

AGENDA

Meeting: Wiltshire Pension Fund Committee
Place: Council Chamber - Council Offices, Bradley Road, Trowbridge,
BA14 0RD
Date: Wednesday 23 May 2012
Time: 10.30 am

Please direct any enquiries on this Agenda to Kieran Elliott, of Democratic Services, County Hall, Bythesea Road, Trowbridge, direct line 01225 718504 or email kieran.elliott@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

<u>Briefing arrangements:</u>	<u>Date</u>	<u>Time</u>	<u>Place</u>
Chairman's Briefing	23 May 2012	9.30	Octagon Lounge, Bradley Road

Membership:

Wiltshire Council Members:

Cllr Tony Deane (Chairman)
Cllr Charles Howard (Vice Chairman)
Cllr Mark Packard
Cllr Sheila Parker
Cllr Fleur de Rhé-Philippe

Substitute Members

Cllr John Brady
Cllr David Jenkins
Cllr Bill Moss
Cllr Helen Osborn
Cllr Jeff Osborn
Cllr Roy While

Swindon Borough Council Members

Cllr Des Moffatt

Substitute Members

Cllr Mark Edwards

Employer Body Representatives

Mrs Lynda Croft
Mr Tim Jackson

Observers

Mr Tony Gravier
Mr Mike Pankiewicz

PART I

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

1 **Membership Changes**

To note any changes in membership of the Committee.

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

To note the attendance of non-members of the Committee.

3 **Apologies for Absence**

To receive any apologies for absence.

4 **Minutes of the Previous Meetings** (*Pages 1 - 18*)

To confirm the minutes of the ordinary meeting held on **22 February 2012**, and the Special meetings of the Committee held on **06 January 2012, 27 January 2012, 28 March 2012** and **10 May 2012**.

5 **Chairman's Announcements**

To receive any announcements through the Chair.

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 above, **no later than 5pm on 16 May 2012**. 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 19 -46)**

Chris Wilson from KPMG will present a paper outlining the work undertaken as part of the Interim Audit report for Members' to note.

9 **Internal Audit Report (Pages 47 - 66)**

Ian Lawes from South West Audit Partnership (SWAP) will present the internal audit report of the Wiltshire Pension Fund for Members' to note.

10 **Pension Fund Risk Register (Pages 67 - 74)**

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

11 **Date of Next Meeting**

To note that the next regular meeting of the Committee will be held on **14 September 2012**.

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 14-18 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(s) during consideration of which it is recommended that the public should be excluded because of the likelihood that exempt information would be disclosed

14 **Investment Quarterly Progress Report Update**

A confidential report from Mercers (To Follow) updating the Committee on the generic performance of the Fund's investment managers.

15 **Investment Strategy Review**

A confidential report by Mercers (To Follow) reviewing the Fund's current strategy and outlining suggested future changes for Members consideration.

16 **Baillie Gifford: Formal Review of the Global Growth Fund Mandates**

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

17 **Legal & General: Formal Review of the Passive UK Equities and Passive Gilts Funds**

A confidential Annual Report from Legal & General is attached and Members are asked to consider this along with the verbal report at the meeting.

18 **Minutes of the Previous Meeting (Pages 75 -78)**

To confirm the confidential minutes of the meeting held on **22 February 2012**, in respect of Minute 33: *Wiltshire Pension Fund Administration Budget*; and Minute 34: *Investment Quarterly Progress Report Update*.

WILTSHIRE PENSION FUND COMMITTEE

DRAFT MINUTES OF THE WILTSHIRE PENSION FUND COMMITTEE MEETING HELD ON 22 FEBRUARY 2012 AT COUNCIL CHAMBER - COUNCIL OFFICES, BRADLEY ROAD, TROWBRIDGE, BA14 0RD.

Present:

Cllr Tony Deane (Chairman), Mr Jim Edney, Cllr Charles Howard (Vice Chairman), Mr Tim Jackson (Associate Member), Cllr Des Moffatt, Cllr Jeff Osborn, Cllr Mark Packard, Mr Mike Pankiewicz and Cllr Sheila Parker

Also Present:

Cllr John Brady, Cllr Bill Moss

21. **Membership Changes**

There were no changes.

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

Cllrs William Moss and John Brady were in attendance.

23. **Apologies for Absence**

Apologies were received from Lynda Croft and Tim Jackson.

24. **Minutes of the Previous Meeting**

The Minutes of the meeting held on **01 December 2011** were presented.

It was,

Resolved

To approve the minutes as a true record.

25. **Chairman's Announcements**

Through the Chair there were the following announcements:

1) New Appointment of Investment Adviser

Following on from the Investment Adviser selection meeting on 6 January, Mercers were appointed as the preferred supplier for the Fund.

Having now completed the signing of the order form, we are pleased to welcome Joanne Holden from Mercers as our new adviser to her first meeting today.

2) Local Government Pension Scheme Update

On 22nd of December an agreement reached by the Local Government Association (LGA) and local government unions on how to take forward the future reform of the Local Government Pension Scheme (LGPS) in England and Wales was accepted by the Government.

This is consistent with our response to the national consultation which was to consider bringing forward the implementation of the Hutton reforms for the LGPS by a year to 2014 which will incorporate the savings required by the Government in a 'one-off' change removing the immediate need for increases in employee contribution rates.

The agreement consists of a set of principles covering the design of a new LGPS, the future management of the cost of the scheme, and the governance of the LGPS

A timetable for implementing the new scheme by April 2014

A project outline for managing the process of agreeing, by April 2012, the 'big ticket' elements of the new scheme.

Detailed discussions are now being held at least weekly between representatives of the Local Government Association (LGA), Department for Communities and Local Government (DCLG), and GMB and UNISON (unions) a further updates will be provided when known. Further information is available on the Wiltshire Pension Fund website.

26. Declarations of Interest

There were no declarations.

27. Public Participation and Councillors' Questions

There were no questions.

28. Treasury Management Strategy

The Fund Investment and Accounting Manager presented a report seeking Members approval on the Treasury Management Strategy for 2012-13, drawing attention to the following key points:

- a) The Fund will aim to achieve the optimum return on investments commensurate with high levels of security and liquidity.

- b) The monies will be invested separately from the Council's and the Fund will receive the actual interest earned.
- c) The Pension Fund will use the same criteria for maximum limits and terms with individual counterparties as approved by Wiltshire Council on an annual basis in its own Treasury Management Strategy, subject to:
 - i. A maximum of £8 million with any single counterparty.
 - ii. No investment will be made in the money market funds / cash vehicles used by the Custodian to invest any cash it holds on behalf of the Fund's investment managers.
- d) Given the nature of Trowbridge Cash (ie. short-term working capital nature), the investments will only be made either in:
 - i. Call Accounts provided by an approved deposit-taker that complies with the Counterparty Policy set out in the Strategy; or
 - ii. Money Market Funds managed by an approved investment manager.
- e) The providers of the Call Accounts, and the Money Market Fund vehicles, must have a "high credit rating" as prescribed in the minimum requirements for "high credit rating" set out in Wiltshire Council's annual Treasury Management Strategy.
- f) The Fund will not borrow except by way of temporary loan or overdraft from a bank or otherwise, and then only in exceptional circumstances where it is for the purpose of:
 - i. Paying benefits due under the Scheme; or
 - ii. Meeting investment commitments arising from the implementation of a decision by the Committee to change the balance between the different types of investment.
- g) The management of Wiltshire Pension Fund's cash will be carried out by Wiltshire Council's Treasury Management team under a Service Level Agreement.

The Committee discussed the report, seeking clarification on specific wording, the exact financial limits of the Fund and the use of the Sector creditworthiness service. The Service Director (Finance) was in attendance and welcomed all feedback to assist with redrafting the proposed Council's Strategy from which extracts had been taken where appropriate.

After the debate, it was,

Resolved:

That the Committee approve the proposed Treasury Management Strategy.

29. **Wiltshire Pension Fund Administration 2011-12 Budget Monitoring**

The Head of Pensions introduced an update on the Wiltshire Pension Fund Administration 2011-12 Budget Monitoring, highlighting the following points:

- The current projected outturn included a performance fee for Baillie Gifford that had now been triggered for the first time in three years which had previously been taken out of the budget;
- There was an overspend on Investment Consultancy resulting from the on-going strategic investment review and manager selection process;
- There was a small underspend in administration for the Fund in part due to vacancies being held pending the teams restructure and the delay in implementation of the imaging project;
- A Final outturn report will go before the Committee in July.

A discussion followed, during which it was clarified that in future budgets allowance would be made for performance fees.

It was,

Resolved

To note the update from the Head of Pensions.

30. **Date of Next Meeting**

The date of the next ordinary meeting of the Committee was confirmed as **23 May 2012**.

A special meeting of the Committee for the appointment of a Dynamic Currency Hedging manager and Absolute Return Fund manager was confirmed for **28 March 2012** in the Council Chamber, Council Offices, Bradley Road, Trowbridge.

31. **Urgent Items**

There were no urgent items.

32. **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. 33-38 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.

33. **Wiltshire Pension Fund Administration Budget 2012-15**

The Head of Pensions introduced by the Chief Finance Officer outlined the proposed Administration budget for 2012-13 and planned expenditure in 2013-14 and 2014-15 in a confidential report.

The Committee discussed the report and presentation in detail.

After debate, it was,

Resolved

- a) To approve the proposed Pension Fund Administration Budget for 2012-13;
- b) To note the indicative budget allocations for 2013-14 and 2014-15.

34. **Investment Quarterly Progress Report Update**

The Fund Investment and Accounting Manager presented a report and verbal update highlighting key issues relating to the Fund's investment performance as at 31 December 2011, including:

- The return over the past 12 months was 1.5% behind its consolidated benchmark, but had recovered significantly from a fall in value experienced over the summer, being £1.25bn compared to £1.29bn as at June 2011.
- Since inception the annualised return is 6.6%, which is 1.6% behind the benchmark, with half the underperformance relating to the Fund's passive currency hedge implemented to reduce volatility on overseas investments.
- However, the rolling three year performance gave a Fund return of 9.8% per annum, 0.3% above the consolidated benchmark.

After discussion, it was,

Resolved:

To note the Quarterly Investment Progress Report.

35. **Investment Strategy and Manager Selections Update**

The Head of Pensions presented a report to provide an update on investment activities, to outline potential investment options and examine managers currently under formal review prior to receiving representations from those managers later in the meeting.

The Committee then discussed debate the proposals of the report, after which it was,

Resolved

- a) **To appoint Legal & General as the preferred investment for the Passive Fundamental Index equity mandate representing 5% of the Fund's assets funded on the bases outlined in the report;**
- b) **To appoint Partners Group as the preferred investment for the Infrastructure Fund of Funds mandate and to make an initial commitment of £40m in 2012 with a further allocation of £20m in 2013 funded by £35m from the Legal & General UK passive equities mandate and £25m from the global equities allocation;**
- c) **To approve the increase limits for partnerships to 5% for any single partnership and 7% for all partnerships until the termination of these mandates to ensure the Fund complies with the Local Government Pension Scheme (Management and Investment of Funds) regulations 2009 and to update the Statement of Principles to reflect this policy;**
- d) **To note the on-going position of the Absolute Return Fund and Dynamic Currency Hedging procurements, with new managers to be appointed;**
- e) **To remove the 12.5% limit for new investment mandates and to set a temporary limit of 20% for a single active manager and 30% for a passive manager; and**
- f) **To commission a review of the Fund's current asset allocation from the new Investment Adviser, Mercers, to be circulated to Members at the May meeting and to include comparisons with other Pension Funds.**

36. **Capital International - Formal Review of the Global Equities & AIG Mandates**

The Committee welcomed representatives from Capital International and received a presentation as part of the formal review of the Global Equities and AIG mandates they managed.

After discussion, it was,

Resolved:

- a) To give notice to terminate the Capital International AIG mandate (10% of the Fund's assets) and use this allocation to fund the new Absolute Return Fund mandate (7.5%) once a manager has been appointed and part fund the Passive Fundamental Index Equity mandate (2.5%); and
- b) To terminate the Capital International global equities mandate (12.5% of the Fund's assets) and to hold the allocation in a passive global equities mandate on a temporary basis; and
- c) To provide an update to the committee meeting on 28 March 2012 on the process for rebalancing the Fund and to report on the cost implications.

37. **Edinburgh Partners - Formal Review of the Global Opportunities Fund**

The Committee welcomed representatives from Edinburgh Partners and received a presentation as part of the formal review of the Global opportunities Fund they managed.

After discussion, it was,

Resolved

To keep Edinburgh Partners on watch for a further 12 months on a month by month basis and to reduce their allocation to 7.5% and to increase the allocation to the Baillie Gifford Global Growth Fund to 15.0%.

38. **Fauchier Partners - Formal Review of the Jubilee Fund**

The Committee welcomed representatives from Fauchier Partners and received a presentation as part of the formal review of the Jubilee Fund they managed.

After discussion, it was,

Resolved

To keep Fauchier Partners on watch for a further 12 months.

(Duration of meeting: 10.30 am - 2.25 pm)

The Officer who has produced these minutes is Kieran Elliott of Democratic Services, direct line 01225 718504, e-mail kieran.elliott@wiltshire.gov.uk

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

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WILTSHIRE PENSION FUND COMMITTEE

**DRAFT MINUTES OF THE WILTSHIRE PENSION FUND COMMITTEE MEETING
HELD ON 6 JANUARY 2012 AT COUNCIL CHAMBER - COUNCIL OFFICES,
BRADLEY ROAD, TROWBRIDGE, BA14 0RD.**

Present:

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

1. **Membership Changes**

There were no changes to report.

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

None

3. **Apologies for Absence**

Cllr Peter Stoddart (Swindon Borough Council) sent his apologies.

4. **Declarations of Interest**

None.

5. **Chairman's Announcements**

There were no announcements.

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

None.

7. **Date of Next Meeting**

The next special meeting of the Committee was confirmed as 27 January 2012.

The next ordinary meeting of the Committee was confirmed as 22 February 2012.

8. **Urgent Items**

There were no urgent items.

9. **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 No. 10 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.

10. **Evaluation of Investment Adviser Presentations as Part of the Mini-Competition to Appoint a Retained Adviser for the Fund**

The Committee heard and evaluated the presentations to be considered as part of the overall scoring process for the appointment of a retained investment adviser to the Fund.

It was,

Resolved

To appoint Mercers as the retained investment adviser to the Fund.

(Duration of meeting: 10.00 am - 3.30 pm)

The Officer who has produced these minutes is Kieran Elliott, of Democratic Services, direct line 01225 718504, e-mail kieran.elliott@wiltshire.gov.uk

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

WILTSHIRE PENSION FUND COMMITTEE

DRAFT MINUTES OF THE WILTSHIRE PENSION FUND COMMITTEE MEETING HELD ON 27 JANUARY 2012 AT COUNCIL CHAMBER - COUNCIL OFFICES, BRADLEY ROAD, TROWBRIDGE, BA14 0RD.

Present:

Cllr Tony Deane (Chairman), Cllr Charles Howard (Vice Chairman), Cllr Des Moffatt,
Cllr Jeff Osborn and Cllr Sheila Parker

11. **Membership Changes**

There were no changes of membership for the Committee.

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

None.

13. **Apologies for Absence**

Apologies for absence were received from Cllrs Mark Packard and Peter Stoddart.

Cllr Sheila Parker gave her apologies that she would be absent for the morning of the meeting.

14. **Declarations of Interest**

The Chair declared a personal, non-prejudicial interest as a result of having friends within the sector from which the Committee were receiving representations. He stated he would participate and vote in the proceedings.

15. **Chairman's Announcements**

There were no announcements from the Chair.

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

There were no questions from Councillors or members of the public.

17. **Date of Next Meeting**

The date of the next meeting was confirmed as 22 February 2012 at the Council Offices in Bradley Road, Trowbridge.

18. **Urgent Items**

There were no urgent items.

19. **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 No. 20 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.

20. **Evaluation of Infrastructure Fund manager and Fundamental Indices Manger Presentations as Part of the Mini-Competition to Appoint a Retained Adviser for the Fund**

The Committee heard presentations for the stated positions. Following this, it was,

Resolved

- 1) To recommend Legal & General as the preferred investment for its Fundamental Equity mandate subject to terms and conditions being agreed and confirmation at the committee meeting on 22 February 2012;
- 2) To conclude the evaluation of the preferred supplier for the Infrastructure Fund of Fund investment at the committee meeting on 22 February 2012 following clarification on terms and conditions from the suppliers;
- 3) To agree the level of funding for both the above investments at the meeting on 22 February 2012.

(Duration of meeting: 9.30 am - 4.30 pm)

The Officer who has produced these minutes is Kieran Elliott, of Democratic Services, direct line 01225 718504, e-mail kieran.elliott@wiltshire.gov.uk

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

WILTSHIRE PENSION FUND COMMITTEE

**DRAFT MINUTES OF THE WILTSHIRE PENSION FUND COMMITTEE MEETING
HELD ON 28 MARCH 2012 AT COUNCIL CHAMBER - COUNCIL OFFICES,
BRADLEY ROAD, TROWBRIDGE, BA14 0RD.**

Present:

Cllr Tony Deane (Chairman), Cllr Charles Howard (Vice Chairman), Cllr Mark Packard and
Cllr Sheila Parker

39. **Membership Changes**

There were no changes of membership for the Committee.

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

There were none present.

41. **Apologies for Absence**

An apology for absence was received from Mr Mike Pankiewicz.

42. **Declarations of Interest**

There were no declarations of interest.

43. **Chairman's Announcements**

(a) **Mr Paul Potter** The Chairman reported that this meeting was the last that Paul Potter would be attending. He had been advising the Wiltshire Pension Fund for a number of years and the Chairman, on behalf of the Committee, thanked Paul for all his work and support to both the Committee and officers during that time.

(b) **Members Training Day** The Chairman reminded Members that a members' training day had been arranged to take place on Thursday 10 May 2012 at St John's Community Centre, Trowbridge. This would provide an opportunity to review the latest position on the Fund strategy whilst also covering Pension Legislation and Governance issues. The day would start at 10.30am and was likely to finish around 4.00pm. Further details would be circulated shortly.

44. **Date of Next Meeting**

Resolved:

To note that the next regular meeting of the Committee will be held on 23 May 2012 in the Council Chamber, Council Offices, Bradley Road, Trowbridge.

45. **Urgent Items**

There were no items of urgent business.

46. **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. 47 & 48 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.

47. **Update on the Proposed Transition of the Wiltshire Pension Fund**

The Committee received a report by the Head of Pensions outlining the proposed changes to rebalance the Fund's asset allocation following the decisions taken at the meeting on 22 February 2012.

Resolved:

To note the contents of the report.

48. **Committee Interviews for the appointment of a Dynamic Currency Hedging Manager and an Absolute Return Fund Manager**

The Committee heard presentations for the stated positions. Following this, it was,

Resolved

(1) To appoint the highest scoring Dynamic Currency Hedging manager, Berenberg to replace the passive currency hedge programme in place pending confirmation of the terms and conditions which are to

be approved by the Director of Finance and Vice Chairman of the Committee prior to appointment.

- (2) To appoint Barings Asset Management as the highest scoring Absolute Return Fund manager as its preferred supplier pending confirmation of the terms and conditions with the actual amount to finance to be agreed following the investment strategy review at the 23 May committee meeting.**

(Duration of meeting: 9.30am – 4.10pm)

The Officer who has produced these minutes is Roger Bishton, of Democratic Services, direct line 01225 713035, e-mail roger.bishton@wiltshire.gov.uk

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

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WILTSHIRE PENSION FUND COMMITTEE

DRAFT MINUTES OF THE WILTSHIRE PENSION FUND COMMITTEE MEETING HELD ON 10 MAY 2012 AT ST JOHN'S PARISH CENTRE, 2 WINGFIELD ROAD, TROWBRIDGE, BA14 9EA.

Present:

Mrs Lynda Croft (Associate Member), Cllr Tony Deane (Chairman), Cllr Charles Howard (Vice Chairman), Cllr Des Moffatt, Cllr Jeff Osborn, Cllr Mark Packard, Mr Mike Pankiewicz and Cllr Sheila Parker.

Also Present:

Cllr John Brady, Cllr David Jenkins and Cllr Helen Osborn.

49 **Apologies and Membership Changes**

Apologies were received from Mr Tim Jackson.

It was noted that Cllr Peter Stoddart was no longer a Swindon Borough Councillor, and therefore no longer a member of the Committee.

50 **Chairman's Announcements**

There were no announcements.

51 **Declarations of Interest**

There were no declarations of interest.

52 **Public Participation and Councillors' Questions**

There were no questions.

53 **Date of Next Meeting**

The date of the next meeting was confirmed as **23 May 2012** at the Council Offices at **Bradley Road, Trowbridge**.

54 **Urgent Items**

There were no urgent items.

55 **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 Number 56 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.

56 **Potential Class Action**

Consideration was given to a confidential report presented by the Service Director (Finance) and the Head of Pensions, asking the Committee to consider whether or not to put the Fund forward to be a lead plaintiff in a forthcoming Class Action in the USA.

The Committee also discussed the lessons that could be learned by the Fund's relevant Investment Manager, as a result of the actions leading to the potential Class Action.

After discussion, it was,

Resolved:

- 1) To note the potential gains associated with this action, and agree to delegate authority to the Chairman and Director of Finance to agree signature of the consent forms to be considered as lead plaintiff in this case.
- 2) For the Committee to receive regular updates on the progression of the Class Action at subsequent meeting.
- 3) To receive a learning paper reviewing the process and the activities leading to a potential Class Action, once further evidence and facts are available.

(Duration of meeting: 10.30 - 11.35 am)

The Officer who has produced these minutes is Kieran Elliott of Democratic Services, direct line 01225 718504, e-mail kieran.elliott@wiltshire.gov.uk

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

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE

23 MAY 2012

INTERIM EXTERNAL AUDIT REPORT

Purpose of the Report

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

Background

2. The 2011-12 one is the fourth 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 2012 and the resulting report is attached. Mr Chris Wilson (Partner, KPMG) will be coming to the Committee meeting to present the report. The attached report is draft but should there be any changes an amended version will be circulated at the meeting.
4. The Statement of Accounts and draft Wiltshire Pension Fund Annual Report for 2011-12 will be presented to this Committee on 25 July 2012. The Statement of Accounts will be approved following the Final Accounts & Audit Committee on 7 September 2012 where Mr Wilson should be able to confirm the approval of the KPMG's final audit opinion and certificate. KPMG will present their final audit report ("Report to those charged with governance") at the Wiltshire Pension Fund Committee on 14 September 2012.

Key Considerations for the Committee

5. The attached interim report does show a generally sound organisational control environment and controls over key financial systems. No control observations were identified as part of the interim audit. An update has also been provided on the two medium risk recommendations from 2010/11 in respect of reviewing the bank reconciliation and manual journals. A review process has now been implemented to address these two areas as shown on page 23 on 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
Director of Finance

Report Author: David Anthony, Head of Pensions

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

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DRAFT Audit plan and interim audit report 2011/12

Wiltshire Pension Fund

May 2012

The contacts at KPMG in connection with this report are:

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This report is addressed to the Council and has been prepared for the sole use of the Council. 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 Christopher Wilson, the appointed engagement lead to the Council, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 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 0844 798 3131, textphone (minicom) 020 7630 0421.

This document describes how we will deliver our financial statements audit work for Wiltshire Pension Fund.

Statutory responsibilities

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 of Audit Practice* requires us to review and report on your:

- *financial statements (including the Annual Governance Statement and Annual Report)* : 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.

Scope of this report

This document describes how we will deliver our financial statements audit work for Wiltshire Pension Fund. It supplements our *Audit Fee Letter 2011/12* presented to you in April 2011.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

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.

Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, focusing on the key risks identified this year for the financial statements audit.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 provides further detail on the financial statements audit risks.
- Sections 5-7 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.
- The remainder of the report feeds back the findings from our interim audit.

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 have identified a number of key risks that we will focus on during the audit of the 2011/12 financial statements.

These are described in more detail on pages 9 to 11.

The remainder of this document provides information on our:

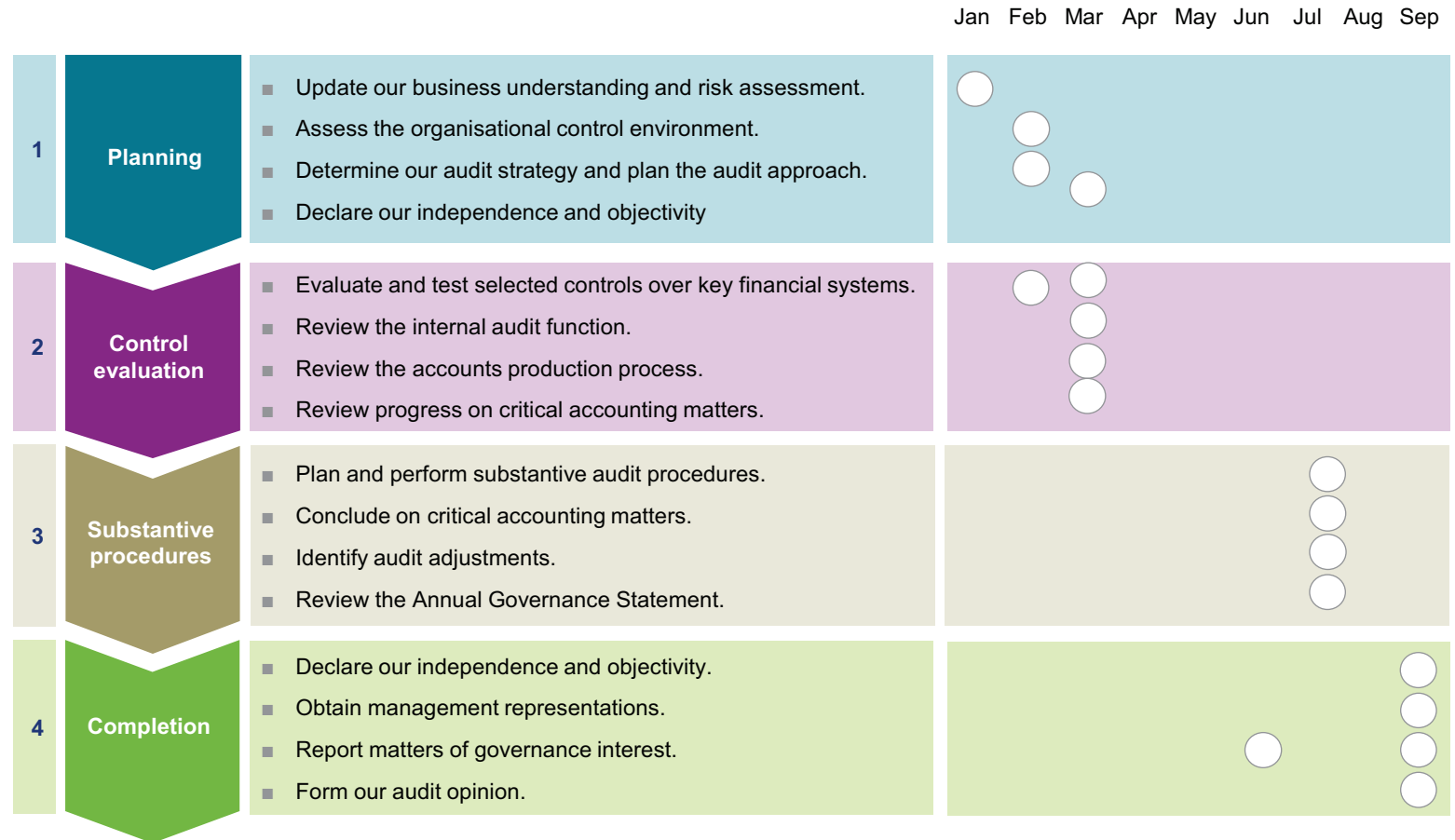
- approach to the audit of the financial statements; and
- audit team, proposed deliverables, timescales and fees for our work.

Area	Risk
CIPFA's Code of Practice on Local Authority Accounting	CIPFA have issued detailed guidance on their Code of Practice on Local Authority Accounting including the format of pension fund annual reports. The detailed code and example accounts include disclosures including IFRS based disclosures which may not have been included in the accounts and Annual Report for 2010/11.
Valuation of investments	During difficult economic times the valuation of investments maybe affected by price deterioration and/or market illiquidity. The pricing of complex investment assets may also be susceptible to pricing variances given the number of assumptions underlying the valuation.
SAP operating effectiveness	In 2009/10 the Council implemented SAP which had impacted on the strength of the overall control environment within the Council. Management worked hard to improve the control environment in 2010/11, but at the end of last year's audit there remained a few development areas which we will follow up early in the audit process this year.

We undertake our work on your financial statements in four key stages during 2012:

- **Planning** (January and February).
- **Control Evaluation** (February and March).
- **Substantive Procedures** (July).
- **Completion** (August and September).

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



During January and February we completed our planning work.

We assess the key risks affecting the Fund’s financial statements and discuss these with officers.

We assess if there are any weaknesses in respect of central processes, including the Council’s IT systems, that would impact on our audit.

We determine our audit strategy and approach, and agree a protocol for the accounts audit, specifying what evidence we expect from the Fund to support the financial statements.

Our planning took place in January and February 2012. This involves the following aspects:

- | | |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Planning | <ul style="list-style-type: none"> ■ Update our business understanding and risk assessment. ■ Assess the organisational control environment. ■ Determine our audit strategy and plan the audit approach. |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Business understanding and risk assessment

We update our understanding of the Fund’s operations and identify any areas that will require particular attention during our audit of the Fund’s financial statements.

We identify the key risks affecting the Fund’s financial statements. These are based on our knowledge of the Fund, our sector experience and our ongoing dialogue with Fund staff. The risks identified to date are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Fund’s responsibility to adequately address these issues. We encourage the Fund to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We meet with the finance team on a regular basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit. In particular, the areas risk management, internal control and ethics and conduct have implications for our financial statements audit.

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.

Audit strategy and approach

The Engagement Partner sets the overall direction of the audit and decides the nature and extent of audit activities.

We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of judgement and is set by the Engagement Partner.

During February and March we complete our interim work.

We assess if controls over key financial systems were effective during 2011/12. We work with your internal audit team to avoid duplication.

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

We will present our *Interim Report* to the Pension Committee in May.

Our interim visit on site was completed during the w/c 26 March 2012. During this time we completed work in the following areas:

Control Evaluation

- Evaluate and test controls over key financial systems.
- Review the internal audit function.
- Review the accounts production process.
- Review progress on critical accounting matters.

Controls over key financial systems

We updated our understanding of the Fund's key financial processes where these are relevant to our final accounts audit. We confirmed our understanding by completing walkthroughs for these systems. We then tested selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we will complete during our final accounts visit.

Appendix 1 illustrates how we determine the most effective balance of internal controls and substantive audit testing.

Review of internal audit

Where we intend to rely on internal audit's work in respect of the Fund's key financial systems, auditing standards require us to review aspects of their work. This includes re-performing a sample of tests completed by internal audit. We will provide detailed feedback to the internal audit team at the end of our final visit.

During July we will be on site for our substantive work.

We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.

We also review the Annual Governance Statement for consistency with our understanding.

We will present our *ISA 260 Report to the Audit Committee* in September.

Our final accounts visit on site has been provisionally scheduled for the period 2 July – 27 July 2012. During this time, we will complete the following work:

Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify audit adjustments.
- Review the Annual Governance Statement.

Substantive audit procedures

We will complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Partner based on various factors such as our overall assessment of the Fund’s control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

Critical accounting matters

We conclude our testing of the key risk areas as identified at the planning stage and any additional issues that may have emerged since.

Audit adjustments

During our on site work, we will meet with the Head of Pensions on a weekly basis to discuss the progress of the audit, any differences found and any other issues emerging.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Pensions Committee. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and 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.

We report the findings of our final accounts work in our *ISA 260 Report*.

We will communicate with you throughout the year, both formally and informally.

Our independence and objectivity responsibilities under the Code are summarised in Appendix 2. We confirm our audit team's independence and objectivity is not impaired.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the Director of Finance, Chief Accountant and Finance team and the Audit Committee. Our deliverables are included on page 17.

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 standards define '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.

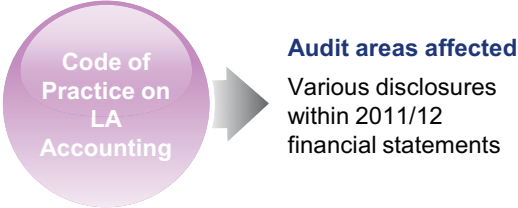

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, 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 the date of this report in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Partner and audit team is not impaired.


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

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

Key audit risks	Impact on audit plan
 <p>Code of Practice on LA Accounting → Audit areas affected Various disclosures within 2011/12 financial statements</p>	<p>Risk</p> <ul style="list-style-type: none"> ■ CIPFA have issued detailed guidance on their Code of Practice on Local Authority Accounting including the format of pension fund annual reports. The detailed code and example accounts include disclosures including IFRS based disclosures which may not have been included in the accounts and Annual Report for 2010/11. <p>Our audit work</p> <ul style="list-style-type: none"> ■ The annual report and accounts completed in 2011/12 contained many of the required disclosures, but 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 CIPFA example accounts and disclosure checklist.
 <p>Valuation of investment assets → Audit areas affected Investment assets</p>	<p>Risk</p> <ul style="list-style-type: none"> ■ During difficult economic times the valuation of investments maybe affected by price deterioration and/or market illiquidity. ■ The pricing of complex investment assets may also be susceptible to pricing variances given the number of assumptions underlying the valuation. <p>Our audit work</p> <ul style="list-style-type: none"> ■ We will use our iRADAR service (formerly known as FundRADAR) to assist with auditing the valuation of the investment portfolio held. IRADAR is a service which enables us to use market data and modelling to compare our expected pricing to the pricing provided by the custodian.

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

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

Key audit risks	Impact on audit plan
 <p>Audit areas affected Control environment All account balances</p>	<p>Risk</p> <ul style="list-style-type: none"> With the implementation of SAP in 2009/10 there were some initial control issues and as a result we identified several concerns during that year's audit. We acknowledge that a lot of management time and effort was directed at resolving these issues and progress was seen during the 2010/11 audit. However, at the end of the 2010/11 audit we still had some outstanding recommendations on how the control environment within SAP could be further strengthened. <p>Our audit work</p> <ul style="list-style-type: none"> We have timed the IT testing of the interim audit to be earlier this year so that the findings can be circulated and discussed early in the year. We will follow up on progress made on recommendations made during the 2010/11 audit and we will review both the design and operating effectiveness of the key automated controls within SAP. The findings will direct the remaining audit work both at interim and final visits.

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.



Megan Lumsdaine
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.

We agreed our fee for the audit with the Authority in 2011. 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.

	Planned Fee 2011/12	Actual Fee 2010/11
Total audit fee	£47,216	£45,450

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 seven 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 2012
Interim		
Interim report	Details and resolution of control and process issues.	May 2012
Year end audit		
Report to those charged with governance (ISA 260)	Commentary on Wiltshire 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 2012
Opinion on financial statements	Independent auditor's report of Wiltshire Pension Fund.	September 2012

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

Organisational and IT control environment	<p>Our IT specialists are due to perform procedures over general IT controls within SAP in the coming months. We consider that your organisational controls are effective overall.</p>
Controls over key financial systems	<p>We have completed controls testing over the majority of the they key financial systems as part of our interim audit/ We consider that your key financial system controls are effective overall.</p>
Review of internal audit	<p>Internal audit have issued their findings in draft only at the time of the report. We will communicate our findings in September 2012.</p>
Accounts production and specific risk areas	<p>Implementation of IFRS. Valuation of Investments.</p>

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.



Interim findings IT 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 2012.

Your key financial systems control environment is effective overall.

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

We consider that your key financial systems controls for the Fund are effective overall.

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.



Interim findings

Accounts production process

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 2010/11* relating to the financial statements.

Work completed

We continued to meet with David Anthony and his team on a 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 2010/11*.

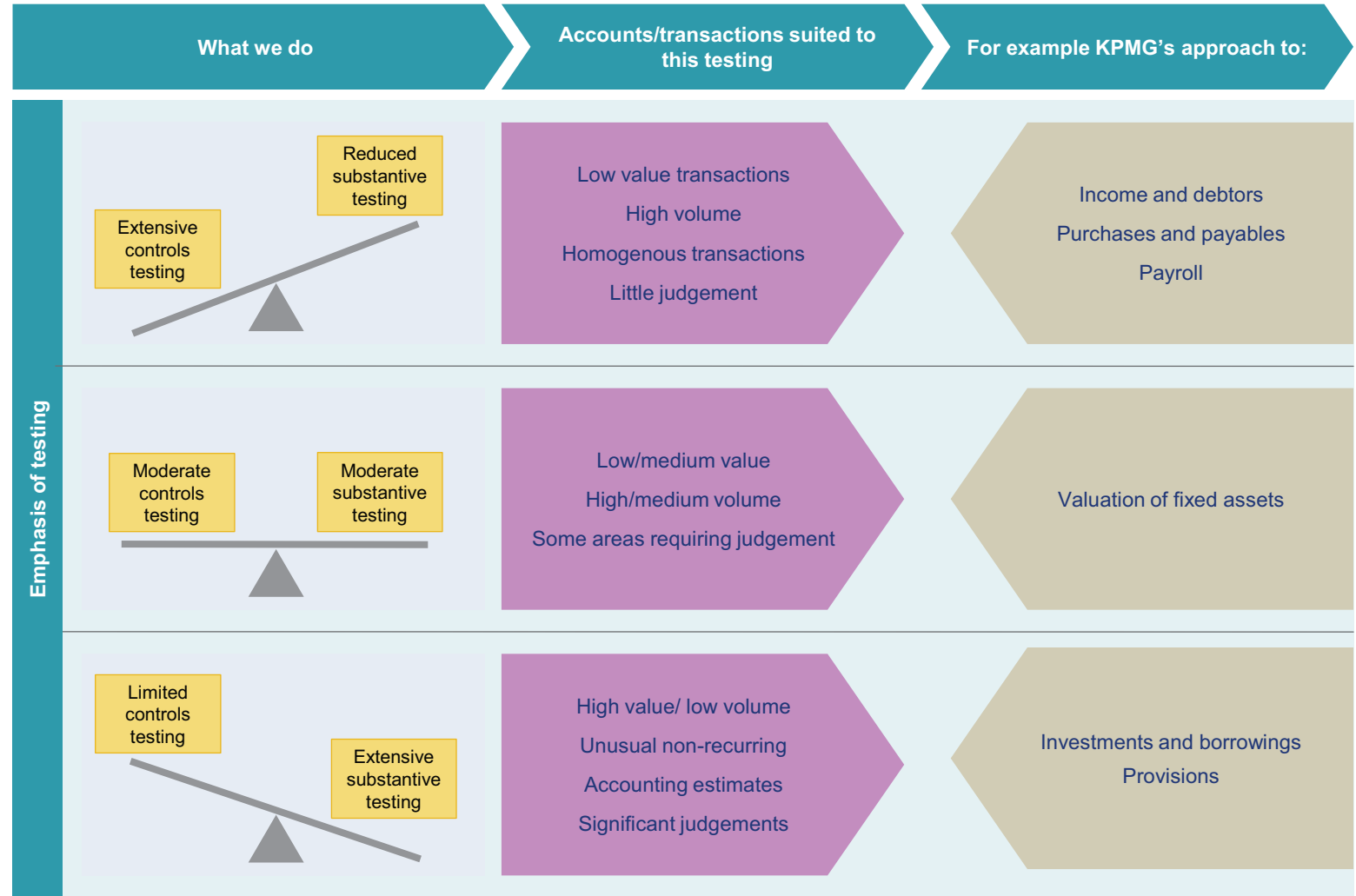
Key findings

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.

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

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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; and
- 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.

Appendix 3: Quality assurance and technical capacity

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.

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 2011 showed that we performed highly against all the Commission's criteria.



Resolving accounting and financial reporting issues

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) as well as acting as a sounding board for our auditors.
- A national technical network of public sector audit professionals that meets on a monthly 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 Council 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		
 <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>

We are pleased to note we have not identified any control observations as part of interim audit.

Appendix 5: Follow-up of prior year recommendations

The Fund has implemented all of the recommendations in our ISA260 report 2010/11.

This appendix summarises the progress made to implement the recommendations identified in our ISA260 report 2010/11 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 27 April 2012
1	2	<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>Head of Pensions</p> <p>Ongoing</p>	<p>The bank reconciliations are undertaken by Central Finance, reviewed and signed off before being reviewed by the Fund Investment & Accounting Manager monthly. These are either referred back to Central Finance or signed off by the Pension Fund and saved to SharePoint. A bi-annual review of all the open items to ensure they are matched on a timely basis is also undertaken.</p>
2	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>Head of Pensions</p> <p>Ongoing</p>	<p>All manual journals created with the pension team are now reviewed on a regular basis. A report is run by the Fund Investment & Accounting Manager monthly and reviewed with the appropriate evidence saved in the journal file.</p>



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WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE

23 MAY 2012

INTERNAL AUDIT REPORT

Purpose of the Report

1. This report informs Members of the findings of the internal auditors report on the Wiltshire Pension Fund from their 2011/12 audit.

Background

2. The internal audit of Pensions has been completed in accordance with the Internal Audit plan for 2011-12. This incorporates the key controls from KPMG's Internal and External Audit Joint Working Protocol 2011/12. The audit reviewed the operation of the controls as set out under Audit Scope and Objectives outlined on page 6 of the attached report. The scope of this audit was to provide assurances that:
 - Key control operate effectively within the Wiltshire Pension Fund;
 - Key risks identified in the previous Internal Audit report have been appropriately addressed.

Key Considerations for the Committee

3. This report summarises the key issues from that report and the officers responses to the issues raised. The detailed Internal Audit report is appended to this report in the Appendix.
4. The report structure identifies:
 - The audit opinion, key risk issues and profile (pages 3-5)
 - The audit scope, objectives and findings (pages 6-13)
 - The action plan with officers responses (pages 14-18)
5. Overall Internal Audit has reported a "Substantial Assurance" opinion. This means that whilst there is basically a sound system of control, there are weaknesses which may put some of the service objectives at risk.
6. There were no high level risks although two medium level risks were identified as a result of the audit. The key issues for the WPF to address are:
 - The lack of a complete and regular comparison of the pensions payroll and the Altair database risks, payments being made to individuals who should not be on the payroll, and possibly payments not being made which should be.
 - Delay in investigating and clearing ageing balances within bank reconciliations risks misstatement in the accounts and a backlog of work at year end
7. With reference the pension payroll and Altair database comparison, procedures have been implemented, although due to the number of records involved this will be phased in

on a rolling programme of reconciliations. In terms of the bank reconciliations a process has been put in place to review these items on a 6 monthly basis.

8. Officers have worked with SWAP to draw up an action plan in response to all the issues raised and implement the necessary improvements in controls. The action plan is shown at the end of the attached report on pages 14-18. Updates on the implementation of these actions are proposed to be brought to future meetings of this committee.

Risks Assessment

9. The risks reflected in this Internal Audit report are included in the Risk Register which is updated quarterly and presented to this Committee. None of the risks change the risk profile at a corporate level and only one of the risks was identified as having the potential for a 'moderate' impact on the service. Steps are currently being taken to reduce this risk while the Chief Finance Officer, Head of Pensions and Internal Audit will work to mitigate all the risks covered in this report.

Financial Implications

10. The fee for this audit is based on an annual recharge.

Legal Implications

11. None have been identified as arising directly from this report.

Proposals

12. The Committee is asked to note the attached Internal Audit Report and its findings and to receive updates on the delivery of the actions to address the issues raised during 2012/13.

MICHAEL HUDSON
Director of Finance

Report Author: David Anthony, Head of Pensions

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

Internal Audit

Final Report

Wiltshire Pension Fund

27 March 2012

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Distribution List

Final Report to:

David Anthony – Head of Pensions

Michael Hudson – Director of Finance

Councillor Tony Deane – Wiltshire Pension Fund Committee Chairman

Councillor Charles Howard – Wiltshire Pension Fund Committee Vice Chairman

EXECUTIVE SUMMARY

Overview

The internal audit of Pensions has been completed in accordance with the Internal Audit plan for 2011-12. This incorporates the key controls from KPMG's Internal and External Audit Joint Working Protocol 2011/12. The audit reviewed the operation of the controls as set out under **Audit Scope and Objectives on page 6** of this Report.

Controls over the main transactions processes for payments, starters and leavers were found to be working well, although obtaining timely death information is a continual problem. The risks associated with not being notified of deaths will be mitigated once a provider for mortality screening services has been appointed.

The pension payroll is run by the Council's Business Services whilst the reconciliations of the pension payroll and bank balances to the pensions general ledger is undertaken by Central Finance. We acknowledge that there is communication between Pensions and these other areas, but there is scope for more proactive engagement. In particular, there are possibilities for Pensions to exercise more oversight of payroll exception reporting, clearance of the pensions control account and bank reconciliations.

Audit Opinion

The Internal Audit opinion for the **Wiltshire Pension Fund** is **Substantial Assurance**. This means that whilst there is a basically sound system of control, there are weaknesses which may put some of the service objectives at risk.

The **Action Plan on page 14** of this report has been proposed by management to ensure that risk management strategies are put in place to avoid or reduce the identified risks, and to ensure that any residual risks are appropriately managed to reduce any impact or likelihood of these risks materialising.

Frequent monitoring of the management of identified risks is essential.

Our risk ratings are based on the level of risk when viewed from a **corporate** perspective.

No high risk issues have been identified as a result of this audit.

Medium Risk Issues (as risk-rated by Internal Audit)

Risk	Recommendation/ Action Proposed by Management	Profile Ref
The lack of a complete and regular comparison of the pensions payroll and the Altair database risks payments being made to individuals who should not be on the payroll, and possibly payments not being made which should be.	<p>A regular procedure should be developed whereby a basic match is made between individuals on the pensions payroll and in the Altair database. The records of individuals who are unmatched should then be promptly reviewed and resolved with an appropriate record being maintained of the actions taken.</p> <p>Agreed, and this is currently being implemented albeit it due to the number of records this is being phased in based on a rolling programme of reconciliations.</p>	6
Delay in investigating and clearing ageing balances within bank reconciliations risks misstatement in the accounts and a backlog of work at year end	<p>The Pensions Team should review the reconciliations completed by Central Finance and take steps to ensure that long-standing reconciling items are investigated and cleared by appropriate teams at the earliest opportunity.</p> <p>Central Finance provides reports to the Pension Fund that outline the progress of outstanding items which can be used to monitor progress of outstanding items. Due to materiality of the items this has previously been reviewed at year end. It is recommended that items more than 6 months old are investigated.</p>	8

Six low risk issues have also been identified. These are discussed in the Audit Findings section and Action Plan included in the body of this report.

Risk Profile

The following profile shows management’s assessment of the likelihood and impact of the risks identified during the audit.

The numbers stated on the risk map refer to the risk references identified above, as well as to any low level risks detailed in the body of the report.

Impact	Significant				
	Moderate				
	Minor		3, 7	6, 8	
	Insignificant		1, 2	4, 5	
		Rare	Unlikely	Possible	Almost Certain
Likelihood					

AUDIT SCOPE AND OBJECTIVES

Audit Scope

To provide assurance that:

- Key controls operate effectively within the Wiltshire Pension Fund;
- Key risks identified in the previous Internal Audit report have been appropriately addressed.

Control Objectives

The objectives of the audit are to seek assurance that:

1. The calculations of benefit payments, including lump sum sums on death, lump sums on retirement and transfer out payments, are appropriately reviewed and authorised;
2. Pay-run exception reports are produced and subject to appropriate review;
3. Starters and leavers records are appropriately authorised and correctly and promptly entered into the pension payroll;
4. There are robust mechanisms for the transfer of data between, and the reconciliation of, SAP data and the pension scheme records;
5. The pension payroll system is periodically reconciled to the general ledger;
6. Bank statements are periodically reconciled to the general ledger.

AUDIT FINDINGS

Control Objective 1:

The calculations of benefit payments, including lump sum sums on death, lump sums on retirement and transfer out payments, are appropriately reviewed and authorised.

1.1 Development of Workflow procedures

The Altair system provides functionality for developing automated Workflow routines which ensure that all staff consistently follow the required steps for any pensions procedure and record progress as tasks are completed. The discussion, risks and recommendations which follow apply not only to benefit payments but to all pensions procedures for which workflows have been designed.

Workflow routines were under development last year by the Pensions Team, but this year, the team adopted a revised approach for their development. It has taken some time to refine these procedures, ensuring they are fit for purpose and take advantage of the functionality which the software is capable of providing. Towards the end of the current year, the majority of routines had been completed and tested.

The development process has, however, resulted in a number of procedures becoming redundant as they have been replaced by radically improved versions. This caused a delay to final implementation whilst arrangements were made with the supplier to remove the unnecessary workflows to ensure that only the correct versions remained.

1.2 Checking within Workflow routines

A useful feature of the Workflows which have been developed is a requirement for a check to be carried out following completion of the procedure. Currently the system does not prevent this being the same person as carried out the original work.

Risk 1

The possibility that Workflow processes could be both initiated and checked by the same person increases the risk that errors will not be identified and corrected.

Recommendation 1

Where possible, Workflow procedures should force the check function to be undertaken by someone other than the individual who initiated the process.

1.3 Monitoring completion of Workflow routines

Workflow provides good opportunities for monitoring the progress of tasks but at the time of the audit there was no provision for the production of regular reports for this purpose. Regular reports of progress against specific tasks would enable team leaders and managers to continually review, prioritise and allocate work. They may also prove beneficial in identifying staff training requirements.

Risk 2

The absence of regular reports of tasks to be completed within Workflows risks processes not being concluded within appropriate timescales.

Recommendation 2

Where possible, regular Workflow monitoring reports should be produced to provide details of outstanding tasks enabling timely review to ensure that all tasks are completed appropriately.

1.4 Authorisation of benefit payments

All payments in the sample selected for audit were adequately supported by Pension records and all had been appropriately reviewed and authorised within a reasonable timescale.

Control Objective 2:

Pay-run exception reports are produced and subject to appropriate review.

2.1 Fatal Errors Reports

Fatal Errors are such as would prevent an individual being paid at all. One such occurrence will cause the whole pay-run to fail so it is imperative that all Fatal Errors are resolved. These must be either individually suspended within the pay-run or corrected.

Our audit confirms these items are appropriately monitored, investigated and corrected.

2.2 Errors and Warnings Reports

Pensions payroll processing uses the same errors and warnings criteria as are used for salaries payroll processing. This results in large numbers of items which are irrelevant for pensions, such as where National Insurance numbers are not present or where the employee is approaching retirement age.

Each error/warning is sorted into blocks of each type which then stand out clearly on the reports and are therefore readily by-passed by the reviewer. This assists the reviewer in quickly scanning the reports for items which do not need to be reviewed. There remains a minor risk that the large number of irrelevant entries could result in the overlooking of items which should be investigated.

However, a more significant risk to the efficient and effective use of errors and warning reports is the absence of any review and approval by pension's management that the current criteria are the most appropriate for identifying relevant exceptional items.

Our testing of a sample of errors and warnings which are currently generated found them to have been reviewed and resolved as appropriate.

2.3 High Value Net Pay Reports

A High Value Net Pay Report is produced for each pay-run though as with the Errors and Warnings criteria, there is no formal record of how the threshold value was assessed and approved. Nor has there been a recent re-evaluation of its usefulness.

Our audit confirms that the cases identified by use of the current threshold are subject to appropriate review.

Risk 3

By failing to identify, review and approve criteria which are relevant for exception reporting (such as SAP Errors and Warnings and High Value Net Pay) there is a risk that payments which do not conform to predictable criteria will not be identified and corrected.

Recommendation 3

Pensions and payroll management should review and approve appropriate exceptions criteria to ensure that maximum benefit is gained from the identification of relevant exceptions within each monthly payroll.

Control Objective 3:

Starters and leavers records are appropriately authorised and correctly and promptly entered into the pension payroll.

3.1 Starters

The audit included a detailed review of 25 starters selected from the pension payroll. Within this sample:

- All starter forms were found to have been initiated and checked by Pensions Team staff and all but three had also been countersigned by the Pensions Manager;
- All records had been correctly set up in the payroll system in accordance with the authorising documents;
- There were 10 items where there was a period of 20 days or more between the start date and the date the starter form was authorised;
- There were a further four items where there was a period of 20 days or more between the date of authorisation and the date of set-up in the payroll system.

Risk 4

Failure to set up promptly new starter records risks errors and unnecessary work to implement corrections and deal with queries and complaints.

Recommendation 4

Management should implement a periodic check of the time elapsed between the receipt of new starter instructions, the date of authorisation and the date of set up in the payroll system with a view to minimising the causes of delay.

3.2 Leavers

Our audit testing of a sample of 25 leavers confirmed that payments are invariably stopped with effect from the correct date in accordance with the documents provided to payroll by the Pensions Team.

However, there were only seven occasions when the payroll record was terminated within 30 days of the date of death. The Pensions Team are well apprised of the problems associated with obtaining prompt and reliable information about death, and are currently in the process of selecting an appropriate mortality screening provider to assist the process.

Risk 5

Late notification of dates of death risks making overpayments and unnecessary work to effect recovery.

Recommendation 5

Information about deaths should be obtained regularly from an appropriate provider.

Control Objective 4:

There are robust mechanisms for the transfer of data between, and the reconciliation of, SAP data and the pension scheme records.

4.1 Reconciliation of records in SAP and Altair

There is no routine reconciliation procedure which proves the consistency of the pensions payroll and the Altair database at specific, regular points in time.

There is, however, a continual and ongoing comparison of the detailed individual records held in SAP and Altair. There are two broad aspects to this which seek to confirm that:

- Contributions from the Wiltshire Council payroll are correct;
- Records in the SAP pension payroll are consistent with the pensioner records in Altair.

These are both highly detailed and time-consuming procedures and a significant number of records remain to be reviewed. In recognition of the importance of this review a member of staff has recently been assigned to ensure it is maintained as a priority task.

An additional check which is currently not undertaken would be to conduct a simple match of individuals on the payroll and in Altair. This would provide some preliminary and potentially important information which could be used to prioritise further review. For example, if monetary values could be included with the basic personal data to be matched, then any unmatched individuals might be reviewed in value order. There may also be scope for comparing the actual payments with those expected according to Altair. Again, this may assist in prioritising where review should be focused.

Risk 6

The lack of a complete and regular comparison of the pensions payroll and the Altair database risks payments being made to individuals who should not be on the payroll, and possibly payments not being made which should be.

Recommendation 6

A regular procedure should be developed whereby a basic match is made between individuals on the pensions payroll and in the Altair database. The records of individuals who are unmatched should then be promptly reviewed and resolved with an appropriate record being maintained of the actions taken.

Control Objective 5:

The pension payroll system is periodically reconciled to the general ledger.

5.1 Pension payroll control account

This control has been a problem since SAP was implemented in April 2009, not just for the pension payroll, but also for the Council's Staff and School's payrolls. Reference has been made to this in previous Internal Audit Reports on both Payroll and Pensions.

During the current year, the Council's Central Finance Team have developed a new approach to reconciling the payroll payment postings to the general ledger payroll control account. The focus has initially been on establishing procedures for reconciling the Staff and Schools payrolls which has resulted in the Pensions reconciliation being postponed until these larger, more complex payroll reconciliations have been achieved.

As the reconciliations for the salary payrolls are now largely working satisfactorily, Central Finance should now be able to implement similar procedures for the Pensions control account. There is an expectation that a full reconciliation will be achieved by the end of the current financial year.

The pensions annual payroll is approximately £4 million. At the time of the audit, the balance on the pension payroll control account was £8,674,599.45. This is largely due to the payovers of certain deductions being posted to the control account, whereas the deductions are posted to the payroll deductions – advances and reclaims account. The net balance of these accounts, as at 19 Jan 2012, was:

(Pensions) payroll control account:	£8,674,599.45
(Pensions) payroll deductions - advances and reclaims:	<u>£8,631,137.39</u>
Net balance	<u>£43,462.06</u>

It is unlikely that the control account will ever show a zero balance, because there will always be timing differences and mis-postings. The important thing is to ensure that there is a regular routine for investigating the balance and clearing entries as appropriate.

Risk 7

Without a full and regular reconciliation of the pensions system to the general ledger there is a risk that erroneous payments will not be identified which could, over time, mean the Council forfeiting the opportunity to recover overpayments with a consequential loss to the Pension Fund.

Recommendation 7

The Pensions Team should initiate a regular review of the reconciliation and clearance of the pensions payroll control account carried out by Central Finance.

Control Objective 6:

Bank statements are periodically reconciled to the general ledger.

6.1 Bank reconciliations

Bank reconciliations are undertaken for each month by Central Finance. They are carried out electronically and appear to be completed promptly. They are not, however, signed-off to confirm either completion or review.

The reconciliation spreadsheet for each month contains downloads from SAP of the relevant individual items making up the summary totals. There are also screen shots of the SAP ledger and on-line HSBC bank statements so everything required for the reconciliation for each month is held within the spreadsheet for the month.

Each reconciliation examined had been completed correctly but there are over 600 hundred items which require investigation and clearance.

Bank reconciliations have been problematic since the introduction of SAP and it was only during the current year that items remaining from 2009-10 have been cleared.

There has been a degree of progress in clearing items from 2010-11. At 26 January 2012, there was a net balance of unmatched items amounting to nearly £16,000. This net figure is derived from over 200 credit balances totalling £141,000 and over 20 debit balances amounting to £125,000.

Risk 8

Delay in investigating and clearing ageing balances within bank reconciliations risks misstatement in the accounts and a backlog of work at year end.

Recommendation 8

The Pensions Team should review the reconciliations completed by Central Finance and take steps to ensure that long-standing reconciling items are investigated and cleared by appropriate teams at the earliest opportunity.

ACTION PLAN

Risk Ref	Cross Ref	Risk & Implications	Audit's Risk Rating	Management's Risk Rating	Recommendation/ Action Proposed by Management	Responsible Officer and Target Date
1	1.2	The possibility that Workflow processes could be both initiated and checked by the same person increases the risk that errors will not be identified and corrected.	Low	Low Impact = insignificant Likelihood = unlikely	Where possible, Workflow procedures should force the check function to be undertaken by someone other than the individual who initiated the process. Workflow is a system for monitoring the processing of work and not designed to be a replacement for checking or a validation tool. The current manual procedures still in place ensure that work is checked and not initiated and signed off by the same person. However, reports can be run and a regular check on a sample basis could be implemented to ensure all stages of the Workflow has not been completed by the same person.	Martin Summers - September 2012
2	1.3	The absence of regular reports of tasks to be completed within Workflows risks processes not being concluded within appropriate timescales.	Low	Low Impact = insignificant Likelihood = unlikely	Where possible, regular Workflow monitoring reports should be produced to provide details of outstanding tasks enabling timely review to ensure that all tasks are completed appropriately. Agreed as one of the main objectives of Workflow is to undertake regular reporting on progress and to identify problem areas. Team Leaders will report weekly on the team's performance once the system has gone live and data will also be used for the monitoring of employers performance against the targets outlined in the Administration Strategy.	Martin Summers – July 2012

Risk Ref	Cross Ref	Risk & Implications	Audit's Risk Rating	Management's Risk Rating	Recommendation/ Action Proposed by Management	Responsible Officer and Target Date
3	2.2	By failing to identify, review and approve criteria which are relevant for exception reporting (such as SAP Errors and Warnings and High Value Net Pay) there is a risk that payments which do not conform to predictable criteria will not be identified and corrected.	Low	Low Impact = minor Likelihood = unlikely	Pensions and payroll management should review and approve appropriate exceptions criteria to ensure that maximum benefit is gained from the identification of relevant exceptions within each monthly payroll. Agreed, the setting of these levels need reviewing periodically to ensure the reporting is meeting the Fund's requirements.	Martin Summers & Payroll Management – July 2012.
4	3.1	Failure to set up promptly new starter records risks errors and unnecessary work to implement corrections and deal with queries and complaints.	Low	Low Impact = insignificant Likelihood = possible	Management should implement a periodic check of the time elapsed between the receipt of new starter instructions, the date of authorisation and the date of set up in the payroll system with a view to minimising the causes of delay. With the implementation of Workflow this will enable the monitoring of time delays in receiving the information from employers and the processing time which will be reported against the Administration Strategy targets. This will be reviewed on a quarterly basis.	Andrew Cunningham – September 2012

Risk Ref	Cross Ref	Risk & Implications	Audit's Risk Rating	Management's Risk Rating	Recommendation/ Action Proposed by Management	Responsible Officer and Target Date
5	3.2	Late notification of dates of death risks making overpayments and unnecessary work to effect recovery.	Medium	Low Impact = insignificant Likelihood = possible	Information about deaths should be obtained regularly from an appropriate provider. Management doesn't agree with this recommendation as the impact of late notification is not significant and difficult to manage as it depends on being notified by the member's family. Life certificate and mortality screening exercises are being carried out but even when a 3 rd party provider is being used it would be extremely costly do undertake on a monthly exercise on 9000 records to ensure the pension is stopped within 30 days of death. However, more regular use of mortality screening services is being implemented to ensure death payments are not on-going for a longer period.	Tim O'Connor – September 2012
6	4.1	The lack of a complete and regular comparison of the pensions payroll and the Altair database risks payments being made to individuals who should not be on the payroll, and possibly payments not being made which should be.	Low	Medium Impact = minor Likelihood = possible	A regular procedure should be developed whereby a basic match is made between individuals on the pensions payroll and in the Altair database. The records of individuals who are unmatched should then be promptly reviewed and resolved with an appropriate record being maintained of the actions taken. Agreed, and this is currently being implemented albeit it due to the number of records this is being phased in based on a rolling programme of reconciliations.	David Anthony – June 2012

Risk Ref	Cross Ref	Risk & Implications	Audit's Risk Rating	Management's Risk Rating	Recommendation/ Action Proposed by Management	Responsible Officer and Target Date
7	5.1	Without a full and regular reconciliation of the pensions system to the general ledger there is a risk that erroneous payments will not be identified which could, over time, mean the Council forfeiting the opportunity to recover overpayments with a consequential loss to the Pension Fund.	Medium	Low Impact = minor Likelihood = unlikely	<p>The Pensions Team should initiate a regular review of the reconciliation and clearance of the pensions payroll control account carried out by Central Finance.</p> <p>Central Finance has been aware of this issue and will have the balance cleared down by the financial year end. The issue stems from the accounting entries going to different codes which Finance aim to have sent to the same code in the future to clear down the balance. This reconciliation is being incorporated into their monthly reconciliations.</p>	Mathew Tiller – July 2012
Page 65	6.1	Delay in investigating and clearing ageing balances within bank reconciliations risks misstatement in the accounts and a backlog of work at year end.	Medium	Medium Impact = minor Likelihood = possible	<p>The Pensions Team should review the reconciliations completed by Central Finance and take steps to ensure that long-standing reconciling items are investigated and cleared by appropriate teams at the earliest opportunity.</p> <p>Central Finance provides reports to the Pension Fund that outline the progress of outstanding items which can be used to monitor progress of outstanding items. Due to materiality of the items this has previously been reviewed at year end. It is recommended that items more than 6 months old are investigated.</p>	Catherine Dix – July 2012

Explanation of Audit Opinion and Risk Rating

Audit Opinion

Full Assurance	There is a sound system of control designed to achieve the service objectives, with key controls being consistently applied.
Substantial Assurance	Whilst there is a basically sound system of control, there are weaknesses which may put some of the service objectives at risk.
Limited Assurance	Weaknesses in the system of control are such as to put service objectives at risk.
No Assurance	Control is generally weak leaving the system open to significant error or abuse.

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Risk Profile Matrix Rating

Red = High Risk

High level risks are significant risks to the effective delivery of the service. Risk management strategies should be put in place to appropriately manage the identified risks within a short timescale. Frequent monitoring of the management of identified risks is essential.

Amber = Medium Risk

Medium level risks are risks which must be managed to ensure the effective delivery of the service. Monitoring of the risk should be regularly undertaken.

Green = Low Risk

Low level risks are risks which are not considered significant to the effective delivery of the service, but which should nevertheless be managed and monitored using existing management processes.

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE

23 MAY 2012

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. There have been two significant changes in risks since the last report in December 2011.
5. **PEN006a & b: Significant rises in employer contributions for secure / non-secure employers due to increases in liabilities** – this risk has increased from green to amber to reflect the continued fall in the yields on government bonds that is driving up the costs of the Fund's long term liabilities reducing the overall funding level. A Stabilisation Policy was implemented prior to the 2010 Valuation for secure employers and stepped increases in contribution rates allowed for non-secure employers. There is growing concern that if bond yields were to continue to fall further prior to March 2013, then consideration might be needed into the appropriateness of the current Stabilisation Policy. The impact will also be better understood when the LGPS reforms are announced. This situation will be closely monitored in the run up to the next Triennial Valuation date of 31 March 2013.
6. **PEN012: Over-reliance on key officers** – this risk has increased from amber to red to reflect the fact another Pension Assistant left the team in May and a Senior Pension Assistant undertook maternity leave in February. Currently, the team has 1 person on secondment, 2 staff acting up into senior roles and 3 agency staff covering Pension Assistant posts. There remains a further 2 vacant posts. The reason is the implementation of the new pension structure taking longer than anticipated, reducing scope to make permanent appointments in the interim. The specialist nature of these roles makes it difficult to bring in external cover while time is needed to invest in training staff which can impact on output. This position will be rectified within the next 6-12 weeks as permanent positions are appointed but potentially some non-urgent work could be held back and not completed within current service targets, especially if a sudden increase in workflow is experienced. When the team restructure is fully implemented this risk will be reduced.

Environmental Impacts of the Proposals

7. There is no known environmental impact of this report.

Proposals

8. The Committee is asked to note the update of the Risk Register and measures being taken to mitigate the current high and medium risks.

MICHAEL HUDSON
Director of Finance

Report Author: David Anthony, Head of Pensions.

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

Appendix A: Risk Register

Wiltshire Pension Fund Risk Register							11-May-12				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	Maintenance and update of ALTAIR and SAP systems, sufficient staff cover arrangements, sufficient staff training and QA checking of work.	2	2	4	Low	Need to ensure ALTAIR calculations are more thoroughly tested, especially to ensure regulations changes are correctly processed.	Martin Summers		2	2	4	Low	11 May 2012	→
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 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 rolled out to all employers to allow collation of membership and contributions detail by member to facilitate monthly reconciliations ahead of year end.	Catherine Dix		2	2	4	Low	11 May 2012	→
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. This shouldn't be an issue for the Wiltshire Pension Fund short term although longer term (5-10 yrs) investment income may be used to meet payments.	David Anthony	Funding Strategy Statement, Investment Strategy, Triennial Valuations, membership of Club Vita, etc. Once the LGPS reforms are announced and the proposed increase in members contribution rates is known the actuary will be asked to model the potential impact in cashflows.	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. This will be reviewed at a high level when further information is known. Employers who experience a large number of outsourcings may also see maturing cashflow profiles.	David Anthony	Dec-12	4	1	4	Low	11 May 2012	→
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	1	4	Low	Business Continuity Plan has been refreshed in and approved by the CFO in Oct 2011. All the team now have laptops that would mean they can access ALTAIR remotely if required.	Andy Cunningham		4	1	4	Low	11 May 2012	→
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	11 May 2012	→

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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	3	6	Medium	Quarterly monitoring in liabilities movements is undertaken providing advance warning to employers. The Stabilisation Policy has limited increases for secure employer. Monitor cashflow profiles to review Fund's maturity. The current increase in Quantative Easing by the Government is forcing up the price of gilts leading to a worsening Funding Position that may mean a review of the Stabilisation Policy at the 2013 Valuation.	David Anthony / Andy Cunningham	Mar-14	3	2	6	Medium	11 May 2012	↑
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	3	6	Medium	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. Monitor cashflow profiles to review Fund's maturity. The current increase in Quantative Easing by the Government is forcing up the price of gilts leading to a worsening Funding Position that may mean a review of the Stabilisation Policy at the 2013 Valuation.	David Anthony / Andy Cunningham	Mar-14	3	2	6	Medium	11 May 2012	↑
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. An investment strategy review is currently being undertaken by Mercers. The implementation of the Stabilisation Policy limits increases for secure employer.	Catherine Dix	Mar-12	3	2	6	Medium	11 May 2012	→
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		3	2	6	Medium	11 May 2012	→

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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.	3	3	9	Medium	Internal Audit report (March 2012) identified need for implementing more regular reconciliations of systems. Pension Structure Team review is being implemented which will ensure staff with the relevant skills & knowledge are in post. Currently drafting concise procedure notes for processing tasks to ensure consistency being drafted.	Martin Summers	Jun-12	1	2	2	Low	11 May 2012	→
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-12	2	1	2	Low	11 May 2012	→
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.	2	4	8	Medium	Detailed reconciliations are being undertaken between WC payroll and the Fund's data.	Tim O'Connor	Jul-12	2	1	2	Low	11 May 2012	→
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 is currently undergoing a Structure Review to ensure there are adequate resources and knowledge at the right levels to maintain service levels and undertake the projects resulting from the upcoming changes.	David Anthony	Dec-11	2	1	2	Low	11 May 2012	→

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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.	3	4	12	High	The Pension's Team restructure is taking place. This is essential to ensure the right skills and knowledge are at the right levels to maintain service levels and implement the forthcoming changes. A member a Senior Pension Assistant left in May and the team currently have three posts filled by agency staff and three posts on Secondment / Acting up with 2 vacancies. Some work will need to be stock piled in the short term.	David Anthony	Jul-11	2	1	2	Low	11 May 2012	↑
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 proposed changes to the LGPS scheme is leading to misinformation being circulated. Difficulty is Fund don't have clarity on changes yet but there is a concern from potential opt-outs now & when the changes are implemented. Currently send out posters, employer notices to forward onto members and held pension clinics. Starting to discuss with employers regarding Reward Statements. The impact of NEST and their responsibility needs to be communicated to employers.	Zoe Stannard & Andy Cunningham	Jul-11	1	1	1	Low	11 May 2012	→
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	11 May 2012	→
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	11 May 2012	→
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 Feb 2012 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	11 May 2012	→

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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	11 May 2012	→

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By virtue of paragraph(s) 1, 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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