

WIRRAL COUNCIL

PENSIONS COMMITTEE

18 SEPTEMBER 2012

AUDIT & RISK MANAGEMENT COMMITTEE

19 SEPTEMBER 2012

SUBJECT	STATEMENT OF ACCOUNTS 2011/12 - MERSEYSIDE PENSION FUND
WARD/S AFFECTED	ALL
REPORT OF	DIRECTOR OF FINANCE
RESPONSIBLE PORTFOLIO HOLDER	
KEY DECISION	YES

1.0 EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to present Members with the audited statement of accounts of Merseyside Pension Fund for 2011/12 (subject to outstanding matters) and to respond to the Annual Governance Report (AGR) from Audit Commission.

2.0 BACKGROUND AND KEY ISSUES

- 2.1 The purpose of the Statement of Accounts is to present the overall financial position of the Pension Fund as at 31 March 2012; in accordance with prescribed guidance.
- 2.2 The un-audited Statement of Accounts was discussed at a meeting of the Merseyside Pension Fund Governance and Risk Working Party in July. They were also presented as part of a briefing session on the Wirral Council Statement of Accounts 2011/12 to Wirral Council Members on 4 September 2012.
- 2.3 The Audit Commission is close to completion of its audit of the accounts and the Annual Governance Report is on this agenda. The District Auditor may provide a verbal update at the meeting on the AGR.
- 2.4 A response to the AGR is contained in the appendices to this report. Officers have agreed to all of the suggested adjustments to the accounts and to the recommendations.
- 2.5 I have prepared a Letter of Representation on behalf of the Committee which gives assurances to the District Auditor on various aspects relating to the Pension Fund.

2.6 The Audit Opinion will be issued following final completion of the audit, consideration of the Annual Governance Report and approval of the amended Statement of Accounts at both the Pensions Committee and the Audit & Risk Management Committee.

2.7 The District Auditor has indicated that he will again issue an unqualified opinion, and state, that the accounts present fairly the financial position of Merseyside Pension Fund as at 31 March 2012. Subject to this, the accounts as now shown will form the basis of the Annual Report for the year ended 31 March 2012.

3.0 RELEVANT RISKS

3.1 There are not directly relevant to this report.

4.0 OTHER OPTIONS CONSIDERED

4.1 The Statement of Accounts has to be produced in accordance with statutory guidance and the Accounts are subject to review by the appointed Auditor.

5.0 CONSULTATION

5.1 There has been no specific consultation in respect of this report

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 There are no implications arising directly from this report

7.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

7.1 The financial implications are set out in Annual Governance Report.

7.2 There are no IT, staffing or asset implications arising from this report.

8.0 LEGAL IMPLICATIONS

8.1 There is a legal requirement to publish the Statement of Accounts.

9.0 EQUALITIES IMPLICATIONS

9.1 There are no equality implications arising directly from the Accounts so an Equality Impact Assessment (EIA) is not required.

10.0 CARBON REDUCTION IMPLICATIONS

10.1 There are no implications arising directly from this report.

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 There are no implications arising from this report.

12.0 RECOMMENDATIONS

- 12.1 That the Pensions Committee considers the amendments to the draft accounts, the Annual Governance Report and the Letter of Representation and approves the audited Statement of Accounts for 2011/12.
- 12.2 That the Action Plan within the Annual Governance Report is agreed, and that the Pensions Committee is informed of progress with its implementation.
- 12.3 That the Pensions Committee refers the recommendations to the Audit & Risk Management Committee.

13.0 REASONS FOR RECOMMENDATIONS

- 13.1 Under the Audit Commission Act 1998 and the Audit Commission Code of Audit Practice for Local Government, the District Auditor reports on Pension Fund Financial Statement, as part of those of the Council.
- 13.2 As the Pension Fund receives a separate AGR, this report will first be considered by the Pensions Committee, and then by the Audit and Risk Management Committee.

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APPENDICES

A summary of the response to the AGR and action plan.
Statement of Accounts 2011/12.

REFERENCE MATERIAL

The Statement of Accounts plus relevant working papers and the AGR from Audit Commission were used in the production of this report.

SUBJECT HISTORY

Council Meeting	Date
Pensions Committee	19 September 2011
Audit & Risk Management Committee	28 September 2011
Pensions Committee	27 September 2010
Audit & Risk Management Committee	28 September 2010

Response to Annual Governance Report : Audit 2011/12

1. Executive Summary

- 1.1 The key points are that subject to outstanding work there will be an unqualified opinion and that there are no material errors. All of the non material errors non trivial errors and disclosure errors have been amended. All of the recommendations have been agreed. The Audit Commission deliver a positive verdict on the conduct of the audit.

2. Explanation of Most Significant Corrected Errors (Non material)

- 2.1 Error
Overstatement of Pooled Investment Vehicles of £3.279 m due to incorrect currency rates being used.

Response

This was an error not picked up in management checks on accounts and subsequently amended.

- 2.2 Error
Mis-classification of investment management fee credit as investment income - amendment of £3.687m.

Response

This has no effect on the net assets statement of the fund and arguably is open to interpretation but officers are happy to accept Audit Commission's interpretation and to amend this.

- 2.3 Error
Re-classification of UK quoted equities to overseas quoted equities - amendment of £12.183 m.

Response

This is due to external UK Equities managers holding overseas equities within portfolios (This is permitted in the mandates as part of their unconstrained nature). For management accounting and performance measurement purposes these are treated as UK equities. The Fund is moving custodians and enhanced reporting from them will prevent a repetition of this error.

3. Recommendations relating to Internal Control

- 3.1 Finding
Out of date list of authorised employees within the Pension Fund to receive correspondence from external bodies, for example Fund Managers.

Recommendation R1

Ensure that the Pension Fund's authorised contacts list is updated.

Response

This exercise has been planned for some time and been delayed due to staffing issues and forthcoming banking changes. It will be implemented as part of communication exercise taking part within the implementation of new banking arrangements

4. Recommendations relating to other matters

4.1 Finding

Breach of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 in regards to investment limits.

Recommendation R2

Implement robust controls for monitoring and reporting against the investment limits set in the Statement of Investment Principles to ensure that future breaches of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 do not occur.

Response

The Fund has increased allocations to recent years in asset classes such as infrastructure which are invested through limited partnerships. The Fund has breached the limit of 5% to be invested in limited partnerships. Under the LGPS Regulations Pensions Committee through the Statement of Investment Principles is able to raise this limit to 15%. As reported to IMWP on 4th September officers will recommend to Pensions Committee in November to amend the SIP to increase this limit to 15%. Officers will also amend procedure for approval of new investments to include a check on these limits.

4.2 Finding

Compliance with requirements for Financial instruments disclosures

Recommendation R3

Review the current reporting arrangements for credit and liquidity risk, to enable fully compliant reporting in line with the Code of Practice on Local Authority Accounting in the United Kingdom.

Response

This is the first year of the requirement of these disclosures. Officers consider that they have met the requirements of the Code. There is a difference in the quantitative risks exposure of the Fund, as perceived by management of the Fund to that within the Code, the interpretation of auditors and advice issued by CIPFA. More work will be done on this, including dialogue with auditors and accountancy bodies which may result in amendments to the Statement of Investment Principles and future quarterly reporting practices to ensure that disclosures are fully compliant with the Code in future financial statements.