

Audit issues 2011-12

Peter Worth

Technical Update
CIPFA Pensions Network
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Headlines

- All audits completed by 30 September 2012
- No qualified audit opinions
- Overall improvement in compliance with the IFRS-based Code

BUT

- Still significant number of material adjustments

Impact of Example Pension Fund Accounts

- Most pension funds applying the whole Code

- Last year we highlighted
 1. Accounting policies
 2. Comparators
 3. Financial instrument disclosures
 4. Debtor/creditor WGA analysis
 5. Investment property



Impact of Example Pension Fund Accounts – how did we do (1)?

1. Accounting policies

- Many looked very similar to example
- Some omissions
 - estimation and significant judgments
 - cash & cash equivalents
 - financial instruments
- Basis of presentation is the Code not Pension SoRP
- Legislation should be current version

2. Comparators

- ✓ Largely compliant
- But 50% of Investment Reconciliation tables omitted

Impact of Example Pension Fund Accounts – how did we do (2)?

3. Financial instrument disclosures
 - ✓ 85% of funds made full disclosure
 - wording looked very similar to Example A/cs

BUT

- Some omissions:
 - Sensitivity analysis for risks
 - Level 1-3 valuation disclosure
- Misclassification of investments
 - AfS v. FVPL
 - Level 1-3 valuation

Impact of Example Pension Fund Accounts – how did we do (3)?

- 4. Dr/Cr WGA analysis
 - 50% omitted
 - Some debate over inclusion of investment balances

- 5. Investment property
 - ✓ Excluded from investment analysis
 - ✓ Disclosures made

18. Investment Property

The Fund has investment in property of £378.701m (£351.005m) of which £373.443m (£345.747m) is in direct property (see Note 14) which is classified as Investment Property.

The following items of income and expense have been accounted for in the investment income line in the Fund Account.

	2019/20	2018/19
	£'000	£'000
Rental income from investment property	18,324	15,015
Direct operating expenses arising from investment property	(1,788)	(2,678)
Net gain/(loss)	16,758	12,337

There are no restrictions on the Fund's ability to realize the value inherent in its investment property or on the Fund's right to the remittance of income and the proceeds of disposal. The Fund has a Development Funding Agreement (two) at 31 March 2019 with an outstanding commitment of just over £7.5m (£15.8m).

The following table summarises the movement in the fair value of investment properties over the year:

	2019/20	2018/19
	£'000	£'000
Balance at start of the year	345,747	372,137
Additions		
Purchase	6,380	44,466
Construction	11,897	16,116
Subsequent Expenditure	818	3,966
	19,095	64,548
Disposals	(24,804)	(11,120)
Net gains/losses from fair value adjustments	34,067	20,182
Balance at end of the year	373,443	345,747

Matters arising from the audit

- Key management compensation
- Bank accounts
- Investment management expenses

Should key management personnel compensation be disclosed?

- Requirements of IAS 24 met by senior officer remuneration and members allowances disclosures

- Code requirements stem from:
 - senior officers- Accounts & Audit Regulations 2011 Reg7(2)-(4)
 - Members - Local Authorities (Members' Allowances) (England) Regulations 2003

Key management personnel compensation

Does the Code exemption apply to pension funds?

- Unclear
- Reg 7(2) applies to single entity authority accounts
- Pension fund accounts are separate standalone a/cs
-Reg 7(1)(d)
- Pension fund a/cs in Annual Report should be
“freestanding”

Key management personnel compensation – who and what

Who?

- “chief officers, elected members....having authority and responsibility for planning, directing and controlling the activities....” [Code 3.9.2.2]

What?

- Compensation includes:
 - a) Short-term employee benefits eg pay, NI, annual leave
 - b) Post-employment benefits eg pension
 - c) Other long-term post-employment benefits
 - d) Termination benefits
 - e) Share-based payments
- Disclose in total and for each category
 - No names required

Key management compensation – in practice

Element	Officers	Members	Measurement
S/t benefits	Pay etc	N/A	IAS 19
Post-employment	Pensions	Pensions?	IAS 19
Other I/t benefits	Unlikely	N/A	IAS 19
Termination benefits	Potentially	N/A	IAS 19
Share-based pay'ts	Unlikely	N/A	IFRS 2

IAS 19 Employee benefits
IFRS 2 Share-based payments

Example disclosure

Key Management Personnel

The posts of Director of Resources and Head of Finance are deemed to be key management personnel with regards to the pension Fund. The financial value of their relationship with the Fund (in accordance with IAS24) are set out below:

	31 March 2012 £000	31 March 2011 £000
Short term benefits	58	58
Long term/post retirement benefits	850	803
Total	908	861

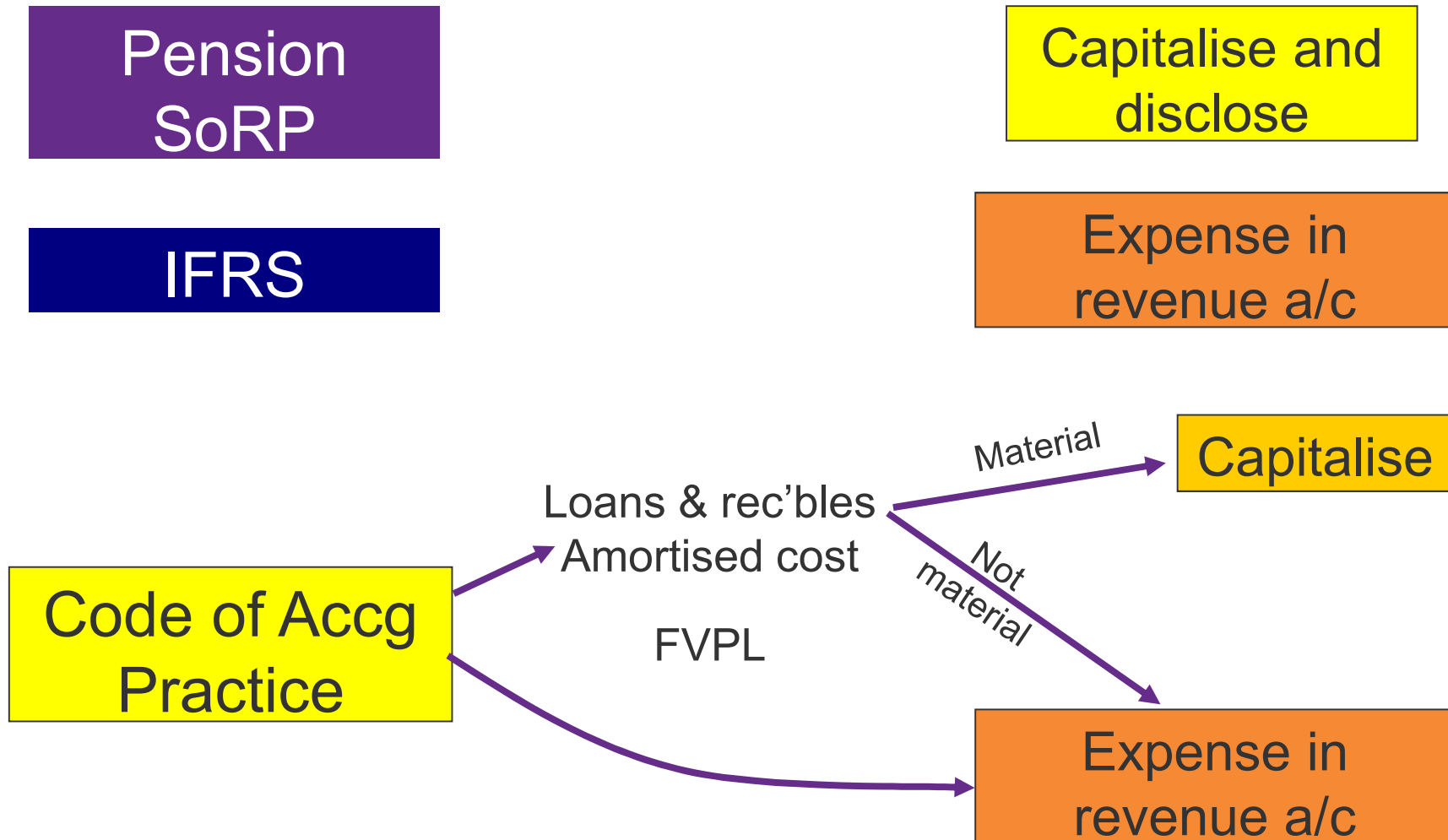
Bank accounts

- Statutory requirement:
 - separate bank account with effect from 1 April 2011 for:
 - all pension fund money on that date (i.e. balance b/f)
 - All pension fund receipts after that date

- Sensitive issue:
 - Co-mingling of pension and authority funds
 - Legal challenges

- Some non-compliance:
 - Bank a/c not used until part-way through 2011-12
 - Transactions going through main authority bank a/c with month-end transfer to pension bank a/c

Investment management expenses



Control issues

- Reconciliations
 - Investments
 - Bank accounts
- Valuation of unquoted investments – assurances
- Confirmation of pensioner existence – NFI
- Late payment of contributions from smaller bodies

In summary

- Big improvement since 2010/11
- Review audited 2011/12 a/cs against CIPFA example a/cs
- Identify gaps in disclosure
- Prepare draft skeleton a/cs now
- Allow sufficient time for effective quality control review



Thank you

Peter Worth
Director
Worth Technical Accounting
Solutions

E-mail to:
pjlworth@btinternet.com

