



GOVERNMENT

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

Wiltshire Pension Fund – DRAFT for discussion purposes

15 September 2010

AUDIT

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

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Chris Wilson, who is the engagement partner to the Fund (telephone 01189 642238, email Christopher.Wilson@kpmg.co.uk) who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees (0161 236 4000, email trevor.rees@kpmg.co.uk) who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

## Executive summary

### Scope of this report

This report summarises:

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

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

### Financial Statements

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

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

### Completion

At the date of this report our audit of the financial statements is complete.

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.

We have raised a number of recommendations in relation to the matters highlighted above, which are summarised in Appendix A.

### Prior year recommendations

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

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

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

- Appendix B provides further details.

### Acknowledgements



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

## Critical accounting matters

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

### Work completed

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

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

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

### **Declaration of independence and objectivity**

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

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

### **Other matters**

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

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

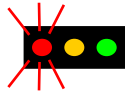


There are no others matters which we wish to draw to your attention. Our current year observations are set out in Appendix A.

### **Opinion**

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

# Appendix A: Recommendations

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

Priority rating for recommendation		
<p><b>Priority one:</b> 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><b>Priority two:</b> 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><b>Priority three:</b> issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p> 

No.	Priority	Issue & Recommendation	Management Response / Responsible Officer / Due Date
1	2	<p><b>Discrepancies in monthly contribution postings</b></p> <p>During the period under review, a new accounting system, SAP, was implemented to replace the previous system, Aptos. During the course of the implementation a number of incorrect postings were made regarding contributions, which were corrected and reposted a number of times. This resulted in significant fluctuations in the contribution figures seen on SAP, making the variance analysis control being unable to operate effectively on a monthly basis.</p> <p>We do not believe that this will be an issue going forward as the errors arose due to the one-off event of the introduction of SAP. However, care should be taken to ensure that contributions are posted correctly. Postings should occur monthly and errors should be investigated where they occur.</p>	<p>The implementation of SAP and the setting up of a new bank account for the Pension Fund led to changes in the internal processes and procedures. Officers in the Pension Fund, Central Finance and the Shared Service Team are now familiar with SAP. Quarterly contribution reconciliations have now been recommenced and all errors are investigated.</p>

## Appendix A: Recommendations (continued)

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

## Appendix B: Follow-up of prior year recommendations

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

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

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

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



## Appendix C: Audit differences

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

### Corrected audit differences

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

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