

Interim

Governance

Report

Durham County Council Pension Fund

Audit 2010/11

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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 June 2011 and this report summarises our preliminary findings. The work is substantially complete.

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

Audit approach

4 On 13 October 2009 the Auditing Practices Board issued its auditing standards for the new, clarified International Standards on Auditing (ISA). These are for audits of accounting periods ending on or after 15 December 2010. Our audit therefore complies with the ISA Clarity (UK&I) standards.

5 The ISAs require us to identify all information systems that lead to material balances in the financial statements, and evaluating and testing relevant key controls at the assertion level. The work we have completed is as follows.

- Stage one: carry out a risk assessment of the general environment within which the Fund's information systems operate.
- Stage two: map the systems that provide material figures in the financial statements.
- Stage three: document the processes and controls in place within each system and undertake a walkthrough to ensure the system is operating as stated.
- Stage four: 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).

6 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.

7 We have identified seven material information systems in total and these are set out below:

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

Main conclusions

8 There are a number of systems where controls are in place but are not operating effectively in practice, or where officers are unable to provide sufficient evidence that controls are operating effectively.

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

10 The issues arising have potentially significant implications for the Fund's control environment, accounts closure process and our audit opinion. The majority of these are not significant and are summarised within the Action plan in appendix 1. There are some issues which are more significant and these are also highlighted in the paragraphs below and proposed actions need to be reported to members.

Investments held with Alliance Bernstein (AB)

11 There are no in year controls to verify the units or valuation of units held with Alliance Bernstein. As at 31 March 2010, the value included in the accounts for one of AB's unquoted funds was the fund manager valuation of £15m, but the value as calculated by fund officers was £20m.

12 Officers have agreed to provide timely and appropriate working papers for the 2010/11 audit, supported by adequate documentation, to avoid significant uncertainties in the accounts this year.

The way forward

13 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

AXIS

AXIS: Monthly Exception Reports

Recommendation 1

A hardcopy of the exception report should be obtained and authorised by a senior officer after the calculation of Service has been recalculated, as confirmation that it has been reviewed.

Finding	<p>Audit work identified that it is possible within the AXIS system for the same individual to prepare and review a calculation. Two instances have been identified during 2010/11.</p> <p>Officers are aware of this and as a compensating control a monthly exception report is generated that highlights all instances where the same individual has prepared and reviewed a calculation.</p> <p>An independent officer reviews these calculations to ensure they are accurate, but there is no evidence of this review taking place.</p>
Priority	Low
Auditor comments	The risk is that the reviews are not undertaken and that incorrect or inappropriate calculations are not identified.
Authority comments	Agreed. Measures to be introduced to ensure that independent officer reviews are evidenced.

AXIS: Timeliness of completion of Final Calculation of Service for Transfers In
Recommendation 2

A regular review should be undertaken by the Pension Fund section to ensure that all records are completely up to date and that there are no outstanding calculations or elements.
 This will help ensure the timely and accurate recording of all Transfer Values.

Finding	Audit work identified a Transfer Value for which the final calculation of service had not been completed as at the date of the audit review in February 2011, although the Transfer Value had been received from the members' previous pension fund in September 2010. The Transfer Value in question was however correctly received in the General Ledger and the Pension Fund Cashbook.
Priority	Medium
Auditor comments	The associated risk is that there are a number of similar transfers and, as a result of the calculation not being performed, they are not identified in the General Ledger.
Authority comments	This calculation will be completed as a matter of priority and a review undertaken to ensure that there are no other outstanding processes within the system.

General Ledger
General Ledger: Journals are not accompanied by supporting documentation when sent for input
Recommendation 3

All Manual Journals forwarded to the ledger management team for posting should be accompanied by comprehensive supporting documentation.
 This documentation should then be maintained on file along with the hardcopy journal as supporting evidence.

Finding	There is no requirement for journals sent to the ledger management team for posting to be accompanied by supporting documentation. As a result there is no inputter review to ensure that the amounts included in the journal are accurate.
Priority	Medium
Auditor comments	The risk is that inaccurate or inappropriate journals are input into the General Ledger.
Authority comments	Information provided to support journals and authorisation of journals is undertaken electronically. These are to be retained electronically to evidence that journals are adequately supported.

General Ledger: Feeder System files may be altered

Recommendation 4

Monthly reconciliations should be completed between Resourcelink and the GL to ensure that the upload files are accurate.

Finding	The upload of the dataset from the payroll system is manual and the file received may be altered (ie it is not 'locked') prior to uploading onto GL. The use of a plain text format file for the dataset results in a risk of accidental or inappropriate deletion or manipulation. However the ability to upload files to GL is restricted to the Ledger management team. A year end reconciliation has been prepared and reviewed for 2010-11.
Priority	Medium
Auditor comments	The associated risk is that the Payroll dataset is accidentally or inappropriately deleted or altered prior to upload into GL resulting in inaccurate or fraudulent entries in GL, and that this is not identified until the year end.
Authority comments	Monthly reconciliations are to be prepared and reviewed in 2011-12.

General Ledger: Trial Balance

Recommendation 5

Regular trial balances should be completed to ensure that there are no significant or material differences.

Finding	Trial balances have been run at least quarterly during the year but there is no evidence of review.
Priority	Medium
Auditor comments	The risk is that the trial balance does not net to zero, or contains significant or material errors.
Authority comments	Monthly trial balances will be reviewed in 2011-12 and evidence of the review will be documented and retained.

Investments

Investments: No evidence of receipts to fund manager correspondence review

Recommendation 6

Officers should maintain a spreadsheet matching the fund manager correspondence to the income receipt to provide evidence that a review of income received during the quarterly rebalancing has taken place.

Finding	When income is received from fund Managers during the quarterly rebalancing exercise, the receipt is compared to fund manager correspondence in order to establish that the correct amount has been received. However, there is no documentary evidence of this review.
Priority	Low
Auditor comments	The associated risk is that an incorrect amount of income is received from a fund managers and this is not identified by the Pension Fund.
Authority comments	A spreadsheet will be introduced matching fund manager correspondence to the income receipt. The spreadsheet will be evidenced as prepared and reviewed and such evidence will be retained.

Investments: FM Reports to GL Reconciliation not authorised

Recommendation 7

Monthly reconciliations of FM reports to General Ledger review and authorised by a senior officer.

Finding	Monthly reconciliations are undertaken from fund manager reports to GL. These are signed and dated in hard copy by the preparer. The reconciliations are not reviewed and authorised by a senior officer.
Priority	Medium
Auditor comments	The audit risk is that the reconciliation is not being performed correctly and that this is not identified by Senior Officers.
Authority comments	Agreed. Reconciliations to be reviewed and authorised by senior officer in 2011-12.

Contributions Receivable

Contributions Receivable: S35 authorising signature

Recommendation 8

The pension fund should only accept S35 forms which have clearly been authorised by an approved authoriser.

Finding	The S35 form walked through during audit had been approved by the Finance Manager of the employer. However this was evidenced only by the name being typed on to the form; the form had not been signed as authorised. It was not therefore possible to verify appropriate authorisation, limiting the assurance which can be obtained on the accuracy and completeness of information submitted by the employer.
Priority	Medium
Auditor comments	The risk is that the S35 has not been authorised by an approved officer and that the figures reported on the S35 are inaccurate.
Authority comments	Consideration will be given to the most appropriate way to ensure the validity of S35 forms submitted. Most are submitted by regular contacts or via known email addresses with supporting information (see recommendation 9 below). Any S35s where the value does not match the cash received are already investigated. Higher value S35s will be given greater priority and any review process will be documented.

Contributions Receivable: Contribution Rates and Total Pensionable Pay

Recommendation 9

The pension fund should ask all authorities to provide documentary evidence, in the form of a payroll report, to support the pensionable pay figure on the S35.

Officers should maintain a control sheet to provide evidence that the contribution rates are being monitored.

Finding	<p>The pension fund requests that total pensionable pay figures are included on the S35 form. However, it is not possible for the Pension Fund to check the accuracy of these figures as they do not have access to the Payroll system at the authorities. The Pension Fund therefore has no assurance that the pensionable pay figures included on the S35 forms are correct.</p> <p>Officers have stated that a review is undertaken of all employer contribution rates at the beginning of each year, as well as on an ad hoc basis throughout the year, but evidence of such reviews are not retained.</p>
Priority	Medium
Auditor comment	The risk is that authorities may calculate and/or remit incorrect contributions to the Pension Fund.
Authority comments	Agreed. Employers to be asked to provide payroll information. Evidence to be retained of the review of employer contribution rates.

Contributions Receivable: Part yearly Adelphi to GL reconciliation

Recommendation 10

The Reconciliation should be reviewed and authorised by a senior independent officer.

Finding	A reconciliation of the Adelphi system to the GL for Contributions Receivable has been completed, but this is not subject to review and authorisation.
Priority	Medium
Auditor comments	The risk is that the reconciliation is not being performed correctly and that this is not identified by senior officers.
Authority comments	Agreed.

Payroll

Payroll: S20 Form not authorised

Recommendation 11

All S20 forms should be completed by an appropriate member of staff and then reviewed and authorised by a senior officer of the Employer.

Finding	<p>Our audit identified that S20 forms are not signed as authorised by a senior officer of the employer submitting the form.</p> <p>The Pension Fund therefore has no assurance that the form has been accurately completed.</p>
Priority	Low
Auditor comments	The risk is that an inaccurate/fraudulent S20 form is completed and that this is not identified.
Authority comments	<p>Most are submitted by regular contacts or via known email addresses. Setting up, monitoring and maintaining a list of authorised signatories for the 60+ Fund employers would be overly bureaucratic and provide little if any real value in terms of additional assurance.</p> <p>Inaccuracy or error in S20 would soon be picked up by the scheme member.</p> <p>Fraud would require collusion of a number of individuals including employer representatives and the scheme member themselves.</p> <p>Introducing a requirement for a further signature, electronic or otherwise, would probably not make this type of fraud harder.</p>

Payroll: Death Control Sheet

Recommendation 12

The control sheet should be reviewed and authorised by a senior officer within the Pension Fund at the end of each month. A hardcopy should be obtained and signed by the officer.

Finding	A monthly electronic control sheet is produced documenting pensioner deaths during the month. The officer adding the death to the control sheet adds their initials to the form to provide assurance that the death of the pensioner is accurate. The control sheet is not authorised to provide assurance that all deaths have been included.
Priority	Low
Auditor comments	The risk is that errors or omissions on the control sheet are not identified.
Authority comments	The system of checking an authorisation that already exists within the Pensions Team, alongside the electronic task management system used within the AXISE pensions administration software means appropriate safeguards already exist in this area. A further control is not required.

Payroll processing checklist not authorised

Recommendation 13

All payroll checklists should be reviewed and authorised on a timely basis.

Finding	<p>A monthly checklist is used to ensure that all required processes are completed during the pay run. The checklist is completed by one officer, and is reviewed and authorised by a senior officer after all processes have been completed.</p> <p>However, a walkthrough undertaken of one month identified that the processing checklist had not been reviewed and authorised by a senior officer.</p>
Priority	Low
Auditor comments	The risk is that the processing of the payroll may not be completed correctly and as a result errors may occur.
Authority comments	Agreed.

Investments

Investments held with Alliance Bernstein

Recommendation 14

Timely and appropriate working papers, supported by adequate documentation, must be provided to reconcile units and values of funds held with AB for the year ended 31 March 2011.

In year verification of the market values used by Alliance Bernstein should be introduced.

Finding	<p>JP Morgan is the Pension Fund's global custodian. On a quarterly basis they provide a reconciliation for each fund manager showing the difference between the valuation per the fund manager and the valuation per the custodian.</p> <p>This is not done for Alliance Bernstein (AB) as JP Morgan is not the custodian for investments with AB. AB employ custodians for each of their funds, so that the two AB funds in which the Pension Fund invest have two different custodians. The Pension Fund does not receive in year information from either of these custodians, relying on the in year valuations provided by AB. This means that the Fund have no in year assurance that the valuations provided by AB are appropriate</p>
Priority	High
Auditor comments	<p>The associated risks for the 2010/11 accounts are:</p> <p>Officers do not obtain adequate assurance on the value of the distressed property fund, and that there may be a material uncertainty in the Pension Fund accounts.</p>

Authority comments

Agreed. Work is ongoing to ensure that all necessary information is obtained from Alliance Bernstein.

Officers to discuss a way forward re in year verification of market values.

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