Scheme Advisory Board (SAB)

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Response to consultation on Local Audit Proposals

This response is submitted on behalf of the Local Government Pension Scheme Advisory Board (England and Wales) which is a body set up under Section 7 of the Public Service Pensions Act 2013 and The Local Government Pension Scheme Regulations 110-113.

The Board's purpose is to:

- Provide advice to the Secretary of State and to administering authorities on "the desirability of changes to the scheme" and "in relation to the effective and efficient administration and management" of the LGPS
- Provide a framework to encourage best practice, increase transparency and coordinate technical and standards issues across the sector

Membership of the Board includes equal number of voting members representing employers and employees. The Board is also supported by non-voting members and advisors.

There are around 18,000 employers participating in the Scheme and therefore there are representatives of some of the larger employer groups (further/higher education institutions and academy schools) on the Board and its sub-committees.

Secretariat services are provided by the Local Government Association and separate Advisory Boards have been established for the LGPS in Scotland and in Northern Ireland.

This response was compiled by the Board Secretariat following discussion both at the Board and at the Compliance and Reporting Committee.

Yours sincerely,

Cllr Roger Phillips
Chair of the Board

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Response to consultation questions

Preliminary remarks

The Local Government Pension Scheme is a single, defined benefit statutory scheme that is administered locally by 86 administering authorities in England and Wales. The Scheme Advisory Board's interest in this consultation arises because, in England, LGPS pension fund accounts form part of their administering authority's accounts. The consistent delays in the completion of the audit of the administering authority's main accounts has had the effect of delaying the issuing of an audit opinion on the pension fund annual accounts.

Of course, the issues behind delays in the external audit of local authority accounts are much wider and the Board associates itself with the detailed response of the Local Government Association to the consultation, which it has had the opportunity to see. However, so long as pension fund accounts remain part of the main local authority accounts, problems unrelated to the issuing of audit opinions on the pension fund will continue to impact on the timely publication of finalised pension fund accounts, along with the pension fund audit opinion.

All LGPS pension funds are multi-employer schemes, with a typical single fund having over 200 different employers participating in the LGPS. Over 18,000 separate employers participate in the LGPS, and an increasing feature of the scheme is the extent to which almost two thirds of these employing bodies are commercial companies, not for-profit entities and academy schools/Multi-academy trusts, rather than local authorities. These employing bodies are subject to a wide range of different financial reporting frameworks which all require that LGPS pension liabilities should be recognized.

Estimates of pension liabilities are prepared by the pension funds' independent actuaries for accounting purposes. Calculations are carried out separately for each employing body, based on their individual membership characteristics and assumptions such as age, salary profiles and expected longevity. The overall financial position of the fund is not simply prorated across all participating employers according to membership numbers.

Where the pension fund audit has not been signed off simply due to the delay in clearing the administering authority's audit, then the auditor of the scheme employers' accounts will need to do additional work to gain assurance that the pension liability figures that have been provided by the pension fund to the employer can be relied on. Any uncertainty over the value of the pension liabilities may be material to a scheme employer, depending on a range of factors particular to that employer. This is avoidable and unnecessary additional cost for the employer as well as being a significant additional administrative burden for the pension fund in responding to queries and requests for information from the scheme employer's auditor.

Partly because of this ongoing problem, the Board wrote over a year ago to the then Minister to recommend the separation of the pension fund annual accounts in England from the administering authorities' own accounts, as is already the case for the LGPS in Scotland and Wales.

We understand that in both of those nations the separation of the pension fund accounts from the main local authority accounts was achieved straightforwardly and within existing legislative powers and with no loss of accountability. Indeed, it is notable that in Scotland and Wales pension funds have overwhelmingly managed to publish audited pension fund accounts by the required statutory deadline.

There are other potential benefits to the separation of pension fund accounts from the administering authority's accounts. These include opening up the audit to a wider range of audit staff (and in time, potentially different audit firms) to engage on pension fund accounts. This has the potential to improve the quality of pension audits and to provide better value for money for those who meet the scheme's costs. It would also assist with reform of audit in local government more widely by removing a complex and specialist area from the main administering authority accounts. This would be helpful as part of the wider goal in ensuring the timely and robust audit of local authority accounts, benefiting the LGPS and local government finance in general.

We understand that the Minister has agreed in principle to the separation of pension fund accounts and has asked officials to find a suitable legislative vehicle to achieve this. It is a well understood problem and the solution for the LGPS is clear – we are just waiting for it to be delivered.

Responses to specific questions

Question 1. Notwithstanding the possibility of exemptions in exceptional circumstances (covered by questions 3 and 4 below), do you agree that Category 1 authorities should be required to have published audited accounts for all financial years up to and including financial year 2022/2023 by 30 September 2024? (agree, disagree, unsure). Do you have any comments on this issue?

The Board agrees with this proposal but believes that the separation of pension fund audit, for the reasons explained above, would greatly assist in ensuring that pension fund accounts at least were completed by the statutory deadline.

Question 6. Notwithstanding the possibility of exemptions in exceptional circumstances (covered by questions 7 and 8 below), do you agree that Category 1 local authorities should be required to publish audited accounts for financial years 2023/2024 to 2027/2028 by the following dates (agree, disagree, unsure) • 2023/24: 31 May 2025 • 2024/25: 31 March 2026 • 2025/26: 31 January 2027 • 2026/27: 30 November 2027 • 2027/28: 30 November 2028 Do you have any comments on these dates?

Again, the Board agrees with this proposal but believes that the separation of pension fund audit, for the reasons explained above, would greatly assist in ensuring that pension fund accounts at least were completed by the deadlines proposed.

Question 12. The government anticipates that the Phase 1 backstop proposals will result in modified or disclaimed opinions. A modified or disclaimed opinion at the end of Phase 1 would require auditors to subsequently rebuild assurance. The Phase 2 backstop dates are intended to enable this work to be spread across multiple years. Given this additional work, and noting the further explanation at paragraphs 15 to 46 of the Joint Statement, do you have any views on the feasibility of audited accounts being published by the proposed statutory backstop dates for Phase 2?

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The Board believes that if there were to be wide-spread use of disclaimed audit opinions then this would not resolve the problem for LGPS scheme employers in England. This is because the scheme employer auditors would still not have an audit report they can place assurance on and not avoid having to do further work to validate pension liability estimates provided to them. The best way to deal with this problem and achieve timely completion of pension fund audit is to separate them from the audit of the administering authority, as has been done successfully in Wales and Scotland.