

AGENDA

Meeting: Wiltshire Pension Fund Committee
Place: The Pratchett Room - New County Hall, Trowbridge, BA14 8JN
Date: Friday 14 September 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

Briefing arrangements:	Date	Time	Place
Chairman's Briefing	14 Sept 2012	09:30	Golding Room, New County Hall, Trowbridge, BA14 8JN

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 Helen Osborn
CLlr Jeff Osborn
CLlr Roy While

Swindon Borough Council Members

CLlr Brian Ford
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**

To note any changes to Membership of the Committee.

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

3 **Apologies**

To receive any apologies for absence or substitutions.

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

To confirm the minutes of the meeting held on **25 July 2012**.

5 **Chairman's Announcements**

To receive any announcements through the Chair.

6 **Declarations of Interest**

To receive any declarations of non-pecuniary or pecuniary 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 Friday 07 September 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 **Pension Fund Risk Register** *(Pages 7 - 12)*

An update from the Service Director (Finance) on the Wiltshire Pension Fund Risk Register is circulated for the Committee's consideration.

9 **Budget Monitoring 2012-13 Report** *(Pages 13 - 14)*

A report of the current budget monitoring position for the Wiltshire Pension Fund for the year based on the latest position for information.

10 **Officers Training Update** *(Pages 15 - 18)*

A report updating the Committee on the Officers training plans for information.

11 **External Audit Report** *(Pages 19 - 34)*

A report by KPMG presenting the Final Audit report on the 2011-12 Annual Report for the Wiltshire Pension Fund for information.

12 **Internal Audit Report Update** *(Pages 35 - 42)*

A report updating the Committee on the actions that have been implemented since the original report was presented on 23 May 2012.

13 **Actuarial Update on 2014 LGPS, 2013 Triennial Valuation and Current Issues**

A presentation by the Fund's actuary of their view on the proposed LGPS changes, the forthcoming triennial valuation and other current issues.

14 **Date of Next Meeting**

To note that the next regular meeting of the Committee will be held on **Thursday 06 December 2012**.

15 **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.

16 **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 17-20 because it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in Paragraph 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

17 **Update on the Implementation of the Dynamic Currency Hedging Programme** *(Pages 43 - 44)*

A confidential report is circulated updating the Committee on the implementation of the Dynamic Currency Hedging Programme.

18 **Investments Quarterly Progress Report** *(Pages 45 - 80)*

A confidential report is circulated updating the Committee on the performance of the Fund's investments for the quarter.

19 **Investment Structure Review Update**

A report by Mercers that reviews and proposes potential amendments to the Fund's fixed income allocations will be circulated as a late supplement.

20 **M&G: Review of 2011-12 and Plans for the Future**

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

WILTSHIRE PENSION FUND COMMITTEE

**DRAFT MINUTES OF THE WILTSHIRE PENSION FUND COMMITTEE MEETING
HELD ON 25 JULY 2012 AT COUNCIL CHAMBER - COUNCIL OFFICES,
BRADLEY ROAD, TROWBRIDGE, BA14 0RD.**

Present:

Cllr Charles Howard (Vice-Chair, in the Chair), Cllr Des Moffatt, Cllr Sheila Parker and
Cllr Fleur de Rhe-Philippe

76 **Membership Changes**

None.

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

None.

78 **Apologies for Absence**

Apologies were received from Cllr Tony Deane, Mr Tim Jackson, Mrs Lynda Croft and Cllr Brian Ford.

79 **Minutes of the Previous Meeting**

The minutes of the meeting held on **23 May 2012** were presented. It was,

Resolved:

To approve as a true and correct record and sign the minutes.

80 **Chairman's Announcements**

Through the Chair, the Committee was updated on the progress of change to investment mandates previously agreed.

81 **Declarations of Interest**

There were no declarations.

82 **Public Participation and Councillors' Questions**

The Committee noted the rules on public participation.

83 **Wiltshire Pension Fund 2011-12 Outturn Statement**

The Service Director (Finance) presented a Wiltshire Pension Fund Outturn Statement, outlining the Fund's income and expenditure for the year 2011-2012, which he stated was in line with previous monitoring reports to the Committee.

It was,

Resolved:

To note the contents of the 2011-2012 Wiltshire Pension Fund Outturn Statement.

84 **Draft 2011-12 Annual Report**

The Service Director (Finance) presented the draft Wiltshire Pension Fund Annual Report and Financial Statements 2011-12, noting that it would not be fully completed until the audit of the Fund had been finalised before the 14 September 2012 meeting of the Committee after also going to Audit Committee on 07 September 2012.

The Committee noted with approval that the annual return of the Fund placed it 35th out of 84 Local Authority funds within the WM Local Authority league table, up from 47th for the year 2010-2011.

It was,

Resolved:

To approve the draft Wiltshire Pension Fund Annual Report and Financial Statements 2011-12, subject to the completion of the audit.

85 **Pension Fund Risk Register**

The Head of Pensions updated the Committee on the Pension Fund Risk Register following the increased risks identified at the May 2012 meeting.

It was stated there had been no significant changes, but that the team restructuring should be completed within a few weeks as final places were filled, mitigating or resolving the risk of overreliance on key officers.

It was,

Resolved:

To note the update of the Risk Register and measures being taken to mitigate current high and medium risks.

86 **Statement of Investment Principles (SIP)**

The Fund Investment and Accounting Manager presented a report on the annually updated Statement of Investment Principles (SIP), which she noted had been updated to reflect the recent Strategic Review of the Fund regarding asset allocation.

It was also noted that the SIP had also been updated to reflect the Six Myners Principles, and was compliant with all but Principle Four. To be fully compliant, it was stated that the implementation of a formal assessment of the Fund's advisers to ensure cost, quality and consistency of the advice is monitored would be required.

It was,

Resolved:

To approve the 2012 Statement of Investment Principles (SIP).

87 **Local Government Pension Scheme Reforms Update**

The Head of Pensions presented a report updating the Committee on the proposed reforms to the Local Government Pension Scheme (LGPS) following the announcement by the Local Government Employers (LGE) and the Unions, supported by the Government, on 31 May 2012.

It was clarified that the changes would apply from April 2014, with all pensions in payment or built up before that date protected. The main provisions proposed for the scheme were outlined as stated in paragraph Six of the agenda report, including but not limited to a change to the accrual rate from a 1/60th to a 1/49th scheme, the use of CPI as the revaluation factor of Career Average Revalued Earnings and that the average member contribution remaining the same at 6.5%, but that the rate would be determined on actual pay.

The Head of Pensions stated that the proposed reforms were on balance a good deal for the Fund membership, and highlighted the impacts for employees at various ages as detailed in the report, and stressed the importance of communicating the changes to members.

A discussion followed, where the change in vesting period from three months to two years was queried. It was stated that the vesting period had been reduced in 2008 as a method to encourage fewer people to opt out from the scheme. The commitment to deficit reduction and worsening situation for bond yields and the implications for the Fund was raised, which may lead to the potential need to revise the stabilisation models if things deteriorated was further noted.

The Head of Pensions also noted that if the scheme were not approved, a short term increase in contributions would be likely as a new timescale for changes was organised.

At the conclusion of discussion, it was,

Resolved:

To note the proposed changes to the Local Government Pension Scheme reforms.

88 **Date of Next Meeting**

The date of the next meeting was confirmed as **Friday 14 September 2012.**

89 **Urgent Items**

There were no urgent items.

90 **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 Numbers 91-92 because it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in paragraph 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.

91 **Investment Structure Review Update**

Joanne Holden (Investment Adviser – Mercers) presented a confidential report outlining potential investment options for Members to consider in relation to the on-going investment strategy review, as requested by the Committee at the 23 May 2012 meeting.

Following the report and debate on various investment strategy options, the Committee decided to defer a decision until the following minute item, the receipt of a report from Western Asset Management, had been concluded.

92 **Western Asset Management: Review of 2011-12 and Plans for the Future**

Paul Shuttleworth and Simon Gregory, representatives of Western Asset Management, presented a confidential report and presentation to the Committee on past and predicted performance of their mandate, and received questions on planned investment strategies and market and Fund analysis.

Resolved:

To thank the representatives from Western Asset Management for their presentation.

93 **Investment Strategy Review Update (Continued)**

Following the receipt of the report and presentation from Western Asset Management, the Committee discussed options for Investment Strategies and issues raised from the Western Asset Management presentation.

At the conclusion of debate, it was,

Resolved:

- a) For a review of the Fund's fixed income allocations, requesting Mercers consult with Western Asset Management to outline proposed mandate amendments and options for global investing that could be implemented in the future, and to bring a report to the Committee in September 2012; and**
- b) To consider the use of the 10% temporary global passive equities allocation at a later date.**

(Duration of meeting: 10.35 am - 1.45 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 COUNCIL

WILTSHIRE PENSION FUND COMMITTEE

14 SEPTEMBER 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 has been one significant change in risks since the last report in July 2012.
5. **PEN012: Over-reliance on key officers** – this risk has now reduced from red to green to reflect the implementation of the Pension Team restructure. All appointments to the new Management Team have been made with the System Manager, who is an external appointment due to begin at the end of October. This leaves two Pension Assistant posts vacant which are being managed through the use of temporary agency staff while the recruitment of permanent appointments concludes. This restructure was intended to ensure the right skills and knowledge were in the right positions and consequently this risk can now be reduced.

Environmental Impacts of the Proposals

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

Proposals

7. 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: Risk Register

Wiltshire Pension Fund Risk Register				04-Sep-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	4 Sep 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	4 Sep 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. Now the LGPS reforms have initially been 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 (although the proposed 50:50 option may reduce this number) along with the reduction in public sector employees from the spending constraints. This will be modelled at a high level. Employers who experience a large number of outsourcings may also see maturing cashflow profiles.	David Anthony	Dec-12	4	1	4	Low	4 Sep 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. The team will be locating to East Wing site from Old County Hall in August. This is being managed by Wiltshire Council's transformation team and assessments and a programme have been agreed to minimise the potential disruption.	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	4 Sep 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	4 Sep 2012	→

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	4 Sep 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	4 Sep 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-14	3	2	6	Medium	4 Sep 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	4 Sep 2012	→

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		
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. A Technical & Compliance Manager has now been appointed to review process and training requirements for the team. A review of the LGPS 2014 reforms will also be required to ensure future compliance.	Martin Summers	Dec-12	1	2	2	Low	4 Sep 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. An imaging system will be implemented over the coming months to improve retention of documents.	Tim O'Connor	Mar-13	2	1	2	Low	4 Sep 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	Systems 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		2	1	2	Low	4 Sep 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	Sep-12	2	1	2	Low	4 Sep 2012	→→→

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							Impact	Likelihood	x	Level of risk				Impact	Likelihood	x	Level of risk		
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.	2	2	4	Low	The Pension's Team restructure is almost complete with two pension assistant posts only remaining vacant. A new Systems Manager has been appointed externally who is due to start at the end of October which will complete the Management Team.	David Anthony	Nov-12	2	1	2	Low	4 Sep 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	Now the proposed changes to the LGPS scheme are known updated information can be circulated to employers and members. The Fund will be formulating its strategy to inform members of the changes (which it has currently been doing) and where possible working with key stakeholders. Employers are also being reminded of their responsibilities for Autoenrolment.	Zoe Stannard & Andy Cunningham	Dec-12	1	1	1	Low	4 Sep 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	4 Sep 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	4 Sep 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	4 Sep 2012	→

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							Impact	Likelihood	x				Level of risk	Impact	Likelihood			x	Level of risk
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	4 Sep 2012	→

PENSION FUND ADMINISTRATION BUDGET 2012-13 - BUDGET MONITORING

	2012/13			Explanations
	Budget £000	Projected Outturn £000	Variance £000	
<u>Fund Investment</u>				
Investment Management Fees				
Segregated Funds	3,980	2,828	1,152	Lower performance fee paid to Baillie Gifford and lower fees from terminating Capital mandates replacing them with pooled ones. Implementation of new mandates, namely Partners (Infrastructure) and Barings (Absolute Return Funds) from June 2012
Pooled Funds *	1,175	1,886	-711	
	5,155	4,714	441	<i>These projected fee estimates are based on current market conditions and are subject to change prior to year end.</i>
1 Investment Administration	91	91	0	
2 Investment Custodial & Related Services	38	38	0	
3 Investment Consultancy	275	275	0	
4 Corporate Governance Services	49	49	0	
5 Performance Measurement	40	40	0	
	493	493	0	
Total Fund Investment Costs	5,648	5,207	440	
<u>Scheme Administration</u>				
6 Pension Scheme Administration	1,215	1,119	96	Lower staff costs due to the delay in implementing restructure and carrying a number of vacancies in the interim.
7 Actuarial Services	99	99	0	
8 Audit	56	56	0	
9 Legal Advice	9	18	-9	
10 Committee & Governance	48	48	0	
Total Fund Administration Costs	1,427	1,340	87	
TOTAL EXPENDITURE	7,075	6,547	527	
Pooled Funds fees*	-1,175	-1,886	711	
TOTAL EXPENDITURE (Exc. Pooled Fees)	5,900	4,661	1,239	

* Fees on pooled funds are not paid directly by the Wiltshire Pension Fund, but are netted off the asset valuation.

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WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE

14 SEPTEMBER 2012

OFFICERS' TRAINING PLAN

Purpose of the Report

1. The purpose of this report is to update Members on the training plans being implemented for officers as part of the CIPFA Knowledge & Skills Framework (KSF).

Background

2. In recent years the level of skills, knowledge and experience required for decision making has increased significantly for the scheme. Much work has been done recently to improve the skills and knowledge of this Committee leading to the updating of its Members Training Policy in December 2010 to align it with the CIPFA's KSF for elected members.
3. However, the Committee will always depend on the expertise of those who support them, so CIPFA's KSF also encompasses pension practitioners and this paper provides an update on how this is being incorporated into the appraisal cycle for officers.
4. The CIPFA KSF assists by providing a framework that outlines what is expected of them and identifies the levels of skills and knowledge they need to be effective in their work.

Main Consideration for Committee

Scope of the Framework

5. The KSF covers a range of posts that are typically represent the roles found in public sector pension's finance. The following posts are applicable to the Wiltshire Pension Fund.
 - Director of Finance
 - Head of Pensions
 - Pension Manger
 - Fund Investment & Accounting Manager
 - Accounting Technician
 - Investment Officer
6. The KSF focuses on six areas of knowledge and skills identified as core technical requirements although competence and understanding in these areas will vary depending on the type and seniority of the role. They are:
 - a) Pensions legislative & governance context
 - b) Pensions accounting & auditing standards
 - c) Financial services procurement & relationship management
 - d) Investment performance & risk management
 - e) Financial markets & products knowledge
 - f) Actuarial methods, standards & practices.
7. It is critical the Fund can achieve competence in all areas across the pension team. An awareness of the key issues and controls and an effective approach to delegation and

monitoring are the most essential requirements for the more senior officers, for example, for the Director of Finance.

8. Detailed knowledge and skills related to pension scheme administration are largely excluded from this framework. Although an important area, there are other professional bodies active in this area offering specific qualifications in pension scheme administration. The focus of the recent restructure has been to encourage development of this knowledge within the benefits team.

Officers Reviews & Assessments

9. The Fund already has a framework for developing staff to further their knowledge. All officers undertake an annual appraisal at least once a year with an interim half yearly review in line with Wiltshire Council's policy. This is the main area for reviewing performance, setting targets and agreeing areas for training and development. The KSF now provides a more formal structure for assessing pension specific skills for the appropriate officers to complement the current appraisal process.
10. To achieve the standards set out in the KSF, the relevant Fund's officers (outlined above) have undertaken training needs assessment against the framework standards. This has been achieved using the KSF assessment tool developed by Hymans Robertson in conjunction with the CIPFA Pension Network.
11. This electronic tool consists of modules designed to test (largely multiple choice & short answers) the breadth of knowledge of the individual in all of the areas considered relevant to their role. The results of these assessments have then been reviewed by the Head of Pensions and a tailored training development plan agreed with each officer. These training plans will be incorporated into the appraisal training programmes and their next review meeting to ensure both processes are aligned.
12. These training plans will make full use of the 'Knowledge Library' database also supplied by Hymans Robertson as part of the KSF toolkit with additional sources of information, advice and further training being utilised for more detailed knowledge in specific areas where required.
13. It can now be confirmed that all relevant officers have undertaken the assessment and training plans set. These will now be reviewed at each appraisal meeting to ensure training targets are being achieved and new requirements identified.
14. The Pension Fund Annual Report includes a statement signed by the Director of Finance outlining compliance with CIPFA's KSF which reports on officers and Members training and skills reviews undertaken during the year.

Financial Implications

15. A budget of £10k is built into the Pension Fund Administration Budget each year for officers' development and training.

Risk Assessment

16. This report addresses the risk *PEN011: Lack of Expertise on the Pension Fund officers* identified elsewhere on this agenda. The purpose of the officers training programme being aligned to the CIPFA KSF is to reduce the risk of poor governance and administration due to them not having the necessary and most up to date level of skills and knowledge.

Environmental Impact of the Proposals

17. This is no environmental impact of these proposals.

Proposals

18. The Committee is asked to note the on-going activities in relation to officers' training.

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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WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE

14 SEPTEMBER 2012

FINAL EXTERNAL AUDIT REPORT

Purpose of the Report

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

Background

2. The 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 an interim audit visit in March 2012 and reported their findings to the May Committee meeting. Over the summer they have carried out the main audit and the resulting Final Audit Report is attached. Ms Gemma Broom (Audit Senior Manager, KPMG) will be coming to the Committee meeting to present the report. This follows a presentation to the 7 September 2012 meeting of the Final Accounts & Audit Committee.
4. KPMG's final audit opinion and certificate on the Wiltshire Pension Fund Annual Report will follow this meeting.
5. The draft Wiltshire Pension Fund Annual Report for 2011-12 was approved by this committee at the meeting on 25 July 2012.

Key Considerations for the Committee

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

Proposals

8. The Committee is asked to note the attached Final Audit Report and to receive the verbal presentation by Ms Gemma Broom 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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**Report to those
charged with
governance
(ISA 260) 2011/12
Draft for discussion purposes**

Wiltshire Pension Fund

14 September 2012



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1. Key issues and recommendations	8
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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 the 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 report summarises the key issues identified during our audit of the Wiltshire Pension Fund's (the Fund's) financial statements for the year ended 31 March 2012.

We do not repeat matters we have previously communicated to you. In particular, we draw your attention to our Audit Plan and Interim Report presented to you in May 2012 which summarised our planning and interim audit work.

Financial statements

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



We previously reported on our work on the first two stages in our *Interim Audit Report 2011/12* issued in May.

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

Our final accounts visit on site took place between July and August 2012. 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 2011/12 financial statements.

Our recommendations are included in Appendix 1.

Acknowledgements

We would like to take this opportunity to thank Officers and Members, in particular David Anthony and Catherine Dix, for their continuing help and co-operation throughout our audit work.

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

Proposed audit opinion	<p>We anticipate issuing an unqualified audit opinion on the financial statements within the Authority's report by 30 September 2012.</p> <p>We anticipate issuing an unqualified opinion on the Annual Report by 1 December 2012. We will also report that the wording of your Annual Governance Statement accords with our understanding.</p>
Audit adjustments	<p>There were no corrected or uncorrected audit differences identified during the course of the audit. However, we have identified a presentational difference which has been corrected by management.</p>
Critical accounting matters	<p>We have worked with Officers throughout the year to discuss specific risk areas. The main risk areas identified were as follows:</p> <ul style="list-style-type: none"> ■ Code of Practice on LA accounting; ■ Valuation of investment asset; and ■ SAP operating effectiveness. <p>These risk areas were identified and communicated as part of our Audit Plan for 2011/2012 which was presented to you in May 2012. No issues were identified in the first two areas. We considered SAP operating effectiveness as part of our audit of Wiltshire Council, and no issues specific to the pension fund were identified.</p> <p>Detailed discussion of the results of our audit work in these areas is included in Section 3 of this report.</p>
Accounts production and audit process	<p>There were no issues in the 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.</p>
Completion	<p>At the date of this report, our audit of the financial statements is complete.</p> <p>Before we can issue our opinion we require a signed management representation letter. The representations in relation to the Fund will be included in Wiltshire Council's representation letter.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Fund's financial statements.</p>



Section three – financial statements

Proposed opinion and audit differences

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

Proposed audit opinion

We anticipate issuing an unqualified audit opinion by 30 September 2012 and an unqualified opinion on the Annual Report by 1 December 2012.

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.

We did not identify any material misstatements during the course of our audit.

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.

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

In our Audit Plan 2011/12, presented to you in May 2012, we identified the key risks affecting the Fund's 2011/12 financial statements. 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
	<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 incorporating IFRS based disclosures which may not have been included in the accounts and Annual Report for 2010/11. 	<ul style="list-style-type: none"> We have been in regular contact with the finance team during the audit, discussing emerging issues and current guidelines. We have audited all figures and disclosures in line with CIPFA's Code of Practice on Local Authority Accounting. No significant issues identified.
	<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. 	<ul style="list-style-type: none"> We have independently verified a selection of investment assets prices to third party information and have obtained independent confirmation on asset existence. No significant issues identified.
	<ul style="list-style-type: none"> With the implementation of SAP in 2009/10 there were some control issues identified and as a result we had 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. 	<ul style="list-style-type: none"> The SAP system is controlled and maintained by Wiltshire Council for both the Fund and the Council. Hence, the operating effectiveness of SAP was reviewed as part of the audit of Wiltshire Council. We followed up on progress made on recommendations made during the 2010/11 audit and we reviewed both the design and operating effectiveness of the key automated controls within SAP. Further recommendations were made in our <i>Interim Audit Report 2011/12 for Wiltshire Council</i> which was presented in June 2012 and we are aware that management are working on implementing these.

The Fund has implemented the recommendations in our *ISA 260 Report 2010/11* relating to the financial statements.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant 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	We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 23 July 2012.
Response to audit queries	Officers resolved all audit queries in a timely manner. In addition, the quality of responses to these queries was good.

Prior year recommendations

There were no outstanding prior year control recommendations.

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.

Before we can issue our opinion we require a signed management representation letter. The representations in relation to the Fund will be included in the Wiltshire Council's representation letter.

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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 the Wiltshire Pension Fund for the year ending 31 March 2012, we confirm that there were no relationships between KPMG LLP and 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.

We have provided a detailed declaration in Appendix 2 in accordance with ISA 260.

Other matters

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

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events etc.).

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

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

Priority rating for recommendations		
<p>1 <i>Priority one:</i> 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>2 <i>Priority two:</i> 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>3 <i>Priority three:</i> 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>

Key issues and recommendations

We are pleased to report to you that we have not identified any control observations as part of our year end audit work.

Follow-up of prior year recommendations and interim findings

There were no outstanding prior year and interim control recommendations in relation to the account production process of Wiltshire Pension Fund. However, there were a number of controls recommendations identified in relation to the SAP system. We draw your attention to our *Interim Audit Report 2011/12* for Wiltshire Council where these controls recommendations are discussed in detail.

Summary of audit differences

We are required by ISA (UK and Ireland) 260 Communication of Audit Matters to Those Charged with Governance to communicate all uncorrected misstatements, other than those that we believe are clearly trivial, to the Audit Committee. We are also required to report all material misstatements that management has corrected but that we believe should be communicated to the Audit Committee to assist them in fulfilling their governance responsibilities. This appendix sets out the audit differences that we identified during the course of our audit for the year ended 31 March 2012.

Corrected and uncorrected audit differences

We are pleased to report to you that we have not identified any corrected and uncorrected audit differences during the course of the audit.

Presentational differences

We have identified one presentational difference which has been properly adjusted by management in the accounts of Wiltshire Pension Fund. This relates to:

Note [X] – Financial instruments: In accordance with CIPFA Code, financial instruments disclosure should also include financial instruments split by classes of financial instruments such as: Designated as fair value through profit and loss; Loans and receivables; and Financial liabilities at amortised cost. In addition, net gains and losses from financial instruments should also be split by the aforementioned classes.

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

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. We do this in our Annual Audit Letter.

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 Fund 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.

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 the Wiltshire Pension Fund for the financial year ending 31 March 2012, 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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WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE

14 SEPTEMBER 2012

INTERNAL AUDIT REPORT UPDATE

Purpose of the Report

1. This report updates Members of the actions undertaken since the internal auditors report to the Wiltshire Pension Fund from their 2011/12 audit was presented to this Committee on 23 May 2012.

Background

2. The scope of the internal audit of Pensions 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.
3. The attached action plan formed part of the report and the Committee requested an update of the progress of these actions at this meeting.

Key Considerations for the Committee

4. The attached shows the updated action plan highlighting the developments that have taken place since May 2012.
5. There were no high level risks identified by Internal Audit, although three medium level risks were identified. Therefore the key developments in respect of these issues have been:
 - Risk 5: "Late notifications of dates of death risks making overpayments and unnecessary work to effect recovery".

It was agreed a more regular use of mortality screening services is implemented to ensure death payments are not on-going for a longer period. The procurement for a mortality screening service is currently in process which should be concluded in early November.

- 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."

Reconciliations are now being undertaken. A basic match of individuals being paid on payroll against the pension database has confirmed no payments were being made to those not entitled to benefits.

The more time consuming and detailed review of the records which compare actual payments between the two systems has been implemented with an officer

assigned to undertaking this work. Due to the number of records that will need reviewing, this will be a phased rolling programme.

- ***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.”

Reconciliations are carried out monthly by Wiltshire Council Central Finance. The Pension Administration team is undertaking a review the bank reconciliations position every 6 months with the next one due at end of September 2012.

However, as at the end of July, there were 14 unrepresented cheques amounting to £1.5k, with a further £42k of non-cheque items unreconciled.

6. Officers will continue to work with SWAP to monitor the implementation of all the recommending actions and further updates will be provided at future meetings of this committee.

Risks Assessment

7. The risks reflected identified in the Internal Audit report are included in the Risk Register which is updated quarterly and presented to this Committee.

Financial Implications

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

Proposals

9. The Committee is asked to note the attached action plan update to address the issues raised during the 2011/12 Internal Audit of the Wiltshire Pension Fund.

MICHAEL HUDSON
Director of Finance

Report Author: David Anthony, Head of Pensions

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

Appendix: Action Plan

Risk Ref	Cross Ref	Risk & Implications	Audit's Risk Rating	Recommendation/ Action Proposed by Management	Responsible Officer and Target Date	Follow Up – September 2012
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	<p>Where possible, Workflow procedures should force the check function to be undertaken by someone other than the individual who initiated the process.</p> <p>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.</p>	Martin Summers - September 2012	Management consider this to be a very low risk. This action is still to be implemented as the Pension Team are reviewing the possible reports that could be used to provide a regular check that all stages of a workflow are not be completed by the same person.
1	1.3	The absence of regular reports of tasks to be completed within Workflows risks processes not being concluded within appropriate timescales.	Low	<p>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.</p> <p>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.</p>	Martin Summers – July 2012	<p>The new Benefits Manager now has the facility to see “at a glance” all the cases and tasks in the system and is able to filter these by team member and ones overdue. This is being monitored on a day to day basis to manage workloads.</p> <p>Monitoring of employers and the Pension Fund performance has now been set up for some areas of the administration strategy service targets (starters, retirements, changes, & leavers) although this still needs to be developed to capture work steams that are being uploaded electronically and not processed directly by the team.</p>

Risk Ref	Cross Ref	Risk & Implications	Audit's Risk Rating	Recommendation/ Action Proposed by Management	Responsible Officer and Target Date	Follow Up – September 2012
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	<p>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.</p> <p>Agreed, the setting of these levels need reviewing periodically to ensure the reporting is meeting the Fund's requirements.</p>	Martin Summers & Payroll Management – July 2012.	These levels are currently being discussed with payroll
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	<p>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.</p> <p>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.</p>	Andrew Cunningham – September 2012	<p>As outlined in Risk 2, performance information on new retirements set up times is being implemented to ensure processing times are kept within service targets.</p> <p>Once sufficient data has been collected it's envisaged to monitor this on a quarterly basis.</p>

Risk Ref	Cross Ref	Risk & Implications	Audit's Risk Rating	Recommendation/ Action Proposed by Management	Responsible Officer and Target Date	Follow Up – September 2012
5	3.2	Late notification of dates of death risks making overpayments and unnecessary work to effect recovery.	Medium	<p>Information about deaths should be obtained regularly from an appropriate provider.</p> <p>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 3rd 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.</p>	Tim O'Connor – September 2012	The procurement for a mortality screening service is currently in process which should be concluded in early November.
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	<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>	David Anthony – June 2012	<p>Contributions being paid into the scheme are reconciled annually between the employers' payroll systems and the pension database. Monthly returns are now received from employers and a basic match of individuals against the database can now be implemented on a quarterly basis for all active members of the scheme.</p> <p>For pensioners, a basic match of individuals being paid on payroll against the pension database has</p>

						<p>confirmed no payments were being made to those not entitled to benefits.</p> <p>The more time consuming and detailed review of the records which compare actual payments between the two systems has been implemented with an officer assigned to undertaking this work. Due to the number of records that will need reviewing, this will be a phased rolling programme</p>
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Risk Ref	Cross Ref	Risk & Implications	Audit's Risk Rating	Recommendation/ Action Proposed by Management	Responsible Officer and Target Date	Follow Up – September 2012
Page 40	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	<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	Monthly reconciliations are now in place.
	8	6.1	Delay in investigating and	Medium	The Pensions Team should review the reconciliations completed by Central	Catherine Dix – July 2012

		<p>clearing ageing balances within bank reconciliations risks misstatement in the accounts and a backlog of work at year end.</p>		<p>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>		<p>reconciliations position every 6 months with the next one due at end of September.</p> <p>However, as at the end of July, there were 14 unpresented cheques amounting to £1.5k, with a further £42k of non-cheque items unreconciled.</p>
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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.

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