Local Government Pension Scheme England and Wales

Scheme Advisory Board (SAB)

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Response to consultation “Local audit reform: a strategy for overhauling the local audit system in England”

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,

Joanne Donnelly
Board Secretary

Scheme Advisory Board Secretariat

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The Board secretariat is provided by the Local Government Association

Scheme Advisory Board (SAB)

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 this consultation.

We recognise that the consultation does not include a specific question on whether to effect separation, but it does contain a commitment to "consider whether to develop primary legislation to separate pension fund accounts from administering authority main accounts".

The Board would strongly encourage the Government to propose legislation that would separate pension fund accounts from administering authority main accounts. In support of this position, we have the responses below to related questions that are posed in the consultation.

Responses to specific questions

Question 11. Should any action to reform be prioritised ahead of the establishment of the LAO?

1. The timetable outlined in the annex to the strategy says that the LAO will be legally established by autumn 2026, and "fully resourced and begins contract management with other elements of its oversight" by 2027/28. The Board believes that structural change on its own will not be enough and reform must not be held up by waiting for the new body to be established.
2. For example, we continue to call for the separation of the pension fund annual accounts in England from the administering authorities' own accounts; this is already the case for the LGPS in Scotland, Wales and Northern Ireland.
3. The problems with local audit have had an impact on the timely publication of finalised audited pension fund accounts and this has caused significant problems for administering authorities in meeting their statutory duty to publish annual reports (which include the audited accounts) by 1 December each year. In Wales, all 2023/24 pension fund accounts had been audited and annual reports issued in line with the statutory deadline. For England it was just 12%. Separation of accounts in Scotland and Wales has also been credited as assisting public engagement with local government accounts by removing a complex, specialist area from the main document.
4. It has also meant delays in completing the audit of the accounts of employers which participate in the Local Government Pension Scheme (LGPS). There are over 18,000 separate employers in the scheme, for example academy schools and further education

corporations which are not directly affected by the local audit problems but who need to include information on their pension liabilities and assets in their accounts. The size of the pension liabilities and assets can be material and so a failure to complete the pension fund's audit creates problems for the scheme employer's auditor in gaining assurance on them. 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 itself will continue to impact on pension fund accounts and as stated above, this often create problems in completing the accounts of the 18,000 scheme employers too.

Question 17. How should Key Audit Partner eligibility be extended further, should some categories of local audit be signed off by suitably experienced Responsible Individuals (and if so, which)?

5. It is important that councils have confidence in the skills and experience of their auditors. However, it is also clear that measures need to be taken to address the shortage of suitably skilled and qualified audit staff. If the proposed change to sign off is made, it must be clear that the quality of the audit work will not be diminished.
6. One area that may be suitable for this to be applied to is the audit of pension funds. The experience of Audit Wales is that for efficiency and cost reasons the same audit company appointment should be made for the audit of pension fund and the administering authority accounts. However, there is scope for different auditors, with different skills and backgrounds, within the appointed company to sign off the audit. Pensions audit is a specialist area and reports from an auditor who specialises in this area may come from a slightly different perspective and offer more insights than a report from the Key Audit Partner. This could in turn free up Key Audit Partner resource and, if so, this adds a further argument for the case for the separation of the fund's accounts from the administering authority's accounts.