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Report to those charged with governance (ISA 260) 2010/11

Wiltshire Pension Fund

29 September 2011

Contents

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

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Chris Wilson, the appointed engagement lead to the Fund, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 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.

Section one

Introduction

This report summarises:

- **the key issues identified during our audit of Wiltshire Pension Fund's ('the Fund's) financial statements for the year ended 31 March 2011.**
- **We do not repeat matters we have previously communicated to you. In particular, we draw your attention to our *Interim Audit Report 2010/11*, presented to you on 12 May 2011, which summarised our planning and interim audit work**

Financial statements

Our audit of the financial statements can be split into four phases:

Planning → Control Evaluation → Substantive Procedures → Completion

We previously reported on our work on the first two stages in our *Interim Audit Report 2010/11* issued in May 2011.

This report focuses on the final two stages: substantive procedures and completion.

Our final accounts visit on site took place between 11 and 22 July, During this period, we carried out the following work:

Substantive Procedures

- Planning and performing substantive audit procedures.
- Concluding on critical accounting matters.
- Identifying audit adjustments.
- Reviewing the Annual Governance Statement.

We are now in the final phase of the audit. Some aspects are also discharged through this report:

Completion

- Declaring our independence and objectivity.
- Obtaining management representations.
- Reporting matters of governance interest.
- Forming our audit opinion.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out the key findings from our audit work in relation to the 2010/11 financial statements.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior year recommendations and this is detailed in Appendix 2.

Acknowledgements

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

Headlines

We have successfully completed the work required, and will be issuing an unqualified opinion on the financial statements.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion by 30 September 2011. We will also report that the wording of your Annual Governance Statement accords with our understanding. We anticipate issuing an unqualified consistency opinion on the Annual Report by 1 December 2011.
Audit adjustments	Our audit identified a total of one audit adjustments with a total value of £484k. The impact of this adjustments is to: ■ Decrease Investment Income and increase Investment Managers expense; We have included a further details in Appendix 3. None of these were adjusted by the Fund
Critical accounting matters	We have worked with officers throughout the year to discuss specific risk areas in particular in the implementation of the Code of Practice on Local Authority Accounting 2010/11 which is an IFRS-based code for the first time this year. The Fund has addressed these issues appropriately.
Accounts production and audit process	We continue to note the high quality of the accounts and the supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. The Fund has implemented the majority of the recommendations in our *ISA 260 Report 2009/10* relating to the financial statements.
Completion	At the date of this report our audit of the financial statements is complete. Before we can issue our opinion we require a signed management representation letter. This will be included as part of Wiltshire's Council representation letter. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Fund's financial statements.

Proposed opinion and audit differences

Our audit identified one audit adjustments with a total value of £484k.

The impact of these adjustments is to:

- **Decrease Investment Income and Increase Investment Managers expense**

The wording of your Annual Governance Statement accords with our understanding.

Proposed audit opinion

We anticipate issuing an unqualified audit opinion by 30 September 2011 and an unqualified consistency opinion on the Annual Report by 1 December 2011.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. 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.

Our audit identified a total of one audit adjustments with a total value of £484k.

The net impact on the Net Asset Statement as a result of audit adjustments is nil as at 31 March 2011.

We have provided a summary of significant audit differences in Appendix 3. It is our understanding that this will not be adjusted in the final version of the financial statements.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2010 ('the Code')*. We understand that the Fund will be addressing these where significant.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE in June 2007; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Critical accounting matters

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

In our *Financial Statements Audit Plan 2010/11*, presented to you in May 2011, we identified the key risks affecting the Fund's 2010/11 financial statements.

In our *Interim Audit Report 2010/11* we commented on the Fund's progress in addressing these key risks. We highlighted that Transitions to IFRS represents the largest change in accounting for a number of years.

We have now completed our testing of these areas and set out our final evaluation following our substantive work.

The table below sets out our detailed findings for each risk.

Key audit risk	Issue	Findings
IFRS based disclosures	All LGPS for the year ended 31 March 2011 must complete their annual report in line with the IFRS-based code, Code of Practice on Local Authority Accounting 2010/11. This impacts in particular the disclosures in relation to investments.	Confirmation was received from CIPFA that IFRS 7 and IFRS 39 did apply to LGPS, and hence the relevant disclosures were required. The pension team had been in regular discussion with KPMG and the custodian in anticipation of CIPFA's confirmation, and hence the relevant disclosures in the Accounts have been made.
Valuation of investment assets	During an economic downturn the valuation of investments maybe affected by price deterioration and/or market illiquidity.	A sample of investment holdings were priced by KPMG using our FundRADAR valuation service. No significant discrepancies were found between the recorded prices per BNY Mellon and the price per KPMG.
Implementation of Altair	A new membership database, was introduced by the Fund during the year.	The Fund performed its own testing over the transfer of data. This process was reviewed on a sample basis by KPMG to ensure the correct migration of data and no significant issues were noted. The Authorities Internal Audit department is due to perform a review of the transfer during the year ending 31 March 2012.

Accounts production and audit process

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

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the qualitative aspects of the Fund's accounting practices and financial reporting. We also assessed the Fund's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Fund has strengthened its financial reporting process through the year despite the transition to IFRS-based financial reporting. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 3 August 2011.

Prior year recommendations

In our *Interim Audit Report 2010/11* we commented on the Fund's progress in addressing the recommendations in our *ISA 260 Report 2009/10.*

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

Appendix 2 provides further details.

Completion

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

Declaration of independence and objectivity

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

In relation to the audit of the financial statements of Wiltshire Council for the year ending 31 March 2011, we confirm that there were no relationships between KPMG LLP and Wiltshire Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. The representation letter in respect of Wiltshire Pension Fund will be included within the Wiltshire Council representation letter.

Other matters

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

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

There are no others matters which we wish to draw to your attention.

Appendix 1: Key issues and recommendations

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

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

We will formally follow up these recommendations next year

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

We have noted no new recommendations since our interim reporting in May 2011.

Appendix 2: Follow up of prior year recommendations

The Fund has implemented all but one of the recommendations in our *ISA 260 Report 2009/10.*

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2009/10* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	3
Implemented in year or superseded	2
Remain outstanding (re-iterated below)	1

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at 20 September 2011
1	2	**Investment cash Reconciliation** During the 2010 audit of investment balances we identified a number of discrepancies in accounting treatment. For example, investment income was posted on a cash basis instead of an accrual basis required by the SORP. In addition, investments made in the Fauchier account had been accounted for twice. These errors arose because the investments were posted directly from the custodian reports, there are no controls in place to ensure postings are made correctly. We recommended that a cash reconciliation, book cost reconciliation and market value reconciliation are prepared on a quarterly basis and reviewed by a second individual. These reconciliation will help identify any incorrect postings made.	Pensions department 31 March 2011	As in prior year an audit adjustment relating to the correct recognition of Investment income on an accruals basis has been raised.
2	2	**Discrepancies in monthly contribution postings** During the period under review, a new accounting system, SAP was implemented to replace the previous system, Aptos. During the course of the Implementation a number of incorrect postings were made regarding contributions, which were corrected and reposted a number of times. This resulted in significant fluctuations in the contributions figures seen on SAP, making the variance analysis control being unable to operate on a monthly basis.	Pension department 31 March 2011	No issues were noted in the sample selected for the current year. We therefore deem this matter closed.

Appendix 2: Follow up of prior year recommendations (continued)

The Fund has implemented all but one of the recommendations in our *ISA 260 Report 2009/10.*

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at 20 September 2011
3	2	**Storage of information** During our 2010 audit fieldwork we came across a number of incidents where information was missing. During our testing of controls over new starters to the Fund, a number of starter forms could not be located as they were on an employee's desk waiting to be processed. In addition, forms are received in two different formats (spreadsheets and forms) making it harder to locate them as there was no indication of the format they were provided in for each member. We recommend ed that all starters forms are prepared in a consistent form, scanned and saved on a shared access drive so that it is clear where forms can be located, and they are all in the same format. In addition, when we reviewed member files for benefit testing a number of pieces of information were missing that we would expect to be retained for all members, for example for one member the final calculation was not retained. We recommend ed that a checklist is included on every member file which details the paperwork as required- this can then be checked against the file to ensure all information has been scanned and electronically stored correctly.	Pensions department 31 March 2011	No issues were noted in the sample selected for the current year. We therefore deem this matter closed

Appendix 3: Audit differences

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

Corrected audit differences

There are no corrected audit differences identified by our audit of Wiltshire Pension Fund's financial statements for the year ended 31 March 2011.

Uncorrected audit differences

The following table sets out the uncorrected audit differences identified by our audit of Wiltshire Pension Fund's financial statements for the year ended 31 March 2011.

Impact					Basis of audit difference
Income and expenditure statement	Adjustments btw. accounting basis & statute	Assets	Liabilities	Reserves	
Dr Investment Income £484k Cr Investment Manager expense £484k					The incorrect recognition of Investment income on a cash basis rather than an accruals basis
Dr/Cr £0	**Dr/Cr £0**	**Dr/Cr £0**	**Dr/Cr £0**	**Dr/Cr £0**	**Total impact of adjustments**

Appendix 4: Declaration of independence and objectivity

The Code of Audit Practice requires us to exercise our professional judgement and act independently of both the Commission and the Fund.

Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

"Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission's Standing guidance for local government auditors (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (Ethical Standards).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 Communication of *Audit Matters with Those Charged with Governance*' that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Pension Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Partner and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Appendix 4: Declaration of independence and objectivity (continued)

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

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of Wiltshire Pension Fund for the financial year ending 31 March 2011, we confirm that there were no relationships between KPMG LLP and the Wiltshire Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

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