

REPORT FOR: Pension Board

Date of Meeting:	22 March 2018
Subject:	Information Report – Pension Fund Bank Account segregation and control of funds.
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards Affected:	All
Enclosures:	Appendix 1: Summary of Pension Fund - General Fund Reconciliation February 2018 Appendix 2: Pension Fund Reconciliations and Controls Summary

Section 1 – Summary

Summary

Pension Board requested further information on the segregation of pension fund monies and the controls over funds not processed initially through the pension fund bank account. This report sets out how funds due to the Pension Fund are accounted for and controlled prior to the transfer to the Pension Fund Bank Account.

For information

Section 2 – Report

Introduction

1. At its meeting on 7th November 2017, Pension Board received a report on the external audit of the London Borough of Harrow's 2016-17 accounts which includes the external audit of the Pension Fund. The Pension Board noted that a brought forward recommendation from the 2015-2016 external audit recommendations on the use of the pension fund bank account had not been implemented. Pension Board asked for further information on the transfer of funds from the Council's main bank account to give assurance that controls were sufficient to account for pension fund transactions if not held in a separate bank account

Background

- 2 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 required that all pension schemes have their own bank account effective 1 April 2011. Specifically the regulations state the following: "On and after 1st April 2011, an administering authority must hold in a separate account kept by it with a deposit-taker in accordance with this regulation —(a) all monies held by the authority on that date; and (b) all monies received by it on or after that date for the purpose of its Pension Fund."
- 3 In accordance with the LGPS investment and scheme management regulations the separate pension fund bank account was opened from 1 April 2011 and, since then, almost all of pension fund transactions have been processed directly through the account. These include the pensioners' payroll, transfers in and out of the Fund, lump sum and death benefits payments, the receipt of contributions from admitted and scheduled bodies and all investment income manager. The account is reconciled monthly.

Accounting and Banking Arrangements

- 4 It was not cost effective to set up a separate accounts payable module on the Council's financial accounting system SAP. Pension Fund expenses mainly fund manager fees, consultancy fees and VAT are paid through the Council's bank account. All pension fund related transactions are coded to pension fund cost centres and separately accounted as pension fund items.
- 5 The pension fund expenses are netted off against the Council's employer and employee contributions (due on the 19th of each month) and transferred to the Pension fund bank on a timely basis. (see Appendix 1).
- 6 The pension fund bank account is reconciled on monthly basis. The reconciliation of bank accounts is a key control and subject to annual review by both internal and external audit. Detailed process notes are maintained. A summary of the key processes is set out in Appendix 2.
- 7 All third party funds held by the Council receive interest from the Council based on average monthly cash balances held. Interest is paid at year end based on the average investment return on cash.

8 In their 2015-16 audit report the external auditor found that,

'Although a separate bank account has been set up for the Fund, it is not being used for all Pension Fund transactions. We understand a number of historic income and expenditure transactions are still processed through the Authority's bank account.

As a result, the Fund is not fully compliant with the requirements of the legislation. It should be noted that, since 1 April 2015, the Pensions Regulator now has an oversight role in relation to scheme administration and governance. As such, the Fund may be subject to increased levels of external scrutiny in future.

We recommend the Fund amends all historic processes to ensure all Pension Fund specific transactions are processed through the Fund bank account. We recommend the bank account is put into full use in order that the Pension Fund is fully compliant with all regulations.'

9 Following on from the 2015-16 Audit recommendations the following have been reviewed/implemented:

- Employee and Employers Contributions are paid to the Pension Fund bank account within 19 days as required by current regulations. At the same time any other amounts owed by the Council to the Pension Fund and from the Pension Fund to the Council are netted against the amount paid.
- Historically the balance was broadly settled by the end of the following calendar month. However, since November 2016 the exact amount is transferred from the General Fund account to the Pension Fund account and within 19 days.
- Private Equity income – The bank have now resolved this issue and all foreign income is credited directly to the PF Bank account.

10 In closing the recommendation in the 2016-17 report, the external auditor accepted it was not cost effective for the administering authority to maintain a complete separation of all accounting transactions. The Council's external auditors noted that the authority continues to process a number of Pension Fund transactions through the main Authority bank account. As the Authority does not plan to implement this recommendation for reasons of cost effectiveness, the external auditor considers this recommendation closed.

Financial Implications

11 The Council pays the Pension Fund for interest earned on funds due to the Pension Fund but held in the Council's main bank account. In 2016-17 the Council paid the pension fund £6,710.

Risk Management Implications

12. Systems based and management controls are in place to ensure separation of pension fund monies and bank reconciliation processes ensure that all funds are accounted for on a monthly basis.


Equalities implications

13. There are no direct equalities implications arising from this report.

Council Priorities

13. The financial health of the Pension Fund directly affects the resources available for the Council's priorities.

Section 3 - Statutory Officer Clearance

Name: Sharon Daniels		Head of Strategic and Technical Finance Deputy Section 151 Officer
Date: 12 March 2018		

Ward Councillors notified:	Not applicable
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Section 4 - Contact Details

Contact: Iain Millar, Treasury and Pensions Manager 0208
424 1432

Background Papers – None