



cutting through complexity™

Report to those charged with governance (ISA 260) 2011/12

Draft for discussion purposes

Wiltshire Pension Fund

14 September 2012



The contacts at KPMG in connection with this report are:

Chris Wilson

*Partner,
KPMG LLP (UK)*

Tel: +44 (0)118 964 2238
christopher.wilson@kpmg.co.uk

Gemma Broom

*Senior Manager,
KPMG LLP (UK)*

Tel: +44 (0)117 905 4382
gemma.broom@kpmg.co.uk

Benedict Co

*Assistant Manager,
KPMG LLP (UK)*

Tel: +44 (0)117 905 4652
benedict.anson@kpmg.co.uk

Report sections

■ Introduction	2
■ Headlines	3
■ Financial statements	4

Appendices

1. Key issues and recommendations	8
2. Summary of audit differences	9
3. Declaration of independence and objectivity	10

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>

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.

Completion

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

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.

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 Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p>	<p>2 Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p>3 Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>

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.



cutting through complexity™

© 2012 KPMG LLP, a UK public limited partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.

The KPMG name, logo and 'cutting through complexity' are registered trademarks or trademarks of KPMG International Cooperative (KPMG International).