

Accounts and Audit 2014-15

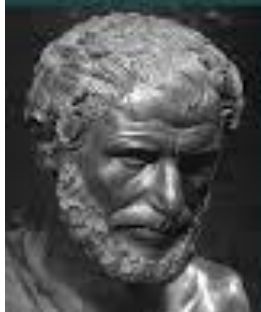
CIPFA Pensions Network

Edinburgh - 30 Sept 2015

Tim Bridle – Technical Adviser (LG)



The only constant
is change.



Heraclitus
535 BC - 475 BC



These slides are based on a review of the unaudited annual report and accounts and draft annual audit reports where available.

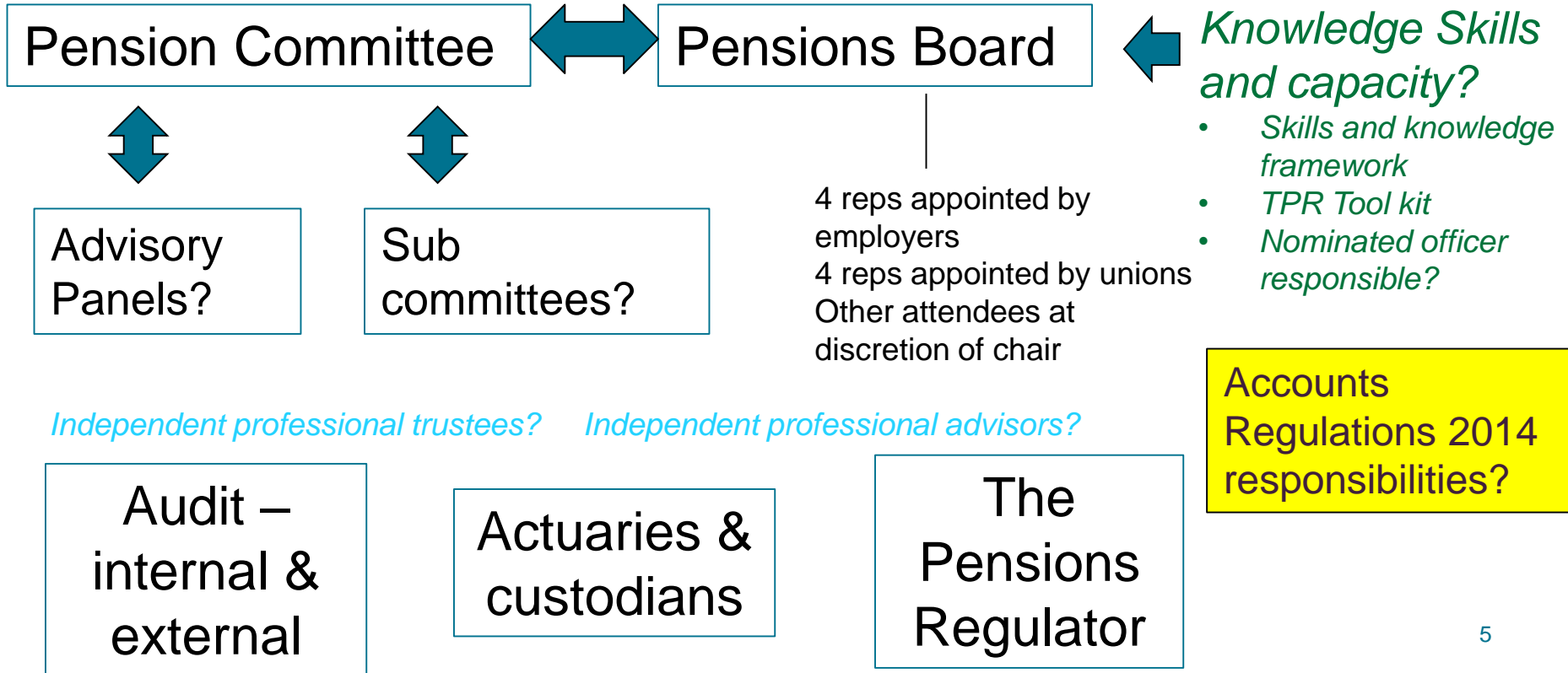
Any views expressed are those of the presenter and not the official views of the TSU or Audit Scotland.

- 1) Quick overview of issues
- 2) The annual report and accounts
- 3) Look ahead



Overview

Governance landscape



Audit Committee or Pension Committee?

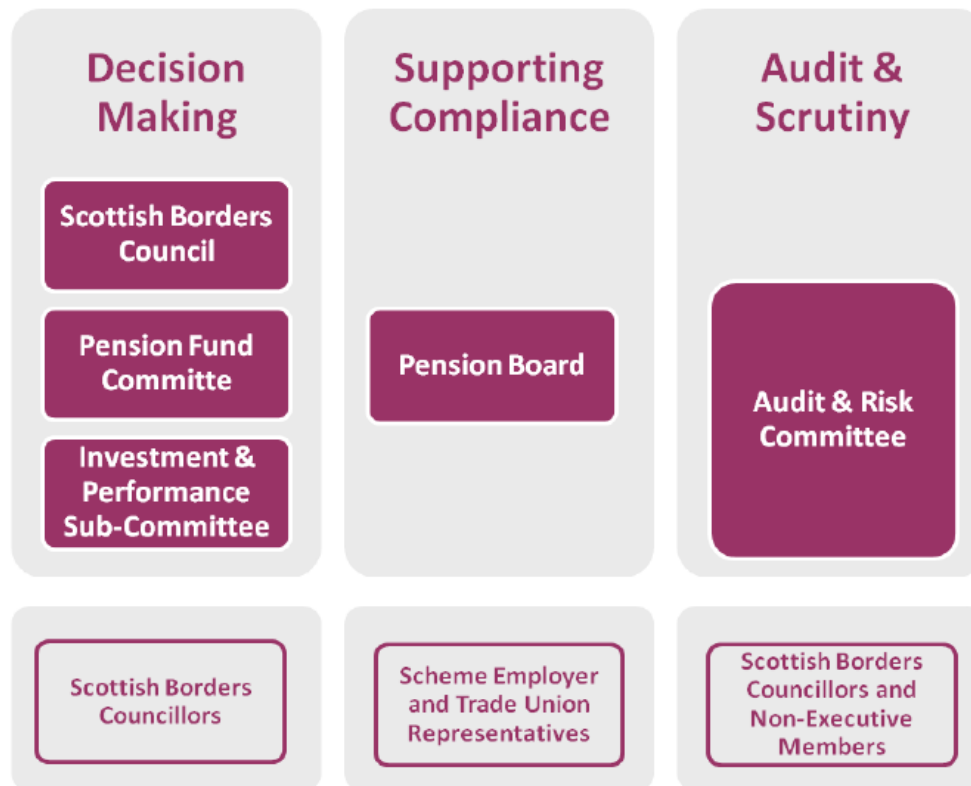


Consider the findings of an annual review of the system of internal control

Assess the efficiency and effectiveness of internal audit (from time to time)

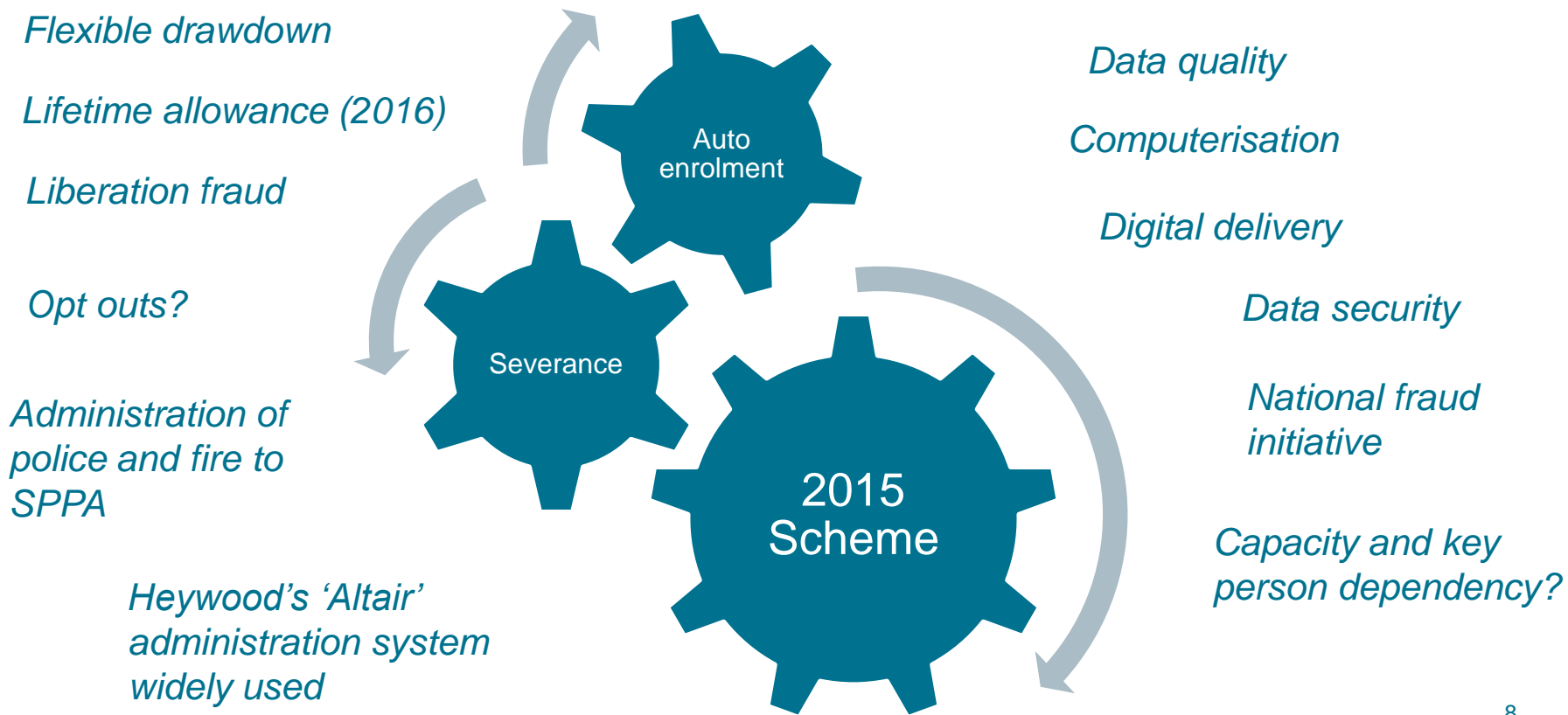
Approve annual governance statement for inclusion in the accounts

Illustration from an annual report - Fund Governance from 1 April



Overview

Administration landscape



Overview

Investment landscape

Macro economic:

*Quantitative easing
& low interest rates*

*China's economic
slowdown*

*Geo-political risks including:
Greek debt
Ukraine conflict
War in Syria
Referendum on Europe?*

Balancing risk and return

*Many funds
“overweight in
equities”?*

*Move towards
infrastructure and
alternatives?*

*Implications of
negative cash
flows?*

*Need for different
strategies for
different employers?*

*Is the LGPS paying too
much?*

*Consultation down
south about:*

- *CIVs*
- *Active / passive
management*

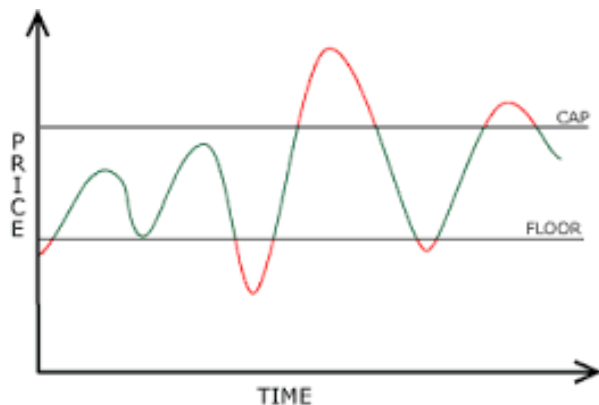


Scottish LGPS funding position compares favourably to that for England and Wales

Contribution stability for most employers

New employer cost cap relating to benefits accrued under the 2015 Scheme

Employer contributions in relation to current service to be limited

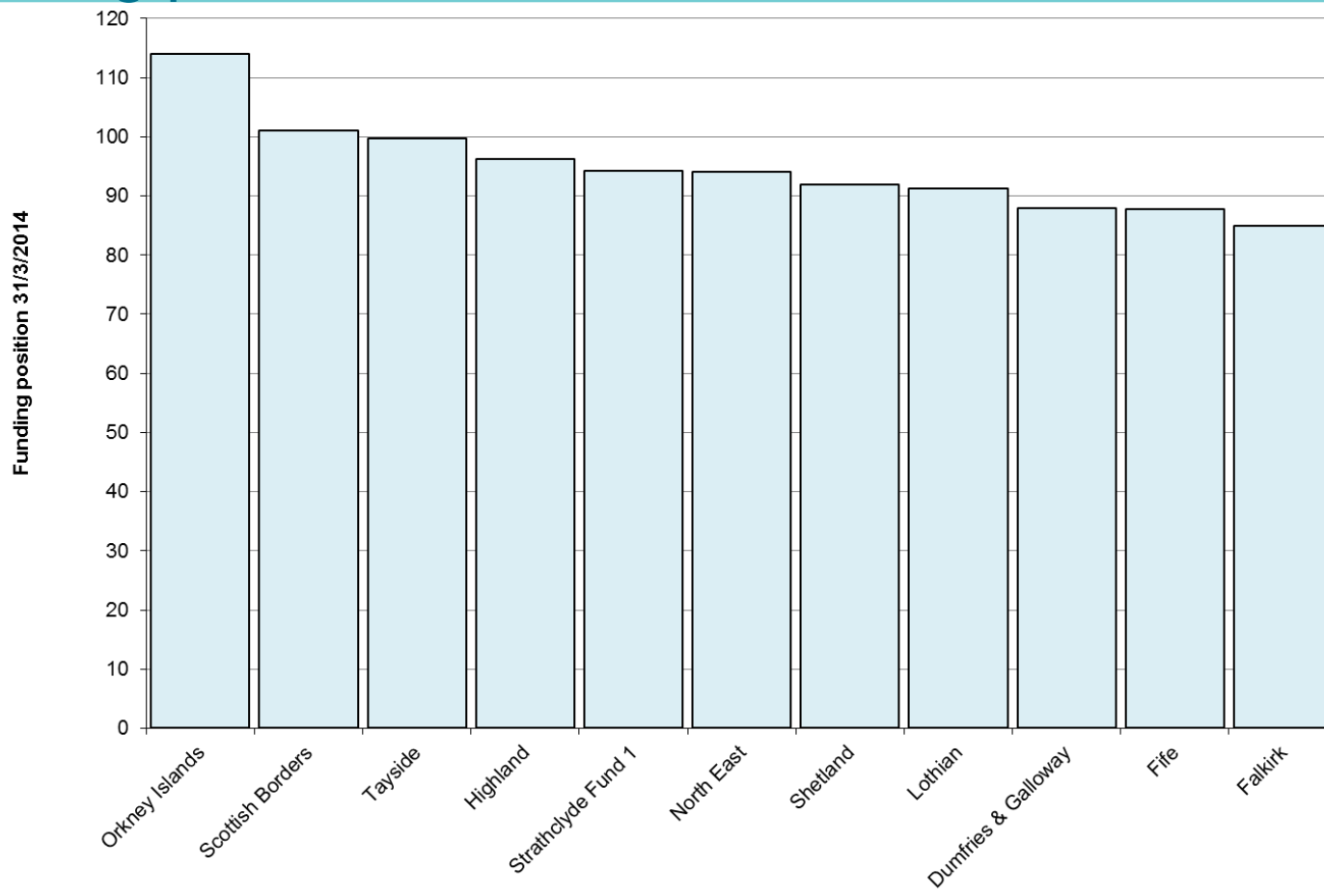


Increased cost could mean changes to employee contributions for example

National valuation currently being co-ordinated by GAD on behalf of Scottish Ministers?

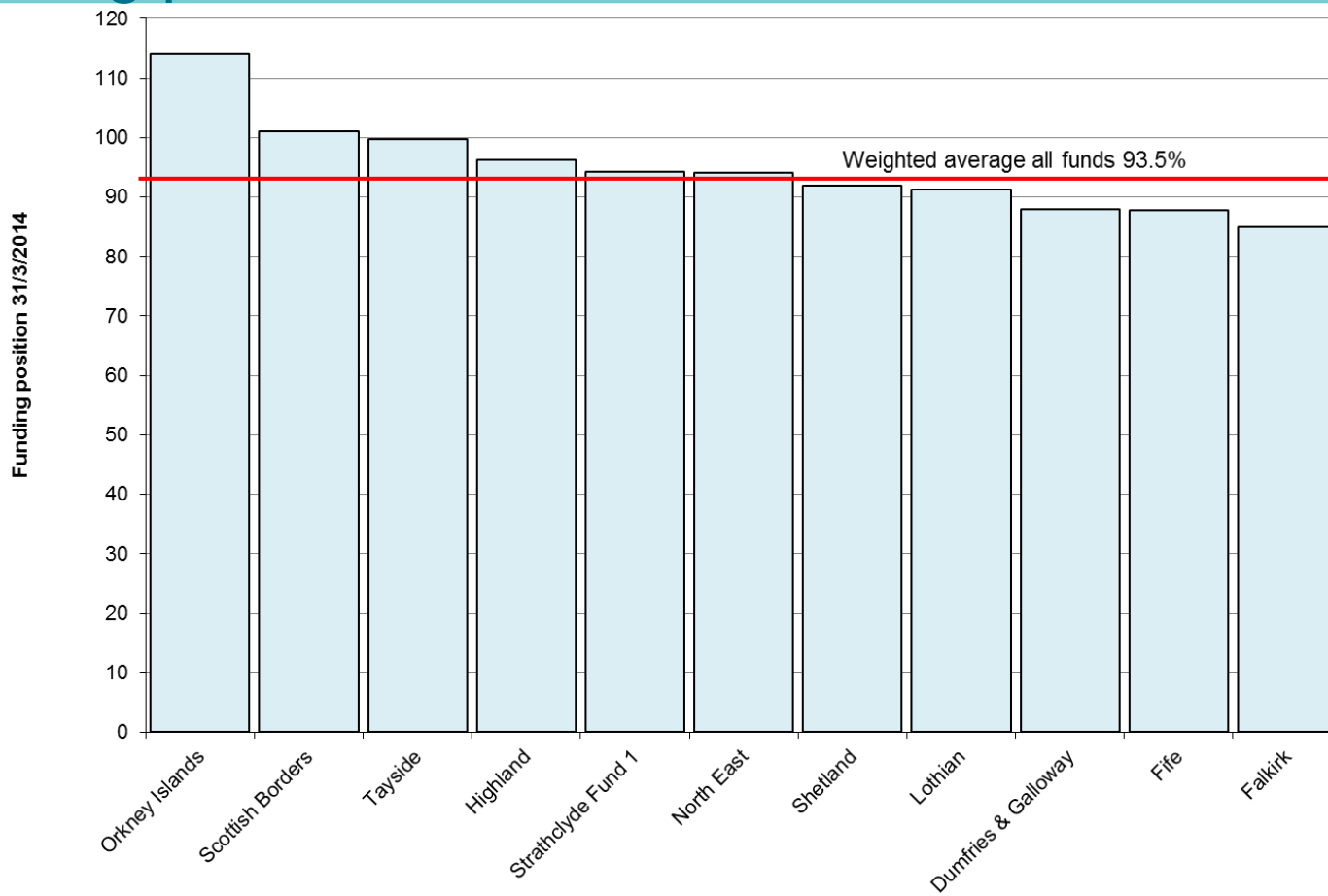
Overview

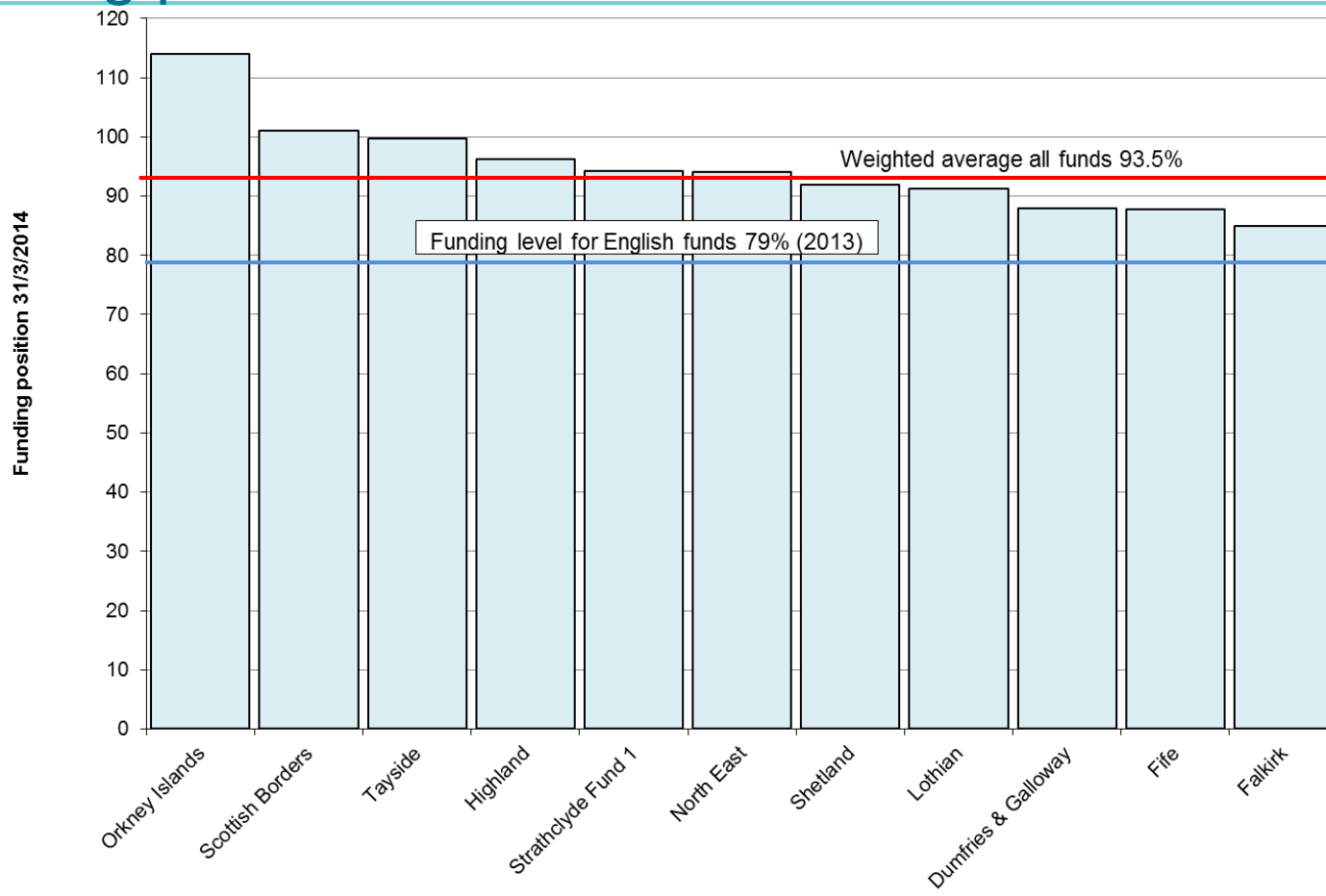
Funding position 31/3/2014



Overview

Funding position 31/3/2014





- 1) Quick overview of issues
- 2) The annual report and accounts**
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1) Quick overview of issues

2) The annual report and accounts

- **Management commentary and AGS**
- **Accounts – some comparative graphs**
- **Other issues**

3) Look ahead



PENSIONS

The Local Government Pension Scheme Amendment (Scotland) Regulations 2010

“Pension fund annual report

31A.—(1) An administering authority must, in relation to each year beginning on 1st April 2010 and each subsequent year, prepare a document (“the pension fund annual report”) which contains—

- (a) a report about the management and financial performance during the year of each of the pension funds maintained by the authority;
- (b) a report explaining the authority’s investment policy for each of those funds and reviewing the performance during the year of the investments of each fund;
- (c) a report of the arrangements made during the year for the administration of each of those funds:

Annual report and accounts

Pensions regulations – annual report

Areas to cover or include - regulation 31a

Management and financial performance

Investment policy and performance

Administration arrangements

Outstanding borrowing

Statement by Actuary

Governance compliance statement (*can be linked)

Accounts

Administration strategy performance (discretionary)

Funding strategy statement*

Statement of investment principles*

Other material?

SCOTTISH STATUTORY INSTRUMENTS

2014 No. 200

LOCAL GOVERNMENT

The Local Authority Accounts (Scotland) Regulations 2014

Requires:

- *Management commentary*
- *Annual Governance Statement*

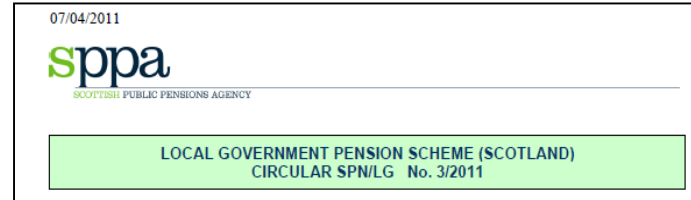
Annual report and accounts Governance Statements

The auditor is required to report by exception if in their opinion:

The **AGS** does not comply with
Delivering Good Governance In
Local Government



The **GCS** does not comply
with guidance from the
Scottish Ministers



Auditors also have a responsibility to identify any information that is materially incorrect or inconsistent with their knowledge.



Scottish Children's Reporter Administration
The Chief Executive
Scottish Environment Protection Agency
The Director General
Strathclyde Passenger Transport Executive
The Clerk
Strathclyde Passenger Transport Authority
The Chief Executive/Director
Area Tourist Boards

What we found – approach AGS & GCS

- 8 out of 11 funds did separate AGS and GCS
- 1 fund did a combined statement – GCS part of AGS
- 1 fund did not include an AGS
- 1 fund did not include a GCS

What we found – content of AGS

- AGS sometimes that of the authority with no tailoring for pension specific arrangements.

Annual report and accounts

Statutory guidance on MC



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Local Government Finance Circular 5/2015

<http://www.gov.scot/Topics/Government/local-government/17999/11203>

By e-mail:

Directors of Finance of Scottish Local Authorities

Copy Audit Scotland

COSLA

Our ref: A10843741

11 May 2015

Dear Director of Finance,

**THE LOCAL AUTHORITY ACCOUNTS (SCOTLAND) REGULATIONS 2014 –
MANAGEMENT COMMENTARY**

*Applies Companies Act requirements in relation to the strategic report
(as modified)*

The management commentary **must** include :

- a description of the authority's **strategy**
- a description of the authority's **business model**
- a **review of the authority's business** which is a balanced and comprehensive analysis of:
 - the development and performance of the business during the year
 - the position of the authority's business at the end of the year, consistent with the size and complexity of the business
- a description of the **principal risks and uncertainties** facing the authority
- the main **trends and factors likely to affect future development**, performance and position of the authority
- references to, and additional **explanations of, amounts** included in the authority's annual accounts.

Annual report and accounts

Management commentary – KPIs?



Financial key performance indicators – must be included



Non-financial performance indicators - include as management consider relevant

- to the extent necessary for an understanding of the authority's business.

Auditors read the annual report for consistency

- with the financial statements; and
- the knowledge of auditor



Material misstatements or inconsistencies are considered in relation to our opinion.

INTERNATIONAL STANDARD ON AUDITING (UK AND IRELAND) 720

SECTION B – THE AUDITOR’S STATUTORY REPORTING RESPONSIBILITY IN RELATION TO DIRECTORS’ REPORTS

4. The auditor is not required to verify, or report on, the completeness of the information in the directors’ report. If, however, the auditor becomes aware that information that is required by law or regulations to be in the directors’ report has been omitted the auditor communicates the matter to those charged with governance. This communication includes situations where the required information is presented separately from the directors’ report without appropriate cross references.

What we found – approach

Approach varied from:

- 2 page summaries on funding, investment and administration to:
- re-badged annual reports ie the whole annual report is the MC

One fund made no reference to MC

One or two included a foreword by the convenor as well as MC

Provision for signatories – not in always included

What we found – look and feel

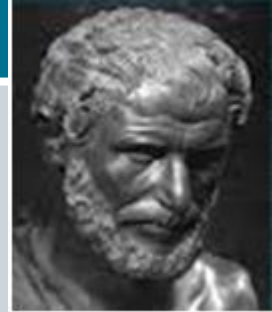
Some very professional looking annual reports

Some good use of

- of tables and diagrams
- signposting and hyperlinks – internal and to PF website and reports

What we found – content

- Some set out the purpose of the PF
- One fund highlighted that teachers were not included
- But no mention of unfunded retirement benefits
- Investment performance and funding position covered well
- Deficit recovery periods and employer contribution rates could perhaps be more prominent?
- Good coverage of administration - stats and satisfaction
- Coverage of administration cost less good – budget actual, unit costs?
- New scheme and governance arrangements covered quite well
- Employer cost cap generally not covered

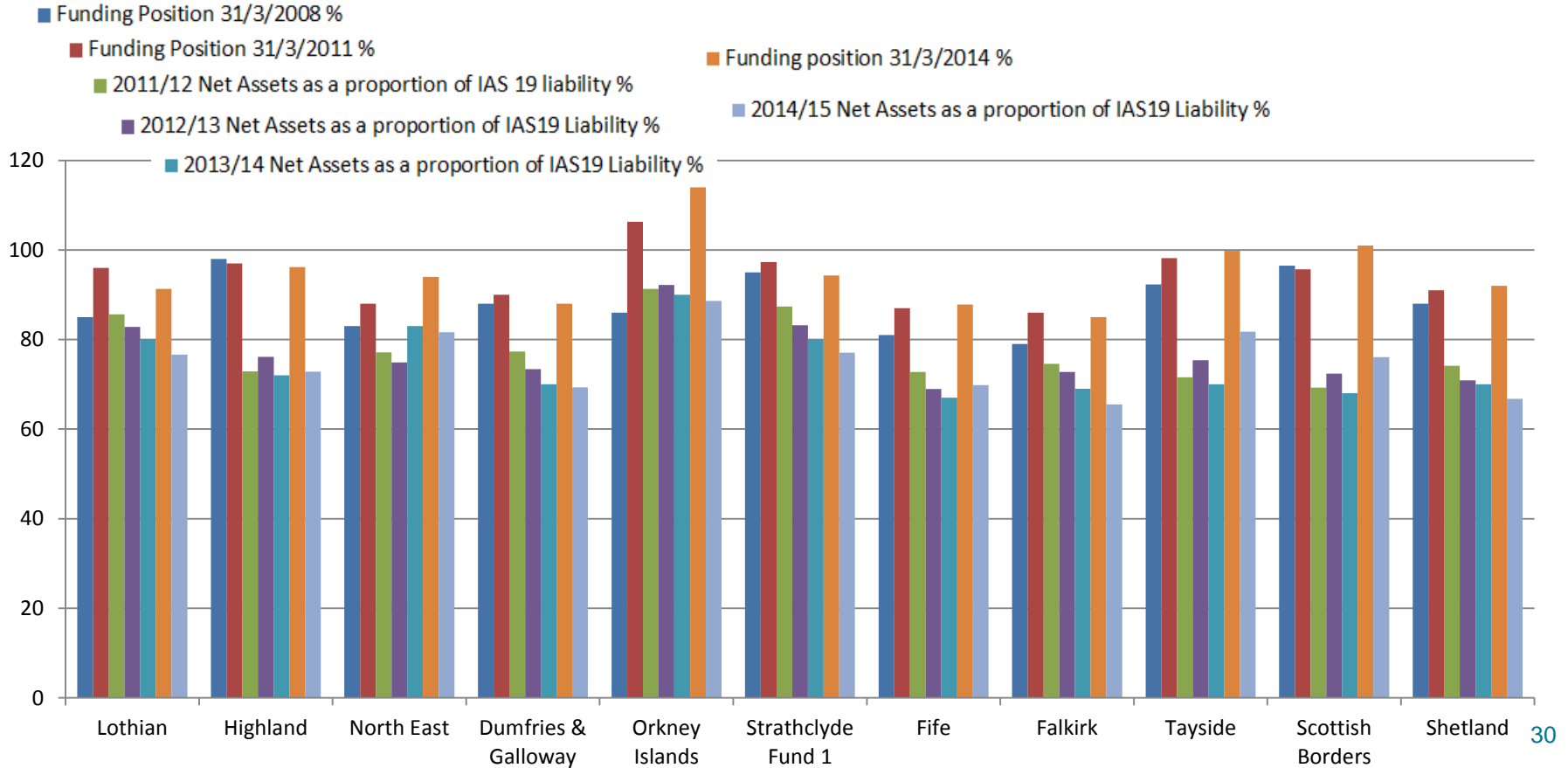


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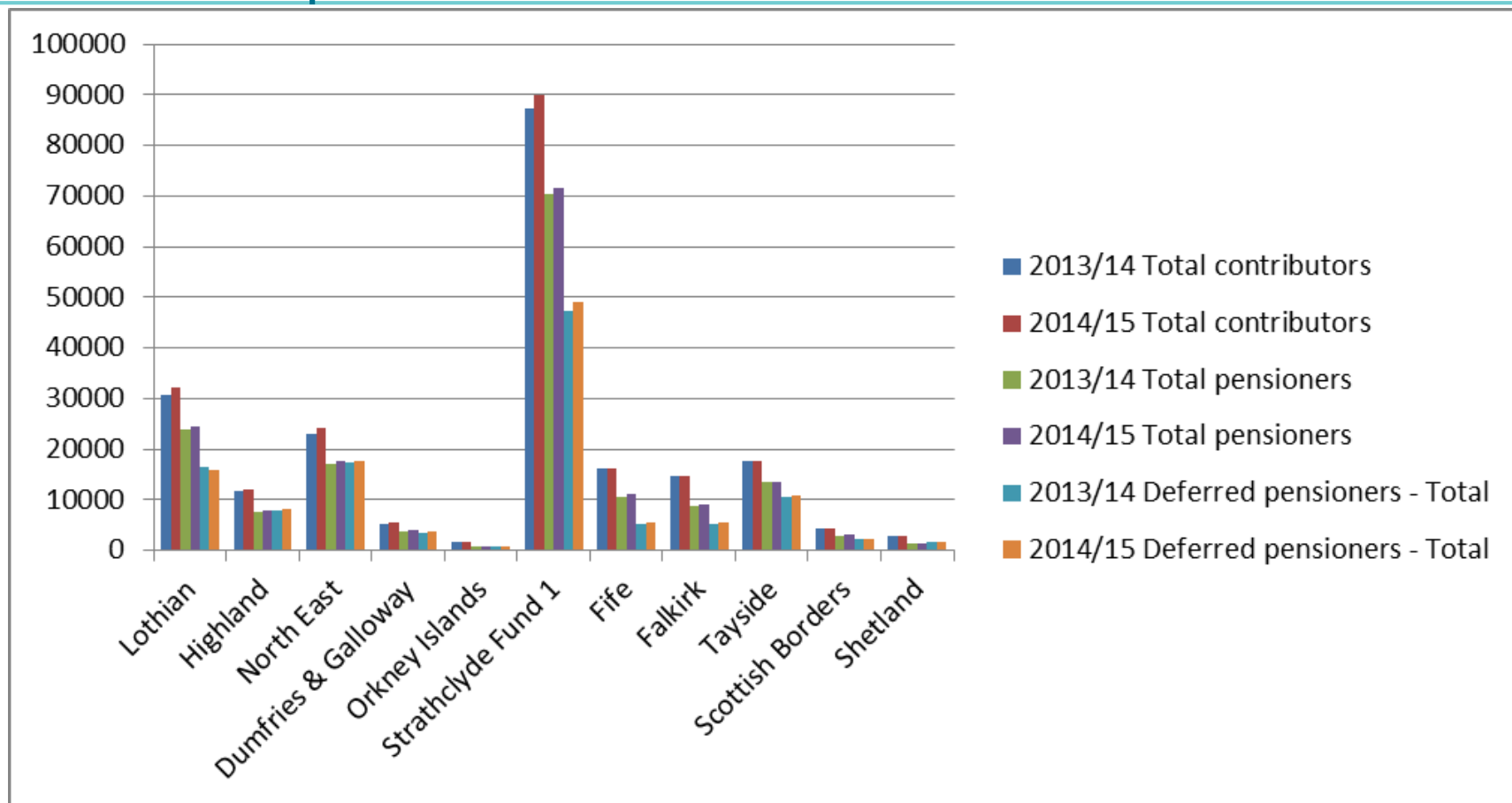
Accounts - Net liability / asset

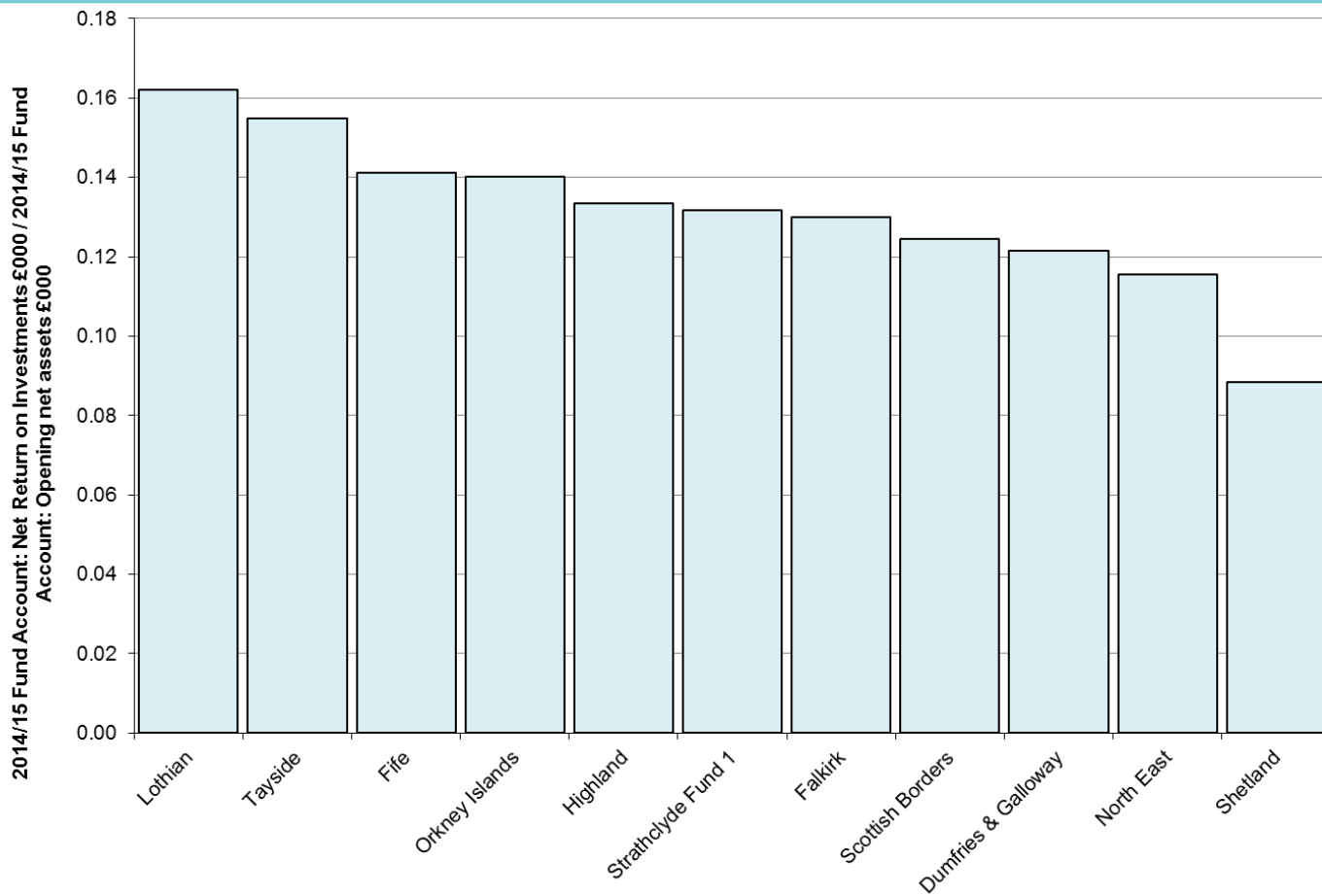
Funding basis & accounting basis compared



Accounts

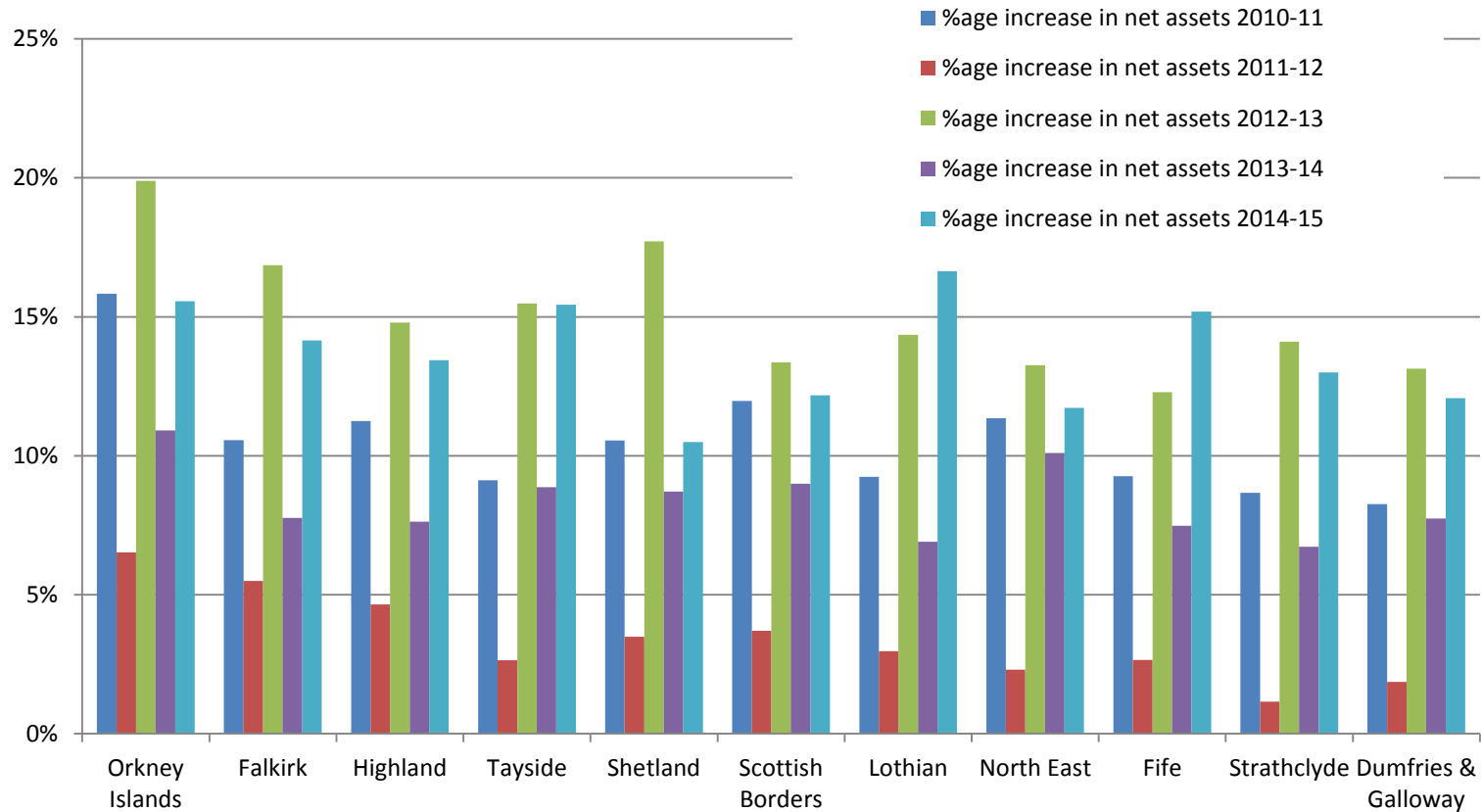
Membership 2013-14 & 2014-15

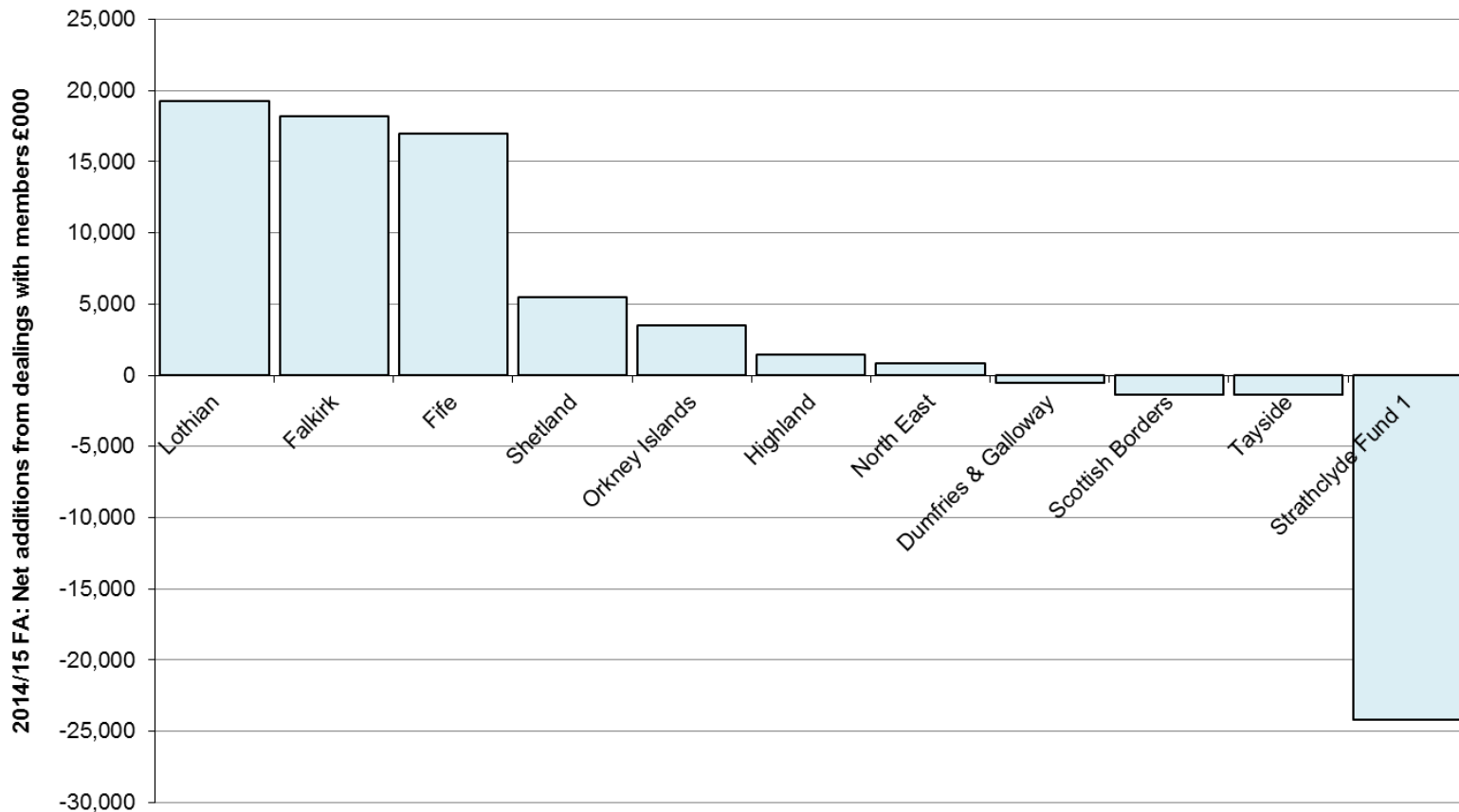




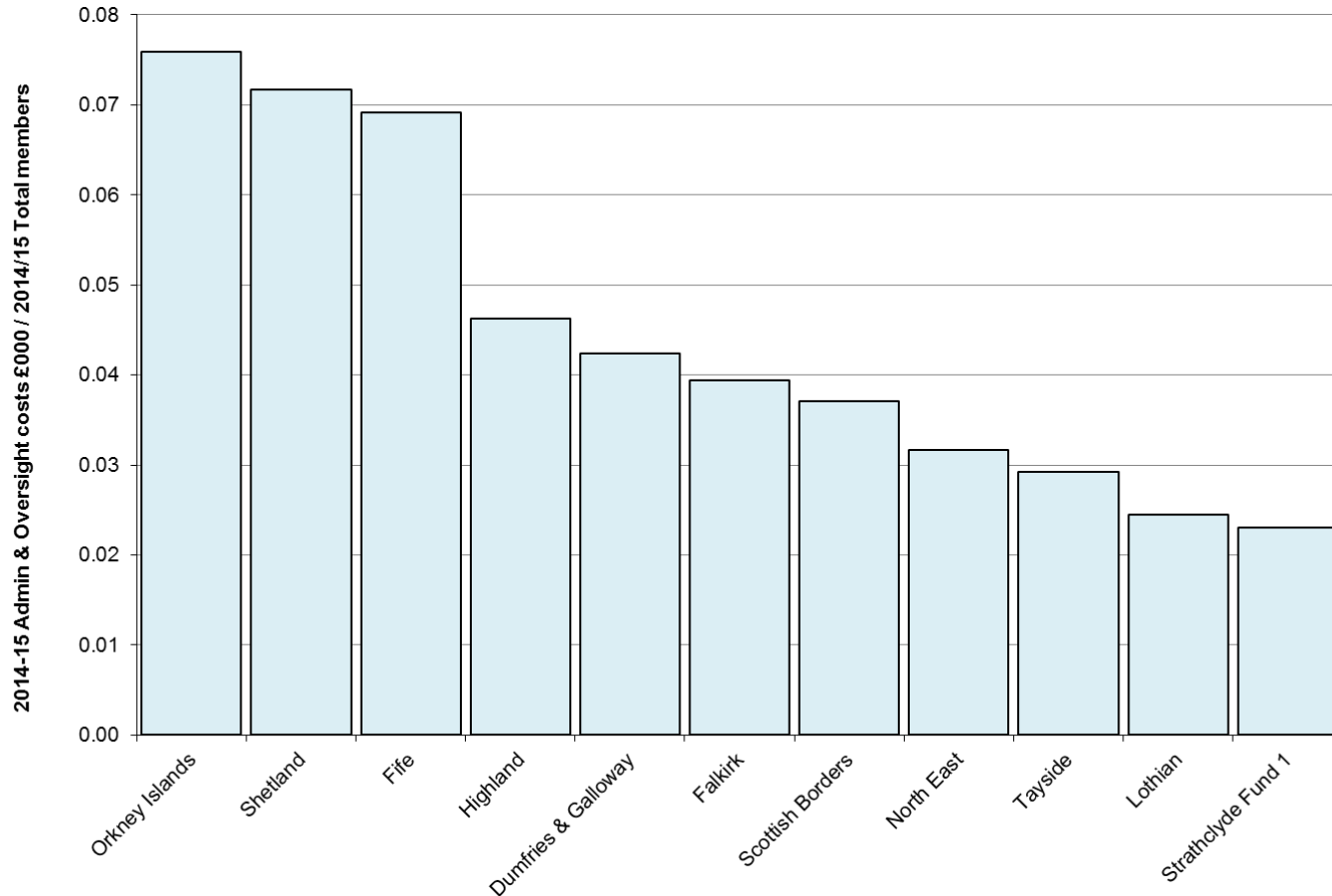
Accounts – Net assets

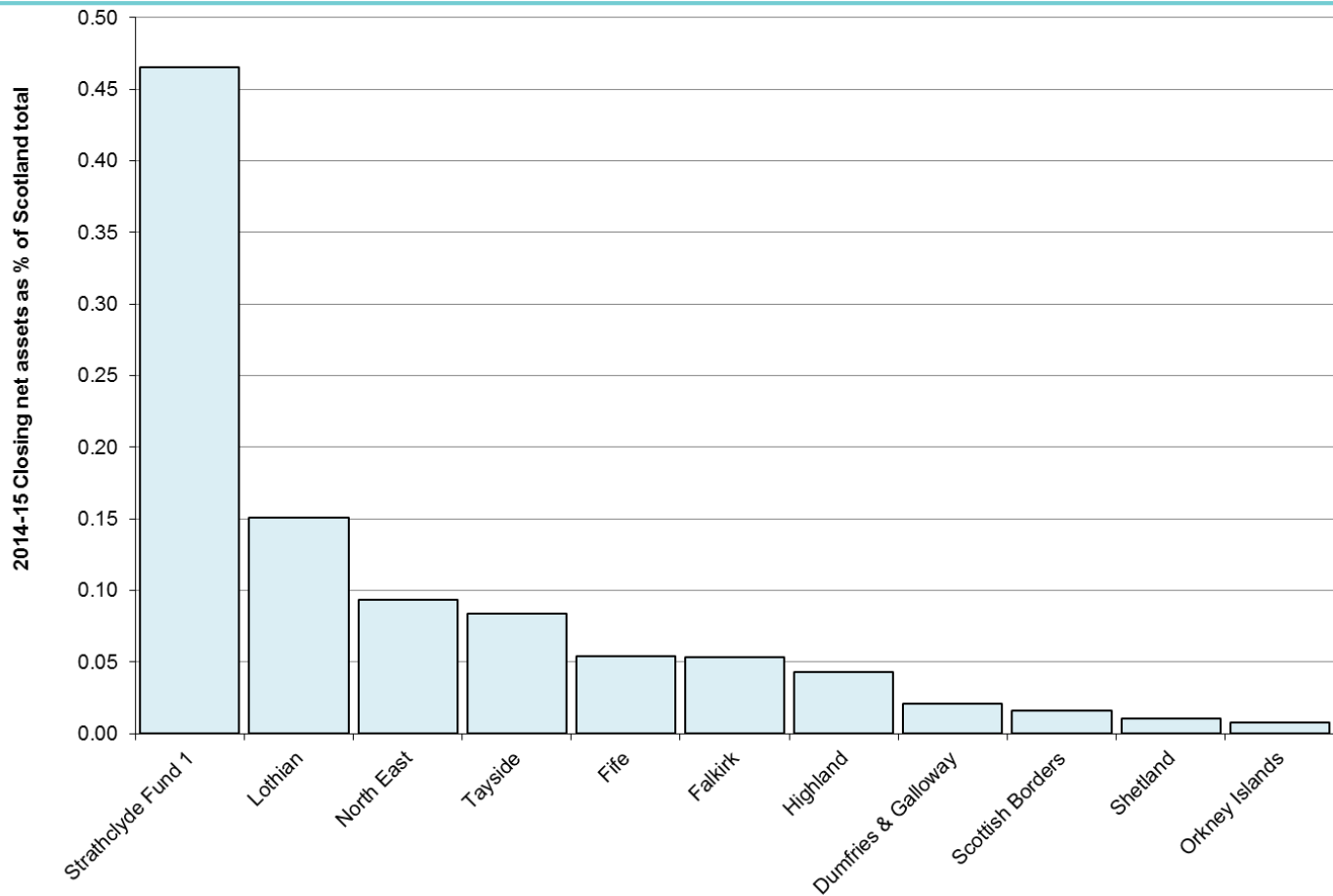
Year on year increases



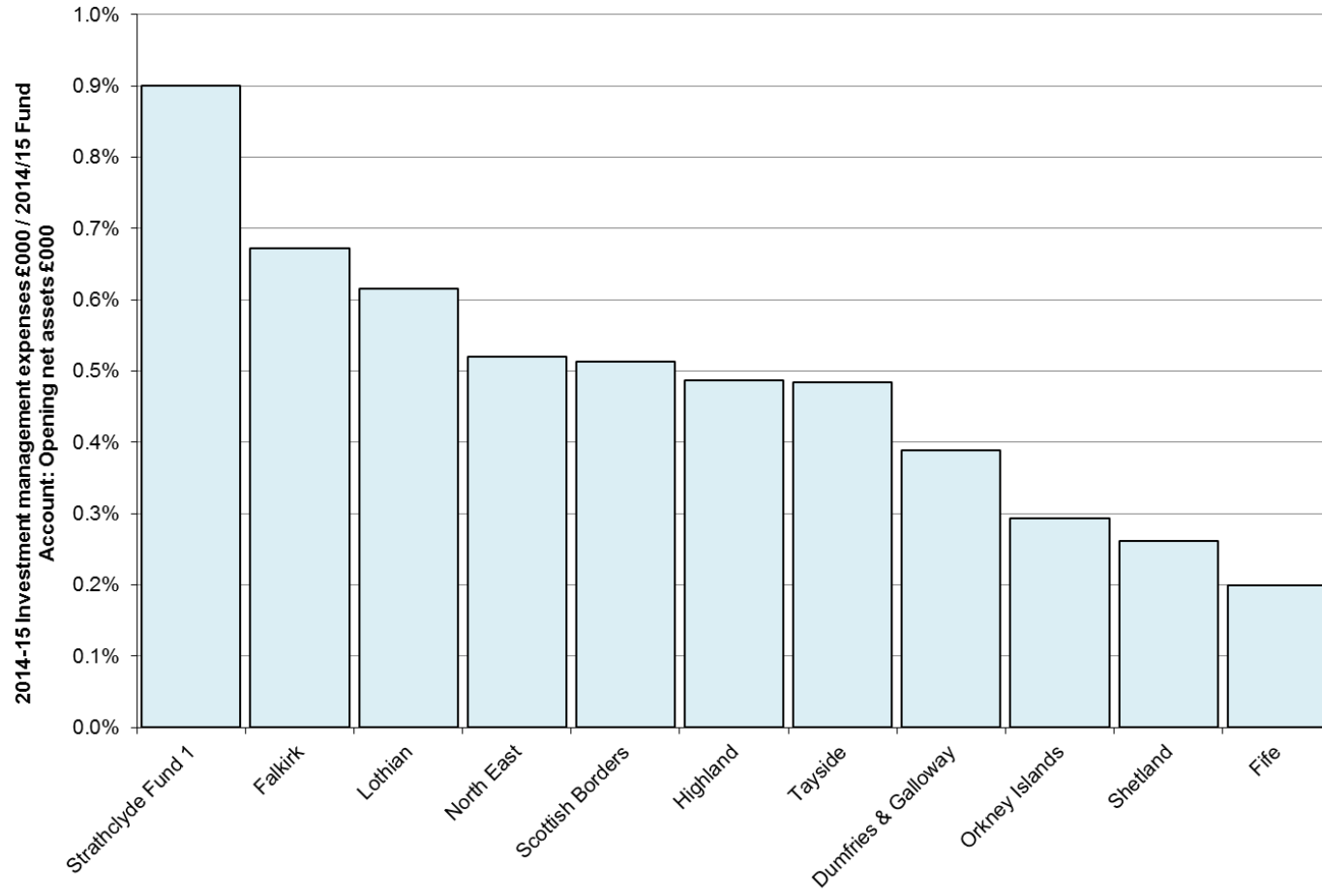


Accounts – Admin and Oversight cost per member (active, pensioner & deferred)





Accounts - Investment management expenses as a proportion of net assets



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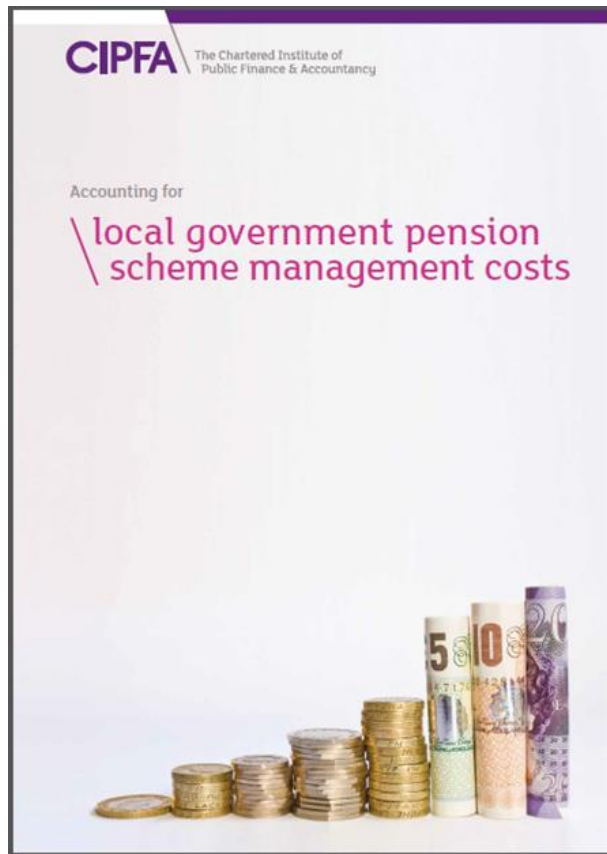
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- **Other issues**
 - **Investment management expenses**
 - **Key management personnel**
 - **Other audit issues arising**

3) Look ahead





Good practice guidance

Management cost

- Investment
- Administration
- Oversight & governance

Also requires grossing up of investment management costs.

What we found –

- 6 funds did not comply with the guidance and kept the Administration / Investment expenses split
- 5 went with 'Management cost' and identified the 3 elements including 'Governance and oversight' in the notes
- Not all funds had fully identified or grossed up investment management expenses on the face of the fund account
- Prior year adjustments not made in some cases

Approach in fund accounts	2012-13 No. of funds	2013-14 No. of funds	2014-15 No. of funds
Key management personnel disclosed	4	5	5
Reader referred to council accounts	2	2	2
No reference made in related parties note	5	4	4

What auditors found?

- Private Equity valuation– updates for 31/3/2015 actual
- Impairment losses for outstanding debt in respect of termination agreement
- Accruals for strain on the fund

- Internal Audit
- Risk management
- Loans fund balances / bank arrangements
- Migration / computerisation of data and admin back logs in one of the smaller funds
- Management accounts - reporting to committee
- Website arrangements

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What's likely to come up?

Governance and administration

- Administration of new scheme
- Operation of Boards
- The Pension Regulator reporting
- Internal audit arrangements
- Admin cost and recharges to PF?

Accounts

- 2015-16 Code of Practice on Local Authority Accounting – not too much to worry about
- 2016-17 Code of Practice on Local Authority Accounting - ITC
 - New Pensions SORP 2015
 - Interesting proposals on investment management expenses!
 - Removal of exemption on FV disclosures?

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