Compliance and Reporting Committee

(CRC) Meeting

2 November 2026 11.00am

Room 6.5, 18 Smith Square, London and Microsoft Teams

Paper C: Audit working group update

Key points to note

Since the June 2026 meeting, the working group has received updates on MHCLG's emerging policy proposals and its preferred approach to pension fund accounts being decoupled from those of the host administering authority. This paper summarises the information provided to the working group and will be supplemented by a verbal update by MHCLG at item 3. The Board has also responded to CIPFA's consultation on the Code of Practice and organised the next audit working group meeting.

Recommendation

To note this report.

Current position

Brief Summary: Pension Decoupling – MHCLG Policy Position

Following a detailed presentation at the June committee meeting the audit working group met on 20 August 2026 to discuss a policy paper detailing the decoupling of pension fund accounts from the administering authority accounts and how the recent LGPS Fit for the Future reforms interact with these proposals. Since the last meeting, the working group have received two policy proposals iterations to comment on. The first was an updated policy paper, which builds on the MHCLG proposals shared at the last committee meeting and the second provided additional detail on proposals for a separate Annual Governance Statement. The working group's discussions have centred on a number of key policy areas where the proposals have continued to develop:

Publication arrangements and public rights

A significant area of discussion has been the future publication timetable for pension fund accounts and annual reports. MHCLG has indicated support for pension fund accounts being audited and published earlier in the year than administering authority accounts. It has mooted a deadline for publication of pension fund accounts by 31

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October and at bringing forward the deadline for the annual report to coincide with that. The practical difficulties of accelerating publication timetables, including auditor capacity and reporting processes, have formed an important part of stakeholder feedback.

MHCLG has also indicated that existing rights relating to public inspection and objections should initially remain unchanged, although longer-term opportunities to define such rights in terms of scheme members and employers, rather than local residents, will be explored.

Governance and accountability
MHCLG had proposed the introduction of a pension fund-specific Annual Governance Statement (AGS) and a separate Statement of Responsibilities for pension fund accounts, signed by the administering authority's Chief Financial Officer. The intention is to strengthen the visibility of pension fund governance and accountability arrangements whilst avoiding unnecessary duplication with wider administering authority governance reporting.

The aim is to provide a clear and accessible assurance framework for stakeholders while minimising additional reporting burdens.

Audit framework and oversight
Current audit arrangements would largely remain unchanged. MHCLG's emerging policy position is that auditor powers, including public interest reports, statutory recommendations and advisory notices, should continue to apply through the administering authority as the relevant legal entity. Similarly, existing Value for Money assessment arrangements would remain in place in the short term, although views have been sought on whether pension fund-specific approaches may be appropriate as part of wider local audit reform programmes.

The working group has also discussed proposals to support greater audit specialisation in the future, including enabling pension-specialist audit led partners to sign off LGPS accounts as wider local audit reforms are implemented.

Local audit reform
Alongside decoupling proposals, the working group received high-level updates on the establishment of the Local Audit Office (LAO), which will assume responsibility for coordinating the local audit system, including auditor appointments, fee setting, quality oversight and wider system leadership. These reforms are intended to improve audit capacity, coordination and accountability across the local government

audit framework and will provide the wider context within which pension fund account decoupling is implemented.

Overall position
The proposals continue to evolve through engagement with stakeholders, but the overall direction of travel has remained consistent. MHCLG is pursuing a pragmatic decoupling model which would increase the visibility and transparency of pension fund reporting through separate accounts and governance reporting, whilst retaining existing governance structures, accountability arrangements and audit responsibilities. The emphasis remains on improving audit timeliness and the usability of pension fund reporting without creating unnecessary complexity or burden for administering authorities, auditors and pension funds.

Audit roundtable
The audit roundtable meeting date has been set for 19 November 2026 from 11.00am to 1.00pm.

CIPFA consultation on the 2027/28 Code of Practice on Local Authority Accounting in the UK
The Board submitted a response to this consultation on pension reporting, focusing on the practical challenges associated with the current IAS 19 accounting framework. In compiling its response, the working group were consulted.

The response notes that the existing approach creates significant complexity for employers, actuaries and auditors, with particular challenges arising from audit scrutiny, differing accounting interpretations and the application of reporting requirements across different employer types within the LGPS.

The response also highlighted concerns around the treatment of certain admitted body employers and suggested that further consideration should be given to an accounting override that would allow defined contribution-style reporting for local authority and other publicly funded employers. The response also expressed concerns regarding the application of IFRIC 14 within the LGPS, stating that it has created significant complexity and uncertainty, particularly as more funds have moved into surplus positions. While recognising that guidance issued to date has been helpful, the Board called for greater consistency in interpretation and application across preparers, auditors and other stakeholders, supported by clear system-wide leadership.