

# Dumfries and Galloway Council Pension Fund

Financial year ended 31 March 2021

Prepared for the Pensions Sub-Committee and the Controller of  
Audit

Final External Audit Report



# Contents



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Section	Page
Key Messages	3
Introduction	4
Audit of the annual report and accounts	5
Wider scope audit – Smaller body	13
<b>Appendices</b>	
Audit adjustments	16
Follow up of 2019/20 recommendations	20
Audit fees and independence	21
Communication of audit matters	22

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our external audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect Dumfries and Galloway Council Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2016). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

# Key messages

This is our final report to the Pensions Sub-Committee and the Controller of Audit and concludes our audit on the financial year ended 31 March 2021. We have issued an unmodified audit opinion on the annual report and accounts. We thank management for all their assistance during the audit process.

## 03 Other audit matters

Our final report summarises a number of other audit matters, including:

- We have concluded that The Dumfries and Galloway Council Pension Fund ('the Pension Fund') meets the definition of a going concern, reflecting on FRC Practice Note 10 considerations.
- The accounts contain areas of estimation and judgement. Significant estimates relate to the valuation of level 2 investments. Our testing over these did not identify any indication of management bias or error.
- We set out our roles and responsibilities on fraud. During the course of our work we did not identify fraud and/or material error.

There were a number of disclosure adjustments. These are detailed in Appendix 1 and not considered material to the accounts.

## 01 Materiality

We re-calculated our materiality based on the unaudited annual report and accounts. The benchmark of 1% of gross investments remained the same. This resulted in:

- Materiality of £10.008 million and a performance materiality (75% of materiality) of £7.506 million
- All audit adjustments above £250,000 were reported to management and captured in this report.
- Lower materiality of £451,000 was applied to contributions receivable, benefits payable and transfers in and transfers out.

## 04 Wider Scope Audit

In accordance with the Code we determined that the Pension Fund meet the definition of a smaller body. This is based on Pension Fund's income and expenditure transactions and balances held being relatively smaller than other public bodies and the financial statements are considered less complex.

In accordance with the Code we have concluded in this report on your governance statement and Pension Fund's financial sustainability arrangements. During our audit we did not identify any further areas of wider scope risk.

## 02 Financial statement audit risks

At planning, in accordance with the ISAs (UK) and FRC Practice Note 10 we have identified the following significant financial statement audit risks:

- Management override of controls (ISA UK 240)
- Valuation of level 2 investments as at 31 March 2021.

We have no matters to bring to your attention arising from our work over these significant audit risks.

## 05 Our Audit Fee

Our audit fee, set out in our audit plan, of £26,210 was our final audit fee. There were no non-audit services (fees) during the year and we did not need to vary our agreed fee.

# Introduction

## Scope of our audit work

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2021 at the Pension Fund. The scope of our audit was set out in our External Audit Plan communicated to the Pensions Sub-Committee February 2021 and finalised on the 30 April 2021.

The main elements of our audit work in 2020/21 have been:

- An audit of the Pension Fund's annual report and accounts for the financial year ended 31 March 2021; and
- Consideration financial sustainability and the Governance Statement, as required under the smaller body classification, within the Audit Scotland Code of Practice (2016).

Our work has been undertaken in accordance with International Standards of Auditing (ISAs) (UK) and the Code.

This report is addressed to the Accountable Officer and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

## Responsibilities

The Pension Fund is responsible for preparing an annual report and accounts which show a true and fair view and that are in accordance with the accounts direction from Scottish Ministers. The Pension Fund is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable it to successfully deliver its objectives.

The recommendations or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit 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.

## Adding value through our audit work

We aim to add value to the Pension Fund throughout our audit work. In delivering our audit we use a dedicated public sector audit team. This ensures our team have a comprehensive understanding of Pension Fund and the wider public sector to focus on key areas of risk relevant to your financial statements.

As a result of the social distancing and travel restrictions implemented in response to the Covid-19 pandemic our audit work was delivered remotely. We continue to share recommended practices with management, where relevant, and contribute to wider discussions at the Pensions Sub-Committee during the year.

# Audit of the annual report and accounts

## Key messages and judgements

We have issued an **unmodified** audit opinion on the annual report and accounts.

There were no adjustments to the primary financial statements. There were no unadjusted differences to the financial statements. We raised a number of minor disclosure adjustments identified from our review of the annual report and accounts. We do not consider these to be material. Further details are provided in **Appendix 1**.

We would like to thank management for all their assistance during the year in ensuring the delivery of the audit, to the timescales agreed at the start of the financial year.

## Our audit opinion

For the financial year ended 31 March 2021 we have issued an **unmodified opinion** on the annual report and accounts. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the 2020/21 Code)
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2020/21 Code
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.
- the information given in the Management Commentary, Annual Governance Statement and the Governance Compliance Statement for the financial year is consistent with financial statements and have been prepared with statutory guidance issued under the Local Government in Scotland Act 2003; Delivering Good Governance in Local Government: Framework (2016) and The Local Government Pension Scheme (Scotland) regulations 2018 respectively.

## The audit process

In accordance with our annual external audit plan, our audit work commenced in July 2021. We received the draft primary financial statements in line with our agreed timetable. There were no audit adjustments to the draft primary financial statements. There were no unadjusted differences to the draft financial statements. We also identified a number of disclosure adjustments in respect of the draft financial statements. A full listing of disclosure misstatements is detailed in **Appendix 1**. We do not consider these to be material to the financial statements.

## Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. We updated our audit materiality to reflect the 2020/21 draft financial statements. It is set at £10.008 million, representing 1% of gross investments. Performance materiality was set at £7.506 million, representing 75% of our calculated materiality. We report to management any difference identified over £250,000 (Being the maximum trivial threshold allowable under Audit Scotland planning guidance).

We applied a lower materiality threshold for contributions receivable, benefits payable, and transfers (in and out) of the fund (being £451,000) to ensure appropriate testing over these transactions.

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## Responding to significant financial statement risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
<p><b>Management override of controls</b></p> <p>As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override Pension Fund's controls for specific transactions.</p> <p>We consider those key judgements that are most susceptible to significant audit risk of management override are those over the valuation of investments. These are areas where management has the potential to influence the financial statements through estimate and judgement. This includes manual journals as well as critical judgements or estimates.</p>	<ul style="list-style-type: none"><li>• We considered the design of controls in place over key accounting estimates and judgements through performance of walkthrough procedures.</li><li>• We reviewed accounting estimates for management bias / indication of fraud that could result in material misstatement. This included review of estimates as at 31 March 2021.</li></ul> <p>Journals testing including:</p> <ul style="list-style-type: none"><li>• Assessment of the design of controls in place over journal entries, including journal preparation, authorisation and processing onto the financial ledger;</li><li>• Risk assessment of the journals population to identify large or unusual journal entries, such as those that are not incurred in the normal course of business, or those entries that may be indicative of fraud or error that could result in material misstatement. We tested these journals to ensure they are appropriate and suitably recorded in the financial ledger;</li><li>• Target testing of transactions around the financial year end, reviewing large journals and those which appear unusual to understand the rationale for the transaction.</li></ul> <p><b>Conclusion</b></p> <p>Through our audit procedures performed we found that there was no evidence of management override in our testing of transactions tested. We did not identify indication of fraud or inappropriate management bias in accounting estimates that could result in a material misstatement.</p>

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## Risks identified in our Audit Plan

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### Valuation of level 2 investments (valuation)

Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Investments held by the Pension Fund are subject to market price fluctuations and a degree of estimation. The Pension Fund holds material level 1 (where valuation derived directly from unadjusted quoted active market prices) and level 2 (where the instrument is traded in a market not considered to be active or where the fair value is determined using valuation techniques based on market prices). Given there is a degree of subjectivity and complexity in the valuation of level 2 investments we consider there to be an increased risk of material misstatement in the valuation. In particular, level 2 investments held include pooled property investments where in 2019/20 the Fund reported a valuation uncertainty in relation to the value of the underlying property assets held.

We will gain an understanding of the Fund's process for valuing 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. In addition, we will consider the competence and expertise of the fund managers as experts to value investments at year end and basis of the valuations at the year end. For a sample of investments, we will test to appropriate supporting information including observable market data, quoted prices and/or information to support carrying values.

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## Commentary

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- We performed walkthroughs of the controls and procedures over the valuation of investments, including understanding of controls in place at Fund Managers over valuations through obtaining their latest ISAE 3402 controls report or equivalent;
- We considered the competence and expertise of the Fund Managers as experts to value investments at the year end;
- We agreed Fund Manager investment confirmations as at 31 March 2021 and reconciled these to the Pension Fund accounts;
- We considered the Fund Manager reports as at 31 March 2021 to identify any reported uncertainty in relation to the investment values;
- We independently verified the valuation of a sample of investments to appropriate observable market data providing assurance over valuation approach from Fund Manager.

### Conclusion

As at 31 March 2021, the Pension Fund held £651 million of investments within level 2 investments. These are primarily held in overseas unit trusts in pooled investments. Through our audit procedures performed we did not identify any errors in the valuation of level 2 investments as reflected in the financial statements.


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**We did not identify any further areas of significant risk through the course of our audit work.**



## Significant estimates and judgements

The Pension Fund's annual report and accounts contain limited areas of estimation and judgement. The one material area of estimation is in relation to level 2 investment. This has been confirmed by Senior Officers (Management) and confirmed in our audit testing including review of disclosures.

judgement or estimate	Summary of officer's approach	Audit Comments	Assessment
Level 2 Investments	<p>The Pension Fund appoint a range of external fund managers to manage their investments based on agreed investment criteria. The valuation in the accounts reflects that provided by Fund Managers throughout the year which allows Officers to review and scrutinise performance throughout the year. The Pension Fund asset performance is reviewed at the Sub-Committee (ISC) and the Fund's investment advisors analysis of changes in asset values. Also in the year end accounts there is an analysis of movements in investments during the year which act as a review on previous account estimates as movements must be explained.. For Level 2 Assets valuations are provided by Fund Managers alongside the method of Valuation which is reviewed by Officers.</p>	<p>For Level 2 investments we have reviewed the approach and assumptions used in valuing the assets and are satisfied these are appropriate. We did not identify any indication of management bias in the underlying assumptions applied in the estimate and found that Management have disclosed the key sensitivities surrounding these in the draft financial statements.</p>	

### Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious



## Others areas of estimation

judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p><b>IAS 26 Defined benefit pension liabilities</b></p>	<p>CIPFA's Code of Practice on Local Authority Accounting 2020/21 requires administering authorities of LGPS Funds that prepare Pension Fund accounts to disclose what IAS 26 refers to as the actuarial present value of promised retirement benefits.</p> <p>The Pension Fund engage Hymans Robertson provide an annual IAS 26 actuarial valuation of the Pension Fund's defined benefit pension liabilities. There are a number of assumptions contained within the valuation, including: discount rate; mortality rates; and, future salary projections. These key assumptions are discussed with the actuary to inform the report. These are predominantly informed by the actuaries recommended assumptions. Management review the draft actuarial valuation.</p>	<p>The IAS 26 represents a disclosure requirement in the account rather than a primary financial statement. Using the work of PricewaterhouseCoopers (PwC) we reviewed the key assumptions underpinning the actuarial valuation.</p> <p>We are satisfied that the assumptions adopted were appropriate for Pension Fund and that those applied were considered reasonable i.e. within our acceptable tolerances.</p> <p>We did not identify any indication of management bias in the underlying assumptions applied in the estimate and found that Management have disclosed the key sensitivities surrounding these in the draft financial statements.</p>	<p>●</p>

IAS 1 sets out the requirements for all judgements and estimates disclosures. Disclosures should be limited to judgements management makes when applying its significant accounting policies and that have the most significant effect on amounts that are recognised in the accounts. The disclosure requirements cover the assumptions and estimates at the end of the current reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. There is an opportunity for Officers to review the current disclosures to ensure these reflect the requirements of IAS 1, providing the reader with greater understanding of the estimates and judgements preparing the financial statements. ([Appendix 1](#))

### Internal control environment

In accordance with ISA requirements we have developed an understanding of the control environment in place within the Pension Fund. We did this through a walkthrough of key controls within the Pension Fund including investment valuations, benefits paid, contributions and journals. We also considered the controls reports in place over the fund managers, particularly around valuations. We identified no material weaknesses from this work which would have caused us to alter the planned approach as documented in our plan.

## Detecting Irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks; International Financial Reporting Standards and the CIPFA Code of Practice on Local Authority Accounting 2020/21 (the 2020/21 Code).
- We enquired of Officers and the Pensions Sub-Committee, concerning the Pension Fund's policies and procedures relating to the identification, evaluation and compliance with laws and regulations; the detection and response to the risks of fraud; and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of Officers (Management) and the Pensions Sub-Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journal entries that altered the Pension Fund's financial performance for the year and potential management bias in determining accounting estimates. Our audit procedures involved are documented within our response to the significant risk of management override of controls on Page 6.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in expenditure recognition and significant accounting estimates.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - The Pension Fund's operations, including the nature of its operating revenue and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - The Pension Fund's control environment, including the policies and procedures implemented to ensure compliance with the requirements of the financial reporting framework.

## Other key elements of the financial statements

As part of our audit there were other key areas of focus during the course of our audit. Whilst not considered a significant risk, these are areas of focus either in accordance with the Audit Scotland Code of Audit Practice or ISAs or through due to their complexity or importance to the user of the accounts.

<b>Issue</b>	<b>Commentary</b>
<b>Matters in relation to fraud and irregularity</b>	It is the Pension Fund's responsibility to establish arrangements to prevent and detect fraud and other irregularity. As auditors, we obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. We obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We have also made inquires of internal audit around internal control, fraud risk and any known or suspected frauds in year. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
<b>Accounting practices</b>	We have evaluated the appropriateness of Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Disclosures and accounting policies are in line with the 2020/21 Code and we have no matters to report.
<b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed.
<b>Matters in relation to laws and regulations</b>	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
<b>Opinion on other aspects of the annual report and accounts</b>	The information given in the Management Commentary is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003. The information given in the Annual Governance Statement is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016). The information given in the Governance Compliance Statement is consistent with the financial statements and has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

Issue	Commentary
Matters on which we report by exception	<p>We are required by the Auditor General for Scotland to report to you if, in our opinion: adequate accounting records have not been kept; or the financial statements are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit there has been a failure to achieve a prescribed financial objective. We have nothing to report in respect of these matters.</p>
Annual Governance statement	<p>The governance statement outlines the governance framework in place at the Pension Fund. The Annual Governance Statement is consistent with the financial statements and the report is prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).</p> <p>There was no matters arising from our review of the governance statement that we want to draw attention to.</p>
Written representations	<p>A letter of representation has been requested from the Executive Chief Officer, Resources and Finance, including specific representations, which is included in the Pensions Committee papers. Specific representations have been requested from officers in line with prior years and confirms as auditors all records have been made available to us.</p>
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In accordance with Audit Scotland guidance: Going concern in the public sector, we have therefore considered Officer’s assessment of the appropriateness of the going concern basis of accounting and conclude that:</p> <ul style="list-style-type: none"> <li>• a material uncertainty related to going concern has not been identified</li> <li>• Officer’s (Management’s) use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul>

# Wider scope audit – Smaller body

As set out in our Audit Plan, Pension Fund meets the definition of a smaller body in accordance with the Audit Scotland Code of Practice (2016). Therefore, as auditors we are required to include in our annual report commentary on arrangements as they relate to financial sustainability and the Annual Governance Statement. Our work on the Annual Governance Statement, and conclusions are set out on page 12 of this report. Below we have captured our commentary and conclusions on financial sustainability and other matters of interest during the year.

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	Grant Thornton conclusion
Governance arrangements (Audit Scotland planning guidance consideration)	No significant risks identified within our audit planning.	<p><b>Governance</b></p> <p>During 2020/21 Pension Fund’s governance arrangements continued to operate as intended, and as in prior year. As administering authority, the Dumfries and Galloway Council established emergency governance arrangements in March 2020 as a result of COVID-19 outbreak. This included temporary governance arrangements. During this period there were no decisions made that impacted upon the Pension Fund. During 2020/21, Pension Board and Sub Committee meetings continued to be held remotely via video conferencing.</p> <p>The Pension fund is required to report annually a Governance Compliance Statement in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018 outlining how the Council has complied with best practice. One not operating within best practice is around the frequency of meetings where best practice would be for the administering authority’s main committee / committees meet at least quarterly. The Pensions Committee and Pensions Board met three times during the year. This has been disclosed in the updated draft accounts. The Pension Fund Board and Sub-Committee’s standard meeting schedule is quarterly and we are satisfied that these arrangements are in place to ensure compliance with best practice in 2021/22.</p>	<p>We did not identify any concerns around Pension Fund’s governance arrangements or disclosures within the draft Governance Statement.</p> <p>We raised one disclosure adjustment for the governance statement to reflect that in 2020/21 it did not fully comply with best practice as there were only three Pensions sub-Committee meetings held in the year (Appendix 1).</p>

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	Grant Thornton conclusion
Financial Sustainability, (as applicable to a smaller body)	No significant risks identified within our audit planning.	<p>For the year to 31 March 2020, the Pension Fund reported a return on investments (ROI) of 22.8%. This saw the Pension Fund's investments increase in value from £0.821 billion to £1.001 billion. The ROI slightly outperformed against the Pension Fund's annual benchmark of 19.7%. The positive performed reflected the improved position across global markets, particularly global equities which recovered following the initial market reaction to Covid-19 pandemic in March 2020. Over the longer term, the Pension Fund has achieved its targeted benchmark of 7.7% over the five years to 31 March 2021.</p> <p>During the year the actuarial valuation (triennial valuation) took place as at 31 March 2020. This showed that the Pension Fund was 92% funded, meaning that it had 92% of the assets required to meet the cost of all future benefits. This was consistent with the triennial valuation as at 31 March 2017. The Pension Fund sets a funding Strategy statement which aims to ensure there is a sustainable approach to recover the deficit position over time.</p> <p>The Pension Fund recognises wider risks through ongoing market uncertainty and a weaker outlook for future investment returns creating increasing upwards pressure on primary contribution rates of the fund. The pension fund is a multi-employer fund with 4 scheduled bodies and 7 admitted bodies. Given the public sector nature of these employers the funding risk associated with default is viewed as relatively low by the Pension Fund and the fund plans to recoup deficits over a 15 year period for most employers.</p>	<p>Through our audit procedures we have not identified any significant risks in relation to Pension Fund's financial sustainability.</p> <p>The Pension Fund's performance during 2021 exceeded benchmark by 3.1%. This strong performance was during a period of significant uncertainty through Covid-19 and Brexit impacting on market performance.</p> <p>The Pension Fund recognise the risks and uncertainties to the fund and manages the balance of ensuring a diverse portfolio that delivers targeted returns within appropriate investment risk profile.</p>

# Appendices



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# 1. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. We are pleased to report that there were no corrected or uncorrected misstatements to the primary financial statements.

## Misclassification and disclosure changes

The table below provides details of substantive misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure	Auditor recommendations	Adjusted?
Annual Report	Minor presentational disclosures to enhance information provided in the Management commentary including: including contribution rates (per the 2020 triennial valuation for a forward look perspective); narrative around increased management expenses and other presentational adjustments. The draft	Partly – Minor presentational changes have been made to the draft Annual report. There is an opportunity for the Pension Fund to review the performance of the report to potentially have greater focus on overall fund performance throughout the year. Note presentational recommendation only.
Statement of responsibilities	Statement of the authority and Section 95 Officer's responsibilities to be updated to reflect applicable guidance.	✓
Governance Compliance Statement	The Governance Compliance Statement required updating to outline how the Fund did not operate within best practice in relation to the frequency of meetings where best practice would be for the administering authority's main committee / committees meet at least quarterly. The Pensions Committee and Pensions Board met three times during the year. This has been disclosed in the updated draft accounts.	✓
Accounting policies – Financial assets / liabilities	The Pension Fund has some immaterial financial assets and liabilities held at amortised cost. The associated accounting policies h) and l) do not refer to any financial instruments at amortised cost. Potentially excluded on grounds of materiality?	<b>No</b> – The financial assets and financial liabilities are not considered material to the financial statements and therefore audit are satisfied this is not a material omission in the accounts. Officers will review accounting policies for the 2021/22 financial statements.

Disclosure	Auditor recommendations	Adjusted?
Commitments	The Pension Fund has committed to funding up to £70 million of investments in Blackrock. Officers have disclosed this arrangement in the Management Commentary. However, the accounts should include a commitments note to shows this commitment.	✓
Analysis of investments and investment income	Notes 12 and 14 to be updated to ensure consist disclosure around analysis of investment types and income across these.	✓
Auditor comparator	Auditor's remuneration should include comparatives	✓
Presentational disclosure	Note 15a refers to fair value techniques representing highest and best price. This is not strictly the case. Highest and best use is relevant to the fair value of non-financial assets and liabilities. Note 16 uses old terminology 'loans and receivables' Under IFRS 9 this should be financial assets at amortised cost	✓
Currency risk disclosures	The currency risk disclosed in the notes to the accounts would be improved if on a currency by currency basis.	<b>No</b> – Officers will review accounting policies for the 2021/22 financial statements. As external auditors we are satisfied that this does not have a material misstatement in the accounts.
Presentational	The Pension Fund's annual report and accounts should be signed by appropriate Officers and representative from those charged with governance.	<b>Partly</b> – The Annual Report and Accounts have been amended to ensure sign off from the Head of Finance and Procurement, as senior officer from the administering authority and the Chair of the Pensions Committee. Officers will further consider arrangements for sign off in 2020/21.

Disclosure	Auditor recommendations	Adjusted?
Critical judgements	<p>International Financial Reporting standards prescribe the required disclosures in relation to critical judgements. It also requires separate consideration of accounting estimates.</p> <p>The Pension Fund should disclose judgements that Officers make when applying its accounting policies that have the most significant effect on carrying amounts in the financial statements. The draft accounts included two areas of estimation and judgement being IAS 26 obligations and pooled property investments.</p> <p>We would not consider these as areas of material judgement and estimation as there is not assumptions applied that would have a result of a significant risk of resulting in a material adjustment to the carrying amounts. The only material investments relate to level 1 and level 2 investments and the level of estimation in these is limited. In addition IAS 26 pension disclosures do not impact on the primary financial statements.</p> <p>Significant Estimates relate to assumptions and estimates at 31 March that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In the draft accounts. There is an opportunity to enhance the disclosure to focus on those key areas of estimation that may have a significant risk of material misstatement in the next 12 months. This should focus on those key areas of assumptions such as pension fund discount rate or key assumptions in the valuation. In addition we would not consider the IAS 26 valuation of liabilities to be a critical estimate as it does not impact on the primary financial statements.</p>	<p><b>Partly</b> – Officers have reviewed critical estimates and have concluded there were no critical estimates that would have a material impact on the accounts. We concur with this conclusion.</p> <p>However, there are further opportunities to enhance the disclosures in relation to significant estimates and judgements in accordance with the accounting standards. In particular we would expect a specific note to inform the reader of the accounts around the estimates and judgements in the financial statements. The focus in relation to pension scheme investments should be those estimates where there is a significant risk of material misstatement in the next 12 months. As auditors we are satisfied that this does not represent a material disclosure misstatement in the financial statements and Officers have agreed to review as part of the 2021/22 financial statements.</p>
Cash and cash equivalents	<p>As at 31 March the Pension Fund held cash and debtor balances of £3.09 million. Note 16 incorrectly classifies these balances as held at amortised costs. Instead they should be classified as Fair Value Through Profit and Loss (FVTPL).</p>	✓

There were minor presentational (rounding / formatting) changes recommended to Management. These are not considered material to the accounts.

## 2. Follow up of 2019/20 recommendations

We are pleased to report there were no audit recommendations arising from our audit work in the current year. We set out below our follow up of our 2019/20 recommendation and this is reflected below for information.

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### Governance

The Pension Fund and administering authority established emergency Covid-19 governance arrangements were implemented whereby meetings of the Council and its committees were suspended unless there was an urgent business requirement. An Ad-Hoc COVID-19 Sub Committee of the full Council was established. All urgent business of the Pension Fund was considered through this Ad-Hoc committee as required. The draft unaudited accounts were approved by the Full Dumfries and Galloway Council meeting on 25 June with information circulated to Pension Committee and Pension Board members, including pension performance. While it is anticipated that the Pensions Sub Committee and Board meetings will resume in September, it is important that the Pensions Sub Committee / Board has clear understanding of any significant business or decisions taken in the period where governance arrangements were suspended. Officers should ensure these are clearly reported to the Pensions Sub Committee to ensure retrospective consideration.

**Initial management response:** No urgent business was required to be considered by the Ad Hoc COVID-19 Sub-committee, however to ensure Members were kept up to date a briefing was circulated to Members of the Committee and Board. Everything covered on this briefing has been followed up within papers presented to Pension Sub Committee and Board on 22 September 2020.

### Follow up: Closed

Member briefing was followed up to presentation to the Pensions Sub-committee and Board in September 2020 of business arising during the course of the year.

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# 3. Audit fees and independence

## External Audit Fee

<b>Service</b>	<b>Fees £</b>
External Auditor Remuneration	22,790
Pooled Costs	2,170
Contribution to Audit Scotland costs	1,250
Contribution to Performance Audit and Best Value	-
<b>2020/21 Fee</b>	<b>26,210</b>

## Fees for other services

<b>Service</b>	<b>Fees £</b>
We confirm that for 2020/21 we did not receive any fees for non-audit services	Nil

## 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 to your attention.
- We have complied with the Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.
- We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.
- 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.

## Client service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact Joanne Brown, Head of Public Sector Assurance Scotland in the first instance who oversees our portfolio of Audit Scotland work ([joanne.e.brown@uk.gt.com](mailto:joanne.e.brown@uk.gt.com)). Alternatively, should you wish to raise your concerns further please contact Jon Roberts, Partner and Head of Assurance, 30 Finsbury Square, London, EC2A 1AG. If your feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to Elaine Boyd, Assistant Director, Audit Scotland Quality and Appointments in accordance with the Audit Scotland audit quality complaints process.

## Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020](https://www.grantthornton.co.uk/transparency-report-2020) ([grantthornton.co.uk](https://www.grantthornton.co.uk))

# 4. Communication of audit matters

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 below.

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's 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		•



