

**CAMBRIDGESHIRE  
PENSION FUND**



**Pension Fund Board**

**Date:** 24 July 2014

**Report by:** Director of Finance

<b>Subject:</b>	Pension Fund Annual Report and Statement of Accounts 2013-14.
<b>Purpose of the Report</b>	To present the Annual Report (draft) and Statement of Accounts of the Pension Fund for the 2013-14 financial year.
<b>Recommendations</b>	<p>To note the Annual Report (draft) and Statement of Accounts of the Pension Fund for the 2013-14 financial year.</p> <p>To note the Annual Report and Statement of Accounts of the Pension Fund for the 2013-14 financial year, will be presented to the October 2014 Pensions Board.</p>
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**1. Summary of Report**

- 1.1 The Statement of Accounts (SOA) has already been subject to audit fieldwork by the County Councils external auditor PwC. Pension Services have delivered a significant improvement, in producing the SOA for audit examination one month earlier than historically, and also making significant improvements on the quality of supporting documents leading to a more streamlined workflow for our external auditors. This achievement also demonstrates the good partnership between LGSS Pension Services and PwC in achieving these improvements
- 1.2 The Annual Report is attached in draft form as further updating is required due to delays in receiving information from external providers, and therefore is still to be subject to external audit examination. The final version will be submitted to the October Board for approval.
- 1.3 The overall increase in net assets available for benefits during the year was £149m, mainly reflecting the change in profit and losses on disposal and changes in market value of investments £112m. The other main contributors were investment income, mainly from equity dividends, property rentals and bond coupons totalling £36.5m

and an in year surplus of contributions over benefits of £6.9m. The 2010 valuation set a target performance for the Fund of 6.1% p.a. This has been exceeded with the Fund returning a performance of 7.8%.

- 1.4 The number of employers in the Fund continues to grow with an increase of around 40 primarily as a result of schools converting to Academies. This trend is expected to continue over the next few years,
- 1.5 In overall terms there is an increase of around 2000 active members, 700 pensioners and 1,200 deferred members.

## **2. Background**

- 2.1 The annual accounts are the financial representation of every activity that the Fund has been directly or indirectly involved with over the course of the 2013/2014 financial year.
- 2.2 They are based on actual transactions accounted for within the Fund's financial ledger, information received from Fund Managers and the Fund's Custodian, and assumption and estimations utilising the professional judgement of officers in order to give a true and fair statement of its financial position.
- 2.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) issued a set of pro-forma accounts to illustrate the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2011-12 (the Code) which governs the preparation of the financial statements for Local Government Pension Scheme funds. There has been no material change to this pro forma in completing the 2013-14 Statement of Accounts.
- 2.4 This template has been used a framework for the Pension Fund Accounts to meet the requirements of the Code and to ensure the reporting was International **Financial Reporting** Standards (IFRS) compliant.
- 2.5 The Pension Fund Statement of Accounts form part of the County Council's Statement of Accounts, and will be published by the end of September to meet the statutory reporting timescales.
- 2.6 The publication of the Accounts is an essential feature of the public accountability and stewardship as it provides an annual report on how the Fund has used the member's funds for which it is responsible. The Annual Report together with the Statement of Accounts will be presented to the Pension Fund Board in October 2014.

## **3 Key Findings from external Audit Fieldwork.**

- 3.1 The Pension Fund Statement of Accounts has already been subject to external audit fieldwork and represents the anticipated final Statement of Accounts, with the exception of the issues and outstanding items listed below. The final version of the Statement of accounts is pending a resolution to these items:-
  - 3.1.1 Some outstanding work on Debtors and Creditors.
  - 3.1.2 Expected Changes on level 3 investment values which will filter through in late July, reflecting the more difficult to value assets such as Property and Private Equity.

- 3.1.3 An assessment of the Cambridge and Counties Bank investment valuation figure used in the Accounts, by the PwC valuations expert.
- 3.1.4 Journals testing which will be performed in conjunction with the County Council external audit.
- 3.1.5 Finalisation of audit work and internal review within PwC.

3.2 Feedback from External Audit informs on the expected audit comments to be included in the ISA260 “Those charged with Governance document”, which are expected to reflect :-

3.2.1 A control weakness has been identified in relation to contributions income from Cambridgeshire County Council. Although progress has been made during the year with regard to monitoring of income from other employers, this work has not included the Council as it does not provide PEN18 forms. Consequently, contributions income of £21.8m from the Council has not been effectively monitored. Furthermore, the Council did not pay its contributions to the Fund on a timely basis during 2013/14 and a significant debtor was outstanding as at 31 March 2014 (paid in April 2014).

3.2.2 A misstatement has been identified relating to contributions income from the Ministry of Justice that has been double counted. A debtor was recorded in 2010/11 for £6.32m of income, which was subsequently to be paid in ten equal annual instalments. Payments of £632k were received in 2011/12, 2012/13 and 2013/14, but these amounts were erroneously credited to contributions income instead of drawing down the debtor. This has been corrected for by the following misstatement adjustment proposed by PwC:

DR Contributions	£1,896k
CR Debtors	£1,896k

3.2.3 Two misstatements have been identified as a result of testing the market value of investments per BNY Mellon’s custodian report to investment managers’ reports (property assets) and PwC’s own independent market data (equities). These are as follows:

DR Investments (Property Assets)	£1,048k
CR Changes in market value of investments	£1,048k

*(Note: This misstatement was identified when testing the values of property assets from the custodian’s report to the investment managers’ reports.)*

DR Investments (Equities)	£744k
CR Changes in market value of investments	£744k

*(Note: The equities misstatement comprises a factual error of £167k which is below PwC’s reporting level however the auditors’ methodology requires an extrapolation of the error rate over the untested population which results in a projected judgemental error of £577k. The auditors do not expect the Council to adjust the accounts in respect of this and it is not representative of a significant breakdown in*

*internal control. The test was between the Custodian record and PwC own independent market data.)*

- 3.3 In addition to the above misstatements identified by PwC, management has processed multiple changes to the Statement of Accounts since the first draft. A summary of these will be provided in PwC's ISA 260 report where material.
- 3.4 During the year end closedown, management performed a review of the mapping of general ledger codes to the Statement of Accounts. This resulted in several changes to mapping from prior year, explanations for which were not immediately available to external audit.
- 3.5 Other minor control weaknesses were identified during the year end closedown process.
- 3.6 This is the first year that the audit fieldwork of the Pension Fund Accounts was undertaken in early June; historically the audit fieldwork is undertaken in mid July together with the County Council audit. Therefore it is unsurprising that there are still some minor issues to be resolved, which have been taken onboard for so they do not arise in future years. This has been a positive experience with improvements not only to closedown, but also to financial controls, both with Pension Services and the wider LGSS support services to Pension.
- 3.7 The Final version of the Statement of Accounts together with the Annual Report will be presented to the October Board meeting cycle.

#### **4 Relevant Pension Fund Objectives**

<b>Perspective</b>	<b>Outcome</b>
<b>Funding and Investment</b>	<ul style="list-style-type: none"><li>• To ensure that the Fund is able to meet its liabilities for pensions and other benefits with the minimum, stable level of employer contributions.</li><li>• To ensure that sufficient resources are available to meet all liabilities as they fall due.</li><li>• To maximise the returns from its investments within reasonable risk parameters.</li></ul>

#### **5 Finance & Resources Implications**

- 5.1 There are no additional finance implications as a result of the recommendations set out in this paper.

#### **6 Risk Implications**

- a) Risk(s) associated with the proposal

<b>Risk</b>	<b>Mitigation</b>	<b>Residual Risk</b>
There are no risks with accepting this proposal to note the Statement of Accounts.		Green

b) Risk(s) associated with not undertaking the proposal

<b>Risk</b>	<b>Risk Rating</b>
The Pension Fund Accounts are a statutory requirement requiring due scrutiny by the County Councils external auditor and final sign off by the Section 151 Officer.	Green

## **7 Communication Implications**

- 7.1 The Regulations determine that the accounts and other related documents have to be made available for public inspection. They will be available for public inspection between 11<sup>th</sup> August and 8<sup>th</sup> September 2014 inclusive. Officers will be required to deal with enquiries from the public during this period of time.
- 7.2 The statutory date for publication of the final set of Accounts is the end of September, and in accordance with recognised practice, the Council considers its Statement of Accounts to be published from the date that a final certified copy is made available via the Council's website.

## **8 Legal Implications**

- 8.1 There are no legal implications as a result of the recommendations set out in this paper.

## **9 Consultation with Key Advisors**

- 9.1 The Pension Fund Accounts were produced utilising information and advice provided by Fund Managers, the Fund's Custodian and the Fund's Actuary, Hymans Robertson.

## **10 Alternative Options Considered**

- 10.1 The Pension Fund Accounts are a statutory requirement with a prescribed structure, which has been complied with.

## **11 Background Papers**

- 11.1 The Pension Fund Accounts are supported by a detailed set of working papers that are subject to examination as part of the External Audit review.

## **12 Appendices**

- 12.1 Appendix 1 – Annual Report (Draft) and Statement of Accounts 2013-14.

<b>Checklist of Key Approvals</b>	
Is this decision included in the Business Plan?	YES
Will further decisions be required? If so, please outline the timetable here	NO although the Annual report together with the Statement of Accounts will be presented at the October Pension Fund Board meeting.
Is this report proposing an amendment to the budget and/or policy framework?	NO
Has this report been cleared by The Head of Pensions?	Yes – 13/07/2014
Has this report been cleared by the Section 151 Officer?	Yes – Deputy s151 Officer – Ian Smith – 17/07/2014
Has the Chairman of the Pension Fund Board been consulted?	Copy of report sent 14/07/2014
Has this report been cleared by Legal Services?	NO – n/a accounts governed by CIPFA/LASACC Code of Practice.