

AGENDA

Meeting: Wiltshire Pension Fund Committee
Place: Committee Room III - County Hall, Trowbridge
Date: Wednesday 15 September 2010
Time: 10.30 am

Please direct any enquiries on this Agenda to Liam Paul, of Democratic and Members' 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
Chairman's Briefing	Wednesday, 15 Sept 2010	9.30 am	Office of the Chief Finance Officer

Membership:

Wiltshire County Council Members:

CLlr Tony Deane (Chairman)
CLlr Charles Howard (Vice Chairman)
CLlr David Jenkins
CLlr Jeff Osborn
CLlr Sheila Parker

Substitute Members

CLlr Bill Moss
CLlr Mark Packard
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

Ms Irlene Cooper
Mr Tim Jackson

PART 1

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

1. **Membership**

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

3. **Apologies for Absence**

4. **Minutes of Previous Meeting** *(Pages 1 - 6)*

To confirm the minutes of the meeting held on 14th July 2010 *(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**

The Council welcomes contributions from members of the public.

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.

Members of the public wishing to ask a question should give written notice (including details of any question) to the officer named above by **12.00 noon on 13th September 2010** .

8. **Draft Annual Report for 2009-10** *(Pages 7 - 8)*

To consider and approve the attached draft Wiltshire Pension Fund Annual Report 2009–2010.

9. **Final Audit Report** *(Pages 9 - 20)*

To receive the attached Final Audit Report prepared by KPMG and their verbal report at the meeting

10. **Wiltshire Pension Fund Risk Register** *(Pages 21 - 26)*

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

11. **Administration Strategy Update** *(Pages 27 - 30)*

To update the Committee on the implementation of the Administration Strategy for the Fund.

12. **Date of Next Meeting**

Members are asked to note that the next regular meeting of this Committee will be held on Thursday 30 September 2010.

13. **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.

14. **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 1 & 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

15. **Corporate Governance Update**

PIRC will present a verbal update to the committee on their activity over the past 12 months in relation to proxy voting on behalf of the Wiltshire Pension Fund and other Corporate Governance issues.

16. **Quarterly Progress Report**

A confidential report on the investment activity and performance of the Fund for the year to 30 June 2010 is attached for Members' consideration.

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WILTSHIRE PENSION FUND COMMITTEE

DRAFT MINUTES OF THE WILTSHIRE PENSION FUND COMMITTEE MEETING HELD ON 14 JULY 2010 AT .

Present:

Cllr Tony Deane (Chairman), Cllr Charles Howard (Vice Chairman), Mr Tim Jackson, Cllr David Jenkins, Cllr Des Moffatt, Cllr Jeff Osborn, Cllr Sheila Parker and Cllr Peter Stoddart

Also Present:

Mr Paul Potter – Hymans Robertson
Mr Jim Edney – Independent Pensions Advisor
Mr David Anthony – Head of Pensions, Wiltshire Council
Mrs Caroline Dix – Fund Investment and Accounting Manager, Wiltshire Council
Ms Anna Thurman – Democratic Services Officer, Wiltshire Council

40. Membership Changes

The Chairman advised the Committee that notification had been received on 7th July 2010 that Mrs Irlene Cooper had decided to resign from the committee.

The committee originally agreed to appoint the additional member from

- Transferee Admission Bodies
- Education Scheduled Bodies

The Committee discussed the issues surrounding nominations for a replacement and it was,

Resolved

That officers will write to the above bodies inviting nominations from which the Chairman and Vice Chairman would seek a representative to become a Member of the Committee.

41. Apologies for Absence

Apologies were received from Martin Donovan, Chief Finance Officer.

42. **Minutes**

Resolved

To confirm and sign the minutes of the meeting held on 13th May 2010.

43. **Chairman's Welcome, Introduction and Announcements**

The Chairman updated the committee on the following items.

- Quarterly Investment Monitoring - this was the 5th meeting that has been added this year to try and reduce the length of the agendas at other meetings and enable the Committee to question 2 investment managers per meeting. It was noted that there was no quarterly progress report for the investments as Quarter ended on 30th June.
- Implementation of Stabilisation Policy for 2010 Valuation - Following the last Committee meeting the principle of stabilisation policy was agreed to be applied to secure employers with the adoption of a mechanism that limits increases/decreases in contributions to +1 or - 1% per annum applied from April 2014 onwards.

Officers wrote to secure employers within the Fund explaining the stabilisation policy on 4th June 2010 seeking comments. The only significant response was received from Swindon Borough Council who supported the principle but questioned the freezing of contribution rates until 2014.

- Positional updates on Cessation following implementation of policy in February 2010 were given.

44. **Declarations of Interest**

There were none.

45. **Public Participation**

There were no members of the public present.

46. **Wiltshire Pension Fund Risk Register**

Head of Pensions presented a report that delivered an update on the Risk Register for the Wiltshire Pension Fund, and he detailed two changes in the Risk Register since the previous meeting.

- PEN006 – Significant rises in employer contributions due to increases in liabilities.
- PEN 007 – Significant rises in employer contributions due to poor/negative investment returns

As a Stabilisation Policy for secure employers was agreed by the Committee the risk of significant rises in employer contribution rates has now reduced (shown in Risk PEN006a and PEN007a). This limits increases in employer contribution rates for the Secure Employers within the Fund. There is still a likelihood that non-secure employers will face significant increases, work is being undertaken to find a solution but does remain a significant risk (Risk PEN006b and PEN007B shown as red).

Resolved

To note the report.

47. Members Training Update

Head of Pensions updated the group on Members' Training, in light of the revised Myners Principles and publication of the CIPFA's Knowledge and Skills framework (KSF).

The revised Myners Principles requires the administering authorities to ensure that:

1. decisions are taken by persons or organisations with the skills, knowledge advice and resources necessary to make them effectively and monitor their implementation; and
2. those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

There are 6 areas within the KSF which are identified as core technical requirements for those working in public sector pension finance.

1. pensions legislative and governance context
2. pensions accounting and auditing standards
3. financial services procurement and relationship management
4. investment performance and risk management
5. financial markets and products knowledge
6. actuarial methods, standards and practices

Discussion developed in respect of issues surrounding self assessment, highlighted knowledge gaps that would inform Members' training plans. It was,

Resolved

- a) to note the impact on Members training as a result of the publication of the CIPFA Knowledge and Skills Framework; and
- b) that members would undertake self assessment and then have an organised one to one with either the Head of Pensions or Fund Investment and Accounting Manager, to help to inform Training Plans to be completed by the end of September 2010; and
- c) to note a revised Members Training Plan based on the results of the high level self-assessment will be presented to the December Committee meeting for approval; and
- d) to agree to adopt the role of profile for the Chairman and Vice Chairman as outlined in appendix A; and
- e) to agree that officers assess the Chairman's and Vice Chairman's training requirements to agree with the requisite skills needed to undertake the principal responsibilities of the post and to produce them a separate training plan along with feedback on their current performance.

48. **Date of Next Meeting**

The date of the next meeting of the Wiltshire Pension Fund will take place on Wednesday 15th September 2010.

49. **Urgent Items**

There were no urgent items.

50. **Exclusion of the Public**

Resolved

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 Minute Nos. 15 - 21 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 1 & 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.

51. **Wiltshire Pension Fund Administration Budget 2008-09 - Outturn Statement**

The Head of Pensions introduced a report on the Pension Fund administration budget 2009-10.

Resolved

That the report be noted.

52. **Fauchier Partners - Review of Previous Period and Plans for the Future**

Peter Vincent and Dan Higgins from Fauchier Partners LLP reviewed the previous period and outlined plans for the future.

Resolved

To note the information contained in the report and the investment policy detailed by Fauchier Partners.

53. **Western Asset Management - Review of Previous period and Plan for the Future**

Simon Gregory and Dipankar Shewaram from Western Asset Management reviewed the previous period and outlined plans for the future.

Resolved

To note the information contained in the report and the investment policy detailed by Western Area Asset Management.

(Duration of meeting: 10.30 am - 1.00 pm)

The Officer who has produced these minutes is Anna Thurman, of Democratic & Members' Services, direct line 01225 718379, e-mail anna.thurman@wiltshire.gov.uk

Press enquiries to Communications, direct line (01225) 713114/713115

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WILTSHIRE PENSION FUND COMMITTEE
15 September 2010

DRAFT ANNUAL REPORT FOR 2009-10

Purpose of the Report

1. The purpose of this report is to present the attached draft Wiltshire Pension Fund Annual Report and Financial Statements 2009-10 to Members for approval.

Background

2. The Wiltshire Pension Fund has a requirement under the Local Government Pension Scheme (Administration) Regulations 2008 SI 2008 No 239 ("the Administration Regulations") to produce an Annual Report.
3. The Annual Report contains details of the accounts of the Wiltshire Pension Fund for the year to 31 March 2010 and is primarily aimed at the participating employer organisations within the Wiltshire Pension Fund.
4. It supplements the Statement of Accounts of the Council, a formal publication required under the Accounts and Audit Regulations 2003 and the Code of Practice on Local Authority Accounting. As well as reporting the accounts, the opportunity is taken to cover matters of wider interest that affect the Fund, its investments and general pension provision.

Risk Assessment

5. The audit of the Wiltshire Pension Fund is not yet finalised and therefore the Audit Opinion and Certificate had not been issued at the time this report was prepared. The Final Audit Report is presented on item 9 of this agenda.

Financial Considerations

6. These are considered in the Annual Report.

Environmental Impact of the Proposals

7. There are none.

Proposals

8. Members are asked to approve the draft Wiltshire Pension Fund Annual Report & Financial Statements 2009-10 for publication, subject to the completion of the audit.

DAVID ANTHONY
Head of Pensions

Report Author: David Anthony, Head of Pensions

Unpublished documents relied upon in the production of this report:

NONE

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FINAL AUDIT REPORT

Purpose of the Report

1. The purpose of this report is to present the Final Audit Report for the Wiltshire Pension Fund prepared by KPMG (see attached).

Background

2. The 2009-10 one is the second 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. In 2009 three significant changes occurred, the move to unitary status for Wiltshire Council with the merging of the four district authorities with the County Council, the introduction of a new business management system (SAP), and the implementation of a single bank account for the Pension Fund. These changes have meant changing many of the established procedures for the Council and Pension Fund and as a result impacted on the workload of the Audit Team.
4. KPMG initially completed an interim audit visit in March 2010 and reported their findings to the May Committee meeting. Over the summer they have carried out the main audit and the resulting draft Final Audit Report is attached. Mr Chris Wilson (Partner, KPMG) will be coming to the Committee meeting to present the report as well as to the 30 September 2010 meeting of the Final Accounts & Audit Committee.
5. KPMG's final audit opinion and certificate on the Wiltshire Pension Fund Annual Report will follow this meeting.
6. Agenda item 8 presents the draft Wiltshire Pension Fund Annual Report for 2009-10.

Key Considerations for the Committee

7. The attached draft Final Audit Report states there are no issues that would cause KPMG to delay the issue of their certificate of completion of the audit.
8. Members are asked to also consider what Mr Wilson says verbally at the meeting.

Proposals

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

DAVID ANTHONY
Head of Pensions

Report Author: David Anthony, Head of Pensions

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

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GOVERNMENT

Report to those charged with governance (ISA 260) 2009/10

Wiltshire Pension Fund – DRAFT for discussion purposes

15 September 2010

AUDIT

Contents

The contacts at KPMG in connection with this report are:

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This report is addressed to the Fund and has been prepared for the sole use of the Fund. 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.

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, who is the engagement partner to the Fund (telephone 01189 642238, email Christopher.Wilson@kpmg.co.uk) who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees (0161 236 4000, email 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 Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.



Section one
Executive summary

Scope of this report

This report summarises:

- the key issues identified during our audit of Wiltshire Pension Fund's ('the Fund's) financial statements for the year ended 31 March 2010.

This report does not repeat matters we have previously communicated to you. In particular, we draw your attention to our *Interim Audit Report 2009/10*, presented to you on 13 May 2010, which summarised our planning and interim audit work.

Financial Statements

The table below summarises the key findings from our work in relation to the financial statements audit.

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Proposed opinion	We anticipate issuing an unqualified audit opinion by 30 September 2010 in both the Administering Authority's financial statements and the Fund's Annual Report. We will also report that the wording of your Annual Governance Statement accords with our understanding.
Audit differences	<p>Our audit identified a total of 3 audit adjustments with a total value of £6.3 million. These adjustments have:</p> <ul style="list-style-type: none"> • No net impact on the Net Asset Statement as at 31 March 2010; • No net impact on the Fund Account for the year; and <p>We have included a full list of significant audit adjustments at Appendix C. All of these were adjusted by Fund.</p>

Completion	<p>At the date of this report our audit of the financial statements is complete.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Fund's financial statements.</p>
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We have raised a number of recommendations in relation to the matters highlighted above, which are summarised in Appendix A.

Prior year recommendations

In our *Interim Audit Report 2009/10* we commented on the Fund's progress in addressing the recommendations in our *ISA 260 Report 2008/09*.

The Fund has implemented the majority of the recommendations in our *ISA 260 Report 2008/09* relating to the financial statements.

The exception to this is the failure to provide membership data that agrees to the membership statement of accounts.

- Appendix B provides further details.

Acknowledgements



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

Critical accounting matters

We have worked with officers throughout the year to discuss specific risk areas. The Fund addressed the issues appropriately.

Work completed

- In our *Interim Report 2009/10*, presented to you in May 2010, we identified the key risks affecting the Fund's 2009/10 financial statements and commented on the Fund's progress in addressing these key risks.
- We have now completed our testing of these areas and set out our final evaluation following our substantive work.

Key audit risk	Issue	Findings
 <p>Implementation of SAP system</p>	<p>A new accounting system SAP, was introduced by the Authority for all aspects of the Authority's accounting system including the pension Fund.</p> <p>As a result of this implementation all areas of the Fund's financial statements will be affected by this change.</p>	<p>As detailed in Appendix A there were some issues regarding the posting of contributions in the SAP system which led to some controls being unable to operate effectively.</p> <p>The closing balances from the old accounting system (Aptos) have been agreed to the opening balances in SAP.</p>
 <p>Valuation of investment assets</p>	<p>During an economic downturn the valuation of investments maybe affected by price deterioration and/or market illiquidity.</p>	<p>A sample of investment holdings were priced by KPMG using our FundRADAR service. No significant discrepancies were found between the recorded prices per BNY Mellon and the price per KPMG.</p>

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

Declaration of independence and objectivity

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

In relation to the audit of the financial statements of Wiltshire Pension Fund for the year ending 31 March 2010, we confirm that there were no relationships between KPMG LLP and Wiltshire Pension Fund, its members and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

Other matters

ISA 260 requires us to communicate "audit matters of governance interest that arise from the audit of the financial statements" to you which includes:

- material weaknesses in internal control identified during the audit;
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. issues relating to fraud, compliance with laws and regulations, subsequent events etc); and
- other audit matters of governance interest.




There are no others matters which we wish to draw to your attention. Our current year observations are set out in Appendix A.

Opinion

We anticipate issuing an unqualified audit opinion by 30 September 2010.

Appendix A: Recommendations

We have given each recommendation a risk rating (as explained below) and agreed what action management will need to take. We will follow up these recommendations next year.

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

No.	Priority	Issue & Recommendation	Management Response / Responsible Officer / Due Date
1	2	<p>Discrepancies in monthly contribution postings</p> <p>During the period under review, a new accounting system, SAP, was implemented to replace the previous system, Aptos. During the course of the 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 contribution figures seen on SAP, making the variance analysis control being unable to operate effectively on a monthly basis.</p> <p>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.</p>	<p>The implementation of SAP and the setting up of a new bank account for the Pension Fund led to changes in the internal processes and procedures. Officers in the Pension Fund, Central Finance and the Shared Service Team are now familiar with SAP. Quarterly contribution reconciliations have now been recommenced and all errors are investigated.</p>

Appendix A: Recommendations (continued)

No.	Priority	Issue & Recommendation	Management Response / Responsible Officer / Due Date
2	2	<p>Investment cash reconciliations</p> <p>During the 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 the accruals basis required by the SORP. In addition, investments made in the Fauchier account had been accounted for twice.</p> <p>These errors have arisen because the investments are posted directly from the custodian reports, there are no controls in place to ensure postings are made correctly. We recommend that a cash reconciliation, book cost reconciliation and market value reconciliation are prepared on a quarterly basis and reviewed by a 2nd individual. These reconciliations will help to identify any incorrect postings made.</p>	<p>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.</p>
3	2	<p>Storage of information</p> <p>During our audit fieldwork we came across a number of incidents where information was missing.</p> <p>During our testing of controls over new starters to the scheme, a number of starter forms could not be located as they were on an employee's desk waiting to be processed. In addition, forms are received in 2 different formats (spreadsheets and forms) making it harder to locate them as there was no indication of the format they were provided in for each member. We recommend that all starters forms are prepared in a consistent form, scanned and saved on a shared access drive so that it is clear where forms can be located, and they are all in the same format.</p> <p>In addition, when reviewing member files for benefit testing a number of pieces of information were missing that we would expect to be retained for all members, for example for one member the final calculation was not retained. We recommend that a checklist is included on every member file which details the paperwork that is required – this can then be checked against the file to ensure all information has been scanned and electronically stored correctly.</p>	<p>To achieve a consistent format for the submission of data is difficult as employers have different technical abilities. With the larger employers (i.e. Wiltshire Council and Swindon Borough Council) automatic uploads have been developed over the past 12 months which will assist in reducing the number of queries. The intention is to expand this to other employers in the future. In the meantime, we will work with other employers to ensure all data is submitted in a standard format and saved on a shared access drive.</p> <p>Following the introduction of the upgraded Altair database, a piece of software called 'Workflow' can now be utilised to monitor stages of the work and require actions to be checked before progressing to the next stage. Another piece of software being implemented called 'Imaging' is an electronic data storage system which prevents the need to print out then scan images reducing the number of missing papers.</p>

Appendix B: Follow-up of prior year recommendations

The Fund has not implemented all of the recommendations in our ISA 260 Report 2008/09.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2008/09* and reiterates any recommendations that are still outstanding.

Number of recommendations that were:		
Included in original report	Implemented in year or superseded	Remain outstanding (re-iterated below)
4	3	1

No.	Priority	Recommendation	Officer Responsible and Due Date	Status as at 15 September 2010
1	1	The Pension Scheme Department could not provide accurate membership data that agreed 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	<p>This has continued to be an issue for the 2009/10 accounts and our recommendation still stands.</p> <p>Accurate membership data is difficult to maintain in AXISe (now Altair) as reports run on different days for the same date, i.e. 31 March can provide differing results if any membership details have been processed in the corresponding period, i.e. active has become deferred or a duplicate record set up in error has been deleted.</p> <p>A regular check of starters and leavers against Membership totals will be implemented. It is intended to instigate the reconciliation of active members on the systems for the main employers e.g. Wiltshire Council and Swindon Borough Council by the end of December 2010 at the latest. As part of the valuation process the smaller employers were reconciled and they were then notified of any discrepancies which were rectified. Future reconciliations for these employers will take place on a quarterly basis in the first instance.</p>

Appendix C: Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in the Fund's case is the Pension Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Corrected audit differences

The following table sets out the significant audit differences identified by our audit of Wiltshire Pension Fund's financial statements for the year ended 31 March 2010.

Impact		Basis of audit difference
Fund Account	Net Asset Statement	
Dr Pension payroll £2,430k Cr Contributions – Augmentations £2,430k		Adjustment for augmentations received on 'pay as you go' basis from employers - at present, incorrectly netting off.
Dr Investment income £510k Cr Investment manager expenses £510k		Adjustment for investment income posted on cash basis, Fauchier purchases netted off against rebates and balancing entry posted as investment income.
	Dr Current assets – cash £3,331k Cr Investments – cash held on deposit £3,331k	Adjustment for bank account, incorrectly included in cash on deposit in current year.
-	-	Total impact of adjustments

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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 14 July 2010:
 - a) **PEN001: Failure to process pension payments and lump sums on time** – This has increased from green to amber reflect the upgrade of the pension database from AXISE to Altair which took place in August. Although it's not anticipated any significant issues will arise that prevents setting up new pensioners into payment, any implementation inherently carries an increased risk. The system is being monitored to ensure any post implementation issues are identified and remedied immediately.
 - b) **PEN004: Inability to keep service going due to loss of main office, computer system or staff** – This risk remains at amber although the concerns surrounding the fire proof storage of the microfiches are currently being addressed through the planned procurement of two fire safes and the outlining of a business case to transfer these records to digital media.
 - c) **PEN006b: Significant rises in employer contributions for non-secure employers due to increases in liabilities & PEN007b: Significant rises in employer contributions for non-secure employers due to poor/negative investment returns** – These risks has been revised down to amber from red. Increases in employer contributions are expected from the 2010 Valuation although the recent announcement from the Government to link pension increases to the Consumer Price Index (CPI) instead of the Retail Price Index (RPI) from April 2011 will have a significant impact on the liabilities of the Fund. The longevity risk is also being addressed through the use of Club Vita mortality data which is far more accurate as it's tailored to the Fund's specific membership which again may reduce liabilities, although not as significantly. Alongside this, officers have set up a framework to review the long term financial stability of non-

secure employers which will recommend the levels of flexibilities to adopt in regards the increases in employer contributions over the next three years. This should assist in addressing employers affordability issues and prevent significant increases in the short term.

- d) **PEN10: Failure to keep pension records up-to-date and accurate** – Although the risk remains Amber, the latest audit report discussed elsewhere on this agenda has highlighted that records were not in a consistent form and some pieces of information were missing. With the implementation of SAP, Altair and the on-going review of the internal processes this is an area being developed. Methods of improving the quality of data being collected and held are currently being explored. As Altair is now live the implementation of the imaging and workflow systems can be addressed which should mitigate this risk.

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.

DAVID ANTHONY
Head of Pensions

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

NAME OF RISK	RISK CATEGORY	Scope of Risk		OWNER OF ACTION	RISK OWNER	CURRENT RISK RATING			TARGET RISK RATING			INHERENT RISK RATING			CURRENT CONTROLS	ADDITIONAL CONTROL MEASURES	DATE OF ASSESSMENT	RISK STATUS (R/A/G)	DIRECTION OF TRAVEL	
		CAUSE OF RISK	IMPACT OF RISK			Impact	Likelihood	Risk Score	Impact	Likelihood	Risk Score	Impact	Likelihood	Risk Score						
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.	Martin Summers	David Anthony	2	3	6	2	2	4	2	2	4	Robust maintenance and update of ALTAIR and SAP systems, sufficient staff cover arrangements, sufficient staff training and QA checking of work.	The Fund upgraded its database from AXiSe to ALTAIR in August. Monitoring of the system continues to ensure any issues are identified and remedy.	2 Sept 2010	6	↑
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.	Catherine Dix	David Anthony	3	1	3	2	1	2	2	1	2	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.	None	2 Sept 2010	3	→
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	David Anthony	4	1	4	4	1	4	4	1	4	Funding Strategy Statement, Investment Strategy, Triennial Valuations, membership of Club Vita, etc.	None	2 Sept 2010	4	→
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	Andy Cunningham	David Anthony	4	2	8	4	1	4	4	1	4	Business Continuity Plan in place	Fire Proof Safe being procured to store microfiches and costs of transferring to digital media being assessed.	2 Sept 2010	8	→
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	Catherine Dix	David Anthony	4	1	4	4	1	4	4	1	4	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.	None	2 Sept 2010	4	→

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		CAUSE OF RISK	IMPACT OF RISK			Impact	Likelihood	Risk Score	Impact	Likelihood	Risk Score	Impact	Likelihood	Risk Score						
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 / Andy Cunningham	David Anthony	3	2	6	3	2	6	3	2	6	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 (eg. early retirements, augmented service, etc).	Quarterly monitoring in liabilities movements is undertaken providing advance warning to employers. The implementation of the Stabilisation Policy will limit increases for secure employer. Also the Government's recent announcement to move from RPI to CPI for pension increases will reduce liabilities as will the use of tailored Club Vita results for longevity assumptions.	2 Sept 2010	6	→
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 / Andy Cunningham	David Anthony	4	2	8	3	2	6	3	2	6	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 (eg. early retirements, augmented service, etc).	Quarterly monitoring as described above. A review of employers long term financial stability is being undertaken which will inform the stepping in of contribution rate increases to assist in addressing affordability issues. Also the Government's recent announcement to move from RPI to CPI for pension increases will reduce liabilities as will the use of tailored Club Vita results for longevity assumptions.	2 Sept 2010	8	↓
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	Catherine Dix	David Anthony	2	3	6	3	2	6	3	2	6	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.	Quarterly monitoring in investment movements is undertaken providing advance warning to employers. The implementation of the Stabilisation Policy will limit increases for secure employer.	2 Sept 2010	6	→

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		CAUSE OF RISK	IMPACT OF RISK			Impact	Likeli hood	Risk Score	Impact	Likeli hood	Risk Score	Impact	Likeli hood	Risk Score						
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	Catherine Dix	David Anthony	3	3	9	3	2	6	3	2	6	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.	Quarterly monitoring as described above. A review of employers long term financial stability is being undertaken which will inform the stepping in of contribution rate increases to assist in addressing affordability issues.	2 Sept 2010	9	↓
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	Martin Summers / Catherine Dix	David Anthony	2	2	4	2	1	2	2	1	2	Sufficient staffing, training and regulatory updates. Competent software provider and external consultants.	A close eye is being kept on the new Altair system implemented in August 2010 at present to ensure its output remains in line with expectations.	2 Sept 2010	4	→
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	Tim O'Connor	David Anthony	2	2	4	2	1	2	3	2	6	Compliance with Wiltshire Council's Data Protection & IT Policies.	It is intended to do a full data protection audit for the Fund shortly.	2 Sept 2010	4	→
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 new starters, changes, leavers, etc	Incorrect records held, leading to incorrect estimates being issues to members and incorrect pensions potentially being paid.	Tim O'Connor	David Anthony	3	3	9	2	1	2	3	3	9	Operations Team set-up and constantly working to improve data quality, data validation checks carried out through external partners (eg. the Fund's actuaries and tracing agencies), pro-active checks done through national fraud initiative, LEAN Review looking at all ways to collect and input "clean data".	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 as we look for ways to improve the quality of the data that we collect and hold.	2 Sept 2010	9	→
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	David Anthony	3	2	6	2	1	2	3	3	9	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.	Officers need to ensure they meet the requirements outlined in the Knowledge & Skills Framework and are regular assessed against these areas as part of their appraisal process.	2 Sept 2010	6	→
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	David Anthony	2	2	4	2	1	2	2	3	6	Key people in the Section are seeking to transfer specialist knowledge to colleagues and recent structural changes are helping with this. In the event of a knowledge gap, however, we can call on our external consultants and independent advisors for help in the short-term.	The Pension's Admin Team Leader is currently vacant . A replacement has been advertised as secondment in the short term pending a review of the team.	2 Sept 2010	4	→

WILTSHIRE PENSION FUND RISK REGISTER - JUNE 2010

NAME OF RISK	RISK CATEGORY	Scope of Risk		OWNER OF ACTION	RISK OWNER	CURRENT RISK RATING			TARGET RISK RATING			INHERENT RISK RATING			CURRENT CONTROLS	ADDITIONAL CONTROL MEASURES	DATE OF ASSESSMENT	RISK STATUS (R/A/G)	DIRECTION OF TRAVEL	
		CAUSE OF RISK	IMPACT OF RISK			Impact	Likelihood	Risk Score	Impact	Likelihood	Risk Score	Impact	Likelihood	Risk Score						
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.	New Communications Manager & Andy Cunningham	David Anthony	2	2	4	2	1	2	2	3	6	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 Sept 2010	4	→→→
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	David Anthony	2	1	2	2	1	2	2	2	4	The Fund has done an Equality Risk Assessment and has an Equality Implementation Plan in place	None	2 Sept 2010	2	→→→
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	Andrew Cunningham	David Anthony	2	2	4	2	1	2	2	2	4	The Pension Fund Committee approved a Cessation Policy in February 2010 to provide an agreed framework for recovery of payments	All new admitted bodies now require a guarantor to join the Fund.	2 Sept 2010	4	→→→
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	Catherine Dix	David Anthony	2	2	4	2	2	4	2	2	4	The Pension Fund approved a Treasury Management Strategy in February 2010 which follows the same criteria adopted by Wiltshire Council but limits individual investments with a single counterparty to £5m.	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.	2 Sept 2010	4	→→→
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	David Anthony	3	2	6	2	1	2	3	3	9	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.	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. An assessment exercise is currently taking place.	2 Sept 2010	6	→→→

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ADMINISTRATION STRATEGY UPDATE

Purpose of the Report

1. The purpose of this report is to provide Members' with a further update of the Wiltshire Pension Fund's Administration Strategy following the interim report presented at the May Committee.

Background

2. Under the Local Government Pension Scheme (Administration) Regulations 2008, which came into force on 1 April 2008, each Local Government Pension Scheme (LGPS) Fund in England and Wales was empowered to produce and implement a Pension Administration Strategy, with an accompanying Service Level Agreement, which would apply to all employers in its Fund.
3. Wiltshire Pension Fund (WPF) formally implemented such a policy on 1 January 2010 following consultation with employers and this committee.
4. WPF has been collecting and analysing benefit administration performance related data, measuring both employer and Fund performance, since June 2009.
5. The final version of administration strategy can be found on the WPF website.
6. Broadly speaking, the areas covered in the administration strategy are: the timely and accurate payment of monies due to the Fund from employers, the timely and accurate notification of data required and the prompt notification of forthcoming changes to employer's status or employer's provision of services which will affect the Fund

Considerations for the Committee

6. The following paragraphs provide a high level overview of Fund and employer performance against the service level agreement targets set out in the administration strategy

Wiltshire Pension Fund administration performance

8. WPF continues to self assess against the 'timeliness' targets for high volume work by analysing against performance reporting, while internal and external Audit reports, indirectly, provide assessment against other areas covered in the Administration Strategy; such as our level of accuracy and the adequacy of record keeping.
9. WPF was initially meeting all 'timeliness' targets of five days to process high volume work. WPF has since moved beyond its targets set, after changing priorities to focusing on completing work related to the 2010 Fund Valuation. Now the data requirements for the Valuation are now complete, it's anticipated performance improving against these targets in line with the administrative targets set.

Employer administration performance

11. Nearly all employers continue to regularly meet the finance targets related to sending payments into the Fund. Notifications of employer reorganisation and contracting out of services to the Pension Fund have also improved, although some smaller ones for the local authorities and schools are not always dealt with in an satisfactory way (i.e. involving Pension's at the correct time in the process) but this is being addressed by the Employer Relationship Manager through continued communication with the relevant parties.
12. The levels of performance against the key benefits administration targets of data submission are more variable amongst employers. The largest two employers in the Fund, Wiltshire Council and Swindon Borough Council, have both experienced complications in recent years regarding the submission of accurate and prompt data to the Fund. However, within the last year, both councils have moved from a submission of time-consuming manual methods to automatic reporting from their payroll systems. This should improve their performance against the timeliness and accuracy targets.
13. After initial teething problems in receiving the required pension data from Wiltshire Council leading to the main high volume targets not being met (e.g. new starters, leavers and change of details) the situation has improved significantly, and Wiltshire Council's overall administration performance now appears to be satisfactory. The Fund is working closely with Wiltshire Council payroll to resolve the remaining on-going issues and the outstanding data issues highlighted from the current Valuation process. Officers are confident that once the remaining issues are resolved and information requested received, their overall performance will be significantly better.
15. Swindon Borough Council administrative performance has improved since analysis began last year and the general administrative procedures appear to be working well, although there is a significant amount of outstanding data issues highlighted from the Valuation process. Inevitably there are still issues to be resolved and improvements to be made to the mass data reporting before their overall performance and quality of data will reach a high level leading to administration time being saved for both parties.
16. Several other employers in the Fund currently don't meet the targets, although in membership number terms this is not statistically significant. Officers continue to work with them to address these issues and progress is being made.

Improving performance

17. WPF believes it has a good understanding of the administrative performance of employers and the issues faced to improve the quality of the Fund's data, although rectifying these issues are made difficult due to human error, the historical nature of some of the outstanding issues and the workloads of those supplying the data.
18. The Employer Relationship Manager, in conjunction with the Pensions Manager and the Operations Manager, is exploring innovative and pragmatic approaches to reduce the time-consuming nature for the employer to submit data and reports and for the Pension Fund to enter data and follow procedures. Already some of approaches used are helping reduce the administrative workload of employers and subsequently helping them to improve their administrative performance.
19. The Employer Relationship Manager is working with the relevant parties of Wiltshire Council and Swindon Borough Council to further ensure that pension issues are dealt with early in the process of any significant employer reorganisation or any contracting out of services, as required in the Administration Strategy.

Environmental Impact of the Proposal

16. There is no known environmental impact of this proposal.

Financial Considerations & Risk Assessment

17. There are no direct financial implications involved with the success of this Strategy. However, in the long term the meeting of the Strategy's targets will lead to a more efficient benefits administration service with the ability to redirect resources for the benefit of scheme members.
18. The Strategy will ensure the risks associated with PEN002 '*Failure to collect and account for contributions from employers and employees on time*' and PEN010 '*Failure to keep pension records up-to-date and accurate*' outlined elsewhere on this agenda are mitigated.

Reasons for Proposals

19. It is important to monitor the Administration strategy as it plays a significant role in ensuring the efficient day to day operation of the Fund and subsequently the service provided to scheme members.

Proposals

20. The Committee is asked to note this progress report of the Wiltshire Pension Fund Administration Strategy.

DAVID ANTHONY
Head of Pensions

Report Author: Andy Cunningham, Employer Relationship Manager.

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

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