

# Introduction to the LGPS Accounting and Audit Requirements



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# **Accounting and audit requirements Overview**

**Statutory framework**

**Pension fund accounts – Code**

**Pension fund accounts – disclosures**

**Role of the auditor**

# Statutory framework

<p>s.31 Local Government Act 2003</p>	<p>Defines “proper practices”</p> <ul style="list-style-type: none"> <li>• any enactment</li> <li>• specified Codes of Practice</li> <li>• legislation takes precedence</li> </ul>
<p>Reg 31 Local Authorities (Capital Finance and Accounting)(England) Regulations 2003</p>	<p>Specifies Code of Practice on Local Authority Accounting as “proper practices”</p>
<p>Regulation 7(1) Accounts and Audit (England) Regulations 2011</p>	<p>Local authorities must prepare a Statement of Accounts:</p> <ul style="list-style-type: none"> <li>• in accordance with “proper practices”</li> <li>• include accounting statements relevant to functions</li> </ul>
<p>Regulation 34 LGPS (Administration) Regulations 2008</p>	<ul style="list-style-type: none"> <li>• include fund a/c, net assets statement and notes</li> <li>• following “proper practices”</li> </ul>

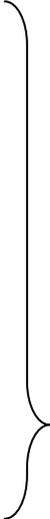
# Statutory framework – “any enactment”

LGPS (Management and Investment of Funds) Regs 2009	
4 Management of pension fund	Accruals AVCs excluded
5 Power to borrow	Temporary borrowing for 90 days only Limited circumstances
6 Separate bank account	Must be in place on or after 1 April 2011 Prevents “co-mingling”

# Reporting requirements

## The Accounts and Annual Report

Accounts
Fund Account
Net Assets Statement
Notes
<b>comply with LA Code</b>



Annual Report
Management & financial performance
Investment policy & performance
Administration
Actuary's report
Governance compliance statement
The Accounts
Pensions admin strategy & performance
Funding strategy statement
Statement of Investment Principles
Communication policy
Anything else
<b>have regard to CLG Guidance</b>

# **Pension fund accounts - Code**

**Code application of IAS 26**

**The accounts in summary**

**Fund Account**

**Net Assets Statement**

# Code application of IAS 26

IAS 26	Code adaptation
<b>Valuation of financial instruments</b>	
Market value	Bid price (IAS 39)
<b>Analysis of investment assets and income</b>	
assets to be “suitably classified”	Follow Pension SoRP
<b>AVCs</b>	
Not covered	Disclosure note only
<b>Actuarial present value of promised retirement benefits</b>	
Measure at current salary levels or projected salary levels	Projected salary levels

# Fund Account

## Dealings with members, employers and others directly involved in the fund

Contributions	(191,262)
Transfers in from other pension funds	(25,358)
Benefits	(216,500)
Payments to and on account of leavers	232,580
Administration expenses	48,896
Net (additions) / withdrawals from dealings with members	5,970
	<hr/>
	70,946

Minimum disclosure  
Supporting disclosure notes

## Returns on investments

Investment income	(52,660)
Taxes on income	773
Profit and losses on disposals & changes in MV of investments	(300,444)
Investment management expenses	7,300
Net return on investments	<hr/>
	345,031
<b>Net (increase) / decrease in net assets available for benefits during the year</b>	<hr/>
	<b>(274,085)</b>

# Net Assets Statement (NAS)

Net Assets Statement		
Investment assets		4,403,074
Cash deposits	Minimum disclosure Supporting disclosure notes	12,850
		<u>4,415,924</u>
Investment liabilities		(11,051)
Borrowings		(436)
Current assets		104,178
Current liabilities		<u>(11,506)</u>
<b>Net assets of the fund available to fund benefits at the period end</b>		<b><u>4,497,109</u></b>

# Investment reconciliation table

	Market value 1 April 2011 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Change in market value during the year £'000	Market value 31 March 2012 £'000
<b>Fixed Interest Securities</b>	<b>330,390</b>	1,734,605	(1,656,820)	8,497	<b>416,672</b>
<b>Equities</b>	<b>1,080,286</b>	615,147	(585,803)	73,426	<b>1,183,056</b>
<b>Pooled investments</b>	<b>1,794,391</b>	942,834	(1,026,759)	157,860	<b>1,868,326</b>
<b>Pooled Property investments</b>	<b>152,613</b>	153,661	(152,853)	769	<b>154,190</b>
<b>Private Equity/infrastructure</b>	<b>343,132</b>	226,335	(185,628)	36,641	<b>420,480</b>
<b>Property</b>	<b>364,001</b>	10,548	(42,397)	8,087	<b>340,239</b>
<b>Derivative contracts:</b>					<b>0</b>
• <b>Futures</b>	<b>1,495</b>	5,160	(3,939)	(1,567)	<b>1,149</b>
• <b>Purchased/Written Options</b>	<b>(117)</b>	3,517	(4,565)	1,735	<b>570</b>
• <b>Forward Currency Contracts</b>	<b>(18,072)</b>	97,518	(90,426)	10,628	<b>(352)</b>
	<b>4,048,119</b>	<b>3,789,325</b>	<b>(3,749,190)</b>	<b>296,076</b>	<b>4,384,330</b>
<b>Other Investment Balances:</b>					
<b>Cash deposits</b>	<b>108,959</b>			<b>12,368</b>	<b>12,850</b>
<b>Amount receivable for sales of investments</b>	<b>21,681</b>				<b>2,741</b>
<b>Investment income due</b>	<b>-</b>				<b>7,608</b>
<b>Amounts payable for purchases of investments</b>	<b>(2,125)</b>				<b>(2,656)</b>
<b>Net investment assets</b>	<b>4,176,634</b>			<b>308,444</b>	<b>4,404,873</b>

Analysis as per NAS?



Total agrees to Fund A/c?



Comparator table?

Balances should agree to NAS



# **Pension fund accounts - disclosures**

**Accounting policies**

**Valuation**

**Pricing hierarchy**

**Financial instruments**

**Actuarial value of future benefits**

**Related party transactions**

# Accounting policies

2010/11 experience:

- patchy compliance

Code requires:

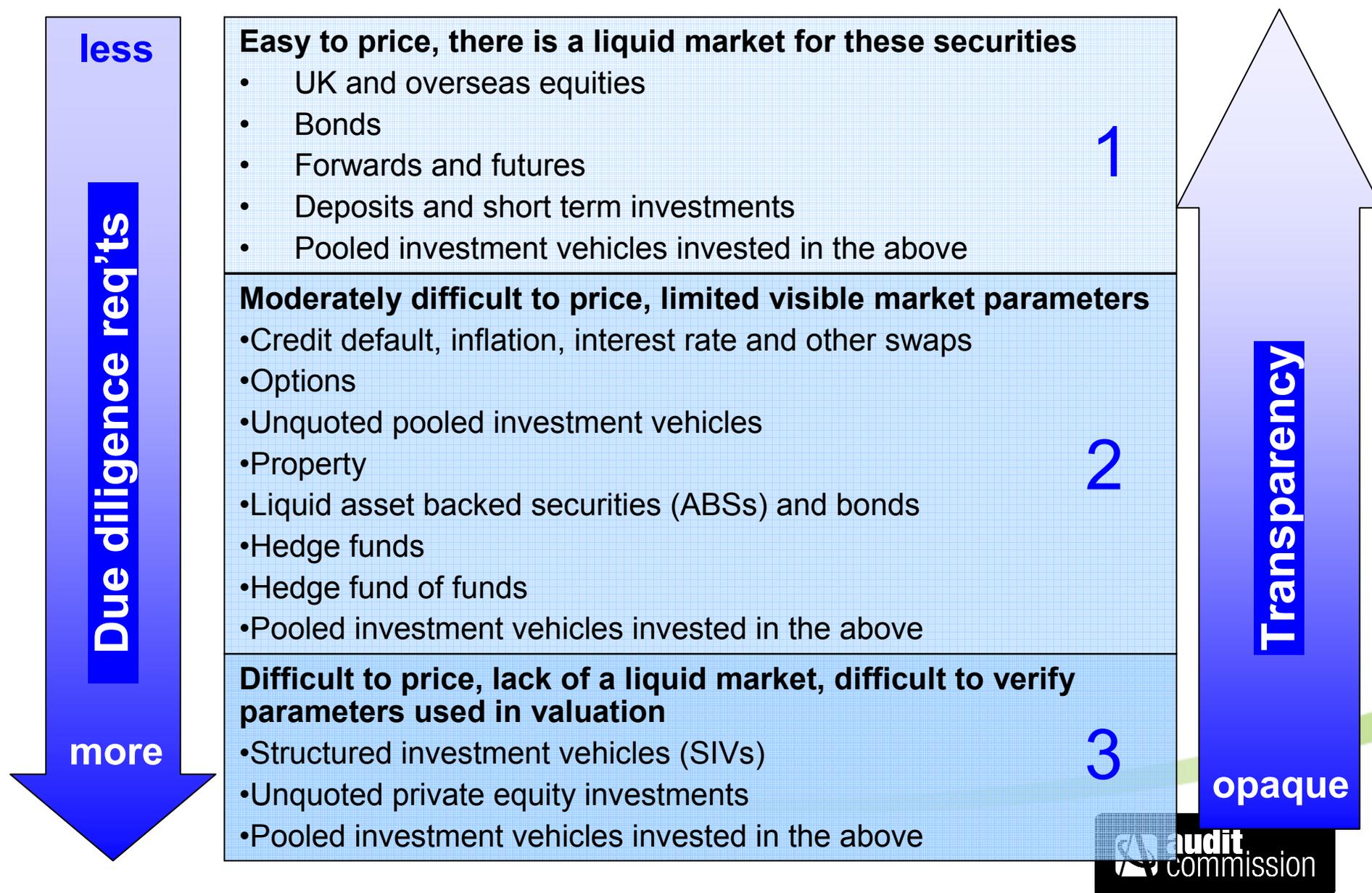
- Estimation uncertainty
  - Disclose material estimations
  - Separate note or information in specific notes
  - Not required for balances at fair value based on recent market prices
- Significant judgments
  - In applying accounting policies
  - “significant” effect on the accounts
- Future changes in accounting policies



# Valuation principles

Investment	Class	Measurement	Examples
Property		Fair value	Direct property
Financial assets	Loans & receivables	Amortised cost	Debtors
	Fair value through P&L	Fair value	All other inv'ts +ve derivatives
	Available for sale	N/A	
	Held to maturity	Code does not permit	
Financial Liabilities	Amortised cost	Amortised cost	Creditors, loans
	Fair value through P&L	Fair value	-ve derivatives

# Pricing hierarchy



# Financial instruments

IFRS 7



Financial position and performance



Risk and how risk is being managed

Disclose information that enables users to evaluate the nature and extent of risks arising from financial instruments.

# Reporting the actuarial value of promised future retirement benefits

IAS 19

Code provided 3 options:

Code provides 3 options	2010/11 experience
A - Report in the accounts	Not seen
B - Include as a disclosure note	Most pension funds Sometimes confused with funding disclosure
C - Include actuary's report in the accounts	Straightforward, but sometimes omitted

# Related party transactions

- Disclosures as per Code
- But also key management personnel compensation
  - Short-term employee benefits
  - Post employment benefits
  - Other long-term benefits
  - Termination benefits
  - Share-based payments
- Pension fund examples – 2.162-2.185 Pension SoRP

“Those with authority or responsibility for planning, directing or controlling...”

# **Role of the auditor**

**Opinion on Statement of Accounts**

**Opinion on Pension Fund Annual Report**

# ISA driven audit approach

- PN 16 Audit of Occupational Pension Schemes (revised Jan 2011)
- PN 22 The auditors' consideration of FRS 17 “Retirement benefits” – defined benefit schemes (2001)
- PN 23 Auditing complex financial instruments – interim guidance (October 2009)

IAS 19

# Undertaking the audit (1)

## Apply PN15 tailored to LGPS

Auditing Standard	Specific LGPS issues
<ul style="list-style-type: none"><li>• ISA+ 200 Objectives &amp; general principles</li></ul>	<ul style="list-style-type: none"><li>• Follow APB ethical standards</li><li>• Comply with AC requirements</li></ul>
<ul style="list-style-type: none"><li>• ISA+ 210 Terms of audit engagements</li></ul>	<ul style="list-style-type: none"><li>• AC appoints all auditors through existing arrangements</li><li>• Any conflicts of interest reported to AC</li></ul>
<ul style="list-style-type: none"><li>• ISA+ 250 Consideration of laws and regulations</li></ul>	<ul style="list-style-type: none"><li>• No duty to report to Pensions Regulator</li><li>• Breaches discussed with those charged with governance initially</li><li>• Public interest report</li></ul>
<ul style="list-style-type: none"><li>• ISA+ 570 going concern</li></ul>	<ul style="list-style-type: none"><li>• Centrally regulated scheme</li><li>• Can only be closed by CLG</li></ul>

# Undertaking the audit (2)

## Apply PN15 tailored to LGPS

Auditing Standard	Specific LGPS issues
<ul style="list-style-type: none"><li>• ISA 402 Third part service organisations</li></ul>	<ul style="list-style-type: none"><li>• Risks from outsourced functions</li><li>• Internal controls assurance reports</li></ul>
<ul style="list-style-type: none"><li>• ISA 540 Auditing estimates including fair values</li></ul>	<ul style="list-style-type: none"><li>• Understand risks</li><li>• Evaluate risks</li><li>• Tailor audit response</li></ul>
<ul style="list-style-type: none"><li>• ISA+ 580 Management representations</li></ul>	<ul style="list-style-type: none"><li>• Sought from those responsible for the pension fund</li></ul>
<ul style="list-style-type: none"><li>• ISA+ 600 Using the work of another auditor</li></ul>	<ul style="list-style-type: none"><li>• AC general audit liaison arrangements</li></ul>
<ul style="list-style-type: none"><li>• ISA+ 620 Using the work of an expert</li></ul>	<ul style="list-style-type: none"><li>• Contact with actuaries governed by AC general audit liaison arrangements</li><li>• AC's own independent actuary</li></ul>

# Communicating deficiencies in Internal Control

- Controls unable to prevent, detect or correct misstatements on a timely basis
- Significant to warrant reporting to those charged with governance
- Consider:
  - Impact on fund's activities
  - Impact on security of assets
  - Impact on payment of benefits
  - Extent that controls are informal & undocumented
  - Whether compensating controls exist

# Reporting

## The auditor's report (the "opinion")

### Administering authority accounts

- PF accounts still part of LA CODE
- Opinion still part of overall opinion
- **BUT** separate nature of pension fund audit
- 4 part opinion:
  - Main accounts
  - Pension fund accounts
  - VFM conclusion
  - Audit certificate

### Pension Fund Annual Report

- same "true and fair" opinion
- BUT
- refers to different "other" information
    - Governance Compliance Statement
    - Pension Fund Annual Report

# Auditing the Annual Report

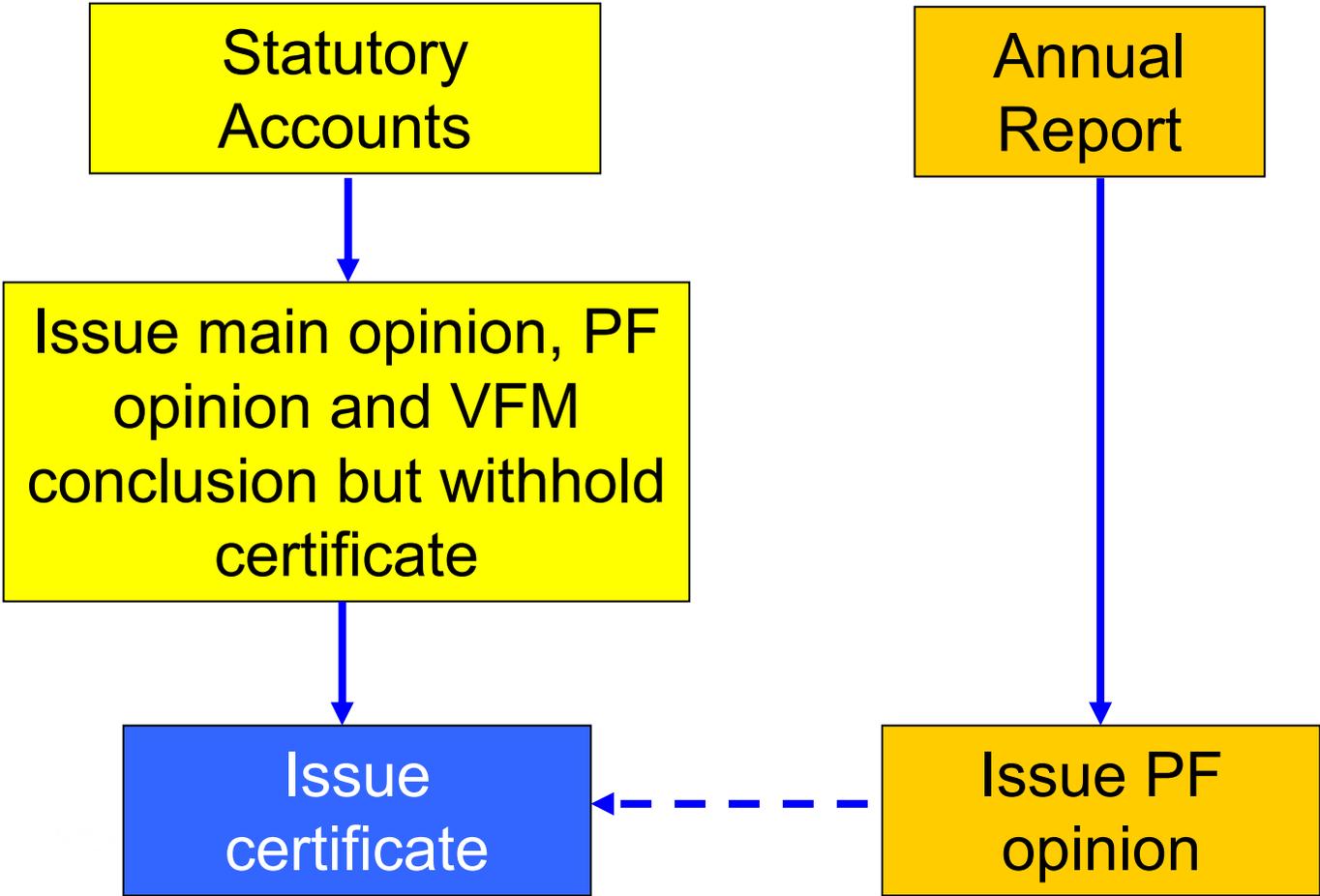
- Pension fund accounts:
  - Figures in annual report match audited statements
  - Figures are disclosed in same manner as audited statements
  - Other information is consistent with financial statements
- Negative assurance on the governance compliance statement
  - Complies with statutory requirements and related guidance
  - Consistent with rest of the audit



# Annual Report - common issues

- Omission of statutorily prescribed elements
  - Summarised annual reports
  - Hyperlinks to Council websites
- Omission of Governance Compliance Statement
- Figures don't match audited accounts
- Figures disclosed differently

# Reporting the audit – timing



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