Agenda Item

REPORT OF	Section 151 Officer
To:	Audit & Governance
Subject:	2021/22 Statement of Accounts and Tri annual review of pensions
Date:	27th June 2023 Reference:

PURPOSE OF REPORT: For members to consider the impact of the Triennial Actuarial review of pensions and whether this warrants updates to the draft 2021/22 statement of accounts.

1. Introduction and background

1.1. The Council published its draft 2021/22 statement of accounts on its website on the **30th June 2022** in line with the statutory guidelines. The deadline for the external audit of, and sign off for the statement of accounts was the **30th November 2022**. The Council's external auditors Grant Thornton did not meet this deadline, and the 2021/22 accounts remain unsigned despite several assurances from Grant Thornton that sign off was immediate. See minutes from Audit & Governance committee.

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- Audit & Governance 25th October 2022

  "Members were directed to page 71 of the agenda and it was explained that the list of outstanding areas had decreased since the writing of the report. The remaining outstanding areas were the receipt of the Letter of Assurance from the Devon Pension Fund Auditor and property, plant and equipment valuations – brief updates were provided to members on both the outstanding areas.

  It was confirmed that subject to the completion of this work Grant Thornton aimed to issue an unqualified opinion ahead of the 30th November deadline."

- Audit & Governance 17th January 2023

  "Julie Masci, Key Audit Partner for Grant Thornton, introduced the progress report and explained this was an update on work following on from the last Committee meeting in October.

  It was confirmed that Grant Thornton was in the process of completing the Financial Statement Audit work and this was in its final stage. It was stated the aim was to finalise in January and to start planning work for 22-23 audit."

2. Triennial actuarial review of pensions.

2.1. Every three years there is a review of the Council's pension scheme, the review critically analyses various factors such as

- Assets held by the pension fund
- Liabilities of the pension fund, payments to existing pensioners, future pensioners, deferred pension members and their dependants
- Assessment of the future cost of pension benefits, i.e. the total pension contributions required to fund all past service and future service liabilities of members of the fund.

The triennial actuarial review then determines the employers' primary pension contribution rate for the next three financial years 2023/24 – 2025/26. For Torridge this resulted in the employers' pension contribution rate for current employees rising from 17.5% to 19.5%.

It also determines the secondary rate, which is the *additional* payment Torridge makes into the pension fund to meet the pension obligations of former employees (some of whom will be in receipt of their pensions). For Torridge the Triennial actuarial review for 2023/24 – 2025/26 resulted in the annual secondary rate payments for the period of the Tri-annual review being:

- £528k 2023/24
- £548k 2024/25
- £570k 2025/26

The secondary rate payment for 2022/23 being £689k.

3. Impact of Triennial actuarial review on 2021/22 accounts

When undertaking the triennial actuarial review of pensions the Actuary calculates the assets and liabilities of the fund as at **31st March 2022, the last day of the financial year 2021/22.**

If Grant Thornton had signed off the 2021/22 statement of accounts in accordance with the statutory deadline of the 30th November 2022, or signed off the statement of accounts prior to the publication of the triennial actuarial review, then there would be no requirement to include the impact of the Triennial actuarial review in the 2021/22 accounts.

With publication of the Triennial actuarial review occurring whilst the 2021/22 accounts were still unsigned Grant Thornton informed the Audit and Governance committee on the 4th April 2023 they were holding off formal sign off of the 2021/22 statement of accounts pending an internal review of its impact.

- Audit & Governance 4th April 2023

"2021/22 in terms of the financial statement side of the work, that work has finished but has not yet been signed. There is likely to be a further delay because the previous day the triennial review of the pension fund was completed, and that report has been issued. The effective date of that report is 31 March 2022. Therefore, all firms must have regard to this now – effectively this is a post balance sheet event because as at that date there will be a balance sheet figure stating there is a pension liability and a reserve that matches that. Need to be assured whether the number has changed and to ascertain whether an extra disclosure needs to go into the accounts. All 2021/22 signings have been paused until this has been resolved by the firm asap. Leadership at Grant Thornton have taken a sample of a few of their clients to see what impact there will be. It is expected it will require further disclosure in the accounts before they can be signed off."

In completing the 2022/23 statement of accounts the Council requests a pension report from the Actuary. Before producing the pension report the Actuary needed to know if the Council was restating its 2021/22 accounts as a result of the triennial review. In absence of any guidance at this juncture from Grant Thornton the decision was made by the Council not to restate the 2021/22 accounts and to proceed with the production of the 2022/23 accounts on that basis.

The time in restating the 2021/22 accounts would be significant at a time when two key officers are leaving the Council and transfer of knowledge is a key requirement.
Should the 2021/22 accounts be restated there would be a knock on impact on the

2022/23 accounts are due be published as opening pension balances would have to be amended.

After chasing Grant Thornton for further guidance the Council received a letter from Grant Thornton on the 12th June 2023 which failed to provide a clear direction of travel for the Council and indicated that additional assurance work was likely to be required to finalise 2021/22 statement of accounts delaying the sign-off further.
Consequently, the Council has sought guidance from a third-party expert in the field of local government statement of accounts (Stephen Sheen from Ichabod with whom, the Council along with other local authorities, have an annual subscription).

The guidance / advice from Stephen Sheen is summarised below:

- Clearly any restatement of pension liabilities and assets would exceed the Council's usual materiality limits. However, it is to questioned if, after 15 months, any user of the accounts would be waiting to make a decision about pension figures which **do not** feed into the Councils' financial management arrangements (QBR reports Medium Term Financial Strategy etc).

- External Auditors may claim that any potential misstatement is material if it exceeds their benchmark figures, however they could be challenged as to why they are ignoring the advice of the National Audit Office.

  "Triennial reviews are prepared on a different basis to IAS 19 figures using different discount rates, meaning the two are not directly comparable. As a result, and given this level of inherent uncertainty, the passage of time and the pressing need to eliminate the backlog of delayed audits, it would be disproportionate and of little or no benefit to users of the accounts to seek to reproduce and subsequently audit updated IAS19 figures at 31 March 2022."

  This means that auditor must be able to demonstrate precisely how the misstatement would be material before qualifying.

- A compromise solution would be to leave the 2021/22 statement of accounts as they are but to include a disclosure note explaining why the figures are now out of date and describing the substantial differences revealed in the updated actuaries report. This would hopefully mean the auditors can include an Emphasis of Matter paragraph in their audit report that the accounts are true and fair if users are made aware of particular disclosures made in the accounts.

In addition, CIPFA Bulletin 14 code on the matter contains some pertinent and salient points, see below:

11. The following list of examples is not intended to be exhaustive (and it will be important in reviewing matters with the actuary to consider whether new information provides evidence of conditions which existed on 31 March 2022 or is indicative of conditions which arose after the reporting period):

    If interest rates used to measure obligations increased materially on or after 1 April 2022 this would be taken into account in the triennial valuation to properly measure the obligation but would not be an adjusting event or what the accounts precisely require. The accounts require information as of 31 March 2022. If interest rates are affected across the board and would also have meant changes to high-quality corporate bonds required to discount liabilities under the Code, this would be a non-adjusting event to be reported on under section 3.8 of the code.

16. Materiality is subjective, in that it reflects on the effects that omissions and misstatements might have on the users of financial statements and of information in the financial statements. If an authority was of the view that there might be an adjusting or non-adjusting event, accounts preparers would need to consider the valuations measured in accordance with paragraph 6.4.3.28 of the Code and whether users of the accounts might come to different conclusions about the authority's standards of stewardship or make different economic decisions if based on the possible differences between information offered by the triennial valuation and the information already provided by actuaries for the 2021/22 accounts.

17. The Code includes timeliness as an enhancing characteristic of useful financial information (see paragraph 2.1.2.24). The Code indicates that generally, the older information is, the less useful it is. In determining whether differences are sufficient to warrant changes to the accounts it may therefore be relevant to consider whether there are users of the accounts still seeking to take decisions once the audited accounts are published or whether decisions will already have been taken on the published unaudited accounts.

4. Conclusions

The 2021/22 statement of accounts have been in draft form since 30th June 2022, essentially one calendar year, due to delays by the external auditors, compounded from 3rd April by the publication of triennial actuarial review of pensions. Given the time that has passed, the optimal solution would be not to restate the 2021/22 accounts and include a note as recommended by Stephen Sheen within the 2021/22 disclosures.

It should be noted that the pension figures included within the statement of accounts arising from the triennial review (Pension reserve, pension liabilities etc) don't impact the decision-making of the Council. They are not included within the Council's QBR or MTFS reporting.

5. Implications

Legal Implications
The Council must publish accounts in line with regulatory guidance.

Financial Implications
These are contained in the report.

Human Resources Implications
n/a

Sustainability Implications
None directly applicable to this report.

Equality/Diversity
None directly applicable to this report.

Risk Management
n/a.

Compliance with Policies and Strategies
The Council has an obligation to publish statement of accounts.

6. Recommendations:

That Members

- Support the Council in not restating the 2021/22 statement of accounts and that the Chair of Audit & Governance writes to both the Public Sector Audit Appointments Body and Grant Thornton detailing the Councils position.