

## WIRRAL COUNCIL

### AUDIT AND RISK MANAGEMENT COMMITTEE

28 SEPTEMBER 2011

<b>SUBJECT:</b>	<b>MERSEYSIDE PENSION FUND STATEMENT OF ACCOUNTS 2010/11</b>
<b>WARD/S AFFECTED:</b>	<b>ALL</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF FINANCE</b>
<b>RESPONSIBLE PORTFOLIO HOLDER:</b>	<b>COUNCILLOR STEVE FOULKES</b>
<b>KEY DECISION?</b>	<b>YES</b>

#### **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 2010/11 (subject to outstanding matters) and to respond to the draft Annual Governance Report (AGR) from the Audit Commission.

#### **2.0 RECOMMENDATION**

- 2.1 That the Committee agrees the audited Statement of Accounts for 2010/11, considers the amendments to the draft accounts and the draft Annual Governance Report and the Letter of Representation.

#### **3.0 REASONS FOR RECOMMENDATION**

- 3.1 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.
- 3.2 As the Pension Fund receives a separate AGR, this report has already been considered by the Pensions Committee on 19 September 2011.

#### **4.0 BACKGROUND AND KEY ISSUES**

- 4.1 The purpose of the Statement of Audited Accounts is to present the overall financial position of the Pension Fund as at 31 March 2011 in accordance with prescribed guidance.
- 4.2 Following changes to regulations for 2011; the un-audited statement of accounts was not presented to either the Pensions Committee or to the Audit and Risk Management Committee. Following this change, there was a meeting of the Governance and Risk Working Party on 14 July 2011 at which there was a training session on how the accounts for MPF are put together and an explanation of the changes made as a result of the newly introduced International Financial Reporting Standards (IFRS). The draft accounts were also made available to Members at this meeting.

- 4.3 The Audit Commission is close to completion of its audit of these draft accounts and the draft Annual Governance Report is on this agenda. This report responds to this draft AGR. The Audit Commission may provide a verbal update at the meeting on the AGR and officers will respond if necessary.
- 4.4 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.
- 4.5 The Audit Opinion will be issued following 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 and Risk Management Committee. 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 2011. Subject to this, the accounts as now shown will form the basis of the Annual Report for the year ended 31 March 2011.

#### **OVERVIEW OF THE ACCOUNTS**

- 4.6 The accounts are attached as an appendix to this report. The key features are
- The Fund has a value of £5.1bn at the account date of 31 March 2011 from £4.7bn at 31 March 2010.
  - The net cash-flow to the Fund from dealing with Members was down to £3m from £30m in the previous year due in part to the early retirement programme adopted by many employers.
  - The return on investments during the year was £407m following on from a rise of £1154m in the previous year.
  - It should also be noted that there has been significant volatility in asset values since the balance sheet date.
  - The introduction of IFRS requires a transitional net asset statement as at 1 April 2009 and this is included in the accounts.

#### **AMMENDMENTS MADE TO THE ACCOUNTS**

- 4.7 The key changes made to the accounts during the audit process in response to misstatements identified by the Audit Commission were.
- (a) There was no transitional net asset statement for 1 April as required under International Financial Reporting Standards. This has now been added.
- (b) There was a misanalysis of £139m investment in Amundi Global Emerging Markets and £134m investment in M&G Global Emerging Markets categorised as equity investments rather than pooled investments. This has been reversed in the amended accounts.

(c) There was an understatement of private equity due to valuations being late of £13.8m. Up to date valuations were obtained and the result was that the value of the fund increased by £13.8m and the 'Profit and losses on disposals of investments and changes in value of investments increased by £13.8m.

(d) There was an understatement of net assets caused by the omission of a position of 100,000 shares in L'Oreal Prime de Fidelité. This was amended resulting in an increase in the Fund Account of £728,000.

4.8 There were also changes made as a result of disclosure errors identified by the Audit Commission.

(a) Two disclosure notes have been added to disclose £0.5m incorrectly categorised as equities and the other derivative positions held at 31 March 2011.

(b) The note on Contributions Receivable (3) was amended to include the fact that a proportion of the regular contributions from employers include an element of past service deficit.

(c) Changes were made to a small number of typographic errors and mis-castings.

#### **FINDINGS AND ACTION PLAN**

4.9 Subject to satisfactory completion of outstanding matters the Audit Commission plans to issue an unqualified audit opinion on the accounts of Merseyside Pension Fund.

4.10 The Audit Commission had only one matter to report on the quality of financial statements, as detailed below.

#### **Disclosure of pooled and internally managed investments**

The accounts initially disclosed internally managed investment balances in aggregate only. Pooled investment vehicles were also disclosed in aggregate only. Whilst this disclosure does comply with the SORP, in my opinion this does not give the reader of the accounts adequate information on the nature of these investments.

Officers agreed with this observation with the caveat that the intention had been to comply with SORP requirements during the production of the first set of accounts produced under the new IFRS.

4.11 The Audit Commission has made two recommendations as detailed below.

**R1** Ensure that any changes to the investment ledger after it has been reconciled with the general ledger are also reflected in the accounts.

**R2** Review the latest available information on unquoted investments as part of a formal process considering potential adjusting post balance sheet events between the preparation and members' approval of the accounts.

4.12 Officers have agreed to both of these recommendations and have responded as detailed below.

**R1** A review of information flows is currently being undertaken. One outcome will be that a final review of reconciliation work be undertaken by the newly appointed Group Accountant.

**R2** In future years, a formal request will be made to Capital Dynamics to provide an updated 31 March valuation in August.

## **5.0 RELEVANT RISKS**

5.1 Not relevant for this report.

## **6.0 OTHER OPTIONS CONSIDERED**

6.1 Not relevant for this report.

## **7.0 CONSULTATION**

7.1 Not relevant for this report.

## **8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

8.1 There are no implications arising directly from this report

## **9.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS**

9.1 There are no implications arising directly from this report.

## **10.0 LEGAL IMPLICATIONS**

10.1 There are no implications arising directly from this report.

## **11.0 EQUALITIES IMPLICATIONS**

11.1 There are no implications arising directly from this report.

## **12.0 CARBON REDUCTION IMPLICATIONS**

12.1 There are no implications arising directly from this report.

## **13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

13.1 There are no implications arising directly from this report.

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## **APPENDICES**

The Statement of Accounts is attached as an appendix to this report.

## **REFERENCE MATERIAL**

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

## **SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
<b>PENSIONS COMMITTEE</b>	<b>19 SEPTEMBER 2011</b>
<b>PENSIONS COMMITTEE</b>	<b>27 SEPTEMBER 2010</b>
<b>AUDIT AND RISK MANAGEMENT COMMITTEE</b>	<b>28 SEPTEMBER 2010</b>
<b>PENSIONS COMMITTEE</b>	<b>22 SEPTEMBER 2009</b>
<b>AUDIT AND RISK MANAGEMENT COMMITTEE</b>	<b>23 SEPTEMBER 2009</b>
<b>PENSIONS COMMITTEE</b>	<b>29 SEPTEMBER 2008</b>
<b>AUDIT AND RISK MANAGEMENT COMMITTEE</b>	<b>30 SEPTEMBER 2008</b>