



GOVERNMENT

Audit Plan and Interim Audit Report 2009/10

Wiltshire Pension Fund

13 May 2010

AUDIT

Contents

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

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Chris Wilson, who is the engagement partner to the Authority, telephone 0118 964 2238, email christopher.wilson@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4000, email trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

Section one

Summary

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

Our statutory responsibilities and powers are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Audit Commission's *Code of Audit Practice (the Code)* requiring us to review and report on your:

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

The Audit Commission's Statement of Responsibilities of Auditors and Audited Bodies sets out the respective responsibilities of the auditor and the Council. The table below summarises the work we will do this year.

Our Responsibility	Risks, proposed work and output
Financial Statements and Annual Governance Statement	<p>Key risks identified, which we will consider through our financial statements audit, are as follows:</p> <ul style="list-style-type: none"> • inherent risks associated with valuation of pension fund assets. <p>Our work will encompass:</p> <ul style="list-style-type: none"> • reviewing the controls over the completion of the accounts, relying on Internal Audit wherever possible to avoid duplication; • a detailed audit of the financial statements, associated disclosure notes and the Annual Governance Statement; and • specific work on the data migration process to gain assurance on the complete and accurate transfer of data from the previous systems to the new SAP system. <p><i>The findings of this work support the audit opinion that we issue on your financial statements.</i></p>

The audit planning process and risk assessment is an on-going process and the assessment in this plan will be kept under review and updated if necessary.

Scope of this report

This report summarises details of our risk assessment and proposed work on the financial statement audit and the key findings arising from:

- our interim audit work at Wiltshire Pension Fund ('the Fund') in relation to the 2009/10 financial statements.

During April 2010 we completed our planning and control evaluation work. This covered our:

- review of the Fund's general control environment;
- testing of certain controls over the Fund's key financial systems;
- review of the Fund's accounts production process.

Acknowledgements

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

Section two

Audit overview

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

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

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

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

Our Audit Process

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

			Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
1	Planning	<ul style="list-style-type: none"> Perform risk assessment procedures and identify risks Determine audit strategy Determine planned audit approach 	○	○							
2	Control Evaluation	<ul style="list-style-type: none"> Understand accounting and reporting activities Evaluate design and implementation of selected controls Test operating effectiveness of selected controls Assess control risk and Risk of Significant Mis-statement 			○				○		
3	Substantive procedures	<ul style="list-style-type: none"> Plan substantive procedures Perform substantive procedures Consider if audit evidence is sufficient and appropriate 			○	○		○	○	○	○
4	Finalisation	<ul style="list-style-type: none"> Perform completion procedures Perform overall evaluation Form an audit opinion Audit Committee reporting 			○			○			○

Audit overview (continued)

We work with the pensions department to enhance the efficiency of the accounts audit.

Our Audit Process (continued)

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

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

Key financial statement audit risk

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

We will provide an update to the Pension Committee on these risk issues when we issue our ISA 260 report in September.

KEY audit risks



Impact on audit plan

Business Management Programme

- We will draw on KPMG's IT audit specialists to gain assurance on the accuracy of the migration of data from the previous financial system to the new SAP finance package.
- We will perform detailed work over opening balances to gain assurance over the opening balance position of the Pension Fund.

Valuation of Investments

- We will use our FundRADAR service to assist with auditing the valuation of the investment portfolio held. FundRADAR is a service which enables us to use market data and modelling to compare our expected pricing to the pricing provided by the custodian.

Section four

Interim findings

We have not identified any control recommendations following our interim audit work. As part of our interim work we have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix four.

The table below however summarises the key risks identified this year for the financial statements audit. The remainder of this section provides further details on these risks as well as information on our audit approach, our audit team and our proposed work and timescales for our work on the financial statements audit.

Key risks identified	
IT control environment	Implementation of SAP
Controls over key financial systems	Understanding key financial processes
Specific risk areas	<ul style="list-style-type: none">• Implementation of SAP system• Valuation of investment assets
Accounts production	Preparation of Annual Report and financial statements

IT control environment

Due to the status of the SAP implementation during our interim visit we are not able to conclude if the IT control environment is effective overall and will revisit this during our final audit in July.

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.
- Wiltshire Council has implemented a new SAP system during the year and as part of the Council audit we will draw on KPMG's IT audit specialists to gain assurance on the accuracy of the migration of data to the new SAP finance package. As at the date of this report this work had not been finalised.

Key findings

- With the implementation of the new SAP system being ongoing during our interim visit we are unable to conclude on the effectiveness of the system in relation to the Pension Fund. We will look to review this during our final audit fieldwork in July.

Controls over key financial systems

The controls over the key financial system are generally sound.

We will complete additional substantive work in relation to the financial systems at year-end.

Work completed

- The Council's internal auditors have not completed any work in relation to the pension fund during the year and so we have updated our understanding of the Fund's key financial processes with the pensions department where these are relevant to our final accounts audit.
- We confirmed 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.

Key findings

- The controls tested over the key financial system are generally sound.
- We have not yet assessed some of the controls over investments, membership and some aspects of contributions and benefits. Many of the key controls in respect of these areas are operated during the closedown process and our testing will be supplemented by further work during our final accounts visit.

Specific risk areas

The Fund has taken the key risk areas we identified seriously and made good progress in addressing them.

However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit

Work completed

- In the previous pages we identified the key risks affecting the Fund’s 2009/10 financial statements.
- Our audit strategy and plan remain flexible as risks and issues change throughout the year. There have been no changes to the risk previously communicated to date.

Key findings

- The key audit risk in relation to the SAP system implementation will be reviewed at our final audit in July as the information was not available during our interim visit.
- The key audit risk in relation to investment valuation will also be reviewed at our final audit as the 31 March 2010 asset valuations were not available when we completed our interim work.

Key audit risk	Issue	Progress
 <p>SAP implementation</p>	<p>The implementation of the SAP package will impact the preparation of the entire financial statements.</p>	<p>The SAP implementation and loading of opening balances was still in progress during our interim audit. We will revisit this during our final audit in July.</p>
 <p>Valuation of investment assets</p>	<p>During difficult economic times the valuation of investments maybe affected by price deterioration and/or market illiquidity.</p> <p>The pricing of complex investment assets may also be susceptible to pricing variances given the number of assumptions underlying the valuation.</p>	<p>This will be reviewed as part of our final audit in July as the valuations were not available from the custodian during our interim visit.</p>

Accounts production process

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

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

Work completed

- As part of our interim work we specifically reviewed the Fund's progress in addressing the recommendations in our *ISA 260 Report 2008/09*.
- We also discussed your progress in preparing the Annual Report and financial statements for the year ended 31 March 2010.

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 2008/09* relating to the financial statements in line with the timescales of the action plan where this has been possible. An update of these recommendations is detailed in Appendix four.

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

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

Independence and objectivity confirmation

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

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

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

Confirmation statement

We confirm that as of 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 Appointed Auditor and audit team is not impaired.

Appendix one: Audit Team

Our audit team is largely unchanged from last year. Contact details are shown on slide 1.

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 Pension Committee and the Chief Executive.



Gemma Broom
Senior Manager

I will provide strategic direction and co-ordination for the audit and will work closely with Chris and Gemma to ensure we add value. I will be the main contact for the Head of Pensions.



Gemma Jones
Audit Assistant Manager

I will be your day to day contact and will work closely with Gemma to deliver a co-ordinated and efficient audit.

Appendix two: Audit Timeline & Deliverables

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

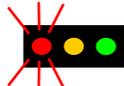
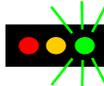
We will discuss and agree each report with the Pension Fund’s officers prior to publication.

Deliverable	Purpose	Timing
Planning		
Audit plan	<ul style="list-style-type: none"> • Outline audit approach • Identify areas of audit focus and planned procedures • Confirm plan with Audit Committee 	April 2010
Interim		
Interim report	<ul style="list-style-type: none"> • Details and resolution of control and process issues 	May 2010
Year end audit		
Report to those charged with governance (ISA 260)	<ul style="list-style-type: none"> • Auditor’s report on Wiltshire Council’s financial statements • Auditor’s report on Wiltshire Council’s value for money • Auditor’s report on Wiltshire Council’s use of resources • Detail the resolution of key audit issues • Communication of adjusted and unadjusted audit differences • Performance improvement recommendations identified during our audit 	September 2010
Opinion on financial statements		September 2010

Appendix three – Key issues and recommendations

Following our interim audit visit and fieldwork completed to date we do not have any key issues and recommendations.

We have not identified any new issues or recommendations following our planning or interim fieldwork from those identified in the prior year. Our prior year recommendations and their status is detailed in Appendix four.

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

No.	Risk	Issue and Recommendation	Management Response / Responsible Officer / Due Date
1		None identified from our audit work completed to date.	
2			
3			

Appendix four – Follow-up of prior year recommendations

The Authority has implemented all of the recommendations in our Interim Audit Report 2008/09.

This appendix summarises the progress made to implement the recommendations identified in our *Interim Audit Report 2008/09* and re-iterates any recommendations still outstanding.

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

No.	Risk	Issue and Recommendation	Officer Responsible and Due Date	Status as at 4 May 2010
1		<p>The Fund uses the Authority's bank account and as a result the Authority can use the monies within the bank account. The Pension Fund cash is treated by the Authority as a temporary loan and the Fund receives interest at the Local Authority 7 Day Rate. The monies used by the Authority may however return greater than the Local Authority 7 Day Rate resulting in the Fund losing out on the best return available to it.</p> <p>There is currently no written agreement between the Authority and the Pension Fund in respect of this arrangement. We recommend that the arrangement is formalised in an agreement which demonstrates that the Fund receives full benefit from its investment.</p>	<p>Head of Pensions December 2009</p>	<p>The Fund has its own bank account which was put in place in April 2009. As a result the Fund does not use the Authority's bank account for cash flow purposes.</p> <p>A Treasury Management Strategy was approved by the Wiltshire Pension Committee on 25 February 2010 and a Treasury Management Service Level Agreement was signed between the Wiltshire Pension Fund and Wiltshire Council in April 2010.</p>

Appendix four – Follow-up of prior year recommendations (continued)

The Authority has implemented all of the recommendations in our *Interim Audit Report 2008/09*.

No.	Risk	Issue and Recommendation	Officer Responsible and Due Date	Status as at 4 May 2010
2		<p>Pensionable pay data is not available from some of the employers so the contributions monitoring control in place can not operate as intended.</p> <p>We recommend that this data is made available to the pensions department. If the information cannot be made available the ratio of employee and employer contributions is reviewed to compensate for the missing data and any anomalies investigated.</p>	Head of Pensions October 2009	Although the majority of employers now provide pensionable pay data, the ratio of employee and employer contributions has been used during the year as an approximation to review contribution levels.
3		<p>Some Employees and Employers pension contributions from the admitted bodies had not been received into the County Fund bank account within 19 days following the applicable month end. These represent a breach of the 19 day rule. Management should remind the admitted bodies of their responsibilities to ensure payments are received by the required date. Management should issue reminders to the bodies and monitor late payments from these bodies.</p>	Head of Pensions Ongoing	The date contributions are received from employers is monitored and those who pay late are either called or sent an email.

Appendix four – Follow-up of prior year recommendations (continued)

The Authority has implemented all of the recommendations in our *Interim Audit Report 2008/09*.

No.	Risk	Issue and Recommendation	Officer Responsible and Due Date	Status as at 4 May 2010
4		<p>The Pension Scheme Department could not provide accurate membership data that agreed to the Statement of Accounts. Inaccurate membership numbers make it harder for the Committee to ensure that contributions and benefits are being paid correctly and may impact on the future liability of the scheme. Membership numbers should be reconciled regularly. A listing of members to back up the totals should be maintained and regularly reviewed.</p>	<p>Head of Pensions Ongoing</p>	<p>Accurate membership data is difficult to maintain in AXISE as reports run on different days for the same date i.e. 31 March, provide differing results if any membership details have been processed in the corresponding period. Work is on-going to develop a more robust reconciliation process and a year-end position for reporting in the Statement of Accounts.</p>

Appendix five: Independence and objectivity requirements

This appendix summarises the auditor's 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 six: Sustainability

This appendix summarises the auditor's commitment to sustainability.

Sustainability

The Audit Commission is committed to promoting sustainability in working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate;
- reducing travel; and
- other initiatives.

KPMG are also taking steps to improve our environmental performance. Achievements to date include:

- all offices certified ISO14001, the leading international standard for environmental management systems;
- our Responsible Consumption programme enables our people to actively contribute to the firm being environmentally responsible;
- more than 40 percent of paper purchased is recycled paper;
- over 90 percent of the electricity used in buildings is now from renewable sources; and
- some 1.8 million travel miles have been saved through car sharing schemes and 1.5 million miles have been saved through audio and video conferencing.