

## **Pension Fund Committee**

**28<sup>th</sup> February 2011**



## **Update on Annual Governance Report Recommendations for the year ended 31<sup>st</sup> March 2010**

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### **Report of Don McLure, Corporate Director Resources**

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#### **Purpose of the Report**

- 1 To inform Members of the progress on addressing the recommendations of the Audit Commission's Annual Governance Report for the financial year ended 31<sup>st</sup> March 2010.

#### **Background**

- 2 A report to the Pension Fund Committee on 29<sup>th</sup> November 2010 included the Pension Fund Annual Report and Accounts and the Annual Governance Report for the Pension Fund.

#### **Pension Fund Accounts**

- 3 For the first time for 2009/10, there was a separate Audit opinion for the Pension Fund Accounts. This opinion was included in the Annual Report on pages 33 to 35 and stated that, in his opinion:
  - the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31<sup>st</sup> March 2010, and the amount and disposition of the fund's assets and liabilities as at 31<sup>st</sup> March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
  - the information given in the commentary on financial performance included within the Pension Fund Annual Report is consistent with the pension fund accounting statements.

#### **Annual Governance Report**

- 4 The Audit Commission also completed a separate Annual Governance Report for the Pension Fund. There are a number of recommendations for improvements and actions to rectify problems have been identified and reported at Appendix 1 to this report.

- 5 A commentary reviewing progress on each of the 13 recommendations has also been included in the Appendix 1.

### **Summary**

- 6 Members are asked to note the contents of this report.

### **Background papers**

- (a) Pension Fund Committee 29<sup>th</sup> November 2010 – Annual Report and Accounts for the year ended 31<sup>st</sup> March 2010

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**Appendix 1: Appendix 5 of the Annual Governance Report 2009/10 – with review of progress**

**Recommendations**

**Recommendation 1**

Strengthen internal quality control to ensure errors in the financial statements are minimised.

**Responsibility** Hilary Appleton

**Priority** High

**Date** 27th October 2010

**Comments** During the 2009/10 year end a process for the review of working papers and reconciliations was introduced that will be continued in the 2010/11 year end. Additionally a quarter end is to be introduced to ensure more regular reconciliation of key accounts.

Officers now have a clearer understanding of the systems and processes involved in the compilation of financial data and the control points and where to introduce new controls of the data and these have been documented.

**Review of Progress** The review of working papers is to continue for 2010/11 closedown.

Quarter end procedures have not as yet been introduced, but investments and all significant Balance Sheet Account Balances are now reconciled on a monthly basis.

**Recommendation 2**

Ensure the closedown timetable is monitored by an appropriate officer to ensure that draft accounts are submitted on time, supported by accurate and complete working papers.

**Responsibility** Hilary Appleton

**Priority**

**Date** 27th October 2010

**Comments** A comprehensive timetable was used and monitored that detailed the working papers required during the 2009/10 year end. Unfortunately there was slippage against the timetable due to the quantity of reconciliation work required, partly due to vacant posts in the Strategic Finance area as a result of Local Government Reorganisation. It is understood that generally the quality of working papers submitted was of high standard and allowed queries to be quickly and easily resolved once raised.

**Review of Progress** A closedown timetable will be prepared for 2010/11. This will be reviewed and monitored by Strategic Finance. All account reconciliations will be supported by working papers which will be reviewed, referenced, dated, signed and filed.

**Recommendation 3**

Strengthen accounting records maintained for augmentation payments and ensure that Pension SORP requirements for inclusion of augmentation payments are complied with in 2010/11.

<b>Responsibility</b>	Hilary Appleton
<b>Priority</b>	
<b>Date</b>	27th October 2010
<b>Comments</b>	The requirement to treat augmentation payments differently from the current treatment was only raised in August 2010 by the Audit Commission following the release of a technical guidance paper; after the majority of the audit had been completed. With the implementation of IFRS for financial year 2010/11 the confusion between whether the Local Authority SORP or Pensions SORP applies should be reduced. Officers will update the period end checklists to incorporate regular accounting for augmentation payments.
<b>Review of Progress</b>	The reconciliation of 2010/11 Augmentation payments to Pensions Group records has been implemented. This should facilitate easier calculation of the debtor for 2010/11.

#### Recommendation 4

Monthly bank reconciliations should be reviewed and authorised.

<b>Responsibility</b>	Hilary Appleton
<b>Priority</b>	
<b>Date</b>	27th October 2010
<b>Comments</b>	Currently bank reconciliations are performed by a senior member of the pension team in Strategic Finance. A monthly review and authorisation of the reconciliations will be undertaken. At present, a vacancy remains within the Pensions team. This post will be responsible for carrying out bank reconciliations, once appointed.
<b>Review of Progress</b>	Bank reconciliations are completed on a monthly basis and are now routinely completed, reviewed and signed within 5 days of the period end. The Audit Commission are currently auditing the 2010/11 bank reconciliations.

#### Recommendation 5

Formal risk management of the pension fund needs to be implemented and reviewed at least annually.

<b>Responsibility</b>	Hilary Appleton
<b>Priority</b>	
<b>Date</b>	27th October 2010
<b>Comments</b>	Agreed. Internal Audit and Risk Management will be a part of the overall review of the Pension Fund management arrangements undertaken by the Pension Fund Committee.
<b>Review of Progress</b>	Internal Audit and Risk Management are implementing arrangements to carry out this task.

#### Recommendation 6

Journals should be subject to review and authorisation.

<b>Responsibility</b>	Hilary Appleton
<b>Priority</b>	
<b>Date</b>	27th October 2010

<b>Comments</b>	A process for journal authorisation was introduced during the 2009/10 year end. Although this is occurring outside the Oracle system, officers recognise the merits of journal sign –off and have continued with this in the day-to-day accounting for the Pension Fund.
<b>Review of Progress</b>	Journals are reviewed by the Principal Accountant in Strategic Finance before being input into the financial system. This action has identified potential coding errors which have been corrected before entry to the accounts.

### Recommendation 7

The Fund should work with AllianceBernstein to improve management information received from the fund manager and the custodian, both in-year and at the year-end.

<b>Responsibility</b>	Hilary Appleton
<b>Priority</b>	
<b>Date</b>	27th October 2010
<b>Comments</b>	Agreed. The Investment Management Agreement with AllianceBernstein will be reviewed to ensure that all information required is received by the Pension Fund.
<b>Review of Progress</b>	Strategic Finance has contacted both the Fund Manager and the Custodian and this work is on-going.

### Recommendation 8

SAS 70 reports should be obtained from all fund managers and custodians. These reports should be reviewed, and evidenced as reviewed, to ensure that they provide all of the assurances required.

<b>Responsibility</b>	Hilary Appleton
<b>Priority</b>	
<b>Date</b>	27th October 2010
<b>Comments</b>	This task has been built into the period end checklist and Final Accounts timetable and reports will be reviewed in 2010/11.
<b>Review of Progress</b>	SAS 70 reports received from Fund Managers and Custodian will be reviewed to consider exceptions to compliance, and the review will be evidenced,

### Recommendation 9

In-year controls should be introduced to verify the accuracy and completeness of the following items of income and expenditure.

- Transfer Values In.
- Transfer Values Out.
- Pensions payable.
- Pensions commutations and lump sums.

<b>Responsibility</b>	Hilary Appleton
<b>Priority</b>	
<b>Date</b>	27th October 2010
<b>Comments</b>	Documented processes and controls will improve this area. The introduction of a consistent format of reconciliations at key points in the

	processes will be introduced across Strategic Finance, Pensions, Payroll, and Creditors
<b>Review of Progress</b>	Work in this area is on-going, greater narrative in both systems will be required to facilitate improvements in this area.

#### Recommendation 10

The Fund should work with employers to reduce late payments.

<b>Responsibility</b>	Hilary Appleton
<b>Priority</b>	
<b>Date</b>	27th October 2010
<b>Comments</b>	It is our intention that the Pensions Manager write to each employer to remind them of their statutory duty and consequences of repeated failure to meet deadlines.  A more pro-active process over the collection of employer contributions will reduce the likelihood of late payments.
<b>Review of Progress</b>	The Funding Strategy Statement covers the rules surrounding the timely receipt of Pension Contributions, the Pensions Manager will take appropriate action in cases of non-compliance,

#### Recommendation 11

The Fund should introduce systems to verify the accuracy and completeness of contributions receivable from employers.

<b>Responsibility</b>	Hilary Appleton
<b>Priority</b>	
<b>Date</b>	27th October 2010
<b>Comments</b>	Agreed. This recommendation will be implemented
<b>Review of Progress</b>	The Funding Strategy Statement covers the rules surrounding the timely receipt of Pension Contributions, the Pensions Manager will take appropriate action in cases of non-compliance,

#### Recommendation 12

Fund administration costs should be budgeted and reported to the Pension fund Committee.

<b>Responsibility</b>	Hilary Appleton
<b>Priority</b>	
<b>Date</b>	27th October 2010
<b>Comments</b>	Agreed, however the need to implement better control and assurance over the Pension Fund accounting and administration will be a priority in 2010/11. Officers intend to budget for administration and fund manager fees from financial year 2011/12.
<b>Review of Progress</b>	This recommendation has not been implemented, although it is intended that this will be done during 2011/12.

#### Recommendation 13

The accounts should be reviewed prior to submission for audit to ensure they are fully SORP compliant.

<b>Responsibility</b>	Hilary Appleton
<b>Priority</b>	
<b>Date</b>	27th October 2010
<b>Comments</b>	Agreed. This will be done using the disclosure checklists provided by the Audit Commission and ensure any SORP compliance issue raised in the Annual Governance Report is addressed in a timely manner. This task was built into the 2009/10 Final Accounts timetable and will remain in future timetables.
<b>Review of Progress</b>	This is part of the overall timetable for the Statement of Accounts for the County Council. The Pension Fund Accounts will be reviewed by the Audit Commission's Technical Team for compliance with the Code of Practice.