <p>In the prior year financial statements, £417 million out of a total of £2,707 million of investments, or 15%, were in this harder to price category. For year ended 31 March 2018, £478 million out of a total of £2,814 million of investments, or 17%, were in this harder to price category. We have deemed these investments in particular the property to have significant risk (valuation) for the purposes of the audit. Whilst the Trustee appoints a third party to value these investments, this control is not one that can be relied on to reduce the level of our audit testing</p>
Our assessment and work undertaken:	<p>As part of our audit of the Pension Fund, we have reviewed the year end valuation process and assessed the design and implementation of controls over the process.</p> <p>We have independently verified a selection of investment asset prices to third party external valuations and obtained independent confirmation on asset existence. We have reviewed the assumptions made by property valuers over the directly owned properties, and these appear reasonable.</p> <p>No issues were identified as a result of our testing.</p>

The Pension Fund

We issued an unqualified audit opinion on the Fund's 2017/18 financial statements following approval of the financial statements by the Audit and Governance Committee on 23 July 2018.

Pension Fund Audit

Our audit of the Fund also did not identify any material misstatements.

The final materiality (see Appendix 2) for this year's audit was set at £30 million. Audit differences below £1.5 million are not considered significant.

We did not identify any material or significant misstatements.

Annual report

We have reviewed the Pension Fund Annual Report and identified some minor amendments required. We 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 2018.



Accounts production and audit process

Audit standards (ISA 260) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.

We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

The Authority's overall process for the preparation of the financial statements and supporting working papers is, in our view, excellent. We received draft accounts on 1 May 2018 and have completed our audit well within the already reduced deadline.

Accounts practices and production process

The Authority incorporated a number of measures into its closedown plan to further improve the project management of this complex process. Specifically, the Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to the year end in order to proactively address issues as they emerge.

We consider that the overall process for the preparation of your financial statements is performing well and we also consider the Authority's accounting practices appropriate.

Response to audit queries

We are pleased to report that our agreed turnaround time for dealing with audit queries was achieved by Officers, including those who are not part of the finance team. As a result of this, all of our audit work was completed within the timescales expected with no outstanding queries.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2017/18 financial statements.

Before we issued our opinion we received a signed management representation letter.

Now we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Dorset County Council and Dorset County Pension Fund for the year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and Dorset County Council and Dorset County Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 3 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Responsible Finance Officer for presentation to the Audit and Governance Committee. We provided a template to the Finance Manager for presentation to the Audit and Governance Committee and received a signed copy of your management representations before we issued our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017-18 financial statements.

Appendices



Key issues and recommendations

Our audit work on the Pension Fund’s 2017-18 financial statements identified one issue. We have listed this issue in this appendix together with our recommendations which we have agreed with Management. We have also included Management’s responses to this recommendation.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendation.

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

Priority Rating for Recommendations

1	<p>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.</p>	2	<p>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.</p>	3	<p>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.</p>
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No.	Risk	Issue & Recommendation	Management Response
1	3	<p>Notification of Deferred Members & Joiners</p> <p>Risk</p> <p>When testing controls over the membership data in Altair, we noted that the pension fund is reliant upon receiving the notice of termination in a timely manner from the payroll department of the admitted body. Our sample testing identified that a notice of termination form was not always received and so the system was not updated until the pensions team carried out the year end check, to ensure that all deferred members have been removed from their system.</p> <p>In addition, we note that the processing of joiners onto Altair can be delayed by several months, meaning the membership numbers on the live system at a point in time could be inaccurate.</p> <p>Recommendation</p> <p>We recommend that membership numbers are reviewed on a more frequent basis and the processing of any changes to the standing data (such a joiners) is prioritised to ensure accuracy of the membership data.</p>	<p>In order to achieve this we would need to move to new processes where all employers submit monthly returns. Whilst our current software has the potential to do this, we have identified issues with the current software that mean it is not advisable to currently push this forward. We are working with the software provider to ensure this development better meets our future needs.</p> <p>There is a clear expectation and responsibility on the employer to provide both leaver and joiner information in a timely fashion. The year-end processes have built in checks to pick up any that have not been notified. The Pensions Administration Strategy allows us to issue charges to employers who persistently do not provide the information within the required timescales.</p> <p>The process in place to upload joiners into the Altair system works well, but is occasionally delayed in order to accommodate more urgent work, there is no risk or impact to the member in doing this.</p> <p>Responsible Officer</p> <p>Karen Gibson – Pensions Manager</p>

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our *External Audit Plan 2017-18*, presented to you in January 2018.

Materiality for the Pension Fund was set at £30 million which is approximately 1.04% of gross assets. We design our procedures to detect errors at a lower level of precision, set at £22.5 million for 2017-18.

Reporting to the Audit and Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Governance Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Pension Fund, an individual difference is considered to be clearly trivial if it is less than £1.5 million.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Governance Committee to assist it in fulfilling its governance responsibilities.

There were no audit adjustments identified as a result of our audit work for the financial statements of the Pension Fund 2017/18.

Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF DORSET COUNTY COUNCIL

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Appendix 3:

Declaration of independence (cont.)

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority and its controlled entities for professional services provided by us during the reporting period. We have detailed the fees charged by us to the authority and its controlled entities for significant professional services provided by us during the reporting period in Appendix 6, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 £	2016-17 £
Audit of the Authority	74,022	74,022
Audit of the Pension Fund	25,146	25,146
Audit of controlled entities	29,800	29,000
Total audit services	128,968	128,168
Audit related assurance services	3,500	3,500
Total Non Audit Services	3,500	3,500

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year.

We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out table on the following page.

Appendix 3:

Declaration of independence (cont.)

Analysis of Non-audit services for the year ended 31 March 2018

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Audit-related assurance services				
Grant Certification – Teachers Pensions Return	The nature of these audit-related services is to provide independent assurance on each of these returns. As such we do not consider them to create any independence threats.	Fixed Fee	-	3,500

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit and Governance Committee.

Appendix 3:

Declaration of independence (cont.)

Long association or extensive involvement with an entity relevant to the engagement

KPMG has been associated with the audit of Dorset County Council for 10 years.

We do not believe that this impairs our independence due to the rotation of key audit staff members throughout this period.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit and Governance Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP

Appendix 6:

Audit fees

As communicated to you in our *External Audit Plan 2017-18*, our scale fee for the audit is £74,022 plus VAT (£74,022 in 2016/17), which is consistent with the prior year.

Component of the audit	2017-18 Planned Fee £	2016-17 Actual Fee £
Accounts opinion and value for money work		
PSAA Scale fee (Dorset County Council)	74,022	74,022
PSAA Scale fee (Dorset County Pension Fund)	25,146	25,146
Total audit services	99,168	99,168
Audit-related assurance services		
Teachers' Pension Return (work planned for August 2018)	3,500	3,500
Total audit-related assurance services	3,500	3,500
Total non-audit services	3,500	3,500
Grand total fees for the Authority	102,668	102,668

All fees quoted are exclusive of VAT.

As in previous years, we have been requested to carry out additional work on the Pension Fund by the auditors of admitted bodies to the fund. The Pension Fund is able to recharge these costs back to the admitted bodies. Our fee for this additional work is subject to approval by Public Sector Audit Appointments Ltd.





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