The Chartered Institute of
Public Finance & Accountancy

cipfa.org

Addendum to CIPFA Bulletin 14 – Closure of the 2022/23 Financial Statements

The impact of final triennial valuation statements received for pension funds on IAS 19 employee benefit reporting, 2021/22 issue

Supplementary guidance

Introduction

1. Bulletin 14: Closure of the 2022/23 Financial Statements, section 10 raised the issue of the triennial valuation of the Local Government Pension Scheme (LGPS) being produced before auditors have provided their opinion. This supplementary guidance provides additional information to assist local authorities with paragraph 10.3 of the Bulletin. CIPFA would note that this would be for material transactions and balances only.

2. CIPFA has issued this supplementary guidance to assist local authority accounts preparers and auditors.

IAS 19 employee benefit valuations

3. Paragraph 6.4.3.28 of the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) states:

   ”An authority shall determine the net defined benefit liability (asset) with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period. This shall be interpreted to mean that between the formal actuarial valuations every three years (and four years for police and firefighters' pension funds), there shall be approximate assessments in intervening years. Acceptable approximations shall include adjusting full valuation results using the latest available membership data.”

4. The actuarial valuation refers to an authority's triennial valuation of the Local Government Pension Scheme (LGPS). The triennial valuation is intended to set the employer contribution rate for the next three years. It involves a more detailed estimate of an authority's obligations than that required by the Code. It is also a more comprehensive and precise calculation than the assessments in paragraph 6.4.3.28 (often described as the roll forward exercise), but it is measuring for a different objective to what IAS 19 *Employee Benefits* as implemented in the Code is seeking to measure.

5. Paragraph 6.4.3.28 of the Code properly establishes the actuarial valuation as the starting point for the measurement as it is the best measurement of an authority's obligations for pensions. However, the Code does not anticipate that it is directly used in the accounts, both because it is estimating a slightly different set of parameters, and because of the timing of the production of the valuations. Paragraph 6.4.3.28 is an interpretation of IAS 19, paragraph 58 (see paragraph 6.4.1.9).

6. Paragraph 59 explains that the standard encourages, but does not require, an entity to use a qualified actuary in the measurement of all material post-employment benefit obligations for the assessments in the intervening years. IAS 19 states that for practical reasons, an entity may request a qualified actuary to carry out a detailed valuation of the obligation before the end of the reporting period. Neither the Code nor the standard specify that local authorities should use an actuary, but in practice this is the case.

7. Paragraph 59 of IAS 19 also specifies that the results of the actuarial valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the end of the reporting period.

8. Paragraph D26 of the *Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes for Practitioners 2021/22 Accounts* (Code Guidance Notes) indicates that some elements will need to be updated every year (such as the fair value of assets, and the discount rate), while others might not (eg demographic assumptions about mortality). Authorities should confirm each year with their actuarial advisers which elements need to be updated accurately to comply with the requirements of the Code, which elements can be estimated and which can be left unchanged; this might be expedited by the administering authority.

9. Accounts preparers need to consider whether amendments need to be made under Section 3.8 (Events after the Reporting Period) of the Code following receipt of the final triennial valuation for 2022. CIPFA would note that audit teams will also be required to consider this information when reviewing their testing of judgements and estimates.

10. An authority in these circumstances would need to apply Section 3.8 of the Code and review the triennial valuation with the actuary to determine whether the triennial valuation includes information which might provide evidence of an adjusting or non-adjusting event (see paragraph 3.8.2.1 of the Code). This will mean that for the net asset/liability measured under paragraph 6.4.3.28, local authorities will need to consider with their actuaries whether the triennial valuation provides evidence of conditions which existed on 31 March 2022 (or possibly after this date for non-adjusting events), Where there are adjusting, or non-adjusting events local authorities will need to follow paragraphs 3.8.2.12 and 3.8.2.13 of the Code as relevant.

11. The following list of examples is not intended to be exhaustive (and it will be important in reviewing matters with the actuary to consider whether new information provides evidence of conditions which existed on 31 March 2022 or is indicative of conditions which arose after the reporting period):

    - If interest rates used to measure obligations increased materially on or after 1 April 2022 this would be taken into account in the triennial valuation to properly measure the obligation but would not be an adjusting event or what the accounts precisely require. The accounts require information as of 31 March 2022. If interest rates are affected across the board and would also have meant changes to high-quality corporate bonds required to discount liabilities under the Code, this would be a non-adjusting event to be reported on under the Section 3.8 of the Code.

- If membership information patterns (membership data) had been rolled forward but had not taken into account, for example, a major transfer of staff before 31 March 2022 this would be an adjusting event (though CIPFA's understanding of the current approach of local authorities for obtaining the roll forward information it should be unlikely that there are material omissions). If such a transfer of staff occurred on 3 April 2022 it would be a non-adjusting event (if this had a material affect this adjusting or non-adjusting event would need to be reflected in the accounts regardless of whether the triennial valuation had taken place).

- Paragraph D26 of the Code Guidance Notes considers that demographic assumptions about mortality might not have to be changed every year, as demographic patterns have been relatively stable. Where necessary, roll forward procedures should have identified any material changes in demographic assumptions until 31 March 2022. So CIPFA would anticipate that any material changes in demographic assumptions should have been included in the actuarial assessments made. Exceptions might arise. For instance, if an authority has not yet been able to take account of the impact of the COVID-19 pandemic in its assessment in the roll forward, but this has been addressed in the triennial valuation, then this may need to be considered for an adjusting or non-adjusting event if the effects on the valuation are material.

12. CIPFA would note that the triennial valuation acts like any other matter to be considered under Section 3.8 of the Code (it is a series of matters). It would need to be considered in the same way as any other matter which might possibly be an adjusting or non-adjusting event.

13. CIPFA would note that paragraphs 58 and 59 of IAS 19, which refer to the measurement of the estimates of the net defined asset/liability, include references to the information in the accounts being materially accurate, the valuations being updated for any material transactions and other material changes in circumstances.

14. The valuation and any events occurring after the reporting date would need to be considered having regard to the definition of materiality in the Code ie information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that users of general purpose financial statements make on the basis of those financial statements.

15. Materiality will be relevant in two situations that local authorities will need to consider:

    - determining whether the triennial valuation provides sufficiently different information to justify asking actuaries to revisit the IAS 19 information

    - if IAS 19 information is revisited whether the figures are sufficiently different from those in the unaudited accounts to require amendment.

16. Materiality is subjective, in that it reflects on the effects that omissions and misstatements might have on the users of financial statements and of information in the financial statements. If an authority was of the view that there might be an adjusting or non-adjusting event, accounts preparers would need to consider the valuations measured in accordance with paragraph 6.4.3.28 of the Code and whether users of the accounts might come to different conclusions about the authority's standards of stewardship or make different economic decisions if based on the possible differences between information offered by the triennial valuation and the information already provided by actuaries for the 2021/22 accounts.

17. The Code includes timeliness as an enhancing characteristic of useful financial information (see paragraph 2.1.2.24). The Code indicates that generally, the older information is, the less useful it is. In determining whether differences are sufficient to warrant changes to the accounts it may therefore be relevant to consider whether there are users of the accounts still seeking to take decisions once the audited accounts are published or whether decisions will already have been taken on the published unaudited accounts. It might be the case that information on stewardship is still relevant for decisions though local authorities will need to consider their own circumstances. The Code also sets out that some information may continue to be useful, for example, if users need to identify and assess trends.

18. CIPFA would note the Statement of Recommended Practice, Practice Note 10 Audit of Financial Statements and Regularity of Public Sector bodies in the United Kingdom (Practice Note 10) approach to materiality, particularly its most recent changes. The auditor needs to exercise their professional judgement in developing their approach to materiality levels and this should be tailored to the circumstances applicable to the audited entity and the financial information needs of users of its financial statements, though auditors will need to take individual decisions based on Practice Note 10 and auditing standards more generally.

19. It will be important that local authorities record the relevant evidence of the decisions taken based on their discussions with actuaries, whether there the triennial valuation or a revisited IAS 19 statement from the actuary provides evidence of adjusting or non-adjusting events and whether any possible changes to the accounts would have a material effect. Local authorities where an audit opinion had not yet been provided on 2021/22 accounts should therefore have discussions with their actuary (possibly via the administering fund authority) and consider what actions they might need to take regarding paragraphs 9 to 17 of this supplementary guidance.