

Interim governance report

Durham County Council Pension Fund

Audit 2011/12

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS foundation trusts), local police bodies and other local public services in England, and oversees their work. The auditors we currently appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

Contents

Summary report	2
Introduction	2
Audit approach.....	2
Main conclusions	3
Way Forward	3
Appendix 1 Action plan	4

Summary report

Introduction

1 The Audit Commission's Code of Audit Practice requires that we give an opinion on the Fund's annual financial statements. We are required to plan and perform our work in accordance with International Standards on Auditing (UK and Ireland) (ISAs) and to meet this requirement we have undertaken a pre-statements audit at the Fund.

2 Our pre-statement audit work is undertaken between January and May 2011 and this report summarises our preliminary findings. The work is substantially complete.

3 Our work on the financial statements will be undertaken between June and September 2011 and we will report on this separately.

Audit approach

4 Our audit complies with the ISA Clarity (UK&I) standards. The ISAs require us to identify all information systems that lead to material balances in the financial statements, and to evaluate and test relevant key controls at the assertion level. The work we have completed is as follows.

- Stage 1: carry out a risk assessment of the general environment within which the Fund's information systems operate.
- Stage 2: map the systems that provide material figures in the financial statements.
- Stage 3: document the processes and controls in place within each system and undertake a walkthrough to ensure the system is operating as stated.
- Stage 4: assess which are the key controls to ensure the integrity of the accounting entries and obtain evidence that they are operating as intended (testing to be completed).

5 This work identifies the extent to which we can gain assurance from the controls the Fund has put in place, and informs the testing strategy for the financial statement presented for audit.

6 We have identified eight material information systems in total and these are set out below.

- General Ledger.
- Payroll.
- Investments.
- Treasury Management
- Investment Income.
- Contributions receivable.
- Transfer Values In.
- Transfer Values Out.

Main conclusions

7 There are a number of systems where expected controls are not in place (gaps in control).

8 As can be seen from the action plan below, officers have already introduced controls for some weaknesses identified.

Way Forward

9 The Audit Committee has a key role in ensuring that appropriate action is taken to address the weaknesses identified. Successful implementation of actions to address these weaknesses will not only strengthen the Fund's financial systems, it should lead to reduced audit fees in the future.

Appendix 1 Action plan

Recommendations

Related Party Transactions: Non Returns of Members Declarations (Ex 1)

Recommendation 1

Officers should monitor the return of declarations from all Pension Fund Committee members to ensure timely receipt of all returns.

Finding	In 2010/11 some non–DCC members of the PF committee did not submit declarations of interest in relation to their membership on the Pension Fund committee.
Responsible	Hilary Appleton
Priority	Medium
Auditor comments	The risk is that inadequate or inaccurate disclosure is made in the accounts.
Authority comments	Officers are requesting specific declarations from members on the Pension Fund Committee.

Recommendations

Monthly reconciliation of Fund Manager reports to the General Ledger (Ex 4)

Recommendation 2

Officers should evidence that the reconciliation has been reviewed and authorised by an independent senior officer.

Finding	This November 2011 reconciliation was prepared by Aynsley Merritt but was not reviewed by a senior officer.
Responsible	Hilary Appleton
Priority	Medium
Auditor comments	The risk is that any discrepancies within the reconciliation are not dealt with on a timely basis
Authority comments	From January 2012 the reconciliation has been signed and dated as reviewed by a senior officer. In addition, the reconciliation is prepared on a cumulative basis and will be evidenced as reviewed and authorised at the year end.

Recommendations

Transfer Values Out (Ex 6)

Recommendation 3

Officers should evidence that the output sheet has been reviewed.

Finding	After each pension payment run, the accounts payable section provide an output sheet to the pension fund section which shows details of payments made. Officers within the pension section explained that this is compared to a spreadsheet maintained in the pensions section to ensure that payments made are accurate. This review is not evidenced.
Responsible	Nick Orton
Priority	Low
Auditor comments	The risk is that the inaccurate payments are made but not identified on a timely basis.

Authority comments

Recommendations

Authorisation of S35s (Ex 7)

Recommendation 4

Officers within the pension fund section should create and maintain an authorised signatories list of employees at each authority who can authorise S35s submitted as being accurate.

Finding	As noted in previous years, no authorised signatories list exists within the pension fund section of employees at each authority who can authorise S35s submitted as being accurate.
Responsible	Nick Orton
Priority	Low
Auditor comments	The risk is that the S35 has not been authorised by an approved officer and that the contributions and the figures held on the S35 are inaccurate.
Authority comments	In previous years officers have stated that they do not consider it necessary to create a signatory list

Recommendations

Omission of information from S35s (Ex 8a)

Recommendation 5

Officers should repeat their request for employers to provide contribution rates on the S35s.

Officers should evidence all reviews of contribution rates. .

Finding	<p>As noted in previous years some authorities, including the larger authorities, do not provide details of their contribution rates on their S35s, despite specific requests from the Pension Fund. As a result it is not possible for the pension fund to ensure that employers are paying the correct contributions.</p> <p>Officers have explained that a review of the employer contribution rates is undertaken at the beginning of each year, as well as on an ad hoc basis throughout the year. This is not evidenced.</p>
Responsible	Nick Orton
Priority	Medium
Auditor comments	The risk is that the incorrectly calculated contributions would not be identified on a timely basis. .
Authority comments	<p>In previous years officers have stated that: there is little they can do if employers do not provide contribution rates on their S35s.</p> <p>They will consider evidencing the review of contribution rates.</p>

Recommendations

Accuracy of pensionable pay figures on S35s (Ex 8b)

Recommendation 6

Officers should request employers to accompany the S35 to provide assurance that the pensionable pay figure is correct.

Finding	As noted in previous years, it is not possible for the pension fund to check the accuracy of pensionable pay submitted on S35s, as they do not have access to employer payroll systems.
Responsible	Nick Orton
Priority	Medium
Auditor comments	The risk is that the incorrectly calculated contributions would not be identified on a timely basis.
Authority comments	In previous years officers have stated that they do not consider it necessary for employers to provide payroll downloads wit their S35s.

Recommendations

Compliance with Code of Practice (Ex 12)

Recommendation 7

Officers should prepare the 2011-12 Pension Fund accounts by reference to the CODE, disclosure checklists and example accounts.

Finding	DCCPF accounts were not fully Code compliant in 2010-11.
Responsible	Hilary Appleton
Priority	Medium
Auditor comments	The risk is that the Pension Fund accounts are not Code compliant.
Authority comments	Officers will prepare their accounts having regard to the CIPFA example accounts, disclosure checklist and other Pension Fund accounts cited as good practice.

Recommendations

Contributions receivable from smaller bodies not separately identified (Ex 14)

Recommendation 8

Officers should review the posting structure within payroll so that each employer has a separate cost centre for contributions receivable.

Finding	As in previous years, 11 of the 12 Parish and Town Councils do not have a separate GL cost centre for contributions receivable: they are all posted to the contributions receivable cost centre for the Forge. Officers explained that this was due to the Payroll section not being able to split the contributions made by each body before the payroll upload file is uploaded to the GL.
Responsible	Nick Orton
Priority	High
Auditor comments	The risk is that contributions receivable incorrectly posted to GL would not be identified.
Authority comments	In previous years officers in the pension section have stated that this is a payroll issue and that the payroll section seem unable to adjust the posting structure.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

© Audit Commission 2012.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946