

WIRRAL COUNCIL

PENSIONS COMMITTEE

27 SEPTEMBER 2010

AUDIT AND RISK MANAGEMENT COMMITTEE

28 SEPTEMBER 2010

REPORT OF THE DIRECTOR OF FINANCE

MERSEYSIDE PENSION FUND: STATEMENT OF AUDITED ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2010

1. EXECUTIVE SUMMARY

- 1.1 On 28 June 2010, Pensions Committee formally approved the accounts (Minute 122 refers) prior to their submission to the Audit Commission, who undertook an audit of the accounts and will now report back to this meeting of the Pensions Committee with the Annual Governance Report (AGR). Members are requested to consider this report with the Annual Governance Report and the Letter of Representation.
- 1.2 In accordance with the Accounts and Audit Regulations 2003, Members are requested to consider both the adjusted amendments to the annual accounts, and an unadjusted misstatement.
- 1.3 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.

2 AMENDMENTS TO THE ACCOUNTS

- 2.1 The purpose of the Statement of Audited Accounts is to present the overall financial position of the Pension Fund as at 31 March 2010, in accordance with prescribed guidance.
- 2.2 Under the Audit Commission Act 1998 and the Audit Commission Code of Audit Practice for Local Government, the District Auditor reports on the Pension Fund Financial Statement, as part of those of the Council.
- 2.3 There are a number of amendments to the Statement of Accounts requested by the District Auditor, which are detailed in Appendix 2 of the AGR, and have been incorporated into the final accounts.
- 2.4 The amended accounts are attached as an appendix. The net assets of the Fund have increased from £ 4.686 billion to £4.706 billion, a net increase of £20 million.

2.5 FUND ACCOUNT AND NET ASSET STATEMENT

2.5.1 The following is an analysis of those changes which have affected the value of the Fund:

- (a) a net increase in the valuation of a number of alternative investments, totalling £1.604m
- (b) an overstatement of £0.344m of the value of an investment due to the use of a superseded pricing feed
- (c) an overstatement of £1.053m in the value of an investment in the thematic portfolio
- (d) an understatement of £3.089m in the valuation of the Capital Dynamics Portfolio of private equity
- (e) an overstatement of £1.078m in the valuation of an investment in European Strategic Partners
- (f) a decision to accrue for augmentation contributions worth £13.214m, due from employers which they will pay in future years
- (g) a further accrual of augmentation payments of £2.792m in respect of payments relating to 2009/10
- (h) an accrual £0.344m in creditors in regards to deficit funding contributions, which was subsequently re-imbursed
- (i) an accrual of £0.275m for contribution income from a new employer which was received in the following financial year.
- (j) a planned adjustment to correct an overstatement of £1.728m in the payments of pension lump sums which had been processed on 31 March 2010 to help manage the year end workflow volume, and which would subsequently need to be transferred to the following financial year.

2.5.2 The following amendments have affected the analysis but have no impact on the overall value of the Fund:

- (a) The Canadian element, representing 8% of the UBS North American portfolio consists of segregated equities, and had previously been shown together with the majority 92% USA pooled assets as Managed and Unitised Funds. The value of the Canadian holdings as 31 March 2010, £30.356m, is now included under "Equities". The equivalent figure as at 31 March 2009 has been adjusted as a prior period adjustment within Note 7
- (b) The Committee previously agreed to change the two bond mandates, managed by Legal and General, and Schroders, to "unconstrained". The previous "constrained" mandates were consequently closed, by treating the final assets as "sales" and the opening of the new, unconstrained mandates, as "purchases". Although this facilitated internal accounting, for the final accounts such asset switches are now regarded as "Transfers", and no longer shown as "Sales and Purchases" in Note 7. The sum of the bond holdings was £316m.

- (c) Receipts of Employers' Contribution of £2.698m had initially been allocated as "Employees' Contributions" and has been adjusted to be shown as "Employers' Contributions".
- (d) As greater analysis is now shown for "Contributions Receivable" £8.14m is now categorised as "Augmentation" rather than "Deficit Funding".
- (e) A planned adjustment has been made to reflect the capitalisation of building improvement costs of £2.619m at one of the investment properties. As a result, within Note 7, the figure for "Investment purchases" is increased and "change in market value" decreased equivalently. "Net rent income" increases.

2.5.3 In addition to any amendments to the Notes to the Accounts required to reflect the changes indicated in paragraphs 2.5.1 and 2.5.2 above, other Notes to the Accounts have been amended or added, and additional levels of analysis provided, as follows:

- (a) "Accounting Policies" are expanded
- (b) the addition of "administration income" in the Fund Account
- (c) greater analysis of "Investment Income" in Note 6.
- (d) Note 9, "Current Assets and Liabilities" now separately discloses unpaid benefits.
- (e) Note 11, Related Party Transactions, has been amended, both to widen its scope and to allow more up to date information to be included.

2.5.4 One unadjusted misstatement in the accounts has been identified following the audit, for reasons explained below. It is shown in Appendix 3 of the AGR, and totals £12.183m. The issue is also included in my Letter of Representation. Members are asked to consider whether or not they would like to adjust the Statement of the Pension Fund Accounts to exclude these transactions from the Statement of Accounts, and disclose separately as a Note to the Accounts:

- Hitherto Compensatory Added Years (CAY) have been included in the Annual Accounts for MPF, both as expenditure via pensions paid, and as income via re-imburement from employers. As indicated in Appendix 3 of the Annual Governance Report (AGR), prior to The Local Government Pension Scheme (LGPS) Regulations 2009, CAYs fell outside of the LGPS Regulations. The AGR indicates that the inclusion of these receipts and payments is an error, implying that these items should lie outside the accounts, perhaps as a memorandum note similar to the treatment of Additional Voluntary Contributions.

I have included these receipts and payments within the accounts, continuing the previous practice. Under recent legislation, all employers have, until March 2012 on an individual employer basis, different options to change the current funding arrangements. Should any so opt, and had these cash flows been excluded from the accounts for year ended 31 March 2010, there would be a resultant inconsistency in accounting treatment both between employers, and between years. Paragraph 2.188 of the Pensions SORP refers to the fundamental accounting concept that there is consistency of accounting treatment within each accounting period, and from one period to the next. I therefore propose to retain the existing accounting treatment, but as soon as that option for employers has expired in March 2012, I shall then adopt the appropriate accounting treatment to reflect the employers' final decisions.

- 2.6 The Appendix contains other background information regarding the Pension Fund which will be shown in the Annual Report, but is required to be incorporated into the Statement of Accounts of Wirral Council.

3 CONCLUSIONS

- 3.1 The Audit Opinion will be issued following consideration of the Annual Governance Report and approval of the amended Statement of Accounts at both the Pensions Committee and the Audit and Risk Management Committee.
- 3.2 Once approved, 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 2010.
- 3.3 Subject to the decision regarding Compensatory Added Years' transactions, the accounts as now shown will form the basis of the Annual Report for the year ended 31 March 2010.
- 3.4 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.

4 COMMENTS

- 4.1 As indicated in the AGR, during the year, there was a change to the accounting system. This was highlighted in the Audit Plan as a high risk area. The District Auditor has adequate assurance that the balances have been accurately transferred and that the controls are operating effectively.
- 4.2 An Action Plan has been agreed with the District Auditor, and is shown as Appendix 4 of the AGR.

- 4.3 A high proportion of the information and data forming the basis of the figures in the Annual Statement of Accounts is received from external sources. MPF cannot control the timing of receipt and accuracy of such information, and so a considerable effort has to be made to confirm and verify such figures within a very short time scale. Inevitably, there is some late information or clarifications that are received after the draft accounts have been approved by Committee. Changes to the draft accounts relating to such late information are termed “misstatements” within the AGR.
- 4.4 The value of the Fund Account and Net Asset Statement as at 31 March 2009 has not been changed by any Prior Period Adjustments.
- 4.5 The District Auditor has provisionally indicated that the audit was completed within the financial estimate.
- 4.6 All local authorities and their pensions funds will be required to comply with the International Financial Reporting Standards from 2010/2011 onwards.

5. FINANCIAL AND STAFFING IMPLICATIONS

- 5.1 There are no implications as a result of this report.

6. EQUAL OPPORTUNITY IMPLICATIONS

- 6.1 There are none arising directly from this report.

7. HUMAN RIGHTS IMPLICATIONS

- 7.1 There are none arising directly from this report.

8. COMMUNITY SAFETY IMPLICATIONS

- 8.1 There are no specific implications arising from this report.

9. LOCAL MEMBER SUPPORT IMPLICATIONS

- 9.1 There are no specific implications for any Member or Ward.

10. LOCAL AGENDA 21 IMPLICATIONS

- 10.1 There are no specific implications arising from this report.

11. PLANNING IMPLICATIONS

- 11.1 There are no specific implications arising from this report.

12. **BACKGROUND PAPERS**

12.1. None.

13. **RECOMMENDATIONS**

13.1 That the Pensions Committee considers the amendments to the Statement of Accounts for 2009/2010 the Annual Governance Report and the Letter of Representation.

13.2 That the Pensions Committee refers the recommendations to the Audit and Risk Management Committee.

13.3 That the Action Plan within the Annual Governance Report be agreed, and that the Pensions Committee be informed of progress with its implementation.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/189/10