

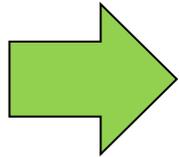


CIPFA Pensions Network- Edinburgh workshop 2014

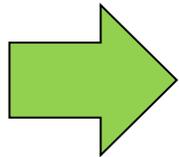


Tim Bridle – Technical Adviser (Local Government)

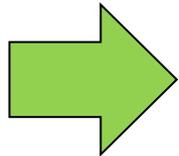
9 September 2014



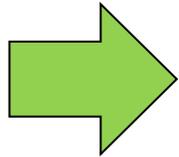
A look at the accounts and annual reports



Audit issues



Looking forward

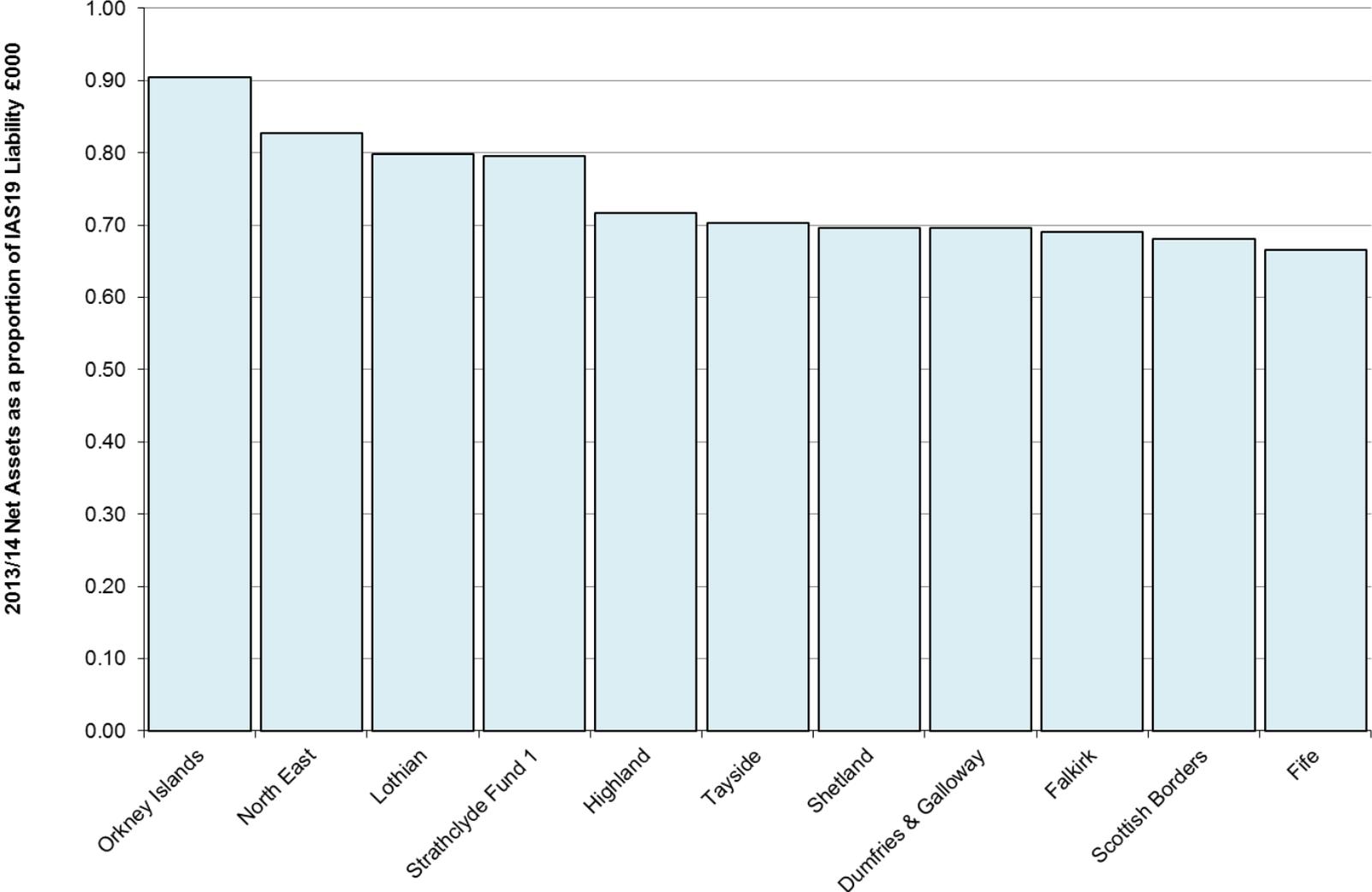


A look at the accounts and annual reports

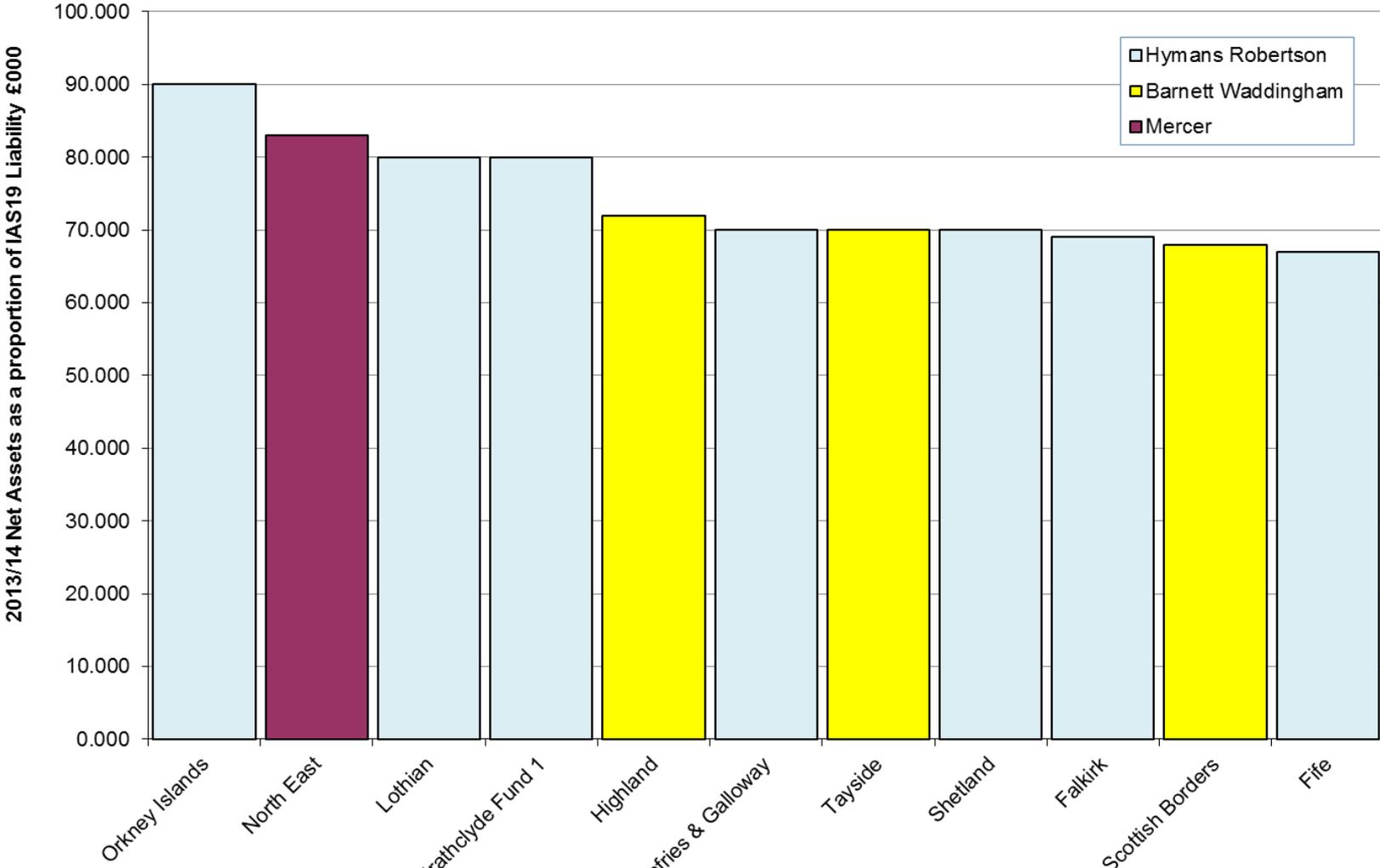
- Net assets and promised retirement benefits
- Increase in the fund
- Return on investments
- Basis of valuation
- Dealings with members
- Investment management expenses
- Membership

Some issues mentioned in annual reports

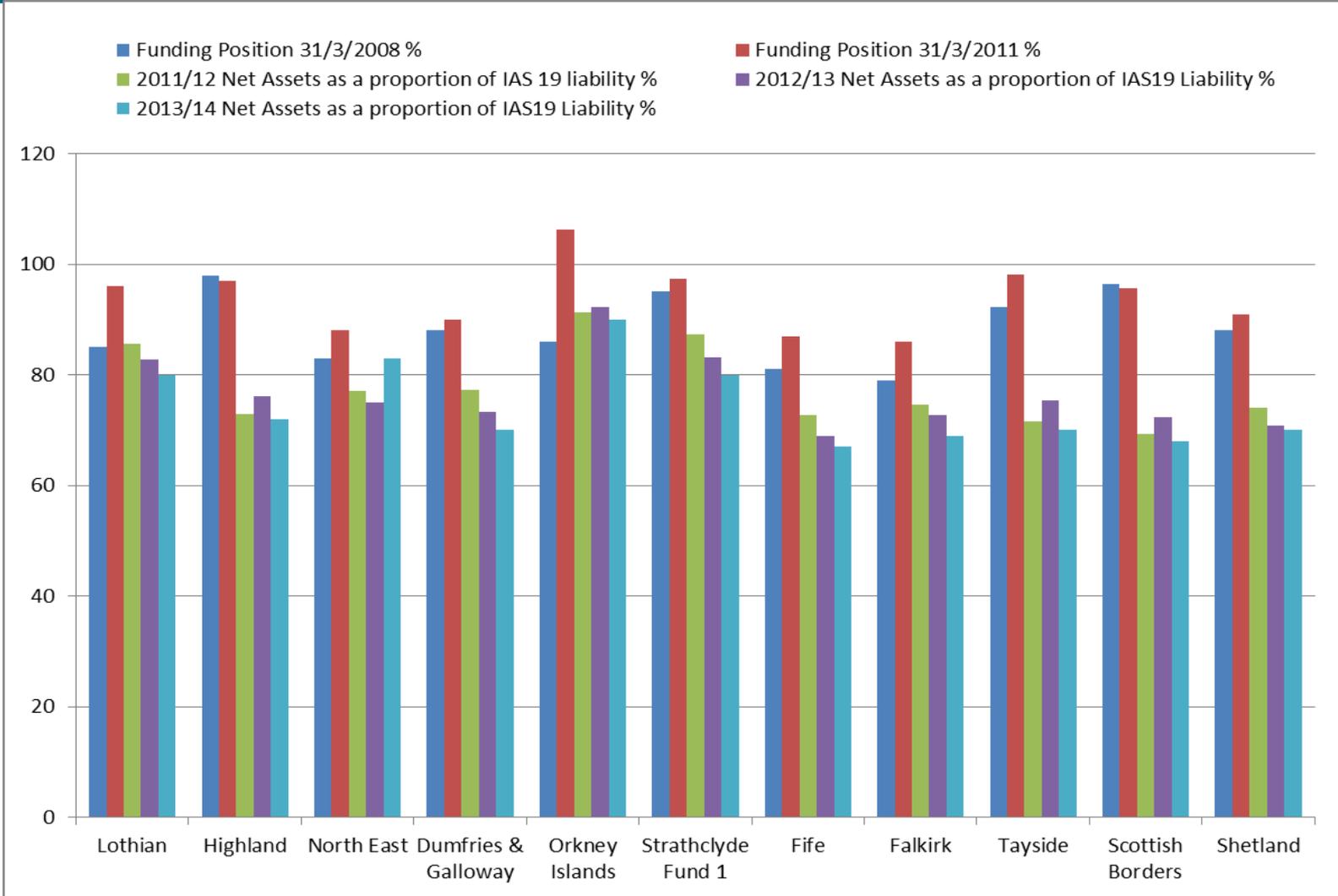
Net assets as a proportion of the present value of promised retirement benefits



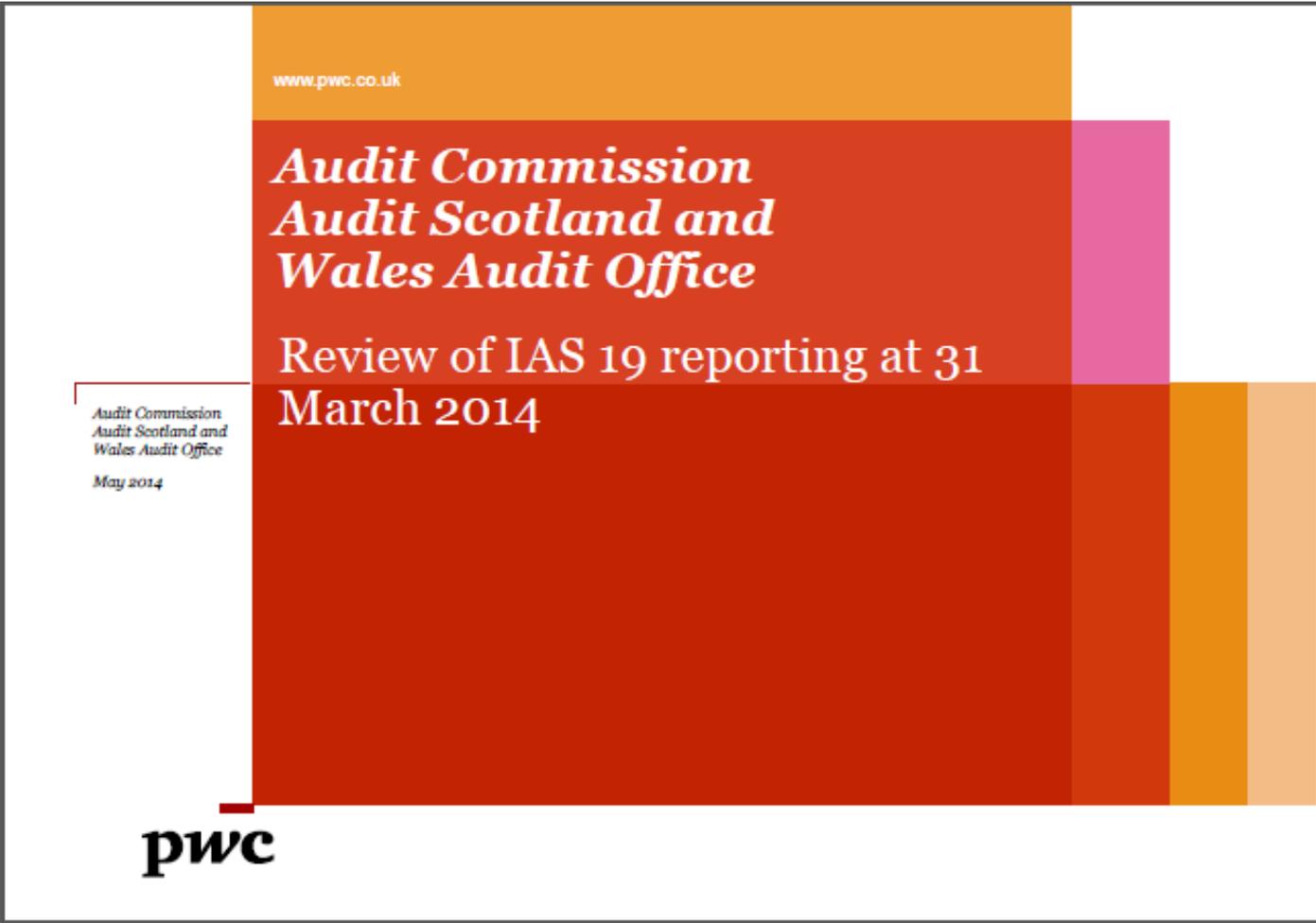
Net assets as a proportion of the present value of promised retirement benefits



Net assets as a proportion of the present value of promised retirement benefits

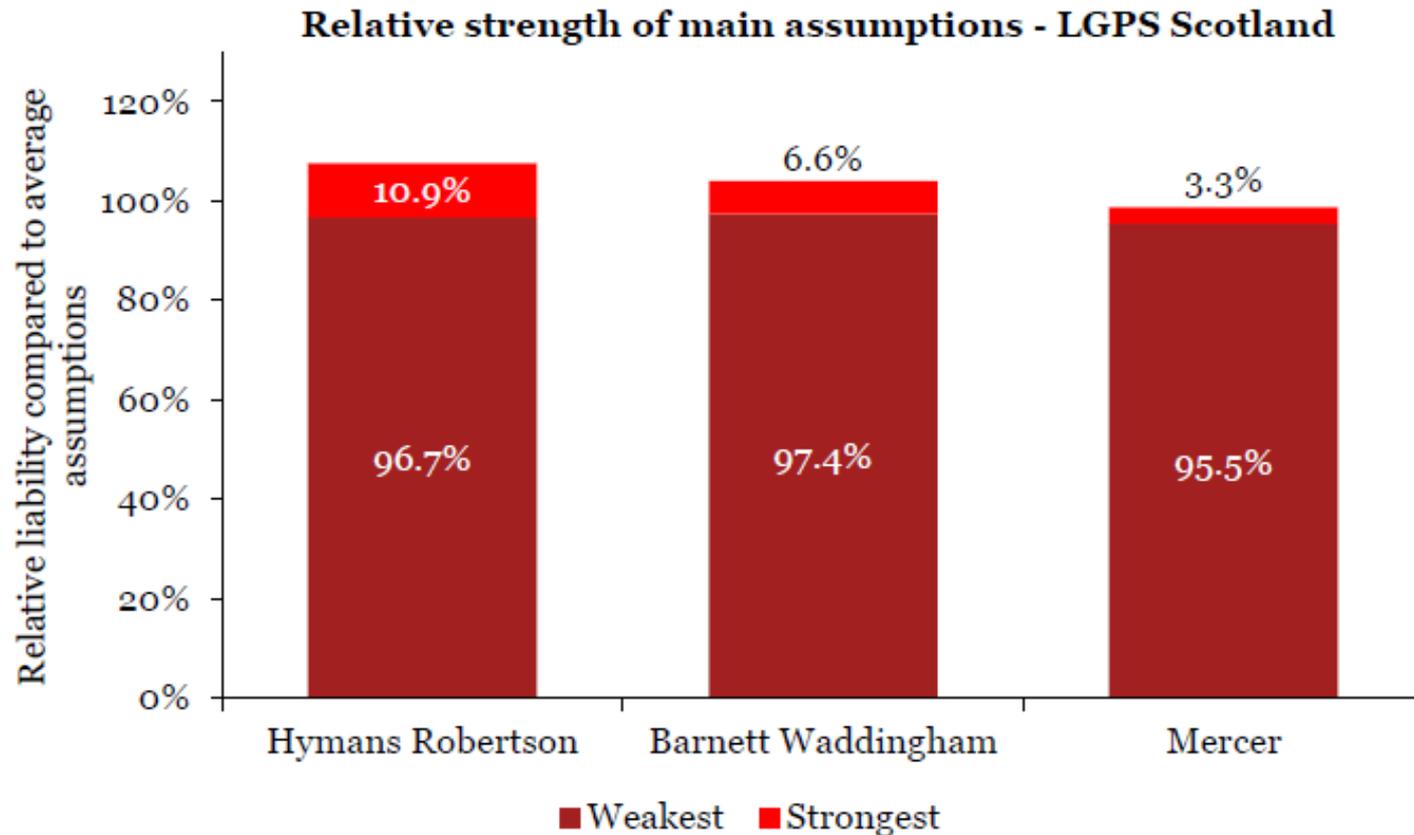


Relative strength of actuarial assumptions for IAS 19 reporting

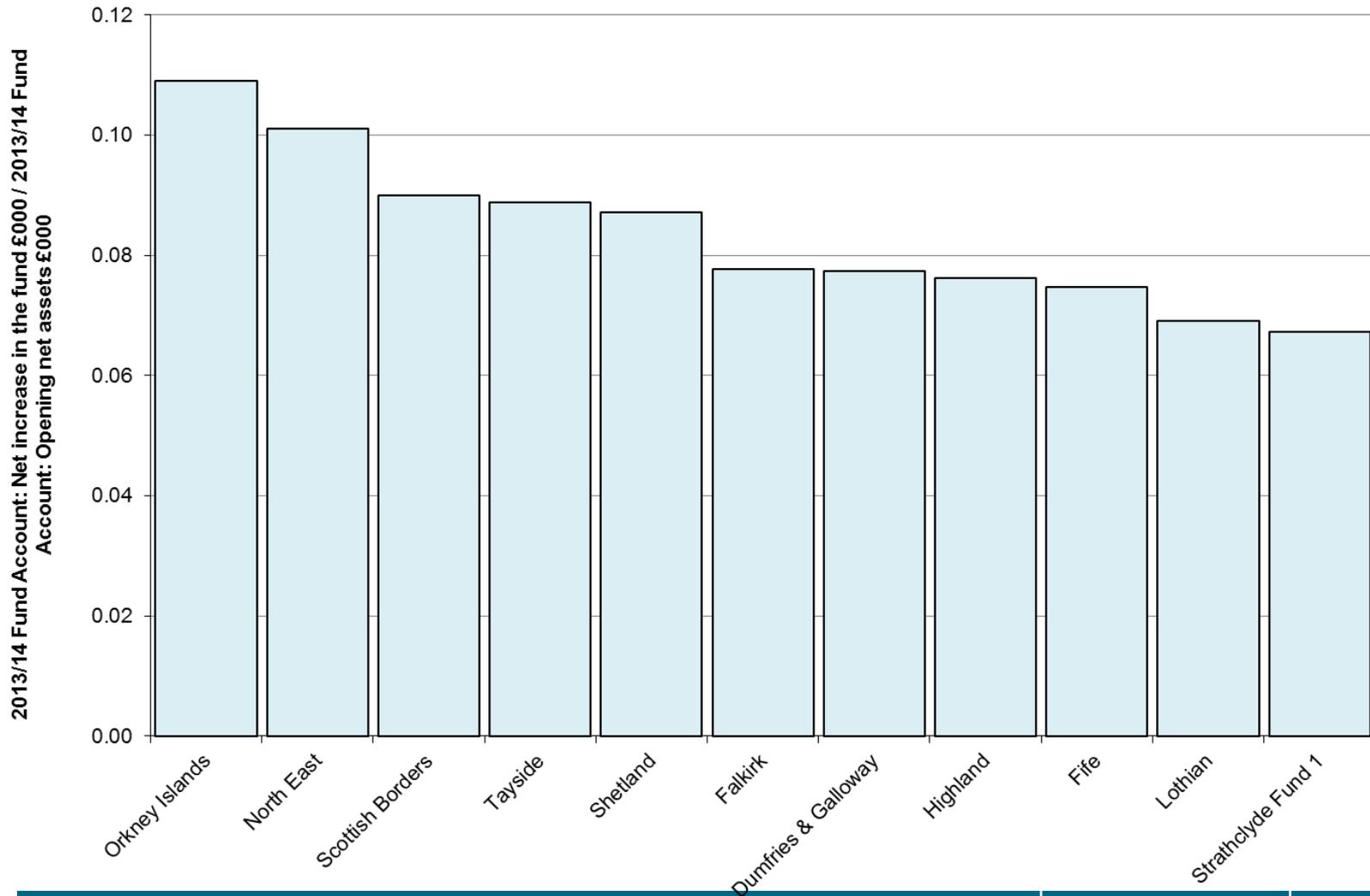


Relative strength of actuarial assumptions for IAS 19 reporting

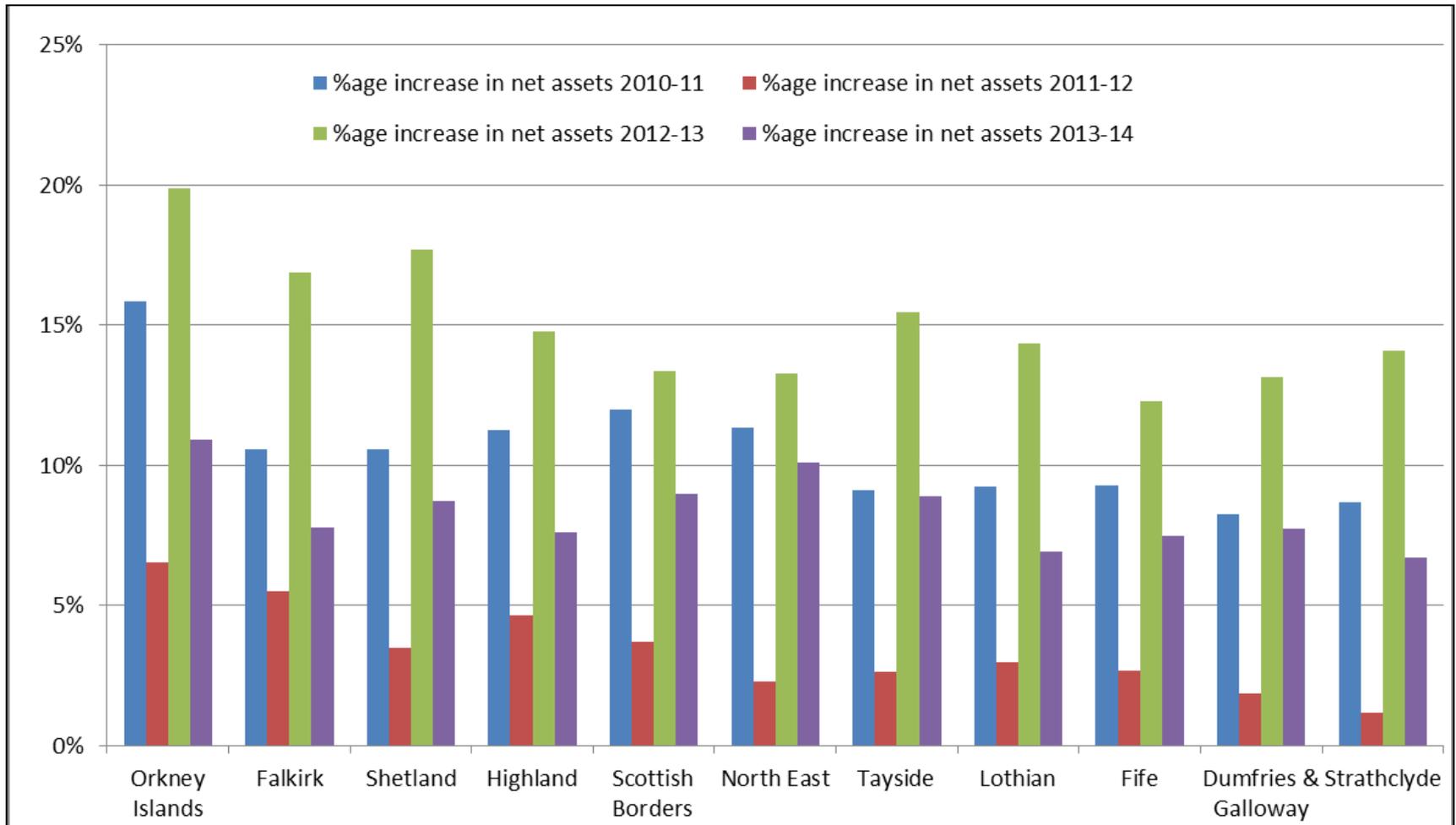
The assumptions put a fairly similar value on liabilities with differences being within the bounds of reasonableness.



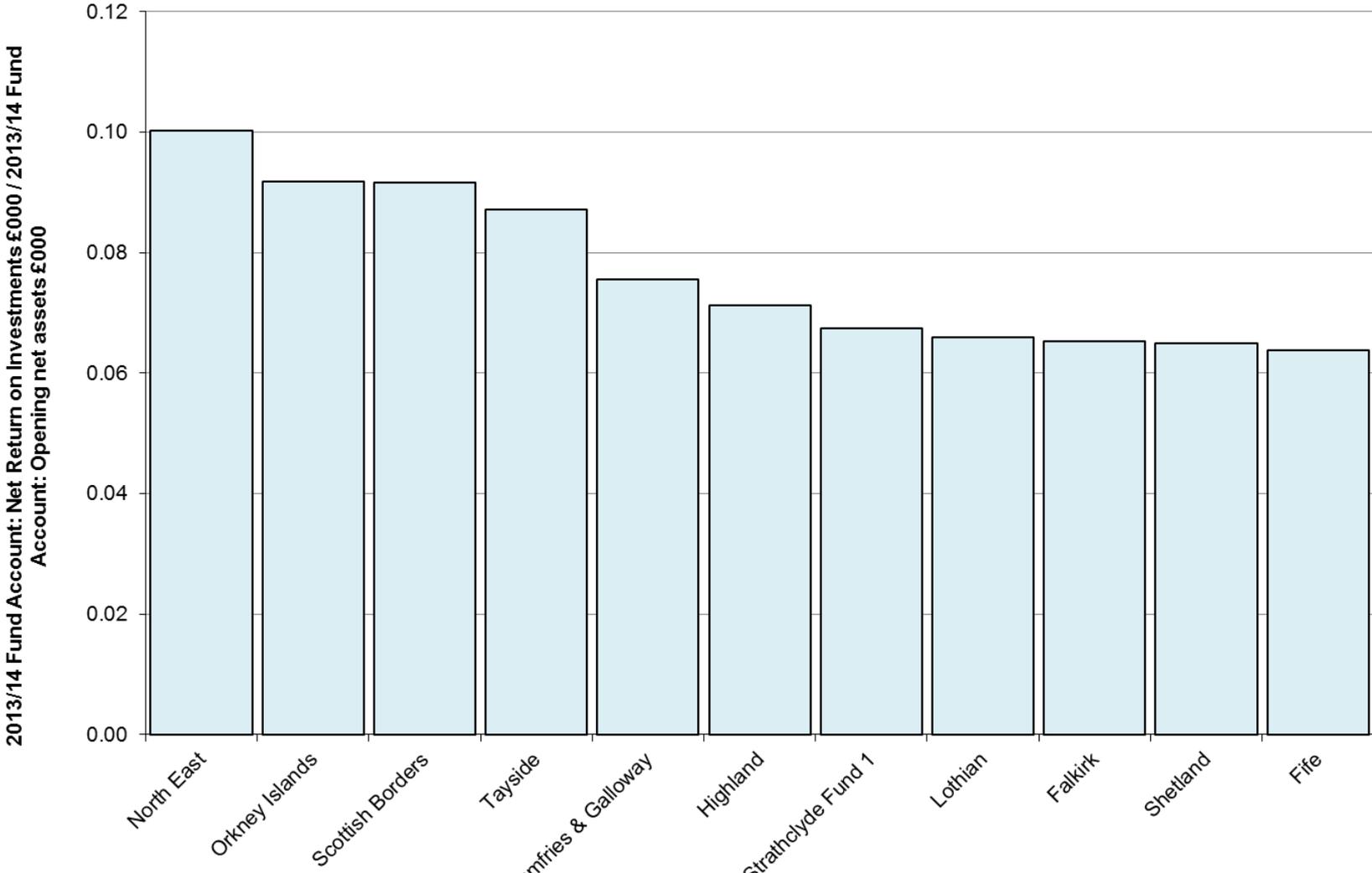
Increase in net assets 2013/14



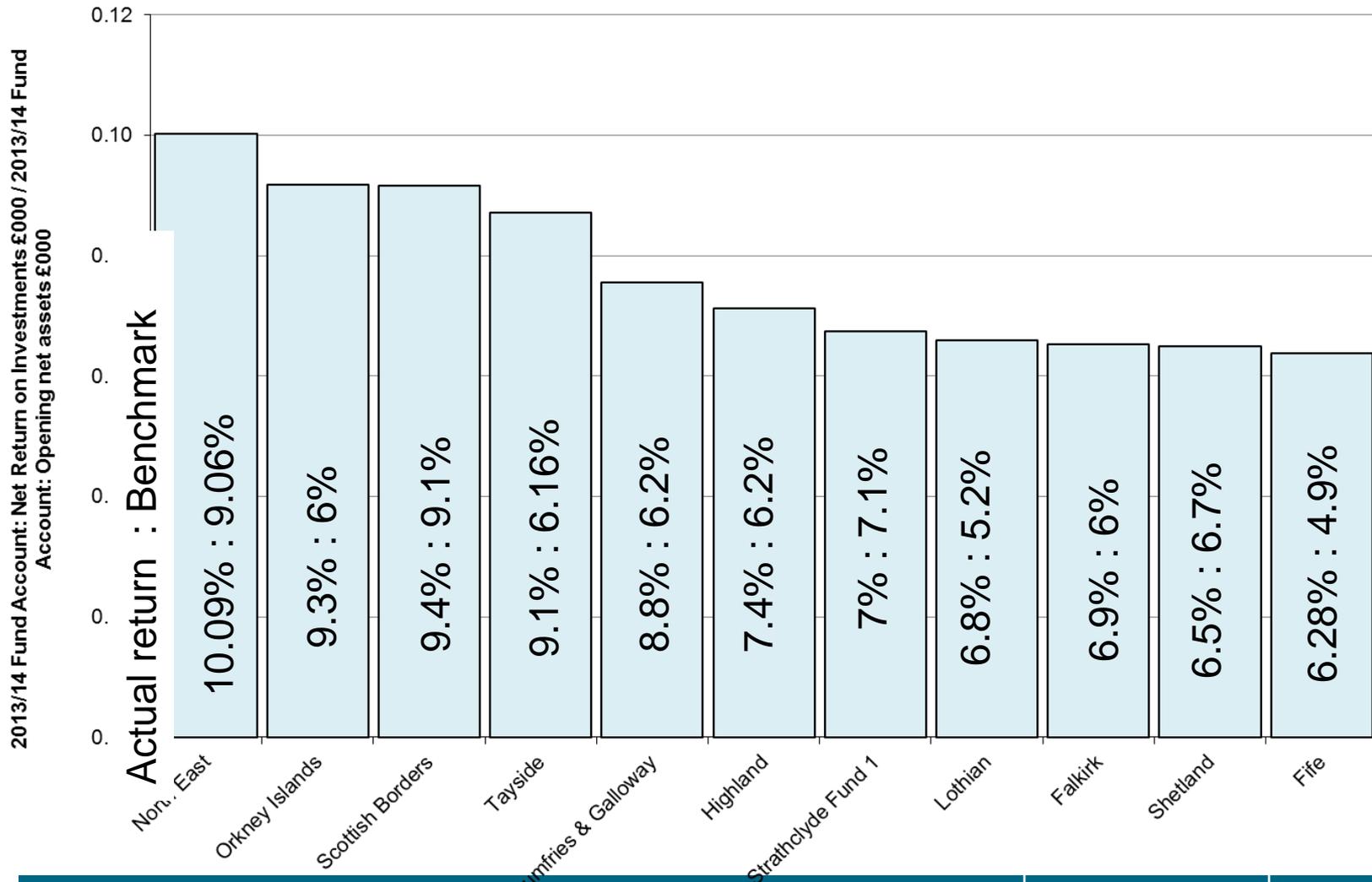
Net assets movements over last 4 years



Net return on investments as a proportion of net assets

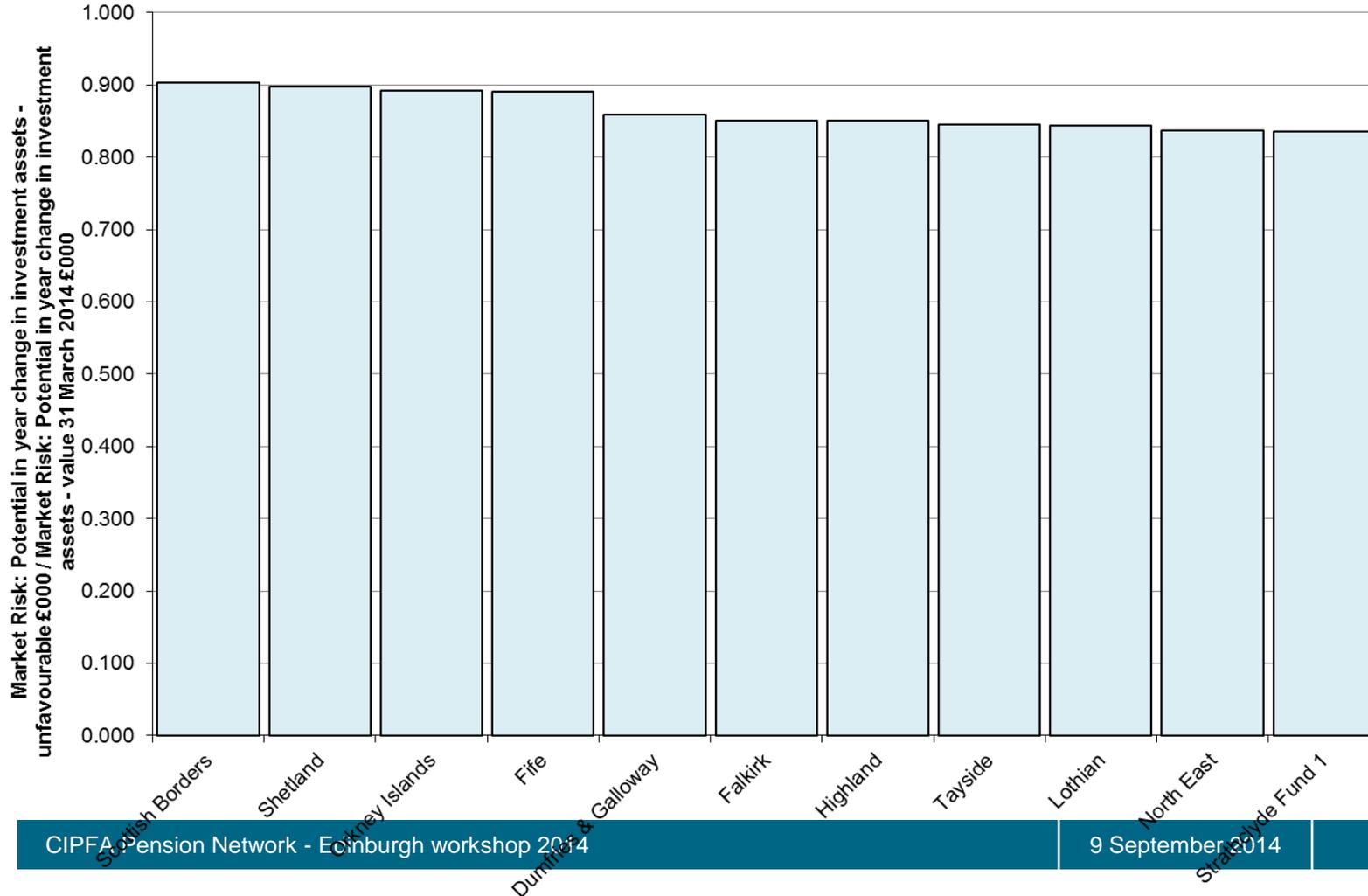


Net return on investments as a proportion of net assets



Market risk: potential change in value of investments due to market volatility

Volatility may be shown with or without correlation - where disclosed correlation has been included

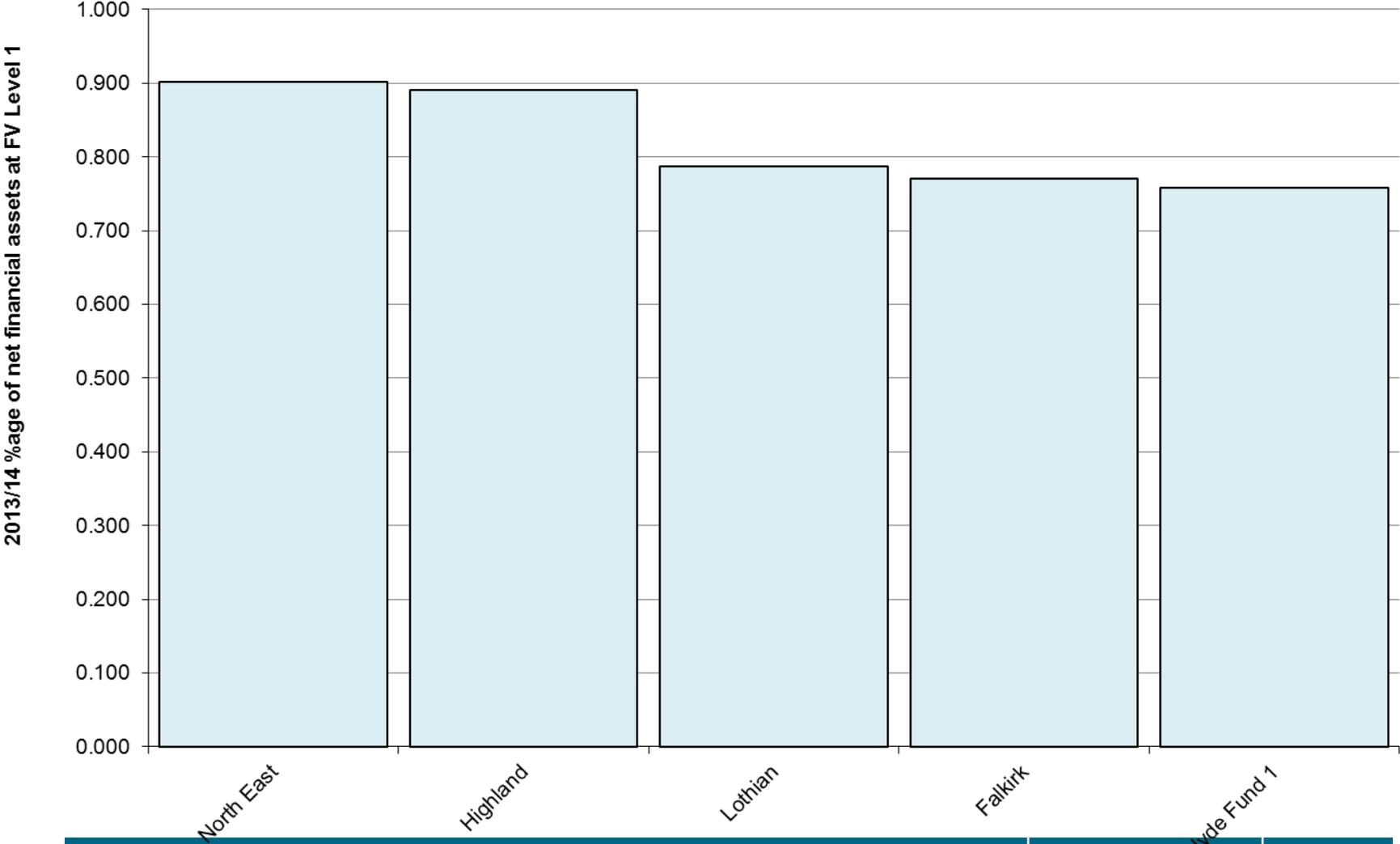


Financial instruments disclosures

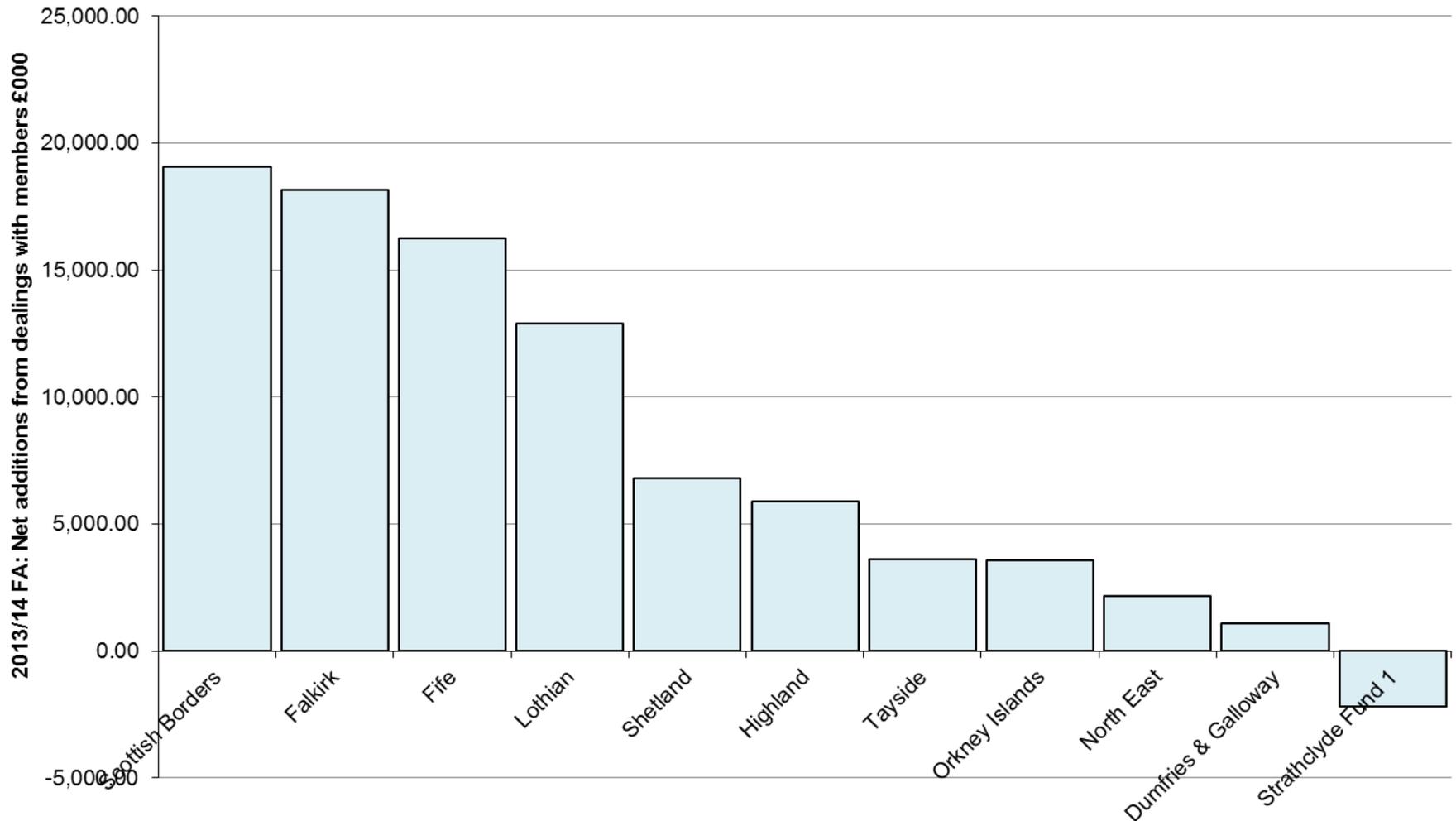
Example accounts

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2013	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial assets				
Financial assets at fair value through profit and loss	2,447,616	639,182	976,037	4,062,835
Loans and receivables	117,028			117,028
Total financial assets	2,564,644	639,182	976,037	4,179,863
Financial liabilities				
Financial liabilities at fair value through profit and loss	(436)	(11,051)		(11,487)
Financial liabilities at amortised cost	(11,506)			(11,506)
Total financial liabilities	(11,942)	(11,051)		(22,993)
Net financial assets	2,552,702	628,131	976,037	4,156,870

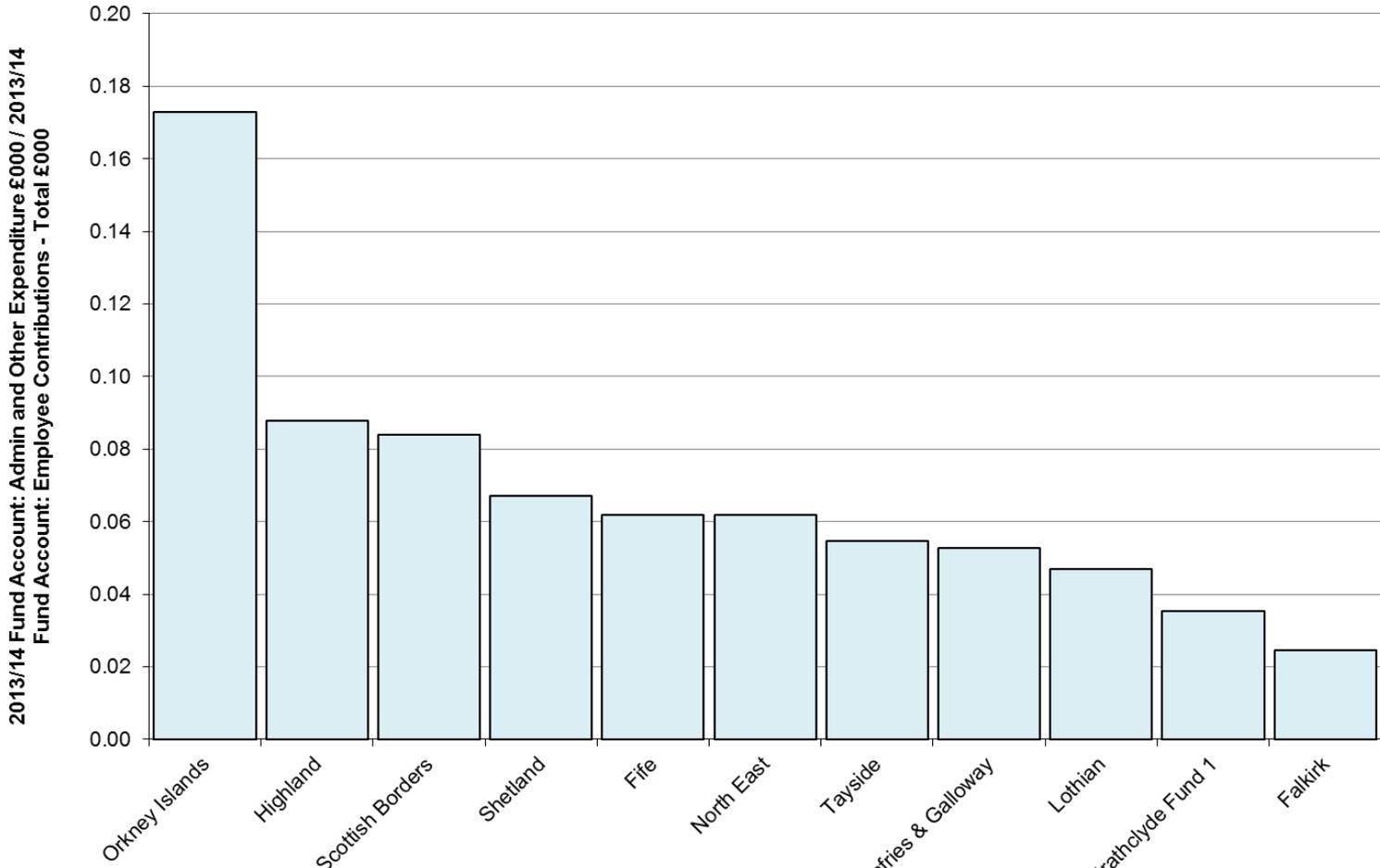
Percentage of financial assets at Fair value level 1



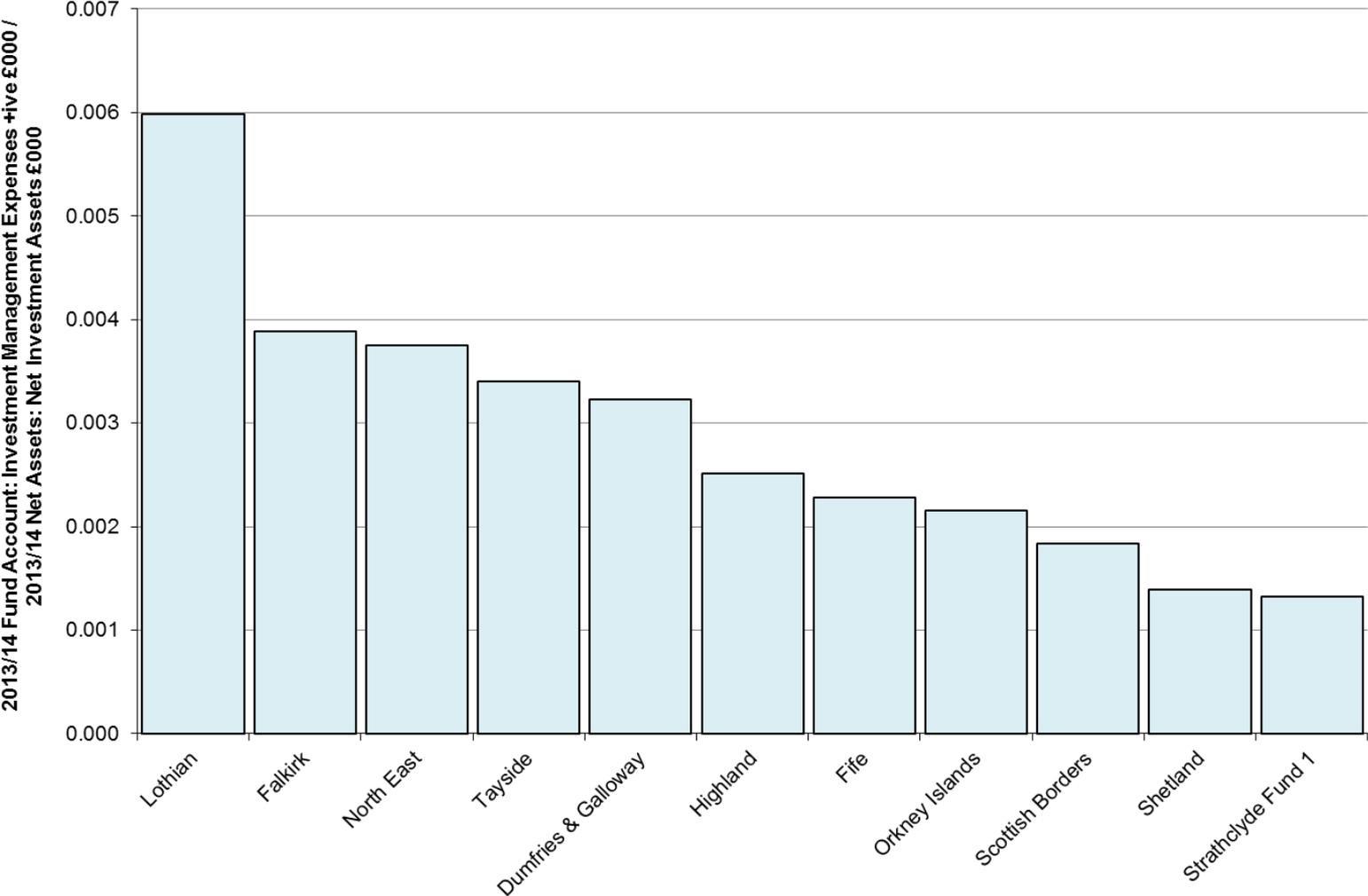
Net additions from dealings with members



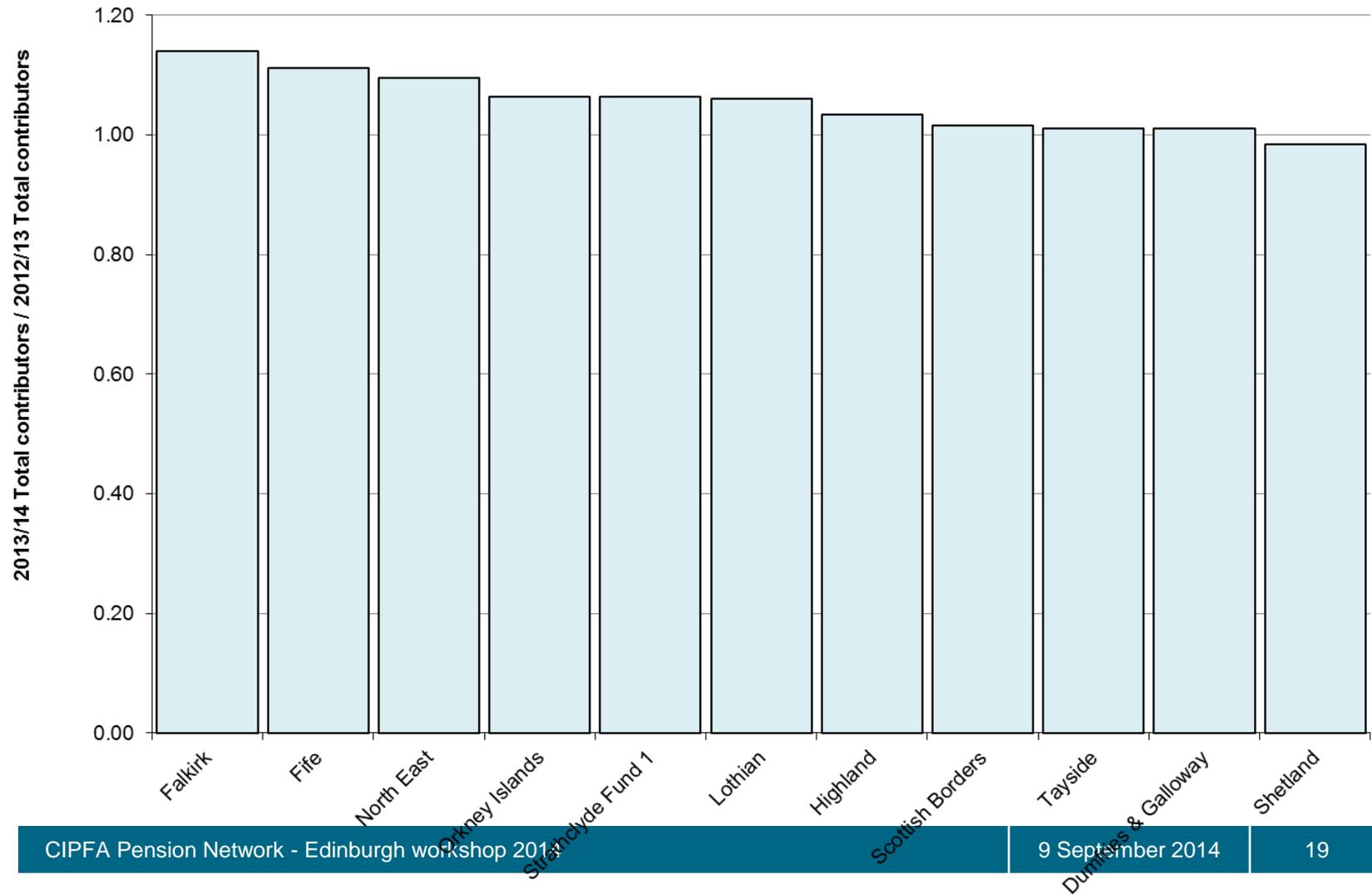
Admin and other expenses relative to the level of employee contributions



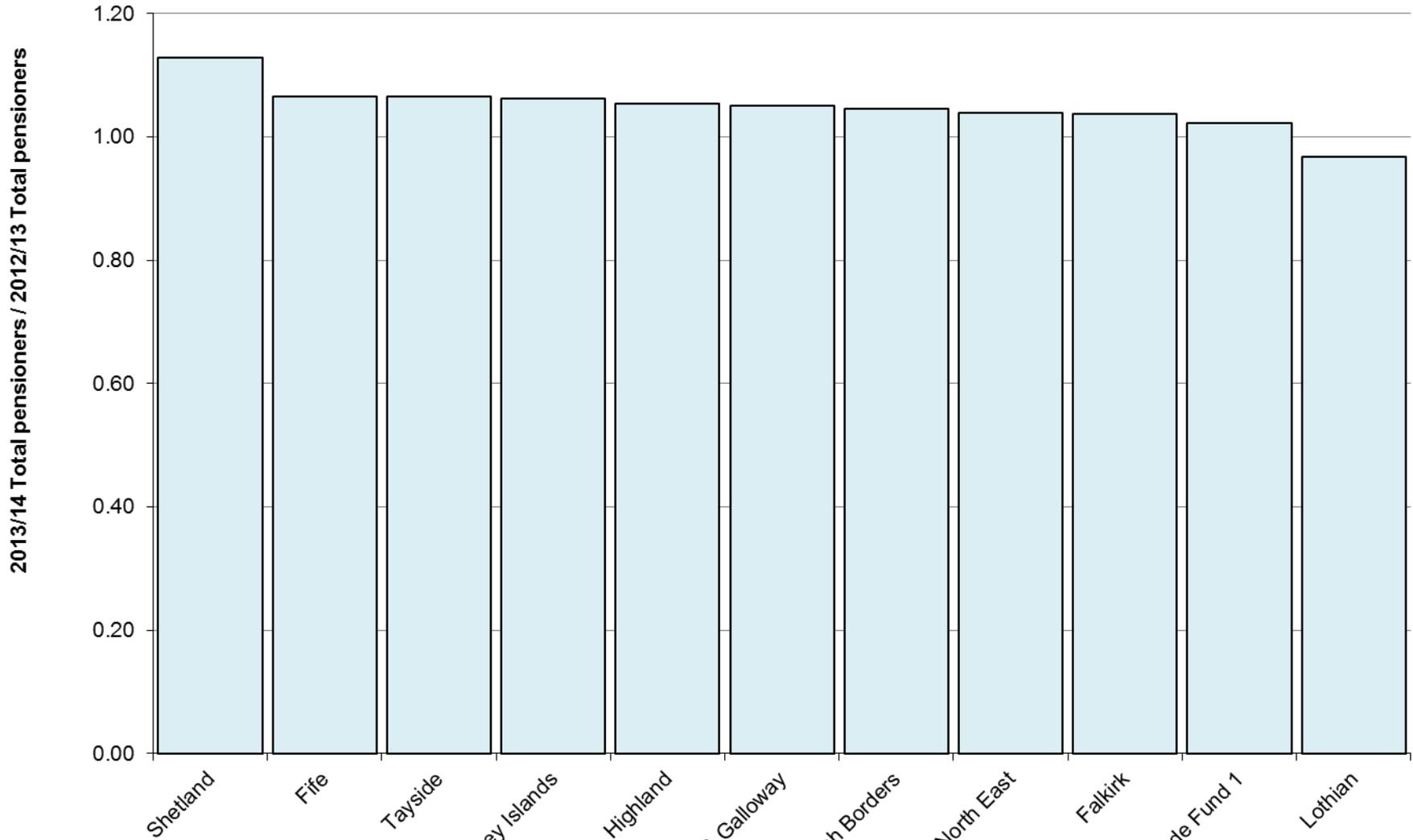
Investment management expenses



Active members year on year

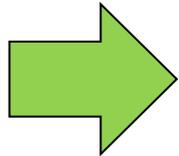


Pensioner members year on year



Issues mentioned in Pension Fund annual reports

- Quantitative easing and tapering
- European and US equities doing well
- Hard landing in China
- Low bond yields impacting on liabilities
- Infrastructure investments
- Triennial funding valuation
- Increased use of on-line services
- Integrated admin systems
- Reducing workforces, auto enrolment, protection certificates
- Governance arrangements improvements
- New scheme 2015
- More use of framework contracts
- Investment management fees negotiated down in some instances
- Abolition of contracting out 2016
- Interest rate increase expected



Audit issues

- Big 3 at start of year
 - Investment management expenses
 - Key management personnel
 - Annual Governance Statement
- Arising during audits



- Guidance not mandatory.
- Recommended best practice.
- Goes beyond the Code requirement for admin expenses to be shown on the face of the fund account.
- Additional disclosures in the notes.
- 2014-15 edition of the example accounts will reflect this guidance.

Scheme management costs

Investment management costs
Administrative expenses
Oversight and governance costs

Scheme management costs

Investment management – including	Administrative expenses – including	Oversight and governance - including costs of
Transaction costs associated with the acquisition and disposal of financial assets.	Costs related to members pensioners and employers	Selection, appointment and performance management and monitoring of fund managers
Fund management costs- directly invoiced or deducted from fund assets	But not costs as employer or associated with the administration of police and fire scheme	Advisory services
In-house investment management costs		Independent advisors
Custodian fees and investment accounting costs		Operation and support of pensions committee
Foreign exchange dealing costs		Internal and external audit
Property management and valuation costs but excluding property acquisition fees and taxes (?)		Legal services
		Accountancy
		Actuarial and tax advisory services

Scheme management costs

Fund account – current format

2011/12		2012/13
£000	Notes	£000
Dealings with members, employers and others directly involved in the fund		
(193,229) Contributions	7	(216,476)
(34,464) Transfers in from other pension funds	8	(25,238)
(227,693)		(241,714)
226,858 Benefits	9	232,580
23,536 Payments to and on account of leavers	10	48,896
5,833 Administration expenses	11	5,970
256,227		287,446
28,534 Net (additions)/withdrawals from dealings with members		45,732
Returns on investments		
(39,167) Investment income	12	(52,660)
604 Taxes on income	13	773
(820,896) Profit and losses on disposal of investments and changes in the market value of investments	15a	(300,444)
8,175 Investment management expenses	14	7,300
851,284 Net return on investments		345,031
(822,750) Net (increase)/decrease in the net assets available for benefits during the year		(299,299)

Scheme management costs

Fund account – proposed format

20X3/X4		20X4/X5
£000	Notes	£000
Dealings with members, employers and others directly involved in the fund		
(193,229) Contributions	7	(216,476)
(34,464) Transfers in from other pension funds	8	(25,238)
(227,693)		(241,714)
226,858 Benefits	9	232,580
23,536 Payments to and on account of leavers	10	48,896
256,227		287,446
22,701		39,762
14,008 Management expenses	11	13,270
Returns on investments		
(39,167) Investment income	12	(52,660)
604 Taxes on income	13	773
(820,896) Profit and losses on disposal of investments and changes in the market value of investments	15a	(300,444)
(859,459) Net return on investments		(352,331)
(822,750) Net (increase)/decrease in the net assets available for benefits during the year		(299,299)

Key management personnel

CIPFA Code extract:

3.9.4.3 The disclosure requirements of key management personnel under IAS 24 are satisfied by the disclosure requirements for officer remuneration and members' allowances in section 3.4 of the Code.

Audit Scotland view:

Code based on the assumption that there are such disclosures in the same financial statements.

A remuneration report in the authority's own (separate) financial statements does not satisfy the disclosure requirements for key management personnel in the pension fund accounts.

IAS 24 Related party disclosures

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

Key management personnel – 2013-14

Approach in fund accounts	2012-13 No. of funds	2013-14 No. of funds
Key management personnel disclosed	4	5
Reader referred to council accounts	2	2
No reference made in related parties note	5	4

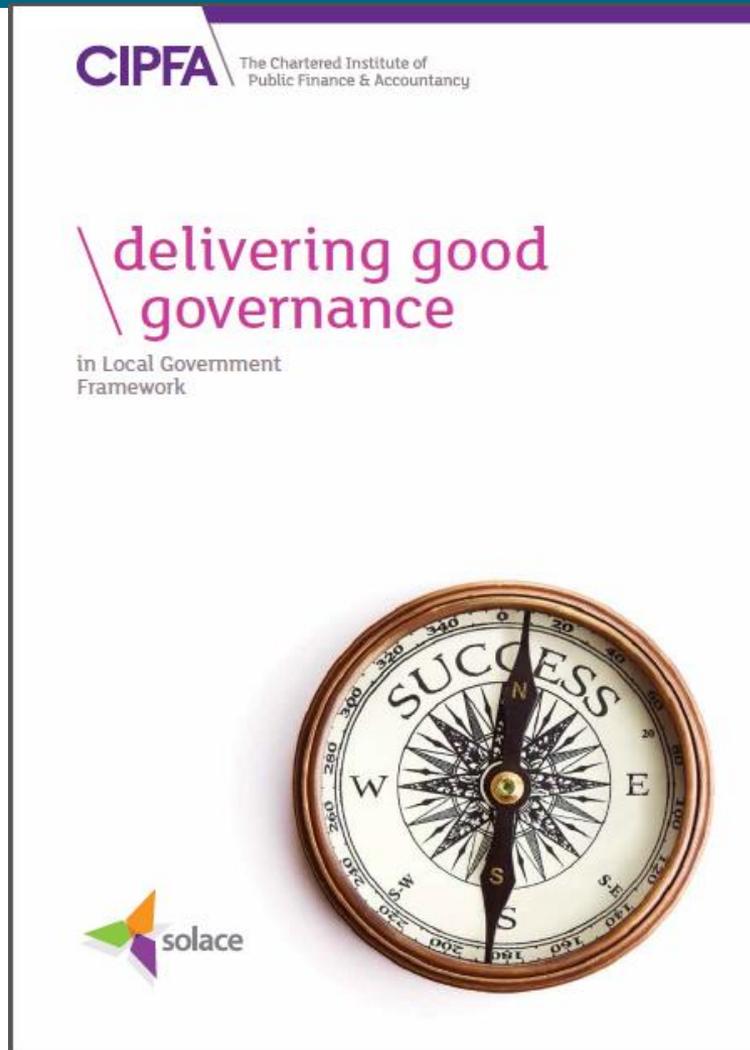
2014-15 Code requires:

Statement on the System of Internal Financial Control – Scottish authorities

- 6.5.5.2 Section 3.7 of the Code sets out the requirements for Scottish local government financial statements to provide a Statement on the System of Internal Financial Control. Scottish local government pension fund financial statements are required by statute to include a governance compliance statement. This statement is limited in its scope to those matters set down in regulation and is therefore unlikely to meet all of the reporting requirements of the Statement on the System of Internal Financial Control. Therefore for the avoidance of doubt and in order to comply with the requirements of section 3.7, the pension fund financial statements shall either provide, in addition to the governance compliance statement required by statute, a separate Statement on the System of Internal Financial Control or add additional disclosures, reports or statements as necessary in order to meet the requirements of that statement.

Annual Governance Statements

Governance Compliance Statement	Annual Governance Statement	Statement of Internal Financial Control
<ul style="list-style-type: none"> • Structure • Committee membership and representation • Selection and role of lay members • Voting • Training/Facility time/Expenses • Meetings (frequency/quorum) • Access • Scope • Publicity 	<ul style="list-style-type: none"> • Responsibility for system of governance and internal control • Level of assurance that systems and procedures can provide • Key elements of governance framework • Process applied in maintaining and reviewing effectiveness of arrangements including role of: <ul style="list-style-type: none"> ○ Authority ○ Executive ○ Audit committee ○ Internal Audit ○ Other mechanisms • Outline of actions 	<ul style="list-style-type: none"> • Responsibility for internal control • Level of assurance that internal financial control can provide • Main features of system of IFC • Role of IA and the management and reporting arrangements for IA • Details of any reviews informing effectiveness of IFC • Explanation of weaknesses and actions



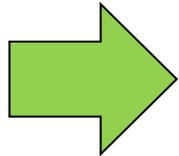
Audit issues arising include

- Reconciliation of movements in investments – cross casting
- Group transfers - accruals
- IAS 26 vested and non-vested obligations voluntary disclosure
- Operation of bank accounts
- Internal audit arrangements
- Investment Management costs

Reconciliation of movements in investments

Note 15a: Reconciliation of movements in investments and derivatives
[Code para 6.5.5.1 f) and i)]

	Market value 1 April 2012	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2013
	£000	£000	£000	£000	£000
Fixed interest securities	330,390	1,734,605	(1,656,820)	8,497	416,672
Equities	1,080,286	615,147	(585,803)	73,426	1,183,056
Pooled investments	1,794,391	942,834	(1,026,759)	157,860	1,868,326
Pooled property investments	152,613	153,661	(152,853)	769	154,190
Private equity/infrastructure	343,132	226,335	(185,628)	36,641	420,480
Property	364,001	18,548	(42,397)	87	340,239
	4,064,813	3,691,130	(3,650,260)	277,280	4,382,963
Derivative contracts:					
■ Futures	1,495	5,160	(3,939)	(1,567)	1,149
■ Purchased/written options	(117)	3,517	(4,565)	1,735	570
■ Forward currency contracts	(18,072)	97,518	(90,426)	10,628	(352)
	4,048,119	3,797,325	(3,749,190)	288,076	4,384,330
Other investment balances:					
■ Cash deposits	108,959			12,368	12,850
■ Amount receivable for sales of investments	21,681				2,741
■ Investment income due	-				7,608
■ Amounts payable for purchases of investments	(2,125)				(2,656)
Net investment assets	4,176,634			300,444	4,404,873



Looking forward

- New accounts regulations
- Triennial funding valuation
- Employers deficit funding payments
- Scheme management costs
- Operation of bank accounts?
- Transparency and comparability of accounts
- Preparedness for 2015 Scheme

Status: This is the original version (as it was originally made). This item of legislation is currently only available in its original format.

SCOTTISH STATUTORY INSTRUMENTS

2014 No. 200

LOCAL GOVERNMENT

The Local Authority Accounts (Scotland) Regulations 2014

<i>Made</i>	- - - -	<i>3rd July 2014</i>
<i>Laid before the Scottish Parliament</i>	- - - -	<i>7th July 2014</i>
<i>Coming into force</i>	- -	<i>10th October 2014</i>

The Scottish Ministers make the following Regulations in exercise of the powers conferred by section 105(1) of the Local Government (Scotland) Act 1973(1) and all other powers enabling them to do so.

In accordance with section 105(2) of that Act, they have consulted with such associations of local authorities as appear to them to be concerned.

PART 1

New accounts regulations for 2014-15



Local Government and Communities Directorate
Local Government Division

T: 0131-244 -1896
E: hazel.black@scotland.gsi.gov.uk



Local Government Finance Circular 7/2014

Directors of Finance of Scottish Local Authorities
Audit Scotland
COSLA

In 2014 Scotland Welcomes the World



Our ref: A7652027
16 July 2014

Dear Director of Finance,

THE LOCAL AUTHORITY ACCOUNTS (SCOTLAND) REGULATIONS 2014

I write to advise that the Local Authority Accounts (Scotland) Regulations 2014 were laid before the Scottish Parliament on 7 July 2014 and are due to come into force on 10 October 2014. These regulations will apply to the statutory Annual Accounts commencing with the financial year 2014-15. The provision in the regulations for internal audit applies from the 10 October 2014.

PENSION FUNDS

48. The consultation draft of the regulations proposed a change in the disclosures required for pensions, to include the cash equivalent transfer value of a person's pension right. This change was not supported by those consulted for a number of reasons and the regulations do not include this disclosure requirement.

49. The regulations apply to local government pension funds. These pension funds also have separate statutory reporting requirements as set out in *The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008* (the Administration Regulations).

50. The Administration Regulations include a statutory requirement for a report about the management and financial performance during the year of each of the pension funds maintained by the authority. This report is published as part of the statutory pension fund annual report. The accounting regulations require a management commentary. We recommend that one report is published in the Pension Fund Annual Report and Annual Accounts which satisfies the legislative requirements of both sets of regulations.

51. The Administration Regulations also require the preparation of a governance compliance statement. The accounting regulations require an annual governance statement. We recommend that one report is published in the Pension Fund Annual Report and Annual Accounts which satisfies the legislative requirements of both sets of regulations.

52. Finance circular 1/2011 which sets out statutory guidance for *Accounting for local authority pension funds* will be updated and re-issued to include additional guidance.

Other key changes include:

Responsibility for financial management	<ul style="list-style-type: none">• undertake a review of the internal control system• ensure the review findings are considered by the audit committee (or equivalent)• the audit committee (or equivalent) must approve an Annual Governance Statement
Internal Audit	<ul style="list-style-type: none">• operate a professional and objective internal audit service in accordance with recognized standards (i.e. PSIAS)• records, documents, information and explanations are provided to internal audit• assess the efficiency and effectiveness of internal audit and consider this in the review of the internal control system

Contact details

Tim Bridle
Technical Manager (Local Government)
Audit Scotland
110 George Street
Edinburgh
EH 2 4LH

0131 625 1793

tbridle@audit-scotland.gov.uk