

Wiltshire Pension Fund

Final report to the Audit Committee for the 2020 audit

25 January 2023



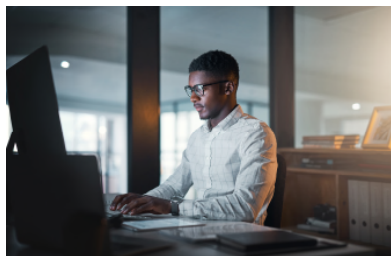
Final report

A tailored, insightful and efficient audit delivered by a team of pension audit specialists

Executive summary

The key messages in this report (1/2)

Ian Howse
Lead audit partner



Audit quality is our number one priority.

We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A **robust** challenge of the key judgements taken in the preparation of the financial statements.
- A strong **understanding** of your internal control environment.
- A **well planned** and delivered audit that raises findings early with those charged with governance.

We have pleasure in presenting our Final Report to the Audit Committee for the 2020 audit of Wiltshire Pension Fund (the 'Scheme'). We would like to draw your attention to the key messages of this paper:

Status of the audit

The fieldwork for the Wiltshire Pension Fund audit for the year ended 31 March 2020 was completed in October 2020. However, due to significant delays on the Wiltshire Council audit, the Fund accounts have not been signed to date.

During this time, several post balance sheet events, such as Covid, Brexit, the Russia/ Ukraine issue, the 2020 GMP High court ruling and the gilt crisis have occurred. During the 2021 audit of the Fund, the management has also confirmed that the pensions for the Fund are underpaid due to a difference between SAP and Altair. We are assessing the impact of these events on the financial statements as part of our audit procedures.

The audit is progressing towards completion, to be signed alongside the Wiltshire Council 2020 financial statements. The following procedures have still to be completed and our final opinion is subject to the below:

- Review of the support for pensions underpaid due to the differences in SAP and Altair and receipt of any underlying information as a result of this review;
- Completion of our internal quality review procedures;
- Receipt of the signed representation letter from the Audit Committee; and
- Receipt of the management's assessment of the post balance sheet events and the completion of our post year-end events review.

Subject to the satisfactory receipt and the completion of the items above we expect to issue an unmodified audit opinion on the financial statements.

Significant audit risks

Our audit has been carried out in line with the risk assessment set out in our planning paper, dated 5th February 2020. Our significant audit risk is:

- Management override of controls;

Although not assessed as significant risks, we have assessed the following to be areas of audit focus:

- Completeness and accuracy of the asset transfer to Brunel Pension Partnership Limited;
- Valuation of alternative investments;
- Completeness of investments and investment disclosures;
- Accuracy of benefits paid (lump sums and transfers out); and
- Accuracy of benefits paid (pensions)

We have also added the following audit focus area to those highlighted in our planning report dated 5th February 2020:

- Completeness and accuracy of membership data

We have commented on why the completeness and accuracy of membership data has been increased to an audit focus area on slide 12.

Audit Quality

We are committed to keeping the Audit Committee updated on pension industry topical events and have included in our planning report developments in respect of the updated prosecution policy published by TPR, notifiable events regime, TCFD and the single code of practice that should be considered by those charged with governance.

Our audit approach is tailored to providing the Audit Committee with an audit which is designed to provide assurance and insight over the Fund control environment.

We have utilised specialists through our audit to support the robustness of our work in areas such as IT. We have listed the observations in Appendices 1 and 2 on pages 25 to 28.

Independence

We confirm we are independent of the Fund and that our objectivity has not been compromised for the year ended 31 March 2020.

Executive summary

The key messages in this report (2/2)

Going concern

We are required to directly opine on the going concern of the Fund in our audit opinion on the financial statements. As part of this process, details of the work we have performed around going concern are detailed below:

- Reviewed the Audit Committee's assessment of going concern, taking into consideration the financial position and its arrangement with the employers and the funding level;
- Obtained the latest publicly available information regarding the financial position of the administering authority (Wiltshire Council) to support the Audit Committee's assessment of going concern;
- Analysed the latest funding strategy statement of the Fund;
- Reviewed management's assessment of the timeliness of receipt of employer contributions received after 31 March 2020 to 31 March 2022; and
- Reviewed minutes of the Audit Committee and Committee meetings which took place between 2020 and 2022.

We agree with the Audit Committee that the Wiltshire Pension Fund remains a going concern.

Non-compliance with laws and regulations, including fraud

In our Audit Report in the financial statements we are now required to directly report on the extent to which the audit was considered capable of detecting irregularities, including fraud and other matters of non-compliance with laws and regulations. To enable us to do this our procedures have involved:

- Reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- Performing analytical procedures to identify unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- Enquiring of the Audit Committee concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations;
- Reading minutes of Audit Committee and subcommittee meetings and reviewing correspondence with the Pensions Regulator; and
- Performing specific procedures to respond to the risk of management override of controls – see page 8 for further details on this.

We have not identified any issues of non-compliance with laws and regulations, including fraud, from our audit testing performed to date, barring the delay in Fund accounts.

GMP Equalisation

On 26 October 2018, the High Court handed down a judgement involving the Lloyds Banking Group's defined benefit pension schemes. The judgement concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. Subsequently, on 20 November 2020, the High Court ruled that pension schemes will need to revisit individual transfer payments made since 17 May 1990 to check if any additional value is due as a result of GMP equalisation.

No GMP equalisation estimate has been made for the Fund for the year ended 31 March 2020 as the GMP information on the Fund was in analysis stage, therefore, no amount has been recognised within the financial statements.

The McCloud Case

On 21 December 2018, the Court of Appeal held that transitional protections that protected older judges and firefighters from the public sector pension scheme changes in 2015 were unlawfully discriminatory. This case is known as the 'McCloud case'. On 26 March 2020, a ministerial statement confirmed that detailed proposals for removing the discrimination would be published in 2020 and be subject to public consultation. The impact for the McCloud case as at 31 March 2020 has been calculated at £1.9m.

As the amount is not material, no amount has been recognised within the financial statements. Given that this has not yet been recognised within the financial statements as a provision, and the Audit Committee is not expecting to make adjustments in the 2020 accounts, we have included this in the letter of representations as an uncorrected misstatement as the amount is more than our clearly trivial thresholds of £0.805m. Please also refer page 25 of this report.

Materiality

Our Approach to Materiality

BASIS OF OUR MATERIALITY BENCHMARK

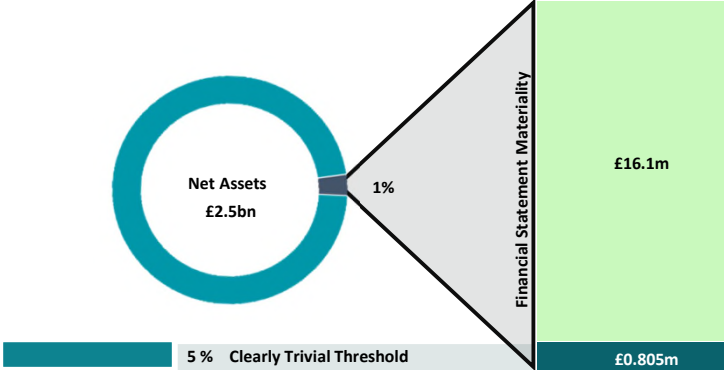
- We set materiality for our opinion on the individual financial statement as £16.1m (PY:£23m), based on professional judgement, the requirement of auditing standards, the net assets of the Fund.
- We used 1% of Fund net assets as the benchmark for determining our materiality levels (£25m). However, we then capped the materiality at £16.1m in order to be consistent with the materiality on Wiltshire Council for the year ended 31 March 2020.

REPORTING TO THOSE CHARGED WITH GOVERNANCE

- Our reporting threshold of £0.805m (PY: £1.2m) is set at 5% of our materiality level above. As per our planning report (page 7) the council materiality was capped at £16.1m and hence the Fund materiality is also capped at the same amount.
- There have been three uncorrected misstatements and two corrected misstatements above our clearly trivial threshold. There have also been five corrected disclosure deficiencies noted during the audit, all of which have been outlined in Appendix 1.









































MATERIALITY CALCULATION

Although materiality is the judgement of the audit partner, the Audit Committee must be satisfied the level of materiality chosen is appropriate for the scope of the audit.



Risk Dashboard








Significant risks and audit focus areas

Risk Identified	Material Balance	Management Judgement	Proposed Approach	Fraud Risk	Further Details
 Significant risk Management override of controls					Page 8
 Audit focus area Valuation of Alternative investments					Page 10
 Audit focus area Accuracy of benefits paid (lump sums and transfers out)					Page 11
 Audit focus area Accuracy of pensions paid					Page 12
 Audit focus area Completeness and accuracy of membership data					Page 12
 Audit focus area Completeness of investments					Page 13
 Audit focus area Completeness and accuracy of the asset transfer to Brunel Pension Partnership Limited					Page 13
 Audit focus area Completeness of investment disclosures					Page 14

Significant Risk: risks which require a tailored, elevated audit response in terms of the nature, timing and extent of audit testing. The determination of significant risks are based on professional judgment and the results of the risk assessment procedures we have performed.

Audit Focus Areas: risks which require additional audit consideration beyond that of normal risks, but where the potential for material misstatement or the likelihood is lower than that of a significant risk.

*As per discussions with the Audit Committee, we have not utilised our actuarial specialists to revalue a sample of transfer values paid out during the year as no issues have been noted in previous periods in respect of transfer values. Therefore, this is considered to be a normal risk and therefore has not been referred to further in our report. With the exception of the specialist recalculation, our procedures in respect of this balance have remained unchanged.

	Significant Risk		Low levels of management judgment/complexity		Design Implementation	and
	Other area of audit focus		Medium levels of management judgement/complexity		Operating Effectiveness	
			High degree of management judgement/complexity			



Significant risk

Significant risk

Management override of controls



Risk identified

In accordance with ISA 240 (UK) management override is always a significant risk for financial statement audits. The primary risk areas surrounding the management override of internal controls are over the processing of journal entries and the key assumptions and estimates made by management.



Response of those charged with governance

- The Audit Committee does not have access to the Fund accounting system and does not process any journals in respect of the Fund.
- The financial reporting process in place has an adequate level of segregation of duties.



Conclusion

We have identified a control deficiency over the segregation of duties in place which has been highlighted in Appendix 2.

We have not identified any incentives for the accounting staff to misstate the Fund accounts and our review of journal entries revealed no instances of management override of controls.



Deloitte response and challenge

In order to address the significant risk our audit procedures consisted of the following:

- made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- performed a walkthrough of the financial reporting process within the Wiltshire finance team to identify the controls over journal entries including adjustments posted in the preparation of the financial statements;
- tested the design and implementation of controls around the journals process ensuring that there is an appropriate level of segregation of duties over processing journal entries to the financial statements throughout the year;
- Tested the design and implementation of controls around the investment and disinvestment of cash during the year;
- Utilised Spotlight, our data analytics software, in our journals testing to interrogate 100% of journals posted across the Fund. This uses intelligent algorithms that identify higher risk and unusual items which we then investigated; and
- Reviewed the accounting estimates for bias, such as year-end creditors, debtor postings, the valuation of unlisted investments, that could result in material misstatement due to fraud, including whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicate a possible bias on the part of management.



Audit focus areas

Valuation of alternative investments



Risk identified

The Fund has a diverse portfolio of investments, containing some assets regarded as alternative investments. These alternative investments, include property, infrastructure and emerging market debt and equity funds.

State Street do not independently value these investments and therefore the valuation of these investments is supplied directly by the fund managers and is subject to an element of judgement on behalf of the fund managers due to the unobservable inputs used in their valuation calculations. Due to the specialist nature of these investment types, the valuation is more judgmental which increases possibility of material misstatement.



Deloitte response and challenge

We performed the following procedures to address this area of audit focus:

- reviewed the design and implementation of controls over the reporting and monitoring of investments by the finance team;
- tested the design and implementation of the controls around the valuation of alternative investments for a sample of alternative investment fund administrators;
- vouched all alternative investment valuations to independently received statements; and
- For a sample of alternative investments, we have;
 - inspected the latest audited financial statements and confirmed that the audit opinion was unqualified; and
 - compared the reported valuation to that included in the latest audited accounts for the fund in question. Where the audited accounts were not coterminous with the Fund's year end we have rolled forward the audited valuation adjusting for purchases, sales, distributions, capital calls and market value changes by reference to an independently sourced external benchmark. Recalculated values have then been compared to the recorded value and any difference assessed against a statistical threshold.
 - Proposed appropriate stale price adjustments to the financial statements for alternative investments.



Conclusion

We identified stale pricing adjustments of £11.779m in the year on the valuation of pooled investment vehicles when comparing the custodian statement and the directly obtained confirmations from investment managers. Management adjusted for this stale pricing at year end. A breakdown of the pooled investment vehicles impacted by the stale pricing is provided in Appendix 1.

We also identified an adjustment due to FX rate differences between Baillie Gifford (investment manager) and State Street. Management has used the State Street valuation to create the accounts and have not adjusted for these FX rate differences. The differences occurred in the value of investment purchases, sales and change in market value due to different HKD, EUR and USD rates being used by the custodian and investment manager. The total adjustment proposed is £3.381m. A breakdown of this adjustment has been provided in Appendix 1.

We recommend that the management recognizes the difference between the investment manager and custodian and adjusts for this in the financial statements.

Audit focus areas

Accuracy of benefits paid (lump sums and transfers out)

FOCUS AREA



Risk identified

The risk principally relates to the inaccurate application of the LGPS regulations and rules to the calculation of retirement benefits and transfers out paid during the Fund year. The administration team use Altair to calculate retirement benefits and the payment of benefits is dependent on systems-based processing together with an internal control framework in place

Incorrect benefits calculations and/or making payments to the wrong members, or people who are not eligible for benefits, can lead to misstatement of the financial statements, financial loss, pensioners being wrongly paid, reputational damage and breaches of the Pensions Acts.



Deloitte response and challenge

We performed the following procedures to address this area of audit focus:

- tested the design and implementation of key controls operating within the Altair infrastructure around the accuracy of lump sum retirements and changes to Altair in respect of actuarial factors and reviewed the process that Fund management have put in place to ensure benefits and transfers out are paid in accordance with the LGPS Regulations & Rules;
- agreed a sample of benefits paid to the calculations and payment including both lump sum and transfers;
- agreed a sample of benefits paid through to a signed option form to ensure that it was in line with members wishes;
- reviewed the member file for a sample of benefits paid to ensure adequate sign off of all internal processes; and
- for a sample of transfers out, confirmed that the receiving Scheme is an HMRC registered Scheme.



Conclusion

We have not identified any errors to report to the Committee as a result of our audit testing.

We identified a control finding in relation to the accuracy of transfers out paid which has been highlighted in Appendix 2. As noted for member ID 1437159E, the payment authorised by the member of the pension's team was outside the employee's authorisation limits.

We have responded to this control finding by assessing the risk of accuracy of lump sums and transfers out as an audit focus area in the following year. We have also tested additional samples as part of our substantive testing as a result of this finding in the current year.

Audit focus areas

Accuracy of pensions paid



FOCUS AREA



Risk identified

The risk principally relates to the accuracy of a material amount of pensions paid by the Fund during the year.



Deloitte response and challenge

We performed the following procedures to address this area of audit focus:

- reviewed the design and implementation of key controls over the calculation of pensions paid;
- for the sample of months selected, agreed the amount as per pension payroll report back to the pension paid from the Fund bank account;
- for a sample of lump sum benefits paid, agreed that these are added to the pension payroll timely and accurately; and
- performed an analytical review on pensions paid by the Fund in the year to assess the reasonableness of the balance.



Conclusion

During our audit of the 2021 Fund financial statements, we were made aware of an error noted between SAP and Altair which resulted in a provision for underpaid pensions of £8.2m recognised in the 2021 financial statements. No provision has been recognised in this respect in the 2020 accounts, however, we have estimated the impact of this provision for 2020, which has been included in Appendix 1. We are currently working on auditing this estimate.

We identified a number of control findings in relation to the accuracy of pensions paid which have been highlighted in Appendix 2.

Completeness and accuracy of membership data

The accuracy of pensions paid was increased to an audit focus area in the year due to a finding in the 2021 audit of the Wiltshire Pension Fund, around the reconciliation of pensioners between the Fund's payroll ledger and Altair (the Fund's membership database). This also resulted in a provision for underpayment of pensions in the 2021 Fund accounts.



Risk identified

The risk principally relates to the accuracy and completeness of member data due to ineffective reconciliation of new pensioners and new dependents between Altair and SAP.



Deloitte response and challenge

We performed the following procedures to address this area of audit focus:

- for the sample of members selected, agreed the members as per membership reconciliation provided via Altair, to the schedule of lump sums and transfers out paid;
- performed a completeness check on the membership reconciliation by reconciling the active members and pensioners to the respective contributions and pensioner payroll reports.



Conclusion

We identified small differences of less than 1% of member population in the reconciliation between active members and contribution payroll report as at 31 March 2020 and pensioners as per Altair and the pensioner payroll report from SAP as at 31 March 2020.

We recommend that the management reconcile the membership differences between SAP and Altair.



FOCUS AREA

Audit focus areas

Completeness of investments



Risk identified

Due to the nature of the investment holdings, there are a significant amount of transactions during the period and therefore there is a risk that these are not accurately or completely recorded.



Deloitte response and challenge

We performed the following procedures to address this area of audit focus:

- tested the design and implementation of controls around the processing, recording and reconciliation of investment transactions at Statestreet; and
- audited the cash and market value reconciliations performed by Statestreet.



Conclusion

We identified an adjustment in the sales within the Other PIVs balance. Management have adjusted for these in the financial statements and this is included within the corrected adjustments in Appendix 1.

Completeness and accuracy of the asset transfer to Brunel Pension Partnership Limited



Risk identified

Due to the Government announcement that Local Government Pension Schemes must pool their assets together in order to reduce the cost of investing to the public purse, the Fund has agreed to become part of the Brunel Partnership pool. During the year the Fund transferred two tranches of assets to the Brunel Partnership pension fund.

The transfer of these assets is an area of focus given the need to determine the completeness and accuracy of the transfer of these assets.



Deloitte response and challenge

We performed the following procedures to address this area of audit focus:

- reviewed the investment transition for investments into the Brunel pool and traced through all cash movements ensuring that the value of sales equalled the value of purchases on the day of the transfer; and
- confirmed the completeness and accuracy of the values of the assets transferred by comparing the closing balances of the assets as per the client management breakdown and the LGIM transition report to the balances held at Brunel Partnership.



Conclusion

No issues have been noted in respect of any procedures performed.

Completeness of investment disclosures



Risk identified

The Fund holds a diversified portfolio of investment assets. As this is the largest balance in the financial statements, includes various different investment types, and the impact of Covid-19 on the market value, disclosure requirements and gating of investments, the investment disclosures could be prone to error. Therefore, accuracy of investment disclosures is an audit focus area for the current year audit.



Deloitte response and challenge

We performed the following procedures to address this area of audit focus:

- reviewed and assessed the appropriateness of the classification of investment assets and liabilities within the investment disclosures;
- independently confirming if the funds are gated or have material uncertainty associated with them at year end. If so, ensuring that the fair value hierarchy disclosure reflects the same.



Conclusion

We identified a number of investment disclosure deficiencies included within the corrected and uncorrected adjustments in Appendix 1 on page 26.



Purpose of our report

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit Committee discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations.
- Our internal control observations.
- Other insights we have identified from our audit.

Use of this report

This report has been prepared for the Audit Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

We welcome the opportunity to discuss our report with you and receive your feedback.

What we don't report

As you will be aware, our audit is not designed to identify all matters that may be relevant to the Audit Committee.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

Our topical matters provide the Audit Committee with some insight in to relevant topical events in the pensions industry.

We will update you if there are any significant changes to the audit plan.

Deloitte LLP

Cardiff | 25 January 2023

01

02

03

04



Topical Matters

Key audit matters

Topical matters

New, consolidated and simplified enforcement policy and updated prosecution policy published by TPR



KEY DETAILS

On 4 May 2022, The Pensions Regulator (TPR) published for consultation its new, consolidated and simpler draft enforcement policy and an updated prosecution policy to help stakeholders understand the regulator's approach.

The enforcement policy simplifies and consolidates previous policies for public sector and occupational pension schemes or all types i.e. defined benefit, hybrid and defined contribution pension schemes. Both policies have been updated to include the new powers granted to the regulator in the Pensions Scheme Act 2021 and to reflect knowledge and experience gained by TPR using the existing enforcement powers. The principal aim is for TPR to be clearer about all its enforcement powers through more streamlined policy documents.

The new powers aim to strengthen the TPR's regulatory framework, allowing it to gather evidence more efficiently and respond to events or conduct that could affect schemes. The Pensions Scheme Act 2021 also introduced several sanctions and deterrents against conduct that could put members' pensions at risk or impede the regulator's investigations. **Deloitte have previously provided a topical update slide on the Pensions Scheme Act 2021 and this can be provided again on request.**

Speaking about the policy updates David Fairs, TPR's Executive Director of Regulatory Policy, said: "We want to be clear with the pensions industry about our approach to enforcement and prosecution. With our new powers to help us ensure savers' money is secure, we felt it was timely to review our existing policies and consolidate them where possible, so they are easier to navigate. These two policies explain what targets or those affected by enforcement action should expect from TPR, from the point of our opening an investigation through to the conclusion of any enforcement action. We've simplified, consolidated and clarified the way in which our regulated community accesses important information about enforcement."

Enforcement policies for automatic enrolment, master trust authorisation and upcoming CDC schemes are not included in new draft enforcement and prosecution policies discussed above.

Deloitte view: The above consultation closed on **24 June 2022**. The Audit Committee should familiarise itself with the draft policy documents and the powers available to the TPR around enforcement and prosecution and consider responding to the consultation should they consider this appropriate to do so.

Article source: TPR website

Topical matters

Upcoming changes to the Notifiable Events regime



KEY DETAILS

Audit Committees and sponsoring employers of DB schemes are required to notify TPR of certain events relating to the scheme and/or the employer (known as “notifiable events”)

The Act sets the scene for the introduction of new Notifiable Events, and TPR has consulted on draft regulations which are expected to make certain corporate activities notifiable events. The new requirements to notify TPR will be triggered following a “decision in principle”:

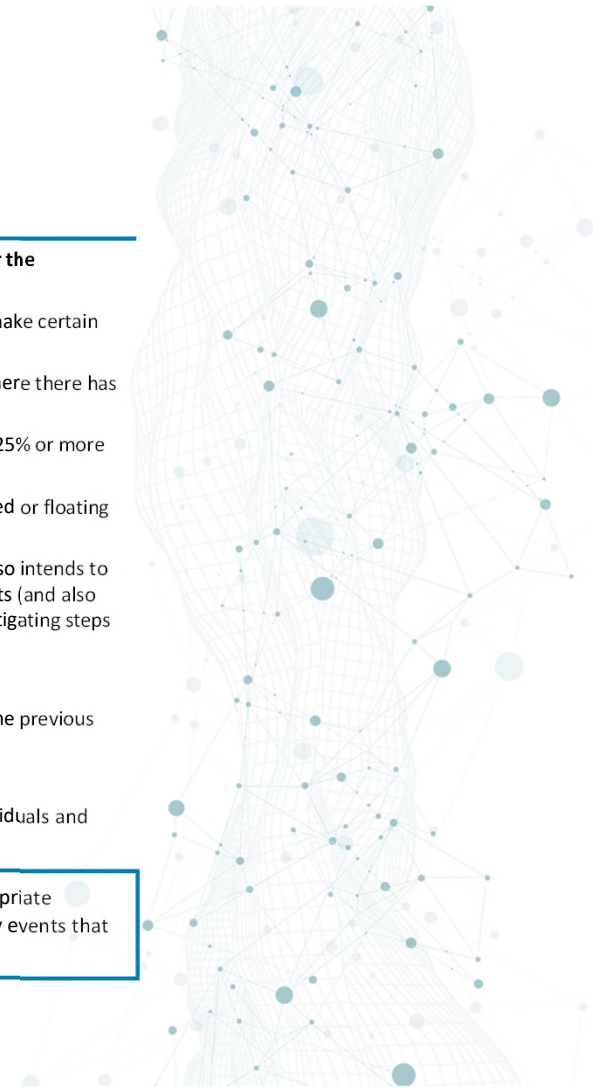
- by a controlling company to relinquish control of a sponsoring employer, or if there is an offer to acquire control of the employer where there has been no decision in principle to relinquish control;
- by the employer to sell a material proportion of its business (25% or more of annual revenue) or a material proportion of its assets (25% or more of the gross value of its assets); or
- by the employer or its subsidiaries to grant or extend security over assets in priority to the scheme. Generally, this would mean a fixed or floating charge at a level of 25% or more of either the employer’s consolidated revenue or its gross assets.

The obligation to notify extends to a “material change” in respect of any of the new events or their expected effects. The Government also intends to introduce a requirement for an “accompanying statement” to be provided to TPR (copied to Audit Committees) in relation to these events (and also the relinquishing of control by a controlling company) which includes a description of any adverse effects on the eligible scheme, any mitigating steps being taken, and any communications with the Audit Committees of the scheme.

Anticipated impact

- Decisions to sell a business or assets, or to grant or extend security over assets may need to be notified - these were not caught by the previous notifiable events regime.
- Likely to broaden the need for employers to disclose details of planned corporate activities to Audit Committees.
- Compliance will be crucial as penalties for breach will be much higher than currently i.e. up to £1 million rather than £5,000 for individuals and £50,000 in other cases.

Deloitte view: The Audit Committee should consider the upcoming changes to the notifiable events routine and ensure that appropriate channels of communication are in place with the sponsoring and participating employers to ensure you are kept up to date with any events that would be considered a notifiable event.



Topical matters

TCFD update, illustrative example made available by TPR



KEY DETAILS

The TPR has published on 23 February 2022 an illustrative example aimed at helping Audit Committees and advisers work through the comprehensive new duties on climate-related governance and reporting. The example seeks to address specific requests for more information and examples received by TPR from the pensions industry during its eight-week consultation. It is intended to help develop an understanding of how Audit Committees and advisers might approach implementing the requirements of the new regulations at a practical level. The example provides information relevant to Audit Committees and advisers of any scheme seeking to comply with the new regulations. From October 2022, more schemes with relevant assets over £1bn are set to come into the scope of these rules, so Audit Committees and advisers need to ensure they are familiar with the relevant guidance in this area and the illustrative example may be helpful.



TCFD REPORTING

Many pension schemes with assets >£5bn and from October 2022 those schemes with assets >£1bn will be required to publish their annual TCFD statement. The requirement is to make this available on a publicly available website. The ICAEW Pension Sub-Committee, at which Deloitte are represented, recently raised the issue with the Financial Reporting Council as to whether the TCFD statement falls within the definition of 'Other Information' under International Standard on Auditing (ISA) 720.

Provided the Annual Report sign posts to where the TCFD statement has been published and that this 'does not form part of the Annual Report and Accounts' then this will not be treated as 'Other Information' under IAS 720. Practically, this means that the insertion of a link to the TCFD statement in the Annual Report does not mean that the TCFD statement should be treated as Other information and the statement is therefore outside of the scope of our audit. The Audit Committee may still wish for the TCFD statement to be reviewed/benchmarked by Deloitte for helpful best practice guidance but this would be outside of the agreed audit fee.



Audit Committee investment responses to Russia/Ukraine

The global response to Russia's invasion of Ukraine continues to escalate with ever increasing sanctions being imposed on Russia and people connected to the Russian State. Many Trustee directors will be considering the immediate impact of the invasion, their exposure and how they should respond now and in the future as sanctions continue to be imposed.

From our experience of dealing with clients thus far, most UK pension schemes have extremely low exposure to investments in Russia. However, we know that some Trustees along with their investment advisors, are reviewing their investment policies and mandates to limit or exclude investment managers investing in certain Russian entities or bonds all together. Immediate actions that Trustees may consider taking are the following:

- Check managers and custodians have policies in place to comply sanctions as they continue to evolve;
- Liaise with investment managers and advisers to quantify direct and indirect exposure (through pooled investment vehicles) to Russian investments;
- If the scheme has direct exposure, consider the options available, for example divestment; and
- Consider the need for disclosure in the Annual Report about the actions the Trustees have been taking and any proposed future steps that will be taken pro-actively.

Topical matters

Single code of practice (1/2)

The Pensions Regulator’s Single Code of Practice (the “Code”) is expected to come into effect this summer. At a total of 149 pages, the Code consolidates and updates 10 of the 15 existing separate TPR Codes of Practice. The “Code” is detailed and requires Trustees to review the effective governance system of their scheme. There is not a firm publication date for the new Code, however it is likely to become effective around Summer 2022. It also requires that Trustees carry out an Own Risk Assessment in respect of their scheme by Summer 2023.

OWN RISK ASSESSMENT

The Code sets out the new requirement to produce an Own Risk Assessment (“ORA”), which requires Trustees to assess the effectiveness and risks of the scheme’s system of governance. There is no requirement to publish the ORA or send it to TPR, but TPR expects schemes to record their ORA. It is expected that the first time Trustees prepare an ORA, it “may be a significant piece of work” and you should therefore ensure that enough time and resources is available to complete the ORA. Schemes will have 12 months from the date that the Code comes into force to document their first assessment.

It is expected that many schemes will already have broadly comparable review processes to the ORA in place already, while others will have to expand their processes considerably. The best run schemes will therefore have less work to do, however the ORA will not be a tick-box exercise and is intended as a tool to focus governing bodies on their policies, processes and procedures in a way they may not have done before.

Note that the new requirement for an ORA is not expected to apply to schemes with fewer than 100 members.

Below we have shown some of the requirements of TPR’s Single Code of Practice. Some requirements in the existing Codes of Practice have been carried over into the Single Code.

The Governing body

- Requirements relating to trustee selection, in particular the selection of MNTs, and establishing a written remuneration policy.
- Requirements for what must be included in meeting minutes, and an expectation that for most schemes trustees there will be a need to meet at least quarterly.
- Trustees must meet various Trustee Knowledge and Understanding requirements, including building and maintaining knowledge as it relates to pensions legislation and scheme-specific information. Trustees are to maintain a list of items all trustees should be familiar with.
- All schemes should have an effective system of governance (ESOG), including identifying and assessing risks, internal controls and consideration of conflicts of interest.

Funding and investment

- The Code requirements cover investment governance, decision making, investment monitoring and stewardship (including considerations regarding ESG and climate change).
- Requirements include trustees having a good working knowledge of investment matters for the scheme, understanding their investment powers and duties, appointing a suitably qualified adviser, and preparation of the statement of investment principles and an annual implementation report.
- Trustees should document objectives, roles, responsibilities and reporting relationships; have written policies covering the use of advisers; and document any changes to investments and investment strategy.

Administration

- Trustees should maintain sufficient knowledge of administration, receive appropriate reports from administrators, and ensure administrators have a business continuity plan that is reviewed at least annually.
- The Code sets out requirements around member transfers, re-emphasises the industry-wide guidance in relation to scams, and includes specific requirements for DB to DC transfers (valued at £30k or more where members must receive appropriate independent advice).
- The Code requires that schemes carefully manage data, incorporating suitable record-keeping, data-monitoring and establishing policies around cyber controls. It specifically requires Trustees to “have knowledge and understanding of cyber risk”.
- Trustees are to maintain a record of contributions expected and received, and must put in place processes to facilitate the monitoring of contributions.

Topical matters

Single code of practice (2/2)



COMMUNICATIONS AND DISCLOSURE

- The Code sets out general principles for member communications, including ensuring all communications for members are accurate, clear, concise, relevant and in plain English.
- The Code also includes requirements for specific communications, e.g. summary funding statements and benefit statements.
- Trustees must put in place formal procedures and processes to investigate and decide upon pension scheme disputes quickly and effectively.



REPORTING TO TPR

- The Code (together with further guidance from TPR) sets out requirements around information to be registered with TPR and scheme returns.
- The Code also details the requirements around reporting breaches of the law and whistleblowing.

Deloitte view: The new single code of practice at 149 pages is a vast document and introduces a raft of new and existing requirements of Trustees. Scheme Trustees should consider reviewing the consultation document, interim consultation responses and the full draft to ensure they are fully up to speed with the requirements. One of the key requirements of the Code will be for the Trustees to demonstrate they have and operate an effective system of governance. A key part of this hinges on internal controls and risk management. Deloitte have provided a further topical update slide on the risk management cycle that Trustees may find useful in applying to their specific scheme environment.



Topical matters

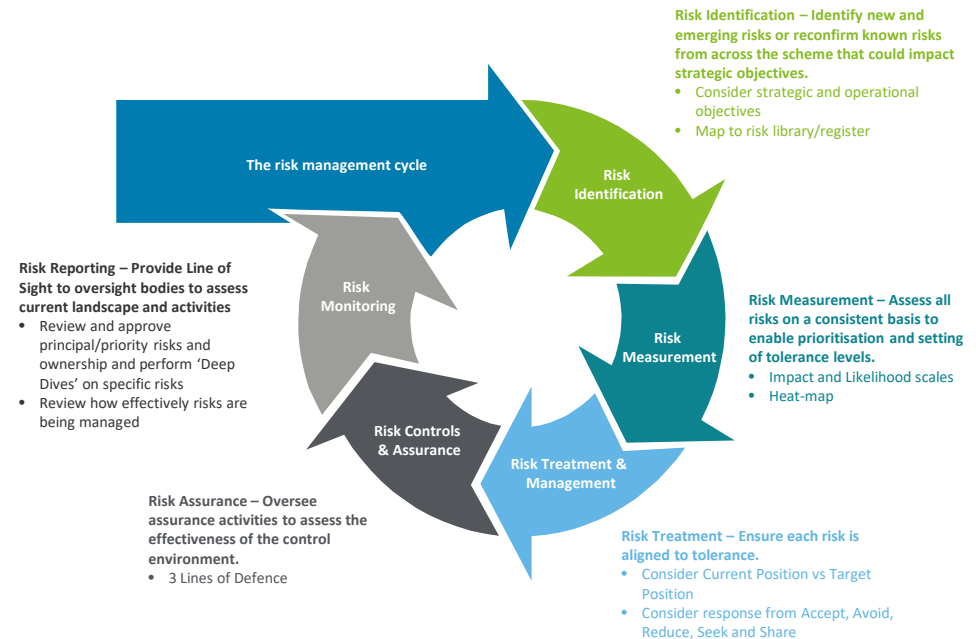
Single code of practice and risk management

The governance regulations have introduced a new requirement for most occupational schemes to have and operate an effective system of governance. Perhaps the single most important aspect of establishing effective systems of governance is the fact that they hinge on internal controls and risk management. The Trustees should monitor the scheme's risk management and internal control and, at least annually, carry out a review of their effectiveness. The monitoring and review should cover all material controls, including financial, operational and compliance controls and could have a rotational assurance plan involving second and third lines of defence.

Some questions that the Trustees should be asking themselves in response to this include:

- Do you have a clear overview of the various elements that make up your system of internal control?
- Have you defined your material controls within your risk register and details of when they were last tested?
- How are authority, responsibility and accountability for risk management and internal control defined, co-ordinated and documented?
- What are the channels of communication that enable individuals, including third parties, to report concerns, suspected breaches of laws or regulations, other improprieties or challenging perspectives?
- How does the board satisfy itself that the information it receives is timely, of good quality, reflects numerous information sources and is fit for purpose?
- How effectively does the Trustee capture new and emerging risks and opportunities?

The key for Trustees to be able to respond to the questions above and the requirement to operate an effective system of governance is to have an effective system of risk management in place. One way the Trustee may wish to do this is through the risk management cycle detailed below. This model can be applied to new and emerging risks but equally aspects of the model can be applied to existing risks and controls.



Deloitte view: Trustees are required to operate an effective system of governance and ensure appropriate controls are in place across the scheme. In establishing this there should be appropriate oversight, systems, processes and reporting in place. A robust control environment is a pre-requisite for an effective audit, as audit standards require us to test key and relevant controls.

01

02

03

04



Appendices

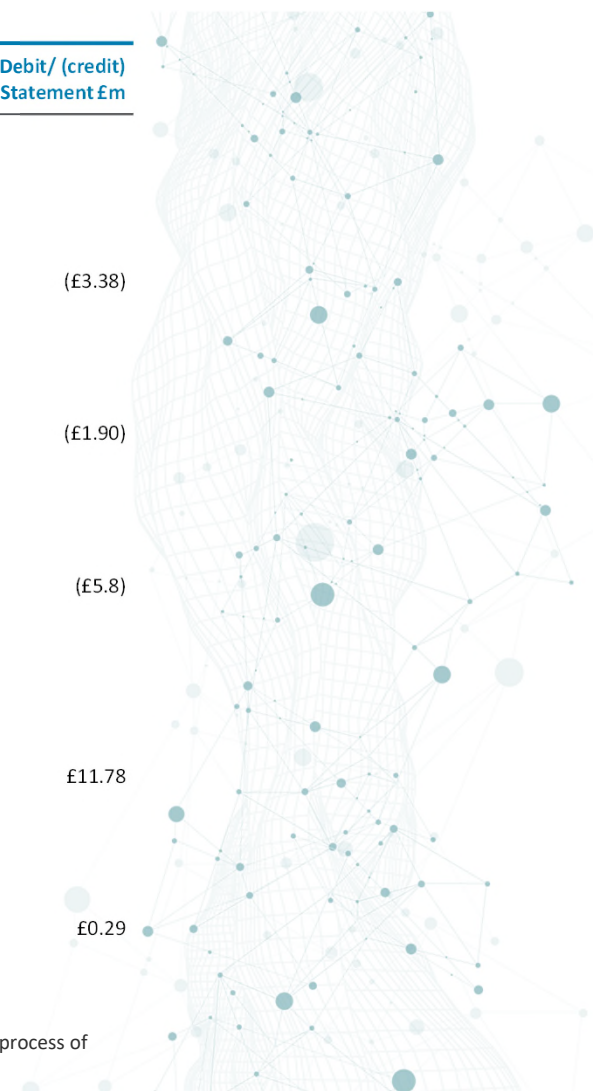
Key audit matters

Appendix 1: Audit Adjustments

Corrected and uncorrected account balance and disclosure misstatements

Detail	Debit/ (credit) Fund Account £m	Debit/ (credit) Net Asset Statement £m
Uncorrected misstatements identified		
FX Rate differences on transaction during the period		
Marketable security investments	£3.38	
Change in Market Value		(£3.38)
Provision for McCloud case		
Operating expenses	£1.90	
Payables		(£1.90)
Provision for benefits underpaid*		
Benefit payments	£5.8	
Payables		(£5.8)
Corrected misstatement identified		
Stale pricing of pooled investment vehicles due to Covid 19 pandemic		
Marketable security investments	(£11.78)	
Change in Market Value		£11.78
Understatement of Sales within Other PIVs balance		
Marketable security investments	(£0.29)	
Change in Market value		£0.29

* We have estimated the amount of benefits underpaid by rolling back the latest estimate provided by the management to 2020. We are in the process of auditing the inputs into this estimate and assessing the completeness and accuracy of this estimate.



Appendix 1: Audit Adjustments

Corrected and uncorrected account balance and disclosure misstatements (Continued)

Detail	Debit/ (credit) Fund Account £m	Debit/ (credit) Net Asset Statement £m
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Corrected disclosure misstatement identified

All of the disclosure misstatements below have been corrected in the attest version of the Fund financial statements:

1. CIPFA, PFA 8 a) requires the analysis of pooled investment vehicles (analysed between unit trusts, unitised insurance policies and other managed funds, showing separately, those funds invested in property) which was not disclosed within the investment disclosures in the draft financial statements.
2. CIPFA guidance PFA 23 3h) requires a description of the sensitivity of the fair value measurement to changes in unobservable inputs in the financial statements, and this was not disclosed within the investment disclosures in the draft financial statements.
3. There is a disclosure requirement under CIPFA guidance in the financial statements around how the fund manages and mitigates the interest rate risk which some of the Funds' investments are susceptible to. This disclosure was not included in the financial statements.
4. The composition of the investment assets held at year end did not fall within the acceptable ranges on a number of different asset classes specified within the interim position detailed in the investment strategy statement. Therefore, at year end, the Fund was in non compliance with the investment strategy statement.
5. Reclassification of funds from level 2 to 3:
Due to the impact of Covid 19, post 31 March 2020, some funds were gated and had material uncertainty clauses surrounding these funds. These were the UBS GBL Asset Management Triton Property Unit Trust, the CBRE Global Investment Partners Global Alpha Fund CT3, the Standard Life Long Lease Fund and the CBRE Global Investors Mutual Fund. The Fund financial statements initially included these within level 2 in the Fair Value Hierarchy disclosure. Based on our audit testing, these funds were moved from level 2 to level 3.



Appendix 2: Internal control recommendations

During the course of our audit, we identified the following control observations.

Title	Description	Recommendation
1 Lack of controls over preparation of investment disclosures	<p>During the audit, we noted a number of instances where the disclosures were not in accordance with the CIPFA checklist or errors were noted in the investment disclosures as part of the audit.</p> <p>Recommendations have been made in the management letter around the following disclosures:</p> <ul style="list-style-type: none"> - Analysis of pooled investment vehicles - Sensitivity of fair value measurement to changes in unobservable inputs - Analysis of interest rate risk disclosures - Compliance with Statement of investment principles - Reclassification of investments in FVH hierarchy disclosures <p>Errors noted within investments relate to a difference in FX rate between Baillie Gifford and Statestreet, resulting in an uncorrected misstatement.</p>	<p>We recommend that the management perform a detailed review of all investment disclosures with Statestreet before the audit commences, to ensure that there is a clear audit trail supporting all the investment disclosures made in the accounts and that this fully reconciles to the draft accounts.</p> <p>We also recommend that the management assess the impact of the difference in FX rates used by the custodian and investment managers as part of their review of the financial statement.</p>
2 Lack of benefit controls	<p>The member reconciliation performed between SAP and Altair has identified a number of differences between members and benefits paid to members. This has resulted in a provision to be included in the 2021 accounts and an assessment of the impact of the provision in the 2020 accounts of the Fund.</p>	<p>We recommend that the management review the impact of the benefit provision model on the 2020 and subsequent financial statements.</p>
3 No authorisation of transfer value payment	<p>We have tested the controls around the transfer out process. For the member ID 1437159E, the payment was authorised by Jennie Green who is allowed to authorise payments of up to £100k. However, this transfer value was above this threshold (£131,999.79) and was therefore outside her authorisation limits.</p>	<p>We recommend that management implement a formal control to ensure that authorisation limits are adhered to in respect of payments made outside the Fund.</p>
4 No evidence of review of financial statements	<p>During the review of controls around the preparation and review of the financial statements, we were informed that the accounts are reviewed by Jennifer Devine and the Board members, however there is a lack of physical evidence of the review, with queries and resolutions typically being made verbally. This lack of control means that there is no sufficient challenge of the account balances and the financial statements as a whole.</p>	<p>We recommend that management implement a formal control to ensure that reviews performed are appropriately documented to respond to the risk of management override of controls.</p>
5 Improvement of membership controls	<p>We have noted that the controls in the following areas need to be improved:</p> <ul style="list-style-type: none"> - Reconciliation of new pensioners and new dependants between the Altair Pension system and SAP Pensions Payroll on a monthly basis. - Reconciliation of Altair and SAP Payroll, to provide further assurance that payments made to pensioners reconcile between the two systems; - Review and authorisation process for calculations of benefit: We noted that the pensions team at Wiltshire did not evidence the review of preparation and review of benefits calculation. 	<p>We recommend that management implement formal controls over the benefit payments and membership reconciliation process.</p>
6 User access review (IT)	<p>User access review is carried out on an ad-hoc basis, whenever there is a new joiner or a leaver. This is not performed frequently and consistently to ensure that existing users have the appropriate access based on their job roles and responsibility.</p>	<p>We recommend that management carry out user access reviews frequently and on a consistent basis.</p>


Appendix 2: Internal control recommendations (Continued)

During the course of our audit, we identified the following control observations.

Title	Description	Recommendation
7 No IT disaster recovery and business continuity test has been carried out	<p>There are currently no formal restoration test procedures in place at Wiltshire Council and no disaster recovery test has been performed during the audit period.</p> <p>Business Continuity plans have never been tested at Wiltshire Council however there are plans to carry out a test in the next financial year.</p>	We recommend that management implement a formal disaster recovery plan and carry out regular business continuity tests.
8 Altair Leavers Process and User Access Review (IT)	Through enquiry with Mark Anderson (System Data Quality Manager), it was noted that the leavers' process on the Altair platform is not formally documented. No notifications are received from HR and access is removed based on the Systems Team's knowledge of the current employees at Wiltshire Pension Fund. Furthermore, there is no formal user access review process in place. User access reviews are only performed whenever there is a new joiner or leaver. Management does not review the level of access of each user on a regular basis.	We recommend that the a formal user access review is implemented to take place on a regular basis.
9 Third Party Monitoring (IT)	<p>Changes are developed and deployed by the third party - Aquila Heywood. There are no formal controls in place at Wiltshire to ensure that the developers and implementers of changes are segregated. This increases the risk that inappropriate changes are deployed into the production environment.</p> <p>Furthermore, there are no third party monitoring controls in place to ensure that the SQL database that the authentication measures are put in place appropriately and restricted to the relevant personnel. This increases the risk that passwords are guessed over time and users gain unauthorised access to the database.</p>	We recommend that management introduce formal controls to ensure segregation of developers and implementers and ensure that authentication rights on SQL are restricted only to the relevant personnel.
10 Privilege Access (IT)	Four business users, Mark Briggs, Betty Chiripanhura, Jennie Green and Samantha Wooster, should not be granted the privilege access of user access management. As per enquiry with Mark Anderson (System Data Quality Manager), it was understood that the access and seniority level was necessary for the users to carry out their job function and responsibility.	We recommend that management capture cases where privileged user access has been granted to certain employees and to ensure that this is withdrawn when not required.

Appendix 3: Independence and fees

A Fair and Transparent Fee

 As part of our obligations under International Standards on Auditing (UK) and the Companies Act, we are required to report to you on the matters listed below:

Independence confirmation

We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Scheme.

Fees

Our audit fee for the year ended 31 March 2020 was £18,500 (2019: £18,500).

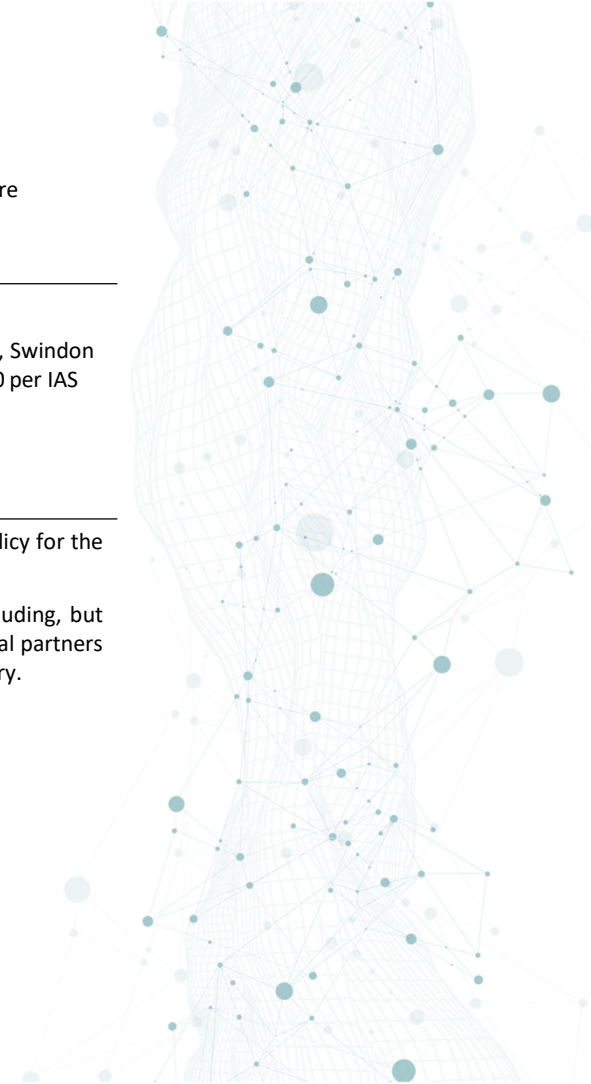
Our audit fee for issuing IAS 19 letters for the four councils (Wiltshire Police and Crime Commissioner, Swindon Borough Council, Wiltshire County Council and Dorset and Wiltshire Fire Authority) is £10,000 (£2,500 per IAS 19 letter). We will be charging this invoice separately.

The above fees exclude VAT and out of pocket expenses.

Non-audit services

In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Scheme's policy for the supply of non-audit services or any apparent breach of that policy.

We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.





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