

# Accounting & Audit Requirements

*Regulations and Reporting*

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## What will I cover?

- Understanding Cash flows
- Regulatory Approach
- Reporting Requirements
- Annual Reports

# Reporting requirements

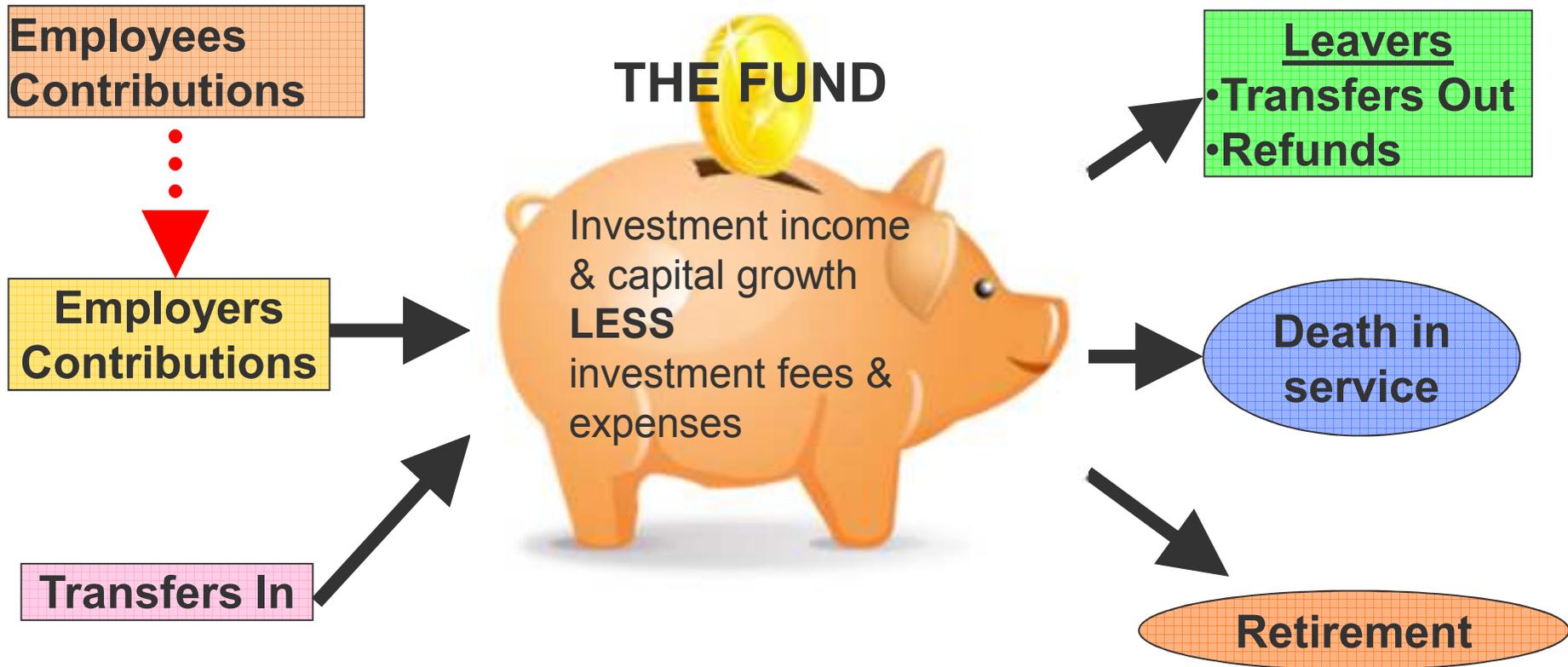
## The Accounts and Annual Report

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



<b>Annual Report</b>
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 overview



# 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	232,580
Payments to and on account of leavers	48,896
Administration expenses	5,970
Net (additions) / withdrawals from dealings with members	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	345,031
<b>Net (increase) / decrease in net assets available for benefits during the year</b>	<b>(274,085)</b>

## Net Assets Statement (NAS)

### Net Assets Statement

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

# Regulatory environment

## Superannuation Act 1972

### To 31 March 2008

- Local Government Pension Scheme Regulations 1997
- 30+ amendment Regulations

### From 1 April 2008

- LGPS (Administration) Regulations 2008
- LGPS (Benefits, Membership and Contributions) Regulations 2007

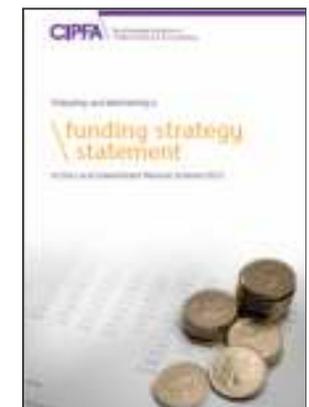
Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

## LGPS (Benefits, Membership and Contributions) Regulations 2007

- 2 Defines who is a member
- 3 Banded contribution rates
- 4 Defines pensionable pay
- 5 Minimum membership of 3 months
- 6-7 Calculating membership
- 8-11 Calculation of pay
- 12-13 Augmentation
- 14-15 AVCs
- 19 Redundancy and inefficiency
- 20 Ill-health retirement

## LGPS (Administration) Regulations 2008

<p><b>II Membership</b> 7 Admission agreements</p>	<p><b>VII Policy Statements</b> 65 Pension Administration Strategy 66 Discretions 67 Communication with admitted bodies 68 Annual benefit statements</p>
<p><b>III Contributions</b> 25-27 AVCs</p>	<p><b>IX Transfers</b> 81-82 Bulk transfers</p>
<p><b>IV Pension Funds &amp; Ers Conts</b> 31 Governance Compliance Statement 33 A/cs and audit 34 Pension Fund Annual Report 35 Funding Strategy Statement 36-38 Actuarial valuation 39-41 Employers contributions 42-44 Payment of contributions, "fines" &amp; interest</p>	



## LGPS (Management and Investment of Funds) Regulations 2009

- Reg 4 Management of the fund
  - accruals basis of accounting
  - Specifies debits and credits to the fund
  - Excludes AVCs
- Reg 5 limited power to borrow
- Reg 6 separate pension fund bank a/c

- Reg 8 appoint "suitably qualified" investment managers
- Reg 9 terms of appointment:
  - invest in diverse range
  - based on proper advice,
  - follow SIP
- Reg 10 review performance
  - Quarterly
  - Consider whether to retain manager
- Reg 11 investment policy
- Reg 12 Statement of Investment Principles
- Sch 1 – some limits to investments

## Other regulation

- Pensions Act 1993, 1995 & 2004
  - Created new regulator - The Pensions Regulator (replaced OPRA)
  - Occupational schemes generally
  - Restricted application to the LGPS – Internal Dispute Resolution Procedure required for each fund
  - Expected to have wider role from April 2015

**AC auditors have no duty to report to The Pensions Regulator – currently!**

- Financial Services & Markets Act 2000
  - Created the Financial Services Authority
  - Regulates investment managers/advisors

## Audit regime



- Auditors appointed by Audit Commission – Year 1 of 5
- Not a separate audit appointment but separate audit fee and fee scale
- Separate audit plan for pension fund audits
- Reporting:
  - Separate section in audit report on Statement of Accounts
  - Audit report on Pension Fund Annual Report
  - separate reporting to those charged with governance of the pension fund audit

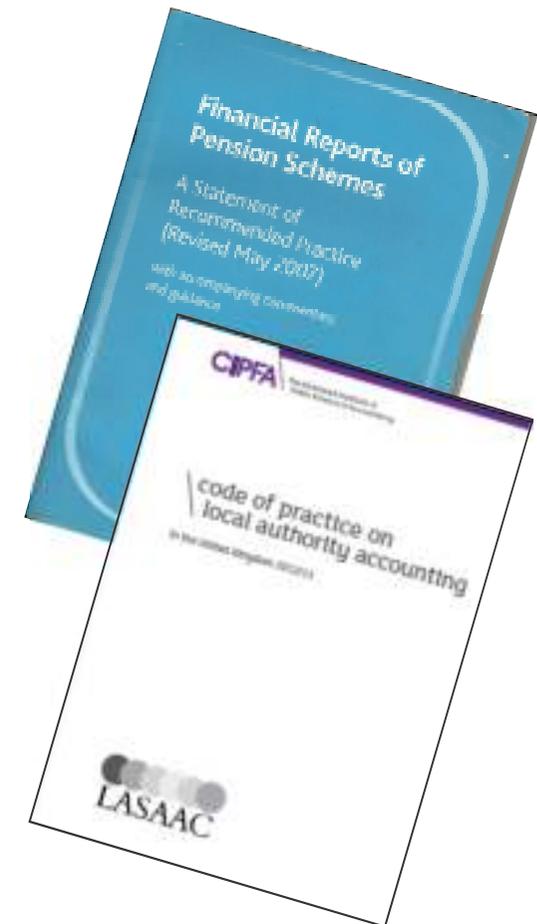
## Scope

- Audit of accounts only
- No separate vfm conclusion
- Annual Report consistency
- Negative assurance on Governance Compliance Statement
  
- Follow PN15: The audit of occupational pension schemes except for:
  - Certifying contributions
  - Reporting breaches to The Pensions Regulator

**May change  
in April 2015**

## Basis of preparation

- Accruals
- Current version of the Code of Local Authority Accounting Practice in the United Kingdom
  - **NOT** the Pension SoRP!
- Underpinned by Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009



## 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

less

Due diligence req'ts

more

**Easy to price, there is a liquid market for these securities**

- UK and overseas equities
- Bonds
- Forwards and futures
- Deposits and short term investments
- Pooled investment vehicles invested in the above

1

**Moderately difficult to price, limited visible market parameters**

- Credit default, inflation, interest rate and other swaps
- Options
- Unquoted pooled investment vehicles
- Property
- Liquid asset backed securities (ABSs) and bonds
- Hedge funds
- Hedge fund of funds
- Pooled investment vehicles invested in the above

2

**Difficult to price, lack of a liquid market, difficult to verify parameters used in valuation**

- Structured investment vehicles (SIVs)
- Unquoted private equity investments
- Pooled investment vehicles invested in the above

3

Transparency

opaque

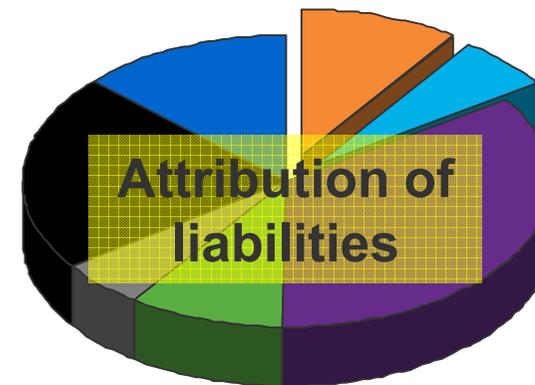
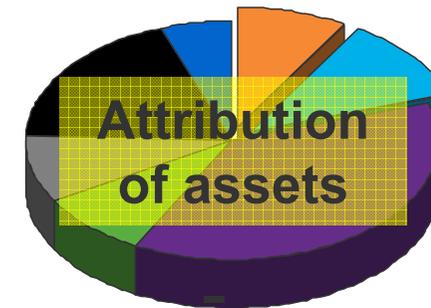
# Reporting future retirement benefits

Objectives of IAS19 and FRS17:

1. Statements show fair value of assets & liabilities relating to members from that employer
2. Operating costs of providing retirement benefits recognised as earned & related finance costs etc recognised as they arise
3. Disclosure of costs or providing benefits & related gains, losses, assets & liabilities

## FRS 17/IAS19 – an employer issue

- Each body accounts for its own share of assets/liabilities & pension costs
- Actuary estimates assets & liabilities for employers
- Methodology:
  - Roll forward membership data from last triennial funding valuation
  - Different assumptions to funding valuation
  - Key difference is discount rate
- Pension fund involvement:
  - Providing data on cashflows
  - Not all employers have same year-end



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Net asset/liability

## Accounting policies

- Code requires a summary of significant accounting policies
- May be different from single entity a/cs

### Specific issues:

- 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



# Annual Reports

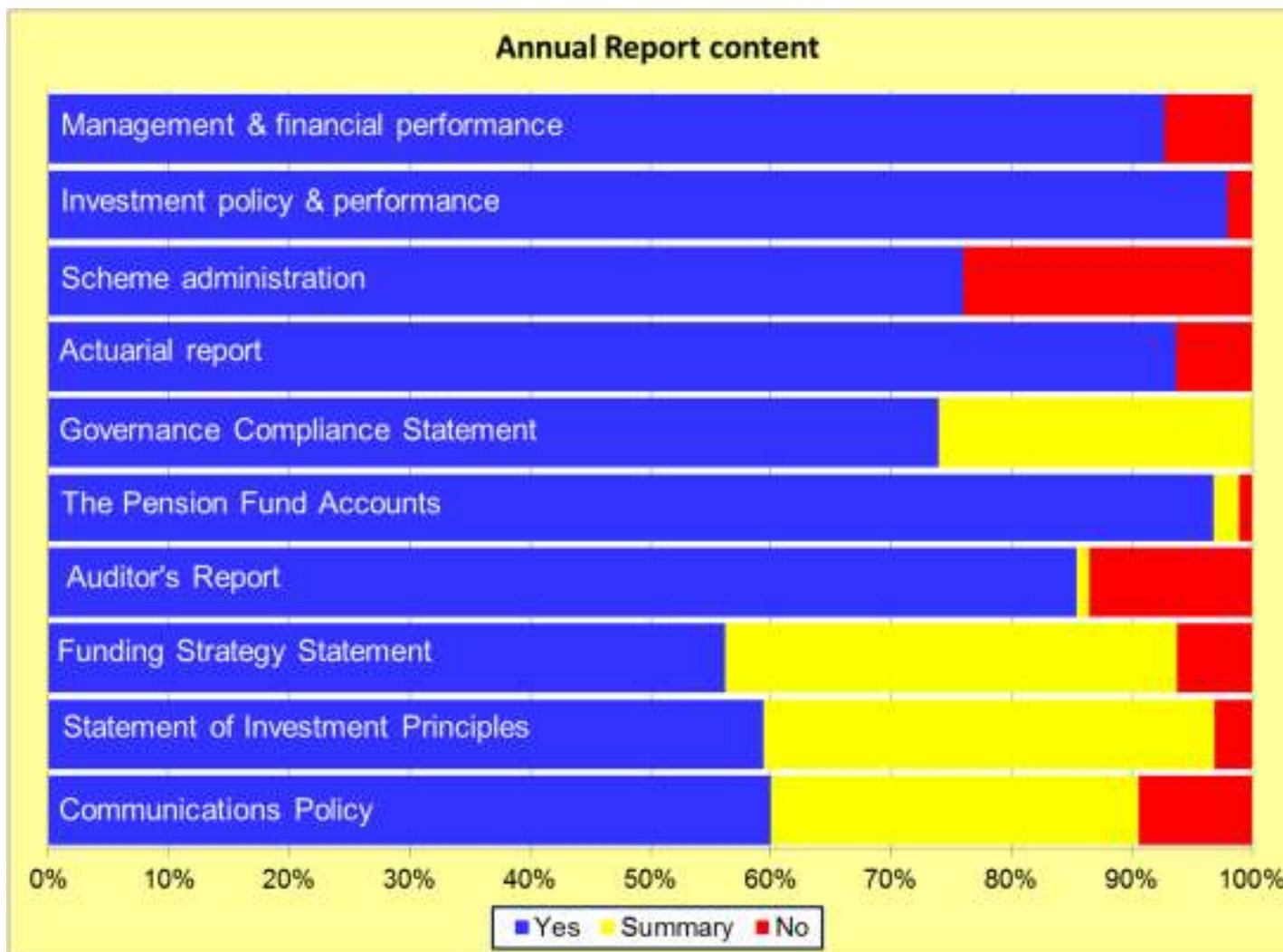
## What is required?

“An administering authority **must**.....prepare...the pension fund annual report which **contains**:.....  
.....must **publish** on or before 1 December....  
.....must **have regard** to guidance....” [Reg 34]

- must - not discretionary
- contains – have or hold within
- publish
  - not defined in LGPS Regs
  - A&A Regs: “.....must include publication on the body’s website....”
- have regard
  - need good reason for not following



## Not everything was included...



# Annual Report Considerations

- Length
- Summary Reports
- Accessibility
- Management & Financial Performance
- Administrative Performance
- Risk Management
- Business planning
- Knowledge & Skills Framework