

Compliance and Reporting Committee (CRC)

HYBRID MEETING – 21 October 2024

ITEM 9 PAPER F

AUDIT UPDATE

Audit Separation

1. The Board has previously had [confirmation from the Local Government Minister](#) of the intention to explore the recommendation from the Board for the separation of pension fund from host authority audit. MHCLG Officials have previously said that they would intend to effect this separation once a suitable legislative vehicle was available and we have no reason to think that the change in administration has changed this position.
2. The [King's Speech](#) in July 2024 contained a commitment to bring forward a draft Audit Reform and Corporate Governance Bill which would seem to provide such an opportunity and the Pension Schemes Bill is another possibility. **The Committee is asked to agree to write to MHCLG officials to clarify their intention.**

Audit Roundtable

3. This Committee has convened a series of roundtable meetings on audit that have involved LPGS practitioners, actuaries, local audit firms and regulators. These have identified areas of common interest and possible actions to address issues of shared concern.
4. The most recent one was held on 17 April 2024 and a date for the next meeting is currently being organised by the Secretariat. It is hoped the meeting will be able to take place before the end of the calendar year and some proposed agenda items are:
 - Feedback on the usefulness of the ICAEW/SAB Informer Document
 - Possibility of the new Audit Bill effecting separation
 - Implications of the new government's approach to clearing the local government audit backlog

LGPS Informer Feedback

5. Back in June 2024, the jointly commissioned Local Government Pension Scheme Informer between the Board and the Institute of Chartered Accountants in England and Wales (ICAEW) was published.

6. This document was published both on the [Board website](#) and the [ICAEW's website](#).
7. The informer aimed to set out the key timelines and information flows throughout a triennial valuation period, explain the roles and responsibilities of employing bodies, auditors, pension funds and actuaries, and show the content and purpose of annual accounting reports and triennial valuations.
8. Following publication, both the Board and ICAEW are keen to receive feedback from this Committee and other stakeholders to understand:
 - How the informer has been used and by whom
 - If the document has been found useful and whether it has met its intended aim and if not, why not?
 - What could be improved and whether there are further areas or topics which could be explored in an update to this document or via a new publication?
9. It is also proposed that the above questions will be added to the October monthly bulletin sent to administering authorities to invite feedback.

Other audit queries

10. The Secretariat have been made aware of a specific technical issue that could potentially impact scheme employer audits. This is around the correct calculation of asset ceilings for IAS19 purposes where an employer is in surplus but is still making secondary contributions (due to smoothing of changes in contribution rates). We have discussed the issue with a number of actuaries and accounting experts and are now content that a reasonable consensus has been reached on this point. No further action is proposed at this stage.
11. We are also aware of a concern relating to the vexatious public inspection of accounts. At least one fund has received requests to inspect documents relating to consultancy advice on climate with a suggestion that those requests will support an objection to the accounts (which could increase audit fees if followed up by the auditor). This new campaign is potentially motivated by the well-publicised [view from climate activists that pension funds are poorly advised](#) in relation to climate scenario analysis.
12. The Secretariat's view is that any challenge by activists to these items in the accounts would most likely be around them offering poor value for money rather than being unlawful. The [guidance](#) on this from the NAO does suggest that a vfm objection can be made but an auditor would be unlikely to support it without actual evidence of a breach of proper procurement rules.

13. It seems that this is a new kind of campaigning and there are few protections against what can be seen as vexatious objections, since inspection and objection rights are considered fundamental to local democracy. It may be worth pointing auditors to this section in the NAO's guidance which deals with the situation where objections essentially relate to policy decisions rather than audit questions:

“Your right to ask questions of the auditor is enshrined in law. However, while the auditor will answer your questions where possible, they are not always obliged to do so – which is another reason for asking the authority first. So, for example, the question might be better answered by another organisation, require investigation beyond the auditor's remit, or involve disproportionate cost (which is borne by the local taxpayer).”
