
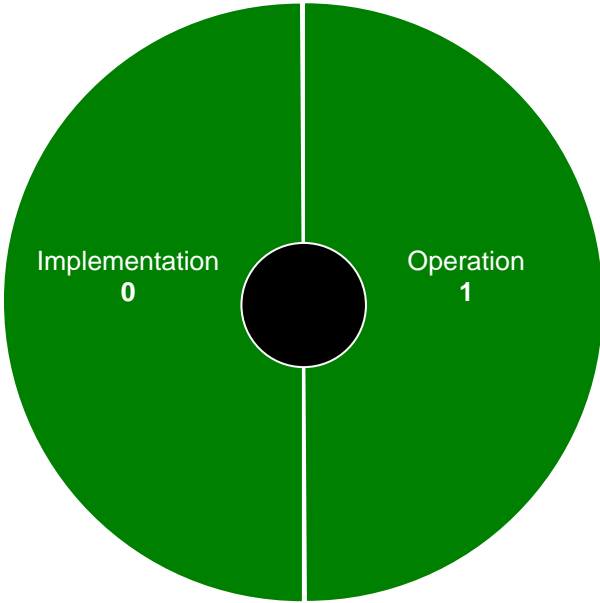








# Final Internal Audit Report 2010/11 – Pension Fund New Bank Account (KFS14)


## 1. Executive Summary

<p><b>Department:</b> Finance</p> <p><b>Audit Sponsor:</b> Martin Quinn, Head of Investments</p> <p><b>Distribution List:</b> Martin Quinn; Peter Lewis, Interim Assistant Director - Financial Strategy; Jody Evans, Pensions Services Manager; Kevin McDonald, Group Manager ; Margaret Lee – Director for Finance; Investments; Louise Wishart, Audit Commission.</p> <p><b>Date of last review:</b> None</p>	<p><b>Overall Opinion</b></p> <p><b>FULL ASSURANCE</b> </p> <p><b>Direction of Travel</b></p> <p>NA - no prior audits have been carried out in this area</p>	<p><b>Number of Control Design Issues Identified</b></p> <p>0 Critical</p> <p>0 Major</p> <p>0 Moderate</p> <p>0 Best Practice</p>	<p><b>Number of Control Operating in Practice Issues Identified</b></p> <p>0 Critical</p> <p>0 Major</p> <p>0 Moderate</p> <p>1 Best Practice</p>	<p><b>Number of Recommendations</b></p> <p>1 Made</p> <p>0 Rejected</p> <p>N/A Critical Rejected</p> <p>N/A Major Rejected</p>
<p><b>Scope of the Review and Limitations:</b></p>	<p>The review included the implementation and operation of the new separate bank account. Testing was conducted to establish how the risks identified are being mitigated. Existing procedures that have been carried over (eg methods in place for chasing up late contributor payments) were not tested extensively as there are to be reviewed in the Pensions Administration and Pensions Investment audits.</p>			
<p><b>Critical and Major Findings and Recommendations</b></p> <p>No critical or major issues were found.</p> <p>The extensive planning and preparation for the introduction of the new bank account facilitated its successful implementation. While some payments, initially, were being paid to the old account procedures are in place to identify these and to prevent further occurrences.</p> <p>Congratulations on attaining a Full Assurance opinion.</p>	<p><b>Each risk area for this review is shown as a segment of the wheel. The key to the colours on the wheel is as follows:</b></p> <div data-bbox="1039 667 1637 1273">  </div> <div data-bbox="1711 778 2150 1201"> <ul style="list-style-type: none"> <li> Critical priority Control Design or Control Operating in Practice issues identified</li> <li> Major priority Control Design or Control Operating in Practice issues identified</li> <li> Moderate priority Control Design or Control Operating in Practice issues identified</li> <li> No / Minor Control Design or Control Operating in Practice Issues identified</li> </ul> </div>			



<b>Auditor: Matt Pinnock</b>		<b>Issues raised and officers responsible for implementation:</b>							
<b>Fieldwork Completed: 17 December 2010</b>		Name		Critical	Major	Moderate	Best Practice	Total	Agreed
<b>Draft Report Issued: 20 December 2010</b>		Group Manager, Investments		0	0	0	1	1	1
<b>Management Comments Expected: 14 January 2011</b>									
<b>Management Comments Received: 23 December 2010</b>		<b>Releasing Internal Audit Reports:</b> All distributed draft and final reports remain the property of the respective Director and the Director for Finance. Approval for distributing this report should be sought from the relevant Director. Care must be taken to protect the control issues identified in this report.							
<b>Final Report: 14 January 2011</b>		<b>Risk Management:</b> The management of the following risks has been reviewed in this audit. Where appropriate, the Audit Sponsor is responsible for adding new risks identified to the relevant risk register.							
Risk Ref	Risk						Risk Already Identified	Risk Managed	
<b>Registered Risks Reviewed</b>									
PF0010/13	<p><b>Implementation:</b> Incorrect balance identified within the ECC bank account and general ledger for transfer resulting in an incorrect opening balance of the separate account and potential loss to ECC or the Essex Pension Fund.</p> <p>Relevant parties (eg fund managers, contributors) were not informed with sufficient time to allow for changes to payments resulting in pension income being posted to the ECC account and the potential for loss to the Essex Pension Fund.</p> <p>The separate bank account was not established prior to 1st April 2010 resulting in adjustments after the go live date and increased risk of monies not being correctly identified.</p> <p>Changes to the general ledger not implemented in a timely manner increasing the risk of miscoding, adjustments and potential errors.</p>						Yes		
PF0010/13	<p><b>Operation:</b> Lack of reconciliation of the Essex Pension Fund bank account resulting in erroneous entries remaining undetected (eg pension income/expenditure posted to ECC, incorrect amounts posted).</p> <p>Lack of separation of duties within reconciliations resulting in potential fraudulent entries remaining undetected.</p> <p>Lack of separate treasury management function resulting in interest earned on the Essex Pension Fund monies being coded to ECC causing loss to the Essex Pension Fund (and vice versa).</p> <p>Incorrect treatment of VAT incurred by the Essex Pension Fund resulting in potential errors in returns to HMRC, underpayment of VAT and legal reprimand to ECC.</p> <p>Lack of a separate income collection account for the Essex Pension Fund account resulting in account details being in public domain allowing potentially fraudulent transactions.</p>						Yes		
<b>Unregistered Risks Identified &amp; Audited</b>									
	None								

## 2. Basis of our opinion and assurance statement

Risk rating	Assessment rationale
 Critical	<p>Major financial loss – Large increase on project budget/cost: (Greater of <b>£1.0M</b> of the total Budget or more than <b>15 to 30%</b> of the departmental budget). Statutory intervention triggered. Impacts the whole Council. Cessation of core activities. Strategies not consistent with government's agenda, trends show service is degraded.</p> <p>Failure of major projects – elected Members &amp; Corporate Leadership Team are required to intervene. Intense political and media scrutiny i.e. front-page headlines, TV. Possible criminal, or high profile, civil action against the Council, Members or officers.</p> <p>Life threatening or multiple serious injuries or prolonged work place stress. Severe impact on morale &amp; service performance. Mass strike actions etc.</p>
 Major	<p>High financial loss – Significant increase on project budget/cost: (Greater of <b>£0.5M</b> of the total Budget or more than <b>6 to 15%</b> of the departmental budget). Service budgets exceeded. Significant disruption of core activities. Key targets missed, some services compromised. Management action required to overcome medium term difficulties.</p> <p>Scrutiny required by external agencies, Audit Commission etc. Unfavourable external media coverage. Noticeable impact on public opinion.</p> <p>Serious injuries or stressful experience requiring medical treatment, many work days lost. Major impact on morale &amp; performance of more than 100 staff.</p>
 Moderate	<p>Medium financial loss – Small increase on project budget/cost: (Greater of <b>£0.3M</b> of the total Budget or more than <b>3 to 6%</b> of the departmental budget). Handled within the team. Significant short-term disruption of non-core activities. Standing Orders occasionally not complied with, or services do not fully meet needs. Service action will be required.</p> <p>Scrutiny required by internal committees or Internal Audit to prevent escalation. Probable limited unfavourable media coverage.</p> <p>Injuries or stress level requiring some medical treatment, potentially some work days lost. Some impact on morale &amp; performance of up to 100 staff.</p>
 Best Practice	<p>Minimal financial loss – Minimal effect on project budget/cost: (<b>&lt; 3%</b> Negligible effect on total Budget or <b>&lt;1%</b> of departmental budget)</p> <p>Minor errors in systems/operations or processes requiring action or minor delay without impact on overall schedule. Handled within normal day to day routines.</p> <p>Internal review, unlikely to have impact on the corporate image.</p> <p>Minor injuries or stress with no work days lost or minimal medical treatment. No impact on staff morale.</p>
Level of assurance	Description
Full	<b>Full assurance</b> – there is a sound system of internal control designed to achieve the objectives of the system/process and manage the risks to achieving those objectives. Recommendations will normally only be Advice and Best Practice.
Substantial	<b>Substantial assurance</b> – whilst there is basically a sound system of control, there are some areas of weakness, which may put the system/process objectives at risk. There are Moderate recommendations indicating weaknesses but these do not undermine the system's overall integrity. Any Critical recommendation will prevent this assessment, and any Major recommendations relating to part of the system would need to be mitigated by significant strengths elsewhere.
Limited	<b>Limited assurance</b> – there are significant weaknesses in key areas in the systems of control, which put the system/process objectives at risk. There are Major recommendations or a number of moderate recommendations indicating significant failings. Any Critical recommendations relating to part of the system would need to be mitigated by significant strengths elsewhere.
No	<b>No assurance</b> – internal controls are generally weak leaving the system/process open to significant error or abuse. There are Critical recommendations indicating major failings.

**Auditors' Responsibilities** It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems. We shall endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

### 3. Advice and Best Practice

	Matters Arising	Potential Risk Implications	Recommendations	Priority	Management Responses and Agreed Actions
Operating Effectiveness - Holding Accounts					
1.	<p><b>While there have been regular clearances of items posted to the holding accounts there remain small balances on both, with some items dating back to period 2 of 2010/11.</b></p> <p>For example in account EXCC9999 (within EP) there is an item of £89.15 from period 2 and two items of £28.09 each in period 6. In account EPFS9999 (within E1) there was an item of - £89.15 in period 3, items worth £15.78, £270.84 and £700 in period 5 and £191.68 in period 6. There were no corresponding corrections found.</p>	<p><b>Financial</b></p> <p>Miscoded income that is not subsequently corrected may result in loss of fund for the Pension Fund and/or the County Council.</p>	The balances on the holding account should be cleared by the end of the financial year.	<p>●</p> <p>Advice and Best Practice</p>	<p><b>Agreed:</b> Yes</p> <p><b>Action to be taken:</b> The balances on the holding account will be cleared by the end of the financial year.</p> <p><b>Additional Resources Required for Implementation:</b> No</p> <p><b>Responsible Officer:</b> Kevin McDonald, Group Manager Investments.</p> <p><b>Target Date:</b> 31 March 2011</p>

## 4. Controls Assessment Schedule

### 1. Implementation Risks:

Incorrect balance identified within the ECC bank account and general ledger for transfer resulting in an incorrect opening balance of the separate account and potential loss to ECC or the Essex Pension Fund.

Relevant parties (e.g. fund managers, contributors) were not informed with sufficient time to allow for changes to payments resulting in pension income being posted to the ECC account and the potential for loss to the Essex Pension Fund.

The separate bank account was not established prior to 1st April 2010 resulting in adjustments after the go live date and increased risk of monies not being correctly identified.

Changes to the general ledger not implemented in a timely manner increasing the risk of miscoding, adjustments and potential errors.

Control	Control In Place?	Action Plan Ref.
Reconciliation between general ledger and ECC bank account conducted as at 31st March 2010 to identify the Pension fund balance.	Yes	1
Reconciliation between balance identified as at 31st March and balance on new account 1st April 2010.	Yes	
Any variances identified investigated and explained.	Partially	
Reconciliation checked and signed off.	Yes	
Checklist of relevant parties drawn up.	Yes	
Notice sent to each party in timely manner.	Yes	
Confirmation of receipt and/or change made.	Yes	
Monitoring of response and reminders sent to those not responding within set timeframe.	Yes	
Arrangements with the Council's bank initialised to allow account to be set up by 1st April 2010.	Yes	
Confirmation of account set up received from bank.	Yes	
Central finance informed of changes in timely manner.	Yes	
Confirmation of changes made received from central finance.	Yes	
Changes checked for accuracy prior to 1st April 2010.	Yes	

### 2. Operation Risks:

Lack of reconciliation of the Essex Pension Fund bank account resulting in erroneous entries remaining undetected (eg pension income/expenditure posted to ECC, incorrect amounts posted).

Lack of separation of duties within reconciliations resulting in potential fraudulent entries remaining undetected.

Lack of separate treasury management function resulting in interest earned on the Essex Pension Fund monies being coded to ECC causing loss to the Essex Pension Fund (and vice versa).

Incorrect treatment of VAT incurred by the Essex Pension Fund resulting in potential errors in returns to HMRC, underpayment of VAT and legal reprimand to ECC.

Lack of a separate income collection account for the Essex Pension Fund account resulting in account details being in public domain allowing potentially fraudulent transactions.

Control	Control In Place?	Action Plan Ref.
Regular reconciliation of bank account to general ledger.	Yes	
Reconciliation conducted in a timely manner.	Yes	
Checked by another officer.	Yes	
Variances investigated and explained.	Yes	
Sign off by an appropriately authorised officer.	Yes	
Separation of records within treasury management to identify interest earned on Essex Pension Fund.	Yes	
Reconciliation between treasury management records and bank account.	Yes	
Separate treasury management policy for Essex Pension Fund with appropriate limits defined.	Yes	
Any VAT incurred by Essex Pension Fund accounted for according to ECC Financial Regulations and coded as VAT within the general ledger.	Yes	
Separate income collection account created at same time as main bank account.	Yes	
Income collection account details provided to relevant parties rather than main account.	Yes	
Regular transfers from collection account to main account.	Yes	