

AGENDA

Meeting: Wiltshire Pension Fund Committee
Place: Council Chamber - Council Offices, Bradley Road, Trowbridge
Date: Thursday 12 May 2011
Time: 10.30 am

Please direct any enquiries on this Agenda to Liam Paul, of Democratic Services, County Hall, Bythesea Road, Trowbridge, direct line 01225 718376 or email liam.paul@wiltshire.gov.uk

Press enquiries to Communications on direct lines (01225) 713114/713115.

This Agenda and all the documents referred to within it are available on the Council's website at www.wiltshire.gov.uk

Briefing arrangements:	Date	Time	Place
	12.05.11	09.15	Committee Room 3 Bradley Road

Membership:

Wiltshire County Council Members:

Cllr Tony Deane (Chairman)
Cllr Charles Howard (Vice Chairman)
Cllr Jeff Osborn
Cllr Mark Packard
Cllr Sheila Parker

Substitute Members

Cllr David Jenkins
Cllr Bill Moss
Cllr Fleur de Rhe-Philippe
Cllr John Smale

Swindon Borough Council Members

Cllr Des Moffatt
Cllr Peter Stoddart

Substitute Members

Cllr Mark Edwards

Employer Body Representatives

Mrs Lynda Croft
Mr Tony Gravier
Mr Tim Jackson
Mr Mike Pankiewicz

Observers

Mr Tony Gravier
Mr Mike Pankiewicz

PART 1

Items to be considered when the meeting is open to the public

1. **Membership Changes**

2. **Attendance of Non-Members of the Committee**

3. **Apologies for Absence**

To receive any apologies for absence.

4. **Minutes**

To confirm the minutes of the meeting held on 01 March 2011 (*copy attached*).

5. **Chairman's Announcements**

6. **Declarations of Interest**

Councillors are requested to declare any personal or prejudicial interests or dispensations granted by the Standards Committee.

7. **Public Participation and Councillors' Questions**

The Council welcomes contributions from members of the public.

Statements

If you would like to make a statement at this meeting on any item on this agenda, please register to do so at least 10 minutes prior to the meeting. Up to 3 speakers are permitted to speak for up to 3 minutes each on any agenda item. Please contact the officer named above for any further clarification.

Questions

To receive any questions from members of the public or members of the Council received in accordance with the constitution. Those wishing to ask questions are required to give notice of any such questions in writing to the officer named on the first page of this agenda (acting on behalf of the Director of Resources) no later than 5pm on Tuesday 10 May. Please contact the officer named on the first page of this agenda for further advice. Questions may be asked without notice if the Chairman decides that the matter is urgent.

Details of any questions received will be circulated to Committee members prior to the meeting and made available at the meeting and on the Council's website.

8. **KPMG Interim Audit Report** *(Pages 1 - 32)*

A report by KPMG outlining the outcomes of the interim audit of the Wiltshire Pension Fund ahead of the full audit of the 2010-11 accounts.

9. **Pension Fund Risk Register** *(Pages 33 - 40)*

An update from the Chief Finance Officer on the Wiltshire Pension Fund Risk Register is circulated for Members' consideration.

10. **Administering Authority Discretions Policy** *(Pages 41 - 50)*

A report from the Chief Finance Officer and a presentation from the Pensions Manager which presents an updated Administering Authority Discretions Policy for the Wiltshire Pension Fund.

11. **Date of Next Meeting**

To note that the next regular meeting of the Committee will be held on 22 July 2011.

12. **Urgent Items**

Any other items of business which, in the opinion of the Chairman, should be considered as a matter of urgency. Urgent items of a confidential nature may be considered under Part II of this agenda.

13. **Exclusion of the Public**

To consider passing the following resolution:

To agree that in accordance with Section 100A(4) of the Local Government Act 1972 to exclude the public from the meeting for the business specified in Item Numbers 14 – 17 because it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in paragraphs 3 of Part I of Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.

PART II

Item during whose consideration it is recommended that the public should be excluded because of the likelihood that exempt information would be disclosed

14. **Investment Structure Review** *(To Follow)*

A report prepared by the Chief Finance Officer which reviews the current investment structure and makes recommendations for changes arising from discussion at the Committee's Investment Away Day.

15. **Investments Quarterly Progress Report** *(To Follow)*

A confidential report on the investment activity and performance of the Fund for the year to 31 March 2011 is attached for Members' consideration.

16. **Edinburgh Partners - Review of 2010-11 and plans for the future**

A confidential annual report from Edinburgh Partners is enclosed and Members are asked to consider this along with the verbal report at the meeting.

17. **Baillie Gifford - Review of 2010-11 and plans for the future**

A confidential Annual Report from Baillie Gifford is enclosed and Members are asked to consider this along with the verbal report at the meeting.

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
12 May 2010

INTERIM AUDIT REPORT

Purpose of the Report

1. The purpose of this report is to present the Interim Audit Report for the Wiltshire Pension Fund prepared by KPMG.

Background

2. The 2010-11 one is the third separate annual audit to be carried out on the Wiltshire Pension Fund since the requirement for separate audits of Local Government Pension Funds came into place. The audit is being carried out by Wiltshire Council's external auditor, KPMG.
3. KPMG completed their interim audit visit in April 2011 and the resulting report is attached. Mr Chris Wilson (Partner, KPMG) will be coming to the Committee meeting to present the report.
4. The Wiltshire Pension Fund Annual Report for 2010-11 will be presented to this Committee on 29 September 2011 along with KPMG's final audit report ("Report to those charged with governance"). Mr Wilson should also be able to confirm the approval of the KPMG's final audit opinion and certificate on the Wiltshire Pension Fund Annual Report which he is expected to present to the 28 September 2011 meeting of the Final Accounts & Audit Committee.

Key Considerations for the Committee

5. The attached interim report does show a generally sound organisational control environment and controls over key financial systems. However, two areas of minor deficiencies in respect of individual control accounts for the review process of bank reconciliations and manual journals have been highlighted. The recommendation and management responses are shown in Appendix 5 of the attached report. This report does not raise any areas of concern at this stage.
6. Members are asked to also consider what Mr Wilson says verbally at the meeting.

Proposals

7. The Committee is asked to note the attached Interim Audit Report and to receive the verbal presentation by Mr Chris Wilson of KPMG.

MICHAEL HUDSON
Interim Chief Finance Officer

Report Author: David Anthony, Head of Pensions

Unpublished documents relied upon in the production of this report: NONE

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cutting through complexity™

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Audit plan and interim audit report 2010/11

Wiltshire Pension Fund

May 2011



Disclaimer

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

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Chris Wilson, the appointed engagement lead to the Fund, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on +44 (0)16 1246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is +44 (0)84 4798 3131, text phone (minicom) +44 (0)20 7630 0421.

The contacts at KPMG in connection with this report are:

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KPMG LLP (UK)*

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KPMG LLP (UK)*

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Naomi Burnell

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KPMG LLP (UK)*

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This document describes how we will deliver our financial statements audit work for Wiltshire Pension Fund and summarises our key findings from our work to date.

Our statutory responsibilities and powers are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Audit Commission's *Code of Audit Practice (the Code)*.

The Audit Commission's Code summarises our responsibilities into the following objective, requiring us to review and report on your:

- *financial statements (including the Annual Governance Statement)*: providing an opinion on your accounts.

The Audit Commission's statement of responsibilities of auditors and audited bodies sets out the respective responsibilities of the auditor and the Council. The table below summarises the work we will do this year.

Our responsibility	Risks, proposed work and output
Financial statements and annual governance statement	<p>Key risks identified are as follows:</p> <ul style="list-style-type: none"> ■ Implementation of international financial reporting standards: All local authorities are required to implement IFRS in 2010/11, including restating prior period figures. This will result in some fundamental differences in the Statement of Accounts disclosures and will require significant planning to ensure your financial statements reflect the new standards (see page 6 for more details). ■ Valuation of Investments ■ Implementation of Altair <p>Our work will encompass:</p> <ul style="list-style-type: none"> ■ Review of the controls over the completion of the accounts, relying on Internal Audit wherever possible to avoid duplication. ■ A detailed audit of the financial statements, associated disclosure notes and the annual governance statement. ■ Review of the three key risks identified, addressed through our detailed audit work and discussions with senior finance officers. <p><i>The findings of this work support the audit opinion that we issue on your financial statements.</i></p>

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary. The remainder of this document provides details of our risk assessment, proposed work and fees for our work on the financial statements audit.

This document summarises the key findings arising from our work to date in relation to both the audit of the Fund's 2010/11 financial statements.

Scope of this report

This report summarises the key findings arising from our interim audit work at Wiltshire Pension Fund (the Fund) in relation to the 2010/11 financial statements.

Financial statements

During April 2011 we completed our planning and control evaluation work. This covered our:

- review of the Fund's general control environment, including the Authority's IT systems;
- testing of certain controls over the Fund's key financial systems;
- assessment of the internal audit function;
- review of the Fund's accounts production process, including work to address prior year audit recommendations and the specific risk areas we have identified for this year;
- review of the Fund's work to restate the 2009/10 financial statements under International Financial Reporting Standards (IFRS).

Structure of this report

This report is structured as follows:

- Section 2 Audit overview.
- Section 3 Key Financial Statement audit risk.
- Section 4 Audit plan.
- Section 5 summarises the headline messages from our interim work.
- Section 6 sets out our key findings from our interim audit work in relation to the 2010/11 financial statements.

Our recommendations are included in Appendix 5. We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix 6.

Acknowledgements

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

We undertake our work on your financial statements and Annual Governance Statement (AGS) in four key stages.

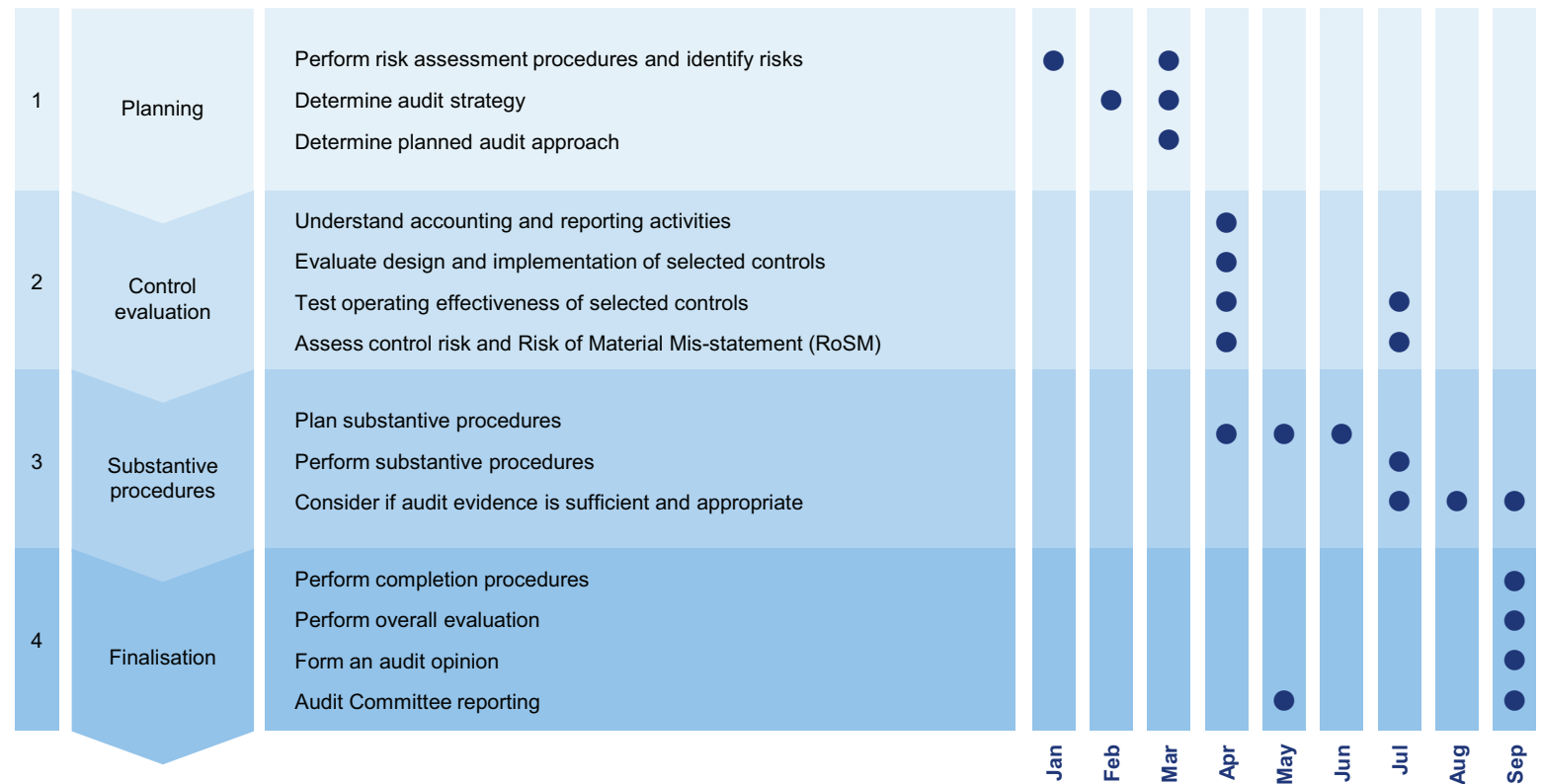
Our work results in our audit opinion on your financial statements.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We are required to provide an audit opinion on the accounts.

We are also required to satisfy ourselves that your AGS is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are key to this opinion.

Our audit process

We have summarised the four key stages of our financial statements audit process for you below:



We work with your finance team and internal audit team to enhance the efficiency of the accounts audit.

Our audit process (cont.)

As part of our audit process, we will work closely with the finance team to understand and continually improve the accounts production process. At the planning stage of our audit we will issue the Fund with a 'prepared by client' list which will include a detailed schedule of information requests to support the financial statements.

Our audit procedures also include an assessment of your arrangements to deliver your responsibilities to prevent and detect fraud. The auditing standard for fraud, ISA240 (revised), responds to the increased sensitivity to fraud and the importance given to auditors' work on fraud. Additionally, the Fraud Act 2006 and the Government Review of Fraud 2006 may impact on your responsibilities to manage fraud.

Liaising with internal audit

We have a strong working relationship with Internal Audit and we will continue to work closely with them to maximise the effectiveness of their work on core financial systems and governance at the Council.

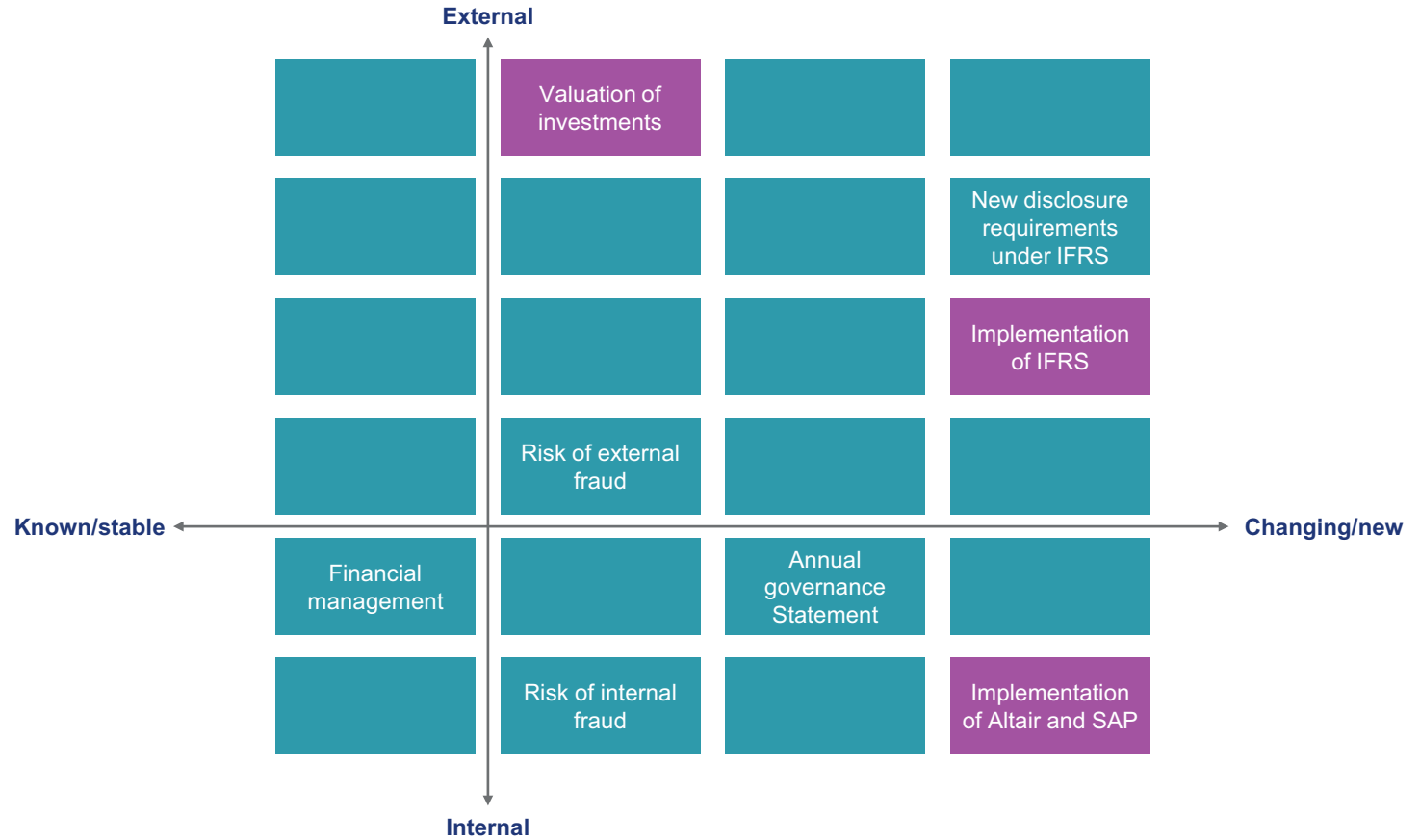
International Financial Reporting Standards (IFRS)

All Local Authorities are required to implement IFRS, moving away from UK GAAP for 2010/11 financial statements. We will continue to work closely with the finance team to ensure the smooth transition to IFRS. We will hold discussions with the pensions department prior to the final visit in order to provide early assurance on key aspects of your IFRS migration work, identify any issues on a timely basis and also ensure some accounting and audit effort is brought forward to alleviate the busy closedown and final accounts audit season over the summer.

These are the key financial statement risks identified for 2010/11 and some examples of other risks that we will consider during the audit. We seek to tailor our audit approach to reflect this risk assessment.

We have increased our risk assessment in the for the Implementation of IFRS.

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Key: ■ Matters with potential financial statement risk.
■ Matters of high audit risk discussed further on Page 7.

For each key risk audit area we have outlined the impact on our audit plan.

We will provide updates to the Audit Committee on these risk issues throughout our audit.

Transitions to IFRS represents the largest change in accounting for a number of years. We have detailed within the next slides the major implications of the new standards and how our audit work will be adapted to address these key risks.

Key audit risks	Impact on audit plan
 <p>Audit areas affected Various disclosures within 2010/11 financial statements</p>	<p>IFRS conversion process <i>Impact of conversion process</i> The Fund will require a lot of planning and resources to ensure a smooth and successful transition to IFRS. <i>Our audit work</i> The main impact of IFRS on the Fund is the additional disclosures and presentation required for the investments assets held. These disclosures include a market risk sensitivity analysis and Fair value measurement hierarchy. We will keep in regular contact with the finance team during this period, discussing emerging issues and current guidelines. During the final accounts audit we will audit all figures and disclosures in line with IFRS.</p>
 <p>Audit areas affected Investment assets</p>	<p>Financial instruments We will use our FundRADAR service to assist with auditing the valuation of the investment portfolio held. FundRADAR is a service which enables us to use market data and modelling to compare our expected pricing to the pricing provided by the custodian.</p>
 <p>Audit areas affected Membership data and benefits</p>	<p>Implementation of Altair We will use our IT specialists to ensure that data has been migrated correctly from Axis to Altair.</p>

Our audit work is planned to detect errors that are material to the accounts as a whole.

Our materiality of this year is £6.3 million.

What do we mean by materiality?

In layman terms, materiality is the margin of error we will accept before we qualify our opinion on the accounts.

Why do we have a level of materiality?

We only have a limited time in which to complete our work. As a result, we focus our testing on a sample of transactions rather than everything. To make our sample testing most effective, our work is driven by an assessment of risk and a level of materiality. This means we sample test the transactions that are more likely to be prone to significant fraud or error.

Determining materiality

We consider quantitative and qualitative factors in setting materiality and in designing our audit procedures.

Materiality has been set at £6.3 million which is 0.5% of total assets.

We design our procedures to detect errors at a lower level of precision, i.e. £4.7 million. We have some flexibility to adjust this level downwards.

Reporting to Audit Committee

To comply with auditing standards, the following three types of audit differences will be presented to the Audit Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences;
- summary of disclosure differences (adjusted and unadjusted).

We will not report audit and disclosure differences that are considered to be trivial.

Contact details are shown on Page 2.

The audit team will be assisted by other specialist KPMG staff as necessary.



Chris Wilson
Engagement Lead

My role is to lead our team and ensure the delivery of a high quality external audit opinion. I will be the main point of contact for the Audit Committee and the Chief Finance Officer



Gemma Broom
Audit Senior Manager

I will direct and help coordinate the audit and will work closely with Chris Wilson to ensure we add value. I will be the main contact for the Chief Finance Officer and other officers.



Naomi Burnell
Audit Assistant Manager

I will be your day to day contact and will work closely with Gemma Broom to deliver a coordinated and efficient audit.

Our independence and objectivity responsibilities under the Code are summarised in Appendix 3.

We confirm our audit team's independence and objectivity is not impaired

Independence and objectivity confirmation

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The ISA defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Confirmation statement

We confirm that as of 12 May 2011, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Appointed Auditor and audit team is not impaired.

We agreed our fee for the audit with the Authority earlier this year. The fee is calculated with reference to a number of factors set by the Audit Commission and our assessment of audit risk and control environment. This year's fee represents a 3.2% decrease over last year (2009/10 = £46,950. This is due to the additional audit costs associated with the implementation of SAP in 2009/10.

[Element of the audit]	
	Fee 2010/11
Total audit fee	£45,450

To enable you to benchmark our fee proposal we provide below some comparative information. Please note that the nature of the locally determined work changes each year so that direct comparison between years may not be valid.

Source of fee comparative/benchmark	
Audit commission suggested fee range	£37,950- £47,440
Audit commission suggested scale fee	£33,000+ 0.0005% of 2008/9 net assets
2010/11 audit fee	£45,450

Our audit fee is indicative and based on you meeting our expectations of your support.

Meeting these expectations will help to the delivery of our audit within the proposed audit fee.

Audit fee assumptions

The audit fee is indicative and is based on you meeting our agreed expectations as outlined in Appendix 1. In setting the fee, we have assumed

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2010/11;
- you will inform us of any significant developments impacting on our audit such as any changes to investment managers, administration processes etc;
- internal audit meets the appropriate professional standards;
- internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
- your financial statements will be made available for audit in line with the timetable we agree with you;
- good quality working papers and records will be provided to support the financial statements by the date we agree with you;
- requested information will be provided within agreed timescales;
- prompt responses will be provided to draft reports; and
- additional work will not be required to address questions or objections raised by local government electors, or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

Changes to the audit plan

Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
- additional work is required of us by the Audit Commission or other regulators;
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Head of Pensions.



Section four Audit timeline and deliverables

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agreed each report with the Council's officers prior to publication.

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Deliverable	Purpose	Timing
Planning		
Audit plan	Outline audit approach. Identify areas of audit focus and planned procedures. Confirm plan with Audit Committee.	May 2011
Interim		
Interim report	Details and resolution of control and process issues.	May 2011
Year end audit		
Report to those charged with governance (ISA 260)	Commentary on Wiltshire Council Pension Fund financial statements. Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit.	September 2011
Opinion on financial statements	Independent auditors' report of Wiltshire Council Pension Fund.	September 2011

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

Organisational and IT control environment	Our IT specialists are due to perform procedures over general It controls within SAP and Altair in the coming months. We consider that your organisational controls are effective overall.
Controls over key financial systems	The controls over the majority of the they key financial system are generally sound but we noted two weaknesses in respect of individual financial systems.
Review of internal audit	Internal audit have issued their findings in draft only at the time of the report. We will communicate our findings in September 2011.
Accounts production and specific risk areas	Implementation of IFRS. Valuation of Investments. Altair Implementation

Your organisational control environment is effective overall.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit.

We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

Key findings

We consider that your organisational controls are effective overall.

Aspect	Assessment
Organisational structure	●
Integrity and ethical values	●
Philosophy and operating style	●
Participation of those charged with governance	●
Human resource policies and practices	●
Risk assessment process	●
Information systems relevant to financial reporting	●
Communication	●
Monitoring	●

Key: ● Significant gaps in the control environment.
 ● Minor deficiencies in respect of individual controls.
 ● Generally sound control environment.

Work completed

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

Our own testing over SAP and Altair is yet to be completed and we will communicate our findings to you in September 2011.

The controls over the majority of the key financial system are generally sound.

However, there are some weaknesses in respect of cash and financial reporting.

We will need to complete additional substantive work in these areas at year-end.

Work completed

We work with your internal auditors to update our understanding of the Authority’s key financial processes where these are relevant to our final accounts audit. We confirm our understanding by completing walkthroughs for these systems.

We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a key system will not always be in line with the internal auditors’ opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

The controls over the majority of the they key financial system are generally sound but we noted some weaknesses in respect of individual financial systems.

- Weakness 1: Evidence of review of the Bank reconciliation is not being performed by Corporate Finance or the Pensions department.
- Weakness 2: No review process of the manual journals being posted is being performed.

Recommendations are included in Appendix 5.

The weaknesses identified mean that we will need to complete additional substantive work at year-end.

System	Assessment
Financial reporting	
Sundry income	
Payroll expenditure	
Non-pay expenditure	
Cash	

Key:

- Significant gaps in the control environment.
- Minor deficiencies in respect of individual controls.
- Generally sound control environment.

Section six – financial statements

Accounts production process and Specific risk areas

The Fund's overall process for the preparation of the financial statements is adequate.

The Fund has implemented some of the recommendations in our ISA 260 Report 2009/10 relating to the financial statements.

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Work completed

We continued to meet with David Antony on regular basis to support them during the financial year end closedown and accounts preparation. As part of our interim work we specifically reviewed the Fund's progress in addressing the recommendations in our *ISA 260 Report 2009/10*.

Key findings

We consider that the overall process for the preparation of your financial statements is adequate.

The Fund has implemented some of the recommendations in our *ISA 260 Report 2009/10* relating to the financial statements in line with the timescales of the action plan. further update of these recommendations is detailed in Appendix 6.

Key audit risks	Progress
 <p>Audit areas affected Various disclosures within 2010/11 financial statements</p>	<p>IFRS conversion process</p> <p>The pension team is in discussion with the custodian of obtaining the categorisation of assets, and the assumptions that have been used for this process.</p> <p>We are awaiting clarification from CIPFA over the impact of IFRS and the disclosures required in order to best advice the pension team on the next steps.</p>
 <p>Audit areas affected Investment assets</p>	<p>Financial instruments</p> <p>We will use our FundRADAR service to assist with auditing the valuation of the investment portfolio held. As part of our year end procedures.</p>
 <p>Audit areas affected Membership data and benefits</p>	<p>Implementation of Altair</p> <p>Our IT specialists will be visiting the Council site over the coming months to complete the work over the migration of data. The Council's pension team performed its own testing of data at the time of migration</p>

The Fund has fully restated its 2009/10 financial statements under IFRS.

Work completed

From 2010/11 local authorities are required to prepare their financial statements under the IFRS based *Code of Practice for Local Authority Accounting in the United Kingdom*. This contains a number of significant differences compared to the previous financial reporting regime.

Key findings

As all investments are held at market value there is no material impact of implementing IFRS on the Fund's accounting policies. This means that the Fund does not have to go through a restatement exercise of its 2009/10 financial statements.

The main impact of implementing IFRS to the pension fund is the level of disclosure required under IFRS 7 *Financial Instruments disclosure*. KPMG is currently in discussion with CIPFA over the application of this standard to pension schemes. If IFRS 7 is applied then the investments held by the Fund will require categorisation into a Fair value hierarchy and a market sensitivity analysis will need to be performed and presented.

How we will conduct ourselves

Communications

We will be proactive in developing relationships with your staff where our audit work requires their input.

We will ensure that all letters and emails are answered within five working days of receipt. All telephone messages received will receive a response within 24 hours, either by the individual concerned or Naomi Burnell.

We will ensure that all recommendations and in particular those relating to our performance management work, are included within our Annual Audit Letter only after having been agreed with relevant Directors.

Chris Wilson or Gemma Broom will attend Member Committee meetings and ensure that other relevant KPMG staff are invited as appropriate.

We have been working with you throughout 2009/10 providing guidance on key issues in the transition to IFRS. We will continue working with the finance team to provide advice and review progress during 2010/11.

Working together

We will ensure that the Head of Pensions and other key members of staff are kept informed of the progress of our audit work throughout the year.

We will liaise with staff at all levels of the Council to ensure that our work is appropriately planned and completed and where recommendations are made these are agreed with the likely responsible officer.

Cooperating with the Council

We will continue to coordinate our work with that of internal audit and ensure that we provide appropriate proactive commentary to the finance function on issues that affect the Fund's accounts.

We will respond promptly to requests for comment on aspects of the Fund's operations, where appropriate.

Our expectations of your support

Audit plan

Brief our staff on key issues affecting the Council.

Review and agree the draft plan.

Interim audit

Facilitate the completion of internal audit's work (particularly on core financial systems) to timetable.

Ensure that key officers are available for the duration of our audit.

Respond to and agree our draft reports in good time.

Accounts audit

Ensure that a full draft of the accounts is available at least one week prior to the agreed start date of our audit and that only agreed adjustments are put into the accounts following receipt of this draft.

Produce the documents listed within our prepared by client request by the agreed start date of our audit.

Ensure that the mandatory content of the Annual Report is available at the agreed time of our final account audit.

Annual audit letter

Discuss and agree our draft Annual Audit Letter in good time for the Audit Committee.

Ensure that all action plans are agreed and followed up in due course.

IFRS

Ensure a full set of 2009/10 restated figures compliant with IFRS are available to audit in good time prior to the final visit.

Other work

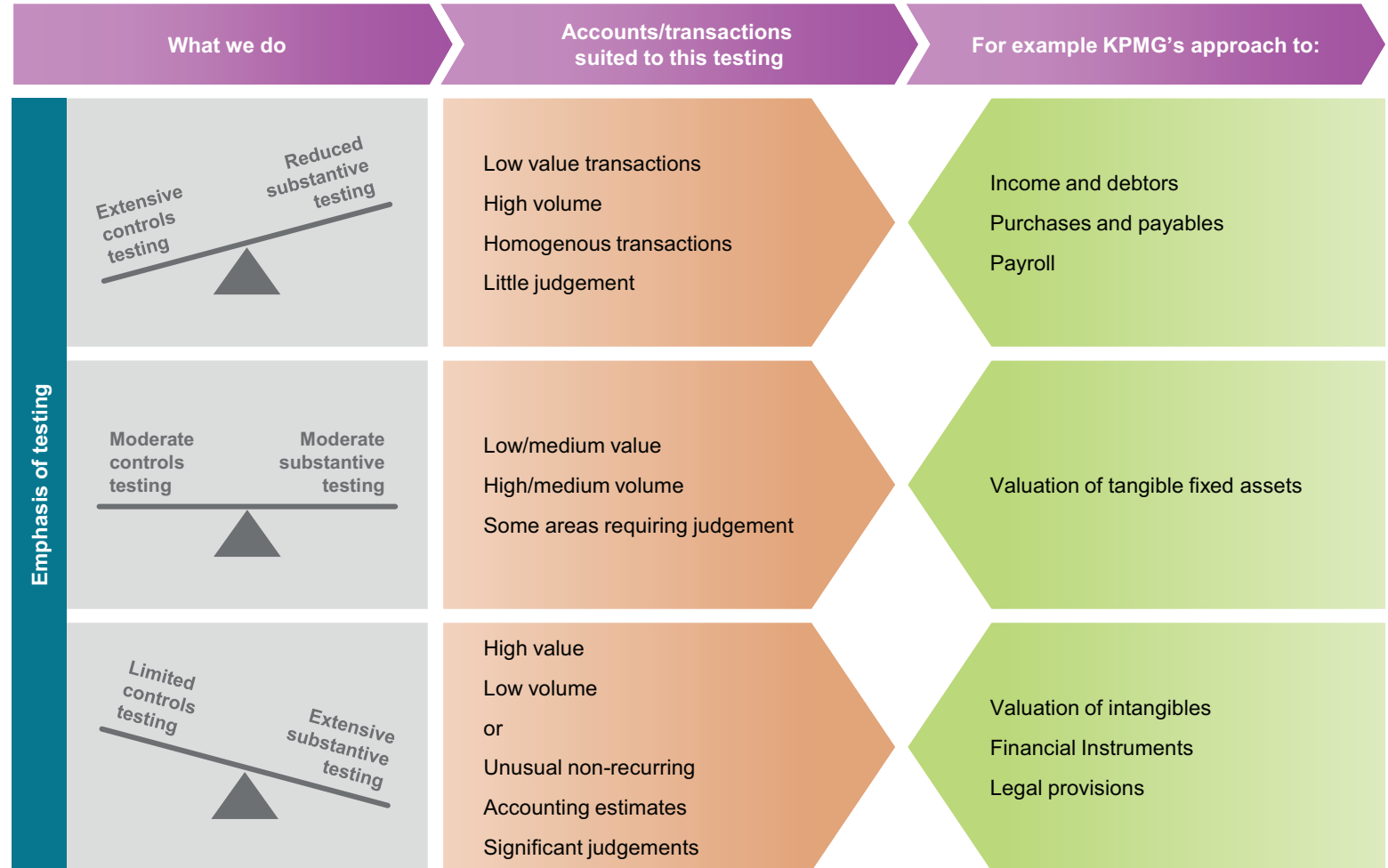
Agree a key contact as a focal point for the study or work.

Discuss and review our findings so that action plans can be fully completed and implemented.

Appendix 2 Balance of internal controls and substantive testing

This appendix illustrates how we determine the most effective balance of internal controls and substantive audit testing.

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Note: Assuming controls are found to operate as designed.

This appendix summarises auditors' responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest;
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Council invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner.
- Audit staff are expected not to accept appointments as lay school inspectors.
- Firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned.
- Auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies and disposal of consultancy practices and auditors' independence.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on each audit at least once every five years (subject to agreed transitional arrangements). Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- The Commission must be notified of any change of second in command within one month of making the change. Where a new Engagement Lead or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

We continually focus on delivering a high quality audit. This means building robust quality control procedures into the core audit process rather than bolting them on at the end and embedding the right attitude and approaches into management and staff. Quality must build on the foundations of well trained staff and a robust methodology. The diagram summarises our approach and each level is expanded upon below.

We recruit the best staff through our rigorous selection and assessment criteria. In addition, we expect that future talent to develop with our application of most effective in-house and external training support.

Our audit methodology determines that we use a standardised audit approach and pro forma work papers. We also have standards of audit evidence and working papers including requirements for working paper retention.

At critical periods of the audit we conduct both manager and engagement leader review of the work completed. Upon final completion, managers and directors complete a checklist to indicate the satisfactory conclusion of the audit under the audit methodology.

Partners who meet certain skills and experience criteria, conduct quality control reviews of individual audits depending on the level of audit risk. Their role is to perform an objective evaluation of the significant accounting, auditing and financial reporting matters with a high degree of detachment from the audit team. This provides an objective internal assessment on the quality of our audit. Peer review is undertaken across the firm, with an annual sample of our work being undertaken from a different national office. This encourages a constant focus on quality and ensures there is continuous improvement and that best practice is shared.

Our quality review results

We are able to evidence the quality of our audits through the results of National Audit Office and Audit Commission reviews. The results of the Audit Commission's annual quality review process is made publicly available each year (www.audit-commission.gov.uk/reports/). The latest report dated October 2010 showed that we performed highly against all the Commission's criteria.

Resolving accounting and financial report issues and emerging issues with the independent regulator

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director (based in our London office) who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA and the Audit Commission) as well as acting as a sounding board for our auditors.



- A national technical network of public sector audit professionals (that meets on a quarterly basis) and is chaired by our national technical director.
- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's Code of Audit Practice.
- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based bi-monthly technical training.

When dealing with the Audit Commission, as you would expect we both attend and cascade across the firm the papers considered by their various technical groups for auditors. In addition, as the Audit Commission has developed we have established a series of formal and informal relationships. These benefit both the Audit Commission and our Local Authority clients. As a result of all of these factors and combined with our overall audit approach, we seek to offer early warnings of issues arising with the independent regulator and provide pragmatic solutions.

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

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

We will formally follow up these recommendations next year.

Priority rating for recommendations			
	Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.		Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.
	Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.		

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1		<p>Review of Bank reconciliation</p> <p>There is a lack of formal evidence of preparation and review of the bank reconciliation which means that this operates as a process rather than a control.</p> <p>There is a risk without review that any unusual reconciling items go unchecked.</p> <p>We recommend that the bank reconciliation is formally reviewed and signed off as reviewed by the Corporate Finance Department and Pensions Department.</p>	<p>Regular management reviews have been undertaken throughout the year and electronic bank reconciliation is reviewed on a daily basis and items are continually matched by the Corporate Finance Department. They also undertake an annual review of outstanding items over one year as part of the year end process and electronic copies have been kept since August.</p> <p>The Pension Fund is confident of the accountants in Corporate Finance expertise and experience to undertake these reconciliations and to report by exception any issues that need to be brought to the Fund's attention.</p> <p>The position on the bank account is monitored by the Fund on a regular basis and daily by the Treasury Management team in the Corporate Finance Department.</p>
2		<p>Review of manual journals</p> <p>There is no review process of the manual journals being posted. Into SAP.</p> <p>There is a risk that without a review that any mispostings are not identified and corrected potentially leading to misstatements within the financial statements.</p> <p>We recommend that a monthly report is run from SAP for all manual journals over £50,000, to be then reviewed by the pensions department.</p>	<p>The segregation of duties is limited as the accounts team consists of only two finance staff.</p> <p>The journals are only undertaken and posted by one experienced member of the team and due to the number of transactions this risk is minimal with any material misposting picked up within the monthly variance analysis or year end accounts process.</p> <p>All year end journals are reviewed before posting.</p>

Appendix 6 Follow-up of prior year recommendations

The Fund has implemented all of the recommendations in our *Interim Audit Report 2009/10* with the exception of the membership data that we understand will be done in July 2011 and the correct investment accounting will be done as part of the year end process.

This appendix summarises the progress made to implement the recommendations identified in our Interim Audit Report 2009/10 and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	4
Implemented in year or superseded	2
Remain outstanding (detailed below)	2

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at 19 April 2011
1	1	The Pension Scheme Department could not provide accurate membership data that agree to the Statement of accounts. Inaccurate membership numbers make it harder for the Committee to ensure that contributions and benefits are being paid correctly and may impact on the future liability of the scheme. Membership numbers should be reconciled regularly. A listing of members to back up the totals should be maintained and regularly reviewed.	Head of Pensions Ongoing	As of August 2010 membership data has been moved across to Altair. Membership data as of 31 March 2011 was obtained as part of our interim visit. The reconciliation of the year end position to the Statement of accounts will be performed as part of our year end procedures in July 2011.
2	2	During the year under review (2009/10), a new accounting system, SAP, was implemented to replace the previous system, Aptos. During the course of implementation a number of incorrect postings were made regarding contributions, which were corrected and reposted a number of times. This resulted in significant fluctuations in the contributions figures seen on SAP, making the variance analysis control being unable to operate effectively on a monthly basis. We do not believe that this will be an issue going forward as the errors arose due to the one-off event of the introduction of SAP. However, care should be taken to ensure that contributions are posted correctly, Postings should occur monthly and errors should be investigated where they occur.	Pensions and Corporate finance department	Officers in the Pension Fund, central Finance and the Shared Service Team are now familiar with SAP. Quarterly contribution reconciliation have now recommenced and all errors are investigated.

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at 19 April 2011
3	2	<p>During the prior year audit of investment balances we identified a number of discrepancies in accounting treatment. For example, investment income was posted on a cash basis instead of on an accruals basis required by the SORP. In addition, investments made in the Fauchier account had been accounted for twice.</p> <p>These errors arose because the investments were posted directly from the custodian reposts, there were no controls in place to ensure postings are made correctly. We recommended that a cash reconciliation, book cost reconciliation and market value reconciliation were prepared on a quarterly basis and reviewed by a second individual. These reconciliations will help to identify any incorrect postings.</p>	Pensions department (July 2011)	The investment accounting is undertaken by the Fund's custodian, Bank of New York Mellon and these reports are used to post the investment entries into the general ledger. The investment income should have been accounted for on an accrual basis and this was a manual error. Officers are now looking at ways to incorporate the bank reconciliation with the market values and book cost ones to ensure errors are picked up prior to the year end. To be updated as part of July 2011 visit.
4	2	During our audit fieldwork during the prior year we came across a number of incidents where information was missing.	Pensions department	There were no instances in our interim work where information was missing.



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WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
12 May 2011

WILTSHIRE PENSION FUND RISK REGISTER

Purpose of the Report

1. The purpose of this report is to update the Committee in relation to changes to the Fund's Risk Register (see Appendix).

Background

2. The Committee approved a Risk Register for the Wiltshire Pension Fund at its meeting on 12 May 2009. Members requested that the highlights, particularly upward/downward movements in individual risks, be reported back to the Committee on a quarterly basis.

Key Considerations for the Committee / Risk Assessment / Financial Implications

3. The significance of risks is measured by interaction of the likelihood of occurrence (likelihood) and by the potential damage that might be caused by an occurrence (impact). This register uses the Council's standard "4x4" approach, which produces a risk status of Red, Amber or Green (RAG).
4. The following risks have changed or been updated since the last report to this Committee on 1 March 2011:
 - a) **PEN001: Failure to process pension payments and lump sums on time** – This has increased from green to amber. This reflects the potential disruption to the service resulting from access issues to the pension database ALTAIR. Access to the hosted system was disrupted for a week for those still using the older desktop computers in April. On this occasion the issue was resolved by ICT by downloading a patch to Internet Explorer. The impact on the service was greater than normal as team members are no longer able to use their home computers to access the Council's network. The rollout of laptops planned for the summer by ICT should reduce this risk for the future.
 - b) **PEN006b / PEN007b: Significant rises in employer contributions for non-secure employers due to increases in liabilities / Significant raises in employer contributions for non-secure employers due to poor/negative investment returns** – This has decreased from amber to green. The rates for the 2010 Valuation have now been agreed with all employers. The use of stepped in contribution rates where requested avoided the problem of large increases which were unaffordable. These rates will now remain in place until the 2013 Valuation.
 - c) **PEN013: Failure to communicate properly with stakeholders** – Although this risk remains amber different issues has arisen. The change in pension tax relief has been communicated to all members although the ability to provide the tax liability information next year (October 2012) still requires developing. Work is on-

going to determine how to provide this and the hope is the pension system software supplier will be able to develop their database to allow this.

The impact of National Employers Savings Trust (NEST) and the responsibilities of individual employers need to be communicated to ensure these stakeholders are aware of their obligations from 2012.

There is also growing concerns over the potential number of opt-outs following the Government's implementation of the Hutton report (which is due to be announced over the summer) and their intention to increase employee contribution rates from April 2012 (which will see an average increase of 3% being phased in). To try and ensure members don't make uninformed decisions to opt-out or not join the scheme efforts will be directed to making eligible non-members aware of the benefits they are missing out on, while discussions will take place with employers regarding increasing awareness of the scheme benefits (i.e. life cover, ill-health pension, spouse & children's pension) including the potential use of Reward Statements or other marketing tools to ensure all these are recognised by the membership.

Environmental Impacts of the Proposals

5. There no known environmental impact of this report.

Proposals

6. The Committee is asked to note the update of the Risk Register.

MICHAEL HUDSON
Interim Chief Finance Officer

Report Author: David Anthony, Head of Pensions.

Unpublished documents relied upon in the production of this report: NONE

Wiltshire Pension Fund Risk Register				26-Apr-11				Current Risk Rating				Target Risk Rating							
Ref.	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in place to manage the risk	Impact	Likelihood	x	Level of risk	Further Actions necessary to manage the risk	Risk Action Owner	Date for completion of action	Impact	Likelihood	x	Level of risk	Date of Review	Direction of Travel
PEN001	Failure to process pension payments and lump sums on time	Service Delivery	Non-availability of ALTAIR pensions system, SAP payroll system, key staff, or error, omission, etc.	Retiring staff will be paid late, which may have implications for their own finances. It also has reputational risk for the Fund and a financial cost to the employers if interest has to be paid to the members.	David Anthony	Robust maintenance and update of ALTAIR and SAP systems, sufficient staff cover arrangements, sufficient staff training and QA checking of work.	3	3	9	Medium	Continuity of access to ALTAIR continues to be monitored. Access to hosted system was disrupted in April for a week (2nd time since August 2010) which was resolved with patch to Internet Explorer. Greater impact than normal as team were unable to work from home on their own PC's since 1 April 11. Roll out of laptops will reduce impact level.	Martin Summers		2	2	4	Low	27 Apr 2011	↑
PEN002	Failure to collect and account for contributions from employers and employees on time	Finance	Non-availability of CRS/SAP systems, key staff, error, omission, failure of employers' financial systems, failure to communicate with employers effectively.	Adverse audit opinion for failure to collect contributions by 19th of month, potential delays to employers' FRS17 year-end accounting reports and to the Fund's own year-end accounts.	David Anthony	Robust maintenance and update of AXISE/ALTAIR and SAP systems, sufficient staff cover arrangements, sufficient staff training and QA checking of work. We constantly work with employers to ensure they understand their responsibilities to pay by 19th of the month.	2	1	2	Low	New electronic forms have been rolled out to all employers from April 2011 to allow collation of membership and contributions detail by member to facilitate monthly reconciliations ahead of year end.	Catherine Dix		2	2	4	Low	27 Apr 2011	→
PEN003	Insufficient funds to meet liabilities as they fall due	Service Delivery	Contributions from employees / employers too low, failure of investment strategy to deliver adequate returns, significant increases in longevity, etc.	Immediate cash injections would be required from the scheme employers. However, this would not conceivably be an issue for the Wiltshire Pension Fund for many years to come, because it is currently "immature" and very Cashflow positive.	David Anthony	Funding Strategy Statement, Investment Strategy, Triennial Valuations, membership of Club Vita, etc.	4	1	4	Low	The "maturity" profile of cashflows could be brought forward if members choose to opt-out of the scheme following changes by the Government along with the reduction in public sector employees from the spending constraints. Collection of opt-out data is being reviewed along with high level monitoring of cashflow profiles.	David Anthony		4	1	4	Low	27 Apr 2011	→
PEN004	Inability to keep service going due to loss of main office, computer system or staff	Service Delivery	Fire, bomb, flood, etc.	Temporary loss of ability to provide service	David Anthony	Business Continuity Plan in place.	4	2	8	Medium	Fire Proof Safe on order now office has been relocated to ground floor of old County Hall. These are to store microfiches. Planned roll out of laptops to all team members will enable them to work remotely in future if required.	Andy Cunningham	Jul-11	4	1	4	Low	27 Apr 2011	→
PEN005	Loss of funds through fraud or misappropriation	Fraud / Integrity	Fraud or misappropriation of funds by an employer, agent or contractor	Financial loss to the Fund	David Anthony	Internal and External Audit regularly test that appropriate controls are in place and working. Regulatory control reports from investment managers, custodian, etc. are also reviewed by audit. Due Diligence is carried out whenever a new manager is appointed. Reliance is also placed in Financial Services Authority registration.	4	1	4	Low	None	Catherine Dix		4	1	4	Low	27 Apr 2011	→

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Ref.	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in place to manage the risk	Current Risk Rating				Further Actions necessary to manage the risk	Risk Action Owner	Date for completion of action	Target Risk Rating				Date of Review	Direction of Travel
							Impact	Likelihood	x	Level of risk				Impact	Likelihood	x	Level of risk		
PEN006a	Significant rises in employer contributions for secure employers due to increases in liabilities	Economic	Scheme liabilities increase disproportionately as a result of increased longevity, falling bond yields, slack employer policies, etc.	Employer contribution rates become unacceptable, causing upward pressure on Council Tax and employers' costs.	David Anthony	Longevity and bond yields are really beyond the control of the Fund although some Funds have considered buying longevity insurance through the use of SWAPS . However, the Fund and each employer must have a Discretions Policy in place to help control discretionary costs (e.g.. early retirements, augmented service, etc).	2	2	4	Low	Quarterly monitoring in liabilities movements is undertaken providing advance warning to employers. The Stabilisation Policy has limited increases for secure employer.	David Anthony / Andy Cunningham	Mar-14	3	2	6	Medium	27 Apr 2011	→
PEN006b	Significant rises in employer contributions for non-secure employers due to increases in liabilities	Economic	Scheme liabilities increase disproportionately as a result of increased longevity, falling bond yields, slack employer policies, etc.	Employer contribution rates become unacceptable, causing upward pressure on Council Tax and employers' costs.	David Anthony	Longevity and bond yields are really beyond the control of the Fund although some Funds have considered buying longevity insurance through the use of SWAPS . However, the Fund and each employer must have a Discretions Policy in place to help control discretionary costs (e.g.. early retirements, augmented service, etc).	2	2	4	Low	Quarterly monitoring as described above. The rates for the 2010 Valuation have now been agreed and through the use of stepping in of contribution rate increases where requested the need for large increases was avoided for certain employers.	David Anthony / Andy Cunningham	Mar-14	3	2	6	Medium	27 Apr 2011	↓
PEN007a	Significant rises in employer contributions for secure employers due to poor/negative investment returns	Economic	Poor economic conditions, wrong investment strategy, poor selection of investment managers	Poor/negative investment returns, leading to increased employer contribution rates	David Anthony	Use of expert consultants in the selection of investment strategy and selection of investment managers, regular monitoring of investment managers (1/4ly), regular reviews of investment strategy (annually). There is a monthly review of the % of the Fund held in each mandate and strategy.	2	2	4	Low	Quarterly monitoring in investment movements is undertaken providing advance warning to employers. A review of investment strategy is to be undertaken in May. The implementation of the Stabilisation Policy limits increases for secure employer.	Catherine Dix	May-11	3	2	6	Medium	27 Apr 2011	→
PEN007b	Significant rises in employer contributions for non-secure employers due to poor/negative investment returns	Economic	Poor economic conditions, wrong investment strategy, poor selection of investment managers	Poor/negative investment returns, leading to increased employer contribution rates	David Anthony	Use of expert consultants in the selection of investment strategy and selection of investment managers, regular monitoring of investment managers (1/4ly), regular reviews of investment strategy (annually). There is a monthly review of the % of the Fund held in each mandate and strategy.	2	2	4	Low	Quarterly monitoring as described above. The review of employers long term financial stability and stepping in of contribution rate prevented affordability issues for the 2010 Valuation.	Catherine Dix	Mar-11	3	2	6	Medium	27 Apr 2011	↓

Ref.	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in place to manage the risk	Current Risk Rating				Further Actions necessary to manage the risk	Risk Action Owner	Date for completion of action	Target Risk Rating				Date of Review	Direction of Travel
							Impact	Likelihood	x	Level of risk				Impact	Likelihood	x	Level of risk		
PEN008	Failure to comply with LGPS and other regulations	Legal / Statutory	Lack of technical expertise / staff resources to research regulations, IT systems not kept up-to-date with legislation, etc	Wrong pension payments made or estimates given. Investment in disallowed investment vehicles or failure to comply with governance standards. Effect: Unhappy customers, tribunals, Ombudsman rulings, fines, adverse audit reports, etc	David Anthony	Sufficient staffing, training and regulatory updates. Competent software provider and external consultants.	2	3	6	Medium	The Altair system is monitored to ensure its output remains in line with expectations and a review of the factors used in calculations is being undertaken. Workflow has been partially implemented which ensures consistent steps are taken by the team when processing tasks. A central manual with all procedures will be drafted by the Autumn to ensure all the team follow the same process & methods. The Fund currently has one dispute that has gone to the Pension Ombudsman.	Martin Summers / Catherine Dix		1	2	2	Low	27 Apr 2011	→→→
PEN009	Failure to hold personal data securely	Legal / Statutory	Poor procedures for data transfer to partner organisations, poor security of system, poor data retention, disposal, backup and recovery policies and procedures.	Poor data, lost or compromised	David Anthony	Compliance with Wiltshire Council's Data Protection & IT Policies.	2	2	4	Low	It is intended to do a full data protection audit for the Fund shortly. Use of a secure portal is being investigated for employers to send in data and an imaging system will be implemented over the coming months to improve retention of documents.	Tim O'Connor	Sep-11	2	1	2	Low	27 Apr 2011	→→→
PEN010	Failure to keep pension records up-to-date and accurate	Knowledge / Data / Info	Poor or non-existent notification to us by employers and members of new starters, changes, leavers, etc	Incorrect records held, leading to incorrect estimates being issues to members and incorrect pensions potentially being paid.	David Anthony	Operations Team set-up and constantly working to improve data quality, data validation checks carried out through external partners (e.g., the Fund's actuaries and tracing agencies), proactive checks done through national fraud initiative, LEAN Review looking at all ways to collect and input "clean data".	2	4	8	Medium	The latest Audit report highlighted that records were not in a consistent form and some pieces of information were missing. With the implementation of SAP, Altair and our systems review this is an area being developed. Detailed reconciliations are being undertaken between WC payroll and the Fund's data.	Tim O'Connor	Aug-11	2	1	2	Low	27 Apr 2011	→→→
PEN011	Lack of expertise of Pension Fund Officers and Chief Finance Officer	Professional judgement & activities	Lack of training, continuous professional development and continuous self assessment of skills gap to ensure knowledge levels are adequate to carry out roles to the best of their ability	Bad decisions made may be made in relation to any of the areas on this register, but particularly in relation to investments.	David Anthony	Officers ensure that they are trained and up-to-date in the key areas through attendance at relevant courses and seminars, reading, discussions with consultants and peers, etc.	3	2	6	Medium	Officers training requirements are identified through appraisals, which includes the Knowledge & Skills Framework. The Pension team will undergo a Management Review when the Hutton changes are known. This will ensure we have adequate resources and knowledge at the right levels moving forward.	David Anthony	Mar-11	2	1	2	Low	27 Apr 2011	→→→

Ref.	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in place to manage the risk	Current Risk Rating				Further Actions necessary to manage the risk	Risk Action Owner	Date for completion of action	Target Risk Rating				Date of Review	Direction of Travel
							Impact	Likelihood	x	Level of risk				Impact	Likelihood	x	Level of risk		
PEN012	Over-reliance on key officers	Organisation Management / HR	The specialist nature of the work means that there are inevitably relatively experts in investments and the local authority pension regulations	If someone leaves or becomes ill, a big knowledge gap if less behind.	David Anthony	Key people in the Section are seeking to transfer specialist knowledge to colleagues. In the event of a knowledge gap, however, we can call on our external consultants and independent advisors for help in the short-term.	2	2	4	Low	The Pension's Team are currently awaiting the Governments decision on Hutton recommendations before undertaken a Management Review. We currently have two posts filled on a temporary basis and also ensure there is adequate support to resource the increasing complexity of the Scheme.	David Anthony	Nov-11	2	1	2	Low	27 Apr 2011	→→→
PEN013	Failure to communicate properly with stakeholders	Stakeholders	Lack of clear communications policy and action, particularly with employers and scheme members.	Scheme Members are not aware of the rights and privileges of being in the scheme and may make bad decisions as a result. Employers are not aware of the regulations, the procedures, etc, and so the data flow from them is poor and they may misadvise their employees.	David Anthony	The Fund has a dedicated Communications Manager and Employer Relationship Manager dedicated to these areas full-time, including keeping the website up-to-date, which is a key communications resource. The Fund also has a Communications Policy.	2	3	6	Medium	The change in tax relief has now been communicated to all members. The impact of NEST and their responsibility needs to be communicated to employers. Concern remains of the potential number of opt-outs once the Government change the scheme. Increased awareness of the benefits to eligible non-members and discussions with employers regarding Reward Statements will take place.	Zoe Stannard & Andy Cunningham	Nov-11	1	1	1	Low	27 Apr 2011	→→→
PEN014	Failure to provide the service in accordance with sound equality principles	Corporate / Leadership / Organisation (Reputation)	Failure to recognise that different customers have different needs and sensitivities.	Some customers may not be able to access the service properly or may be offended and raise complaints. At worst case, this could result in a court case, etc.	David Anthony	The Fund has done an Equality Risk Assessment and has an Equality Implementation Plan in place	2	1	2	Low	None	David Anthony		2	1	2	Low	27 Apr 2011	→→→
PEN015	Failure to collect payments from ceasing employers	Finance	When an employer no longer has any active members a cessation valuation is triggered and a payment is required if a funding deficit exists to meet future liabilities	Failure to collect cessation payments means the cost of funding future liabilities will fall against the Wiltshire Pension Fund	David Anthony	The Pension Fund Committee approved a Cessation Policy in February 2010 to provide an agreed framework for recovery of payments	2	2	4	Low	All new admitted bodies now require a guarantor to join the Fund. Work is on-going with ceased employers without a guarantor to ensure the costs are met.	Andrew Cunningham		2	1	2	Low	27 Apr 2011	→→→
PEN016	Treasury Management	Finance	The Fund's treasury function is now segregated from Wiltshire Council. This includes the investment of surplus cash in money markets.	Exposure to counterparty risk with cash held with external deposit holders could impact of Funding level of the Fund	David Anthony	The Pension Fund approved an updated Treasury Management Strategy in March 2011 which follows the same criteria adopted by Wiltshire Council but limits individual investments with a single counterparty to £8m.	3	1	3	Low	The Council uses Sector's credit worthiness service using ratings from three rating agencies to provide a score. Surplus cash is transferred to the Custodian at month end ensuring cash balances are minimal.	Catherine Dix		3	1	3	Low	27 Apr 2011	→→→

Ref.	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in place to manage the risk	Current Risk Rating				Further Actions necessary to manage the risk	Risk Action Owner	Date for completion of action	Target Risk Rating				Date of Review	Direction of Travel
							Impact	Likelihood	x	Level of risk				Impact	Likelihood	x	Level of risk		
PEN017	Lack of expertise on Pension Fund Committee	Professional judgement & activities	Lack of structured training and continuous self assessment of skills gap to ensure knowledge levels are adequate to carry out roles to the best of their ability	Bad decisions made may be made in relation to any of the areas on this register, but particularly in relation to investments. There is also a requirement for Fund's to 'Comply or Explain' within their Annual Report on the skills knowledge of members of the Committee	David Anthony	Members are given Induction Training when they join the Committee, as well as subsequent opportunities to attend courses/seminars and specialist training at Committee ahead of key decisions. There is a Members' Training Plan and Governance Policy. Help can be called on from our consultants and independent advisors too.	2	2	4	Low	The CIPFA Local Government Pension Fund Knowledge & Skills Framework require members of the committee to be regularly assessed to identify knowledge gaps and ensure training is provided to address these. Members have been assessed and a training plan set which is being implemented over the next two years.	David Anthony	Nov-12	2	1	2	Low	27 Apr 2011	→

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WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
12 MAY 2011

UPDATE OF ADMINISTERING AUTHORITY DISCRETIONS POLICY

Purpose of the Report

1. The purpose of this report is to seek the Committee's approval for the updated Administering Authority Discretions Policy for the Wiltshire Pension Fund.

Background

2. Under the Local Government Pension Scheme (LGPS) Regulations, there are a number of discretions available to both administering authorities and employer bodies in terms of the way they implement the Regulations.
3. The Regulations require that each administering authority and employer body must formulate, publish and keep under review their policy due to changes in the LGPS regulations that are issued from time to time from the Department for Communities & Local Government. In formulating its policies, the administering authority must consult with the scheme employers in its fund. No comments were received from the Wiltshire Pension Fund employers in respect of its proposed changes.
4. This report focuses entirely on the discretions of Wiltshire Council as Administering Authority for the Wiltshire Pension Fund. It does not look at the discretions of the Council as an Employer Body – that is a matter for the Council's Staffing Committee.
5. This paper effectively updates the previous policy approved by this Committee on 28 February 2007 and has been drafted to cover all of the Administering Authority's discretions as detailed in the Local Government Pension Scheme (Administration) Regulations 2008, Clause 5, part 1.

Considerations for the Committee

6. The proposed updated Policy Statement is shown in the Appendix and is broadly the same as previously agreed by this Committee. In reality, the policy is effectively restating policies that are currently in operation. This updated policy which will provide the following:
 - Guidelines to which staff administering the fund on behalf of the committee will work within;
 - Confirmation of the responsibilities of officers acting on behalf of the fund;
 - Transparency in processes undertaken.
7. These discretions have been amended to either cover or provide clarity on the following topics:

- Additional wording on Governance and Funding Strategy (A31 & A35);
 - Clarification of the timescales for the payment of upfront pension strain costs (A41(2));
 - Clarification of the format of data submitted by employers of the fund (A42(4));
 - Clarify the evidence required of co-habitee members to determine interdependency (B25);
 - Clarification of interpretation of the regulations (TSch1 & L122A(8))
 - Adherence to the Communications Strategy (A67);
 - Clarification of the process for bulk transfer payments (A81(1)(b));
 - Procedure for allowing members to transfer in pension rights (A83(9));
 - Compliance with Administration Strategy (A43); and
 - Procedure for Internal Dispute Resolution Procedures (IDRP's) (A60(8));
8. The Committee will be asked to approve the updated policy following a verbal review from officers.

Environmental Impact of the Proposal

9. There is no environmental impact of this proposal.

Financial Considerations & Risk Assessment

10. There is no cost to the Wiltshire Pension Fund or the Scheme's employers as a result of this arrangement.
11. The adoption of the policy would reduce the potential risk of Internal Dispute Resolution Procedure claims being submitted by members.

Reasons for Proposals

12. It is necessary to provide an up to date policy to comply with the LGPS regulations.

Proposals

13. The Committee is asked to approve the updated Discretions Policy Statement (Appendix)

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Unpublished documents relied upon in the production of this report: NONE

APPENDIX

Wiltshire Pension Fund - Administering Authority Discretions LGPS Regulations 2008

Key: A5(1) = Local Government Pension Scheme (Administration) Regulations 2008, Clause 5, part 1

Regulation Reference	Brief Description	Wiltshire Pension Fund's discretion
A5(1) & A7(4)	Whether to agree to an admission Agreement with a community body	<p>Wiltshire Council's Chief Financial Officer has delegated responsibility for approval of admission agreements with Community Admission Bodies (CABs) regardless of the number of scheme entrants where:</p> <ul style="list-style-type: none"> • they arise from transfers of existing LGPS scheme members (either in the Wiltshire Pension Fund (WPF) or another LGPS Fund); and • the original scheme employer (or another local authority with a "community of interest") provides a guarantee to the WPF of equivalent security to that which would have been given under the Regulations had the admission been a Transferee Admission Body. <p>Applications from potential CABs which do not satisfy the terms above, but where the expected active membership within the WPF at the date of admission would be at least 10 people, will be decided by the WPF Committee assuming the applicant satisfactorily passes a risk assessment.</p>
A12(6)	Whether to agree to an admission Agreement with a Care Trust or NHS Scheme employing authority	WPF will accept the admission of a Care Trust or NHS Scheme employing authority subject to the relevant authority meeting the criteria set out in A5(1) & A7(4).
ASch3, para 10	<p>Whether to terminate a transferee admission agreement in the event of:</p> <ul style="list-style-type: none"> - insolvency, winding up or Liquidation of the body - breach by that body of its obligations under the Admission agreement - failure by that body to pay over sums due to the 	<p>In the first instance, the terms of the relevant Admission Agreement will apply.</p> <p>Where the terms of the relevant Admission Agreement leave the decision open to the Administering Authority, the Administering Authority will cease the admission agreement in the event of insolvency, winding up or</p>

	Fund within a reasonable period of being requested to do so	liquidation of the body unless there are strong reasons not to do so. If the terms of the Admission Agreement are broken, WPF will try to resolve the matter, where possible, through reasonable means. If WPF is unable to resolve the matter satisfactorily, WPF will terminate the Admission Agreement.
B3(11)	Frequency of payment of member's Contributions	Member's normal contributions will be deducted monthly and received by the 19 th of the month following which they have accrued service. All other types of Member's contributions (such as those relating to unpaid leave) should be received as a lump sum within two months of the member electing to pay contributions for any missing periods of service.
A19(8)(b)	Whether to extend normal 12 month Period following end of relevant Reserve Forces leave for submitting a "Cancelling notice". (This is where a member requests that the service should not be treated as relevant Reserve Forces service.)	WPF will extend the normal 12 month period when it can be reasonably shown that the member was not informed of this right.
A40(2)&(4)	Agree method of paying for Augmented membership granted under B12 or additional pension Granted under B13	WPF will seek a one off payment of all capital costs relating to Augmented membership or additional pension. Where a convincing reason exists for such payments to be spread, WPF reserve the right to agree to such a request subject to the relevant scheme employer or admitted body passing a risk assessment and following a consideration of any relevant pass through of pension costs between employers that are in place.
A40(9)(b)	Whether to extend the one month Period within which a lump sum Payment by the employer under A40(2) has to be made (to pay for any augmented membership granted Under B12 or additional pension Granted under B13)	WPF will invoice for such a payment and will require payment within thirty days from the invoice date.

A23(3)	Whether to require a satisfactory Medical before agreeing to an Additional Regulation Contribution (ARC) election under B14	WPF will require that any member wishing to take up ARC obtains a medical certificate from a GP or another appropriate qualified medical practitioner stating that as far as they are aware, or can reasonably assess, that they have no reason to believe that the member will retire on health grounds before the age of 65.
A24(3)	Whether to require a satisfactory Medical before agreeing to a request to pay additional contributions for survivor benefits (ASBC) election under B14A	WPF will require that any member wishing to take up ASBC obtains a medical certificate from a GP or another appropriate qualified medical practitioner stating that as far as they are aware, or can reasonably assess, that they have no reason to believe that the member will retire on health grounds before the age of 65.
A28(2)	Whether to charge member for provision of estimate of additional pension that would be provided by the Scheme in return for transfer of in house AVC/SCAVC funds.	Members may request a quote for free that is valid for three months. In the exceptional case that WPF are asked to do another, we reserve the right to make a charge.
A31*	<p>Governance policy must state whether the administering authority delegates their function or part of their function in relation to maintaining a pension fund to a committee, a sub committee or an officer of the admin authority and, if they do so delegate, state</p> <ul style="list-style-type: none"> - the frequency of any committee or sub-committee meetings - the terms of reference, structure and operational procedures appertaining to the delegation - whether representatives of employing authorities or members are included and, if so, whether they have voting rights. <p>The policy must also state the extent to which a delegation, or the absence of a delegation, complies with Secretary of State guidance and, to the extent it does not so comply, state the reasons</p>	WPF has a Governance Policy on its website.

	for not complying.	
A32(1)	Whether to set up a separate Admission Agreement fund	New admitted bodies will be set up as standalone employers within the Fund unless all the parties to the admission agreement agree to allow to the admitted bodies pension assets and liabilities to remain merged with the letting authority.
A35*	Decide on Funding Strategy for inclusion in the Funding Strategy Statement	WPF's Funding Strategy Statement will be updated and available for inspection on the WPF's website.
A38(3)	Whether to obtain revision of employer's contribution rate on termination of an admission agreement where underfunding was not met by insurer, bond or indemnity.	WPF's policy is to obtain a 'cessation valuation' when the admission agreement terminates. WPF's approach to the cessation valuation will be outlined in the WPF's cessation policy which will available on its website.
A38(4)	Whether to obtain revision of employer's contribution rate with a view to ensure no underfunding by the time admission agreement terminates	Beyond the triennial valuation, WPF will set rates in line with the admitted body's contract length and will consider individual cases on their merits, taking into account the effect on the admitted body, the letting authority, the terms of the admission agreement and the level of prudence for the Fund to do so.
A38A	Decide whether to obtain a new Rates and adjustments certificate if The Secretary of State amends the Benefits Regulations as part of the "cost sharing" under A36A	WPF will consider the likely extent of any such changes on employer rates and the amount of time remaining before the next triennial valuation before deciding whether the administrative cost of making such a change is justifiable.
A41(2)	Whether to require any strain on Fund costs to be paid "up front" by Employing authority following redundancy, flexible retirement, or the waiver (in whole or in part) of any actuarial reduction on flexible retirement (but not waiver of reduction in full on compassionate grounds).	<p>WPF will require costs relating to redundancy, flexible retirement and the waiver of any actuarial reduction on flexible retirement to be paid "up front". WPF will invoice for such payments and will require payment to be made within its normal invoice terms.</p> <p>If there is any cost to the fund for deferred benefits being released at the employers consent before the former member attains age 60 these may be (or will be) recharged to the former employer of the member concerned.</p>

A42(1)&(7)	Decide frequency of payments to be made over to the Fund by employers and whether to make an admin charge.	Employers will be required to be make payments by the 19 th of month following when the deduction is made. WPF will not charge an admin charge for this and administration costs forms part of the employer contribution rate.
A42(4)	Decide format and frequency of information to accompany payments to the Fund.	Information accompanying payments will also be required by the 19 th of Month following when the deduction is made.
A43	Whether to issue employer with notice to recover additional costs incurred as a result of the employer's level of performance.	WPF will only issue such a notice in line with the procedures outlined in the Fund's Administration Strategy.
A44(1)	Whether to charge interest on payments by employers overdue by more than 1 month.	WPF will follow the procedures outlined in the Fund's Administration Strategy before issuing such a charge.
TSch1 & L83(5)	Extend time period for capitalisation of added years contract.	WPF will favourably view an extension of the period of time to capitalise an added years contract where it benefits all parties involved.
A45(3)	Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits.	WPF will normally deduct any unpaid employee contributions from benefits.
A52(2)	Can pay death grant due to personal representatives or anyone appearing to be beneficially entitled to the estate without need for grant of probate/letters of administration.	WPF will normally make payments due in respect of deceased persons without the production of probate or letters of administration of estates, where the amounts due are below the amount specified in any order under section 6 of the Administration of Estates (Small Payments) Act 1965.
A56(2)	Approve medical advisors used by employers (for ill health benefits).	WPF will allow employers to approve their own medical advisors subject to them meeting the requirements of the LGPS Regulations.
A60(8)	Decide procedure to be followed by admin authority when exercising its stage two IDRPs functions and decide the manner in which those functions are to be exercised	Stage 1 IDRPs will be determined by Mr Mark Hodgkinson of Muse Advisory. Stage 2 IDRPs will be determined by the Administering Authority following a review of the case being undertaken by Hymans Robertson.
A63(2)	Whether Administering Authority should appeal against employer decision (or lack of a decision)	WPF will only appeal against employer decisions, by approaching the Secretary of State for determination, in exceptional cases where the Fund is adversely affected.

		In the first instance, regarding all levels of employer decisions, WPF will attempt to resolve the matter with the employer in the first instance.
A64(1)(b)	Specify information to be supplied by employers to enable administering authority to discharge its functions.	WPF will specify the standard information and actions required by employers, their format, frequency and level of accuracy in an online Employer's Guide and Administration Strategy.
A65(1) & (2)	Whether to have a written pensions administration strategy and, if so, the matters it should include.	WPF has written pension administration strategy and this can be found on the WPF website.
A67*	Communication policy must set out policy on communicating with members, representatives of members, prospective members and employing authorities and format, frequency and method of communications.	WPF has written Communication Strategy and this can be found on the WPF website.
A68	Date to which benefits shown on Annual benefit statement are calculated	Annual Benefit Statements will be issued each year in line with the Administration Strategy and will show benefits up to 31 st March.
A70(1)* & A71(4)(c) & T12	Decide policy on abatement of pensions following re-employment.	WPF will not abate pensions following re-employment.
A81(1)(b)	Agree to bulk transfer payment	WPF will agree to bulk transfer payments where, with actuarial advice and where necessary with employer consultation, the Fund believes the amount transferred represents a fair valuation of benefits.
A83(9)	Allow transfer of pension rights into The Fund	WPF will allow members to transfer in pension rights in accordance with the LGPS regulations.
B10(2)	Where member to whom B10 applies (use of average of 3 years pay for final pay purposes) dies before making an election, whether to make that election on behalf of the deceased member.	Where WPF is aware that member's family would have benefited from such an election and the member did not have the opportunity to make the election themselves, WPF will make the election on the member's behalf which provides the largest benefit to the member's family.
B27(5)	Whether to pay the whole or part of a child's pension to another person for the benefit of that child.	Where there is more than one eligible child WPF will divide a children's pension equally between them. Where a child is under 17 WPF will normally pay his/her pension to the person who has the care of the child, to be applied for the benefit of that child, or to an account in the name of the eligible child if the carer of the child so wishes.

A52A	Whether, where a person (other than an eligible child) is incapable of managing their affairs, to pay the whole or part of that person's pension benefits to another person for their benefit.	Payments of pension to a person managing the affairs of the member will be permitted on the provision of a copy of Power of Attorney or letter from a solicitor.
B23(2) & B32(2) & B35(2) & TSch1 & L155(4)	Decide to whom death grant is paid	WPF will pay any death grant due to the nominee(s) stated on any completed 'expression of wish' form, or a differently titled form with the same meaning, unless WPF has reason to believe the stated nominee(s) would have no longer wished the stated person(s) to be the nominee(s) or because their nomination is no longer valid (i.e. they have died). Where WPF is unable to pay the death grant to a stated nominee, either because none is stated or for the reasons above, WPF will consider if the payment is made to the person's next of kin or to their estate.
B25	Decide evidence required to determine financial dependence of nominated co-habitee on scheme member or financial interdependence of nominated co-habitee and scheme member	The evidence to determine financial dependence or interdependence will be assessed and agreed on a case by case basis and will include but not be restricted to items such as evidence of a joint bank account, shared utility bills, joint mortgage arrangements etc.
B26(4)	Decide to treat a dependent child who commences full time education or vocational training after the date of the member's death as an eligible child after the child attains age 18 and until age 23	WPF will treat a dependent child as an eligible child in these circumstances.
B26(5)(a)	Decide to treat child as being in continuous education or training despite a break	WPF will treat a child as being in continuous education or training in all cases where the child is under age 18. Where the child is aged between 18 and 23, WPF will ignore all breaks up to 6 months.
B26(5)(b)	Decide to suspend child's pension during a break in education or training	WPF will not suspend a child's pension unless the break exceeds 6 months or is expected to exceed 6 months. WPF will also consider gap years, as being interruptions in education and will restart a suspended children's pension at the end of such a break or gap on confirmation of the child returning to further education.
B26(6)	Decide to treat a dependent child who is disabled within the meaning of the DDA 1995 as being an	WPF will treat a dependent child who is disabled within the meaning of the DDA 1995 (or updated) as being an eligible child.

	eligible child	
B39 & T14(3)	Decide whether to commute small pension	WPF will offer commutation of benefits where the capital value of their LGPS and all other scheme's/fund's do not exceed HMRC's limits and all benefits from these funds are commuted within a period of 12 months. Members to provide information on all their funds to be commuted in order that WPF can determine whether the benefits can be commuted. Members to declare that all information has been provided and that if making a false statement they will be liable for any tax charged by HMRC.
B42(1)(c)	Decide, in the absence of an election from the member, which benefit is to be paid where the member would be entitled to a benefit under 2 or more regulations in respect of the same period of Scheme membership	In first instance, WPF will layout the options to the member to make such an election. If this is not possible for whatever reason, WPF will decide on behalf of the member taking their best interests into account.
TSch 1 & L23(9)	Make election on behalf of deceased member with a certificate of protection of pension benefits i.e. determine best pay figure to use in the benefit calculations (pay cuts/ restrictions occurring pre 1.4.08.).	Where WPF is aware that member's family would have benefited from such an election and the member did not have the opportunity to make the election themselves, WPF will make the election on the member's behalf which provides the largest benefit to the member's family.
TSch1 & L122A(8)	Whether to accept a partial restitution payment	WPF will accept partial restitution payments which will credit a member with service in line with advice received from the scheme actuary.
TSch1 & L147	How to discharge Pension Credit liability	WPF will discharge pension credit liabilities by conferring appropriate rights under the scheme on the ex-spouse or ex-civil partner. Alternatively, the ex-spouse or ex-civil partner may request a transfer of those rights to a suitable qualifying arrangement (occupational pension scheme, personal pension scheme, appropriate annuity contract or suitable overseas arrangement).