

LGPS fund accounting – 2011-12

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Code of Practice 2011-12

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- Some updating to reflect legislative changes in Scotland
- Clearer signposting of the need to consider the whole of the Code

Code Guidance Notes 2011-12

- No major changes in 2011-12 but updated to include recent FAQs:
 - Accounting for pensions strain

Example Accounts and disclosure checklist 2011-12

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- Does not include prior period adjustments, accounting for reorganisations etc.

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- Does not include other disclosures commonly found in pension fund accounts
- Does not include prior period adjustments, accounting for reorganisations etc.
- Does not take account of materiality

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- Directly-held property not financial instrument, so will not form part of Note 16
- Relevant standard – IAS40 – Investment Property
- Defined as land/building held for earning rental income/capital appreciation but... need to confirm this with IAS40
- Will require additional disclosure

Accounting and disclosure for directly held property

Fund Account

- Net rental income can be included in “Investment Income” but in the notes-

	20X1/X2	20X0/X1
Rental income	xxx	xxx
Direct operating expenses	<u>(yyy)</u>	<u>(yyy)</u>
Net gain/loss	<u>zz</u>	<u>zz</u>

Accounting and disclosure for directly held property

Net Assets Statement

- Fair value of property can be shown in “Investment Assets” but in the notes-

Accounting and disclosure for directly held property

	20X1/X2	20X0/X1
Balance at start of the year	aaa	aaa
Additions	xxx	xxx
Disposals	(yyy)	(yyy)
Net gain/loss on fair value	zzz	zzz
Transfers in/(out)	cc	cc
Other changes in fair value	<u>dd</u>	<u>dd</u>
Balance at the end of the year	<u>bbb</u>	<u>bbb</u>

Accounting and disclosure for directly held property

Other notes:

Any restrictions on the realisability of the property or the remittance of income or proceeds on disposal

Any contractual obligations to purchase, construct or develop a property or responsibility for any repairs, maintenance or enhancements

Accounting and disclosure for directly held property

References:

Guidance notes: Module 4 H (page 558)

Guidance notes: Module 3 Notes 14 (page 336)

Code of Practice: Para 4.4 (page 117)

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- Related party disclosures
- Contingent assets and liabilities

Example Accounts and disclosure checklist 2011-12 – disclosure checklist

- Aide- memoire
- Expanded from previous years
- Consolidated to include financial instruments, debtors, creditors etc
- Cross-referenced to the code

Other issues arising: accounting for transaction costs

- Transaction costs are defined in the PRAG Pensions SORP
- Code (and Pensions SORP) requirements:

Para 7.1.4.1 – “Financial assets and liabilities shall be measured initially at fair value **less**, in the case of a financial asset or liability not at fair value through profit or loss, **transaction costs that are directly attributable to the acquisition or issue of the financial instrument.**”

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- The presumption under the CIPFA Code is that transaction costs are capitalised but...
- under IFRS transaction costs can be expensed to the fund account if not material (Code paras 7.1.2.2f and 7.2.2.6)
- So preparers have to make a judgement on materiality

Other issues arising: accounting for transaction costs

- If capitalised (as shown in the example accounts):
 1. “The total amount of direct transaction costs on all investment types...should be disclosed in the notes to the accounts...”
 2. Indirect costs such as bid-offer spread costs and costs charged within pooled funds do not need to be disclosed but the notes should explain that these costs exist

Other issues arising: accounting for transaction costs

- If expensed:
 1. Include in administrative expenses in the fund account
 2. Show breakdown in the notes to the accounts
 3. In addition indirect costs such as bid-offer spread costs and costs charged within pooled funds do not need to be disclosed but the notes should explain that these costs exist

Other issues arising: accounting for transaction costs

For example:

2010/11		2011/12
£000		£000
3,850	Employee costs	3,794
1,683	Support services including IT	1,795
40	Printing and publications	42
63	Pension fund committee	78
98	External audit fees	107
67	Internal audit fees	87
32	Actuarial fees	67
<u>860</u>	Transaction costs	<u>901</u>
<u>6,693</u>		<u>6,871</u>

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

Thank you

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