



ICAEW AND LGPS ADVISORY BOARD

LOCAL GOVERNMENT PENSION SCHEME INFORMER



June 2024

Local Government Pensions

SAB

England and Wales

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SECTION ONE: THE PURPOSE AND SCOPE OF THIS INFORMER

INTRODUCTION

For many employers, pension costs and pension liabilities are some of the most complex accounting issues that they need to deal with. 18,000 different organisations belong to the Local Government Pension Scheme (LGPS), approximately 3,000 in Scotland and the remainder in England and Wales. Although the LGPS is administered by 98 local authorities, each employer must identify and report their own share of pension fund assets and liabilities separately for accounting purposes.

This is intended to be a practical document that explains:

- how the LGPS works in practice,
- key information flows between employing bodies, pension funds and actuaries,
- the content and purpose of annual accounting reports and triennial valuations,
- key accounting requirements for employing bodies, and
- the role of external auditors.

The primary audience for this informer is expected to be employer organisations with staff belonging to the LGPS and their external auditors. We hope, however, that pension fund administrators and actuaries will also find this information useful.

HOW TO USE THIS INFORMER

As well as providing general information about the LGPS, this informer should help employers and their auditors to:

- interpret actuarial data,
- navigate key accounting and audit requirements, and
- understand the key information flows, and the roles of various professionals involved in them.

The informer includes a range of practical tools such as:

- process maps and accounting templates,
- extracts from actuaries' accounting reports,
- template questionnaires,
- a standard working paper index for accounts preparers, and
- consistency checkers to aid review of actuarial information.

Links to websites providing further information on specific aspects of LGPS audit, administration and accounting are included in [Appendix I](#). It should be noted that defined contribution pension schemes and unfunded pension schemes have different accounting requirements which fall outside the scope of this informer.

KEY MESSAGES

LGPS accounting and audit are highly specialist areas and it is important for employers to appoint advisers with the relevant qualifications, experience and skills.

Engaging the pension fund's actuary to produce year-end accounting reports and selecting a 31 March year-end, if possible, can help to avoid delays and duplication of work.

Although most occupational pension schemes are governed by Trust Deeds, the LGPS is regulated by legislation and subject to a high degree of scrutiny and oversight at both national and local levels. Accounting entries and estimation processes are complex and the control environment may or may not reflect that complexity.

Year-end accounting disclosures for LGPS assets and liabilities are not precise amounts that can be determined by reference to contract documentation or cash flows. They are estimates based on an actuary's assessment of currently available data as well as the likelihood of future events. Unlike most occupational pension schemes, investment assets in the LGPS are not ring-fenced to individual employers, so a notional allocation must be arrived at for accounting purposes. A range of different estimation techniques can be applied to these calculations and there is no single 'correct' result.

Auditors are required to audit the information provided by actuaries and LGPS administrators. This audit work is focused on the risk of material misstatement and can, wherever possible, make use of information already in the public domain. Pension fund actuaries and, in some cases, pension fund administrators, already provide briefing notes and other information to support the audit process.

There is scope for this approach to be extended and improved with better signposting to ensure that employing bodies and auditors have ready access to the information.

Employing bodies can also benefit from understanding and taking ownership of pension disclosures in their year-end accounts and from preparing fit-for-purpose working papers over and above a copy of the actuary's accounting report itself.

A significant number of different organisations and data sources are involved in the production of year-end accounting reports and early work is essential to clarify financial reporting and audit requirements. Liaison arrangements and data sharing protocols need to be put in place well before the year end.

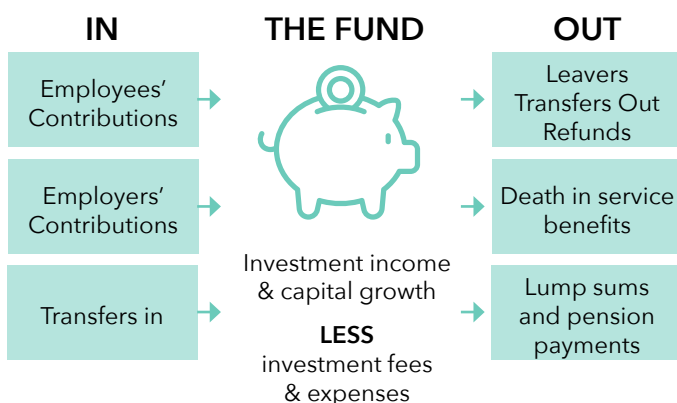
[Appendix H](#) provides a checklist for employing bodies, setting out the key tasks and timescales relevant to LGPS accounting.

SECTION TWO: OVERVIEW OF THE LOCAL GOVERNMENT PENSION SCHEME

INTRODUCTION

1. The principles underpinning all occupational pension schemes are the same. Employees contribute part of their wage or salary throughout their working life. Their employer also makes financial contributions into the scheme, and the employee receives pension benefits upon retirement. Benefits are usually received as a one-off lump sum payment, a monthly amount, or as a combination of the two.
2. With over 5 million individual members and around 18,000 participating employers (across England, Scotland, and Wales), the LGPS collectively is one of the largest public sector pension arrangements in the UK as well as one of the largest institutional investors. Investment income and capital growth, as well as member and employer contributions, are used to fund benefit payments. This is sometimes referred to as a "funded" pension scheme.
3. Other public sector pension schemes include separate arrangements for firefighters, police officers, teachers, civil servants, the armed forces, and the National Health Service. All schemes offer different benefits and contribution rates, but other schemes are "unfunded" i.e. benefits are paid from contributions income only, topped up where necessary by additional payments from government. These are sometimes referred to as "pay as you go" schemes.
4. The LGPS is a defined benefit pension scheme, which means that benefit entitlements are calculated based on age, salary, and length of service, as opposed to a defined contribution scheme where benefits earned are uncertain and depend upon contributions paid in, investment returns, the levels of fees and expenses and how benefits are accessed at retirement age and beyond.

LGPS CASHFLOWS



5. In 2014 (England and Wales) and 2015 in Scotland, the previous final salary scheme in the LGPS, where benefits were based on earnings just before retirement, was replaced with a new scheme where benefit entitlements are based on career average revalued earnings (CARE). Benefits earned under the final salary scheme before this date were protected, with transitional arrangements put in place for older employees approaching retirement.

6. CARE changes also provided greater flexibility for members, including the option to pay 50% contributions for 50% of the pension benefits.

STRUCTURAL ARRANGEMENTS

7. Unlike private occupational schemes which are usually established under a trust deed, the LGPS is governed by legislation and regulated by The Pensions Regulator and the Government Actuary's Department (GAD). Oversight is also exercised by:

- the Department for Levelling Up, Housing and Communities (DLUHC) in England and Wales, and
- the Scottish Public Pensions Agency (SPPA) in Scotland, which is an agency of the Scottish Government, see pensions.gov.scot.

8. These structural differences mean that, for example:

- employee contribution rates and benefit entitlements are determined nationally, as set out in [Appendix A](#), and
- Local Government Pension Scheme Advisory Boards (SABs) in England and Wales and in Scotland are responsible for providing general advice, support and guidance where appropriate, see lgpsboard.org/index.php/welcome and lgpsab.scot
- unlike private schemes, LGPS investment assets and contributions income are not ring-fenced to individual employers or employees.

9. Relevant legislation includes the provisions of the [Pension Schemes Act 2021 \(legislation.gov.uk\)](#), the [Public Service Pensions Act 2013 \(legislation.gov.uk\)](#), various statutory instruments and regulations some of which date back to the 1970s. More detailed information on LGPS regulations and guidance can be found on LGPS Regulations and Guidance (lgpsregs.org)

10. These arrangements lead many people to assume that the LGPS is a single, national, pension scheme, but there are in fact 98 separate LGPS pension funds in England, Wales and Scotland. Funds are administered by local authorities and between them hold investment assets totalling almost £400bn. General information about the LGPS in England and Wales can be accessed via [Home :: LGPS \(lgpsmember.org\)](https://www.lgpsmember.org) and for the Scottish LGPS via pensions.gov.scot/local-government#Yourlocalgovernmentpensionscheme.

11. The local authorities responsible for administering LGPS funds are specified in legislation and usually referred to as scheme administrators or administering authorities. Outside London these will be county councils, metropolitan or unitary authorities. Their functions and responsibilities are set out in secondary legislation and statutory guidance.

12. Each of the 33 local authorities in London maintains its own pension fund, and the London Pension Fund Authority administers the residual pension funds for previous authorities in London such as the former Greater London Council and Inner London Education Authority.

PARTICIPATION

13. Another common misconception is that only local government employees can belong to the LGPS. In fact, all local authority pension funds are multi-employer schemes, with a typical fund having over 200 different employers belonging to it. An increasing feature of the scheme is the extent to which most employing bodies are now not local authorities, so pension fund administrators are dealing with multiple year-ends and different financial frameworks as a matter of course.

14. In practice three types of organisations can belong to the LGPS:

- scheduled bodies, who belong to the scheme under the provisions of the Local Government Pension Scheme Regulations 2014 (Schedule 2, Part 1) - mainly these are principal local authorities, non-uniformed staff at police and fire authorities, housing bodies, and non-teaching staff at academy trusts and universities (since 1992),
- designated (resolution) bodies, who can choose whether or not to belong to the LGPS under Schedule 2, Part 2 of the same legislation - these include for example town and parish councils, and passenger transport executives,
- admitted bodies who can only participate in the scheme with the agreement and approval of the administering authority. Usually admitted bodies are limited companies or not-for-profit organisations taking on staff who already belong to the LGPS, in situations where government policy is that these staff should continue to belong to their existing pension scheme.

15. In Scotland, the same categories and classification arrangements apply as set out in the Local Government Pension Scheme (Scotland) Regulations 2014.

GOVERNANCE

16. Each pension fund administering authority must prepare and publish:

- an Investment Strategy Statement (or Statement of Investment Principles in Scotland), setting out its approach to investment management and asset allocation policies,
- a Funding Strategy Statement, setting out how funding requirements will be balanced against maintaining

affordable contribution rates,

- an Annual Governance Statement (and in Wales and Scotland a Governance Compliance Statement as well), and
- a policy statement explaining how any local discretions will be exercised.

17. These documents should be publicly available on administering authority websites, together with minutes of pensions committee or investment committee meetings and agenda papers. Meetings are organised by the administering authority, and this is where any key decisions affecting the pension fund are made. Decision-making committees consist mainly of elected local councillors, sometimes with representatives of employees and employing bodies.

18. In addition to the decision-making processes described above, local pension boards were established to ensure that pension committees and pension funds are meeting the expectations of The Pensions Regulator as well as other statutory requirements. This is an oversight and advisory role as opposed to a decision-making one, but the local pension board can make recommendations to committees and to the administering authority where appropriate.

19. All pension fund administering authorities must produce, and publish by 1 December each year, an Annual Report which contains the following information:

LGPS ANNUAL REPORT CONTENTS
Overall fund management
Governance and training
Financial performance
Fund account, net assets statement & notes
Investments and funding
Administration
Actuarial Report on Funds
External audit opinion

Source: Preparing the Pension Fund Annual Report Guidance 2024 produced by SAB, DLUHC, CIPFA

20. Annual reports are published on each pension fund’s individual website and, for English and Welsh pension funds, on the Scheme Advisory Board website, see [LGPS Scheme Advisory Board - Fund Annual Reports 2023 \(lgpsboard.org\)](https://www.lgpsboard.org).

21. As well as providing useful information for employing bodies, annual reports can be used to inform the auditor’s assessment of the pension fund’s key information flows and overall control environment.

SECTION THREE:

HOW TO USE AND INTERPRET ACTUARIAL REPORTS

TRIENNIAL VALUATIONS

22. Under the LGPS Regulations there is a statutory requirement for all schemes to:
- have a full valuation undertaken by an actuary every three years, and to
 - secure the solvency of the pension fund.
23. As part of this triennial valuation, the appointed actuary must take account of the following:
- existing and estimated future liabilities,
 - the desirability of maintaining contribution rates at a stable rate where appropriate,
 - contents of the administering authority's published Funding Strategy Statement, and
 - the requirements to secure solvency and the long-term cost-effectiveness of the pension fund.
24. The actuary performs this triennial valuation by firstly assessing the funding level for the pension fund as a whole, and then by assessing the funding level for each employing body separately. Triennial valuations are used to set employer contribution rates for the next three years, balancing cost volatility with the prospect of each employer being fully funded over time. This is sometimes referred to as the "smooth landing" approach.
25. There is no legal requirement for LGPS schemes to be fully funded, but they must be investing for the longer term as well as:
- maintaining sufficient cash funds to make benefit payments to pensioners as and when these fall due,
 - achieving long-term cost efficiency, by not deferring payments too far into the future so that they affect future generations disproportionately, and
 - setting contribution rates at a level which is aimed at achieving a fully funded position over time.
26. The most recent triennial assessments were carried out as at 31 March 2022 in England and Wales and 31 March 2023 in Scotland. They confirmed that the LGPS was fully funded overall, with assets calculated to be 47% more than the accrued value of liabilities in Scotland and 8% more than the estimated value of accrued liabilities in England and Wales. But funding levels do vary significantly and for individual employers can be as low as 80%.
27. Employee contribution rates are set by legislation at a national level (see [Appendix A](#)), but the value of contributions paid in by employers are determined locally as described above. Following each triennial valuation the actuary prepares a Rates and Adjustment Certificate setting out:

- the primary rate of an employer’s contribution – usually expressed and paid over as a percentage of the current payroll, and
- the secondary rate of an employer’s contributions i.e. any percentage or amount by which, in the actuary’s opinion, contributions at the primary rate should be increased or reduced by

reason of any circumstances peculiar to that employer. Secondary contributions can also be negative values if 100% funding levels have been achieved by employers.

28. An example of a Rates and Adjustment Certificate is provided below:

EXAMPLE RATES AND ADJUSTMENT CERTIFICATE

Employer Code	Employer Name	Primary Rate (% pay)	Secondary rate (% pay plus monetary adjustment)			Total Contributions (% of pay plus monetary)		
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26
Government bodies								
Funding Pool	Somerset Council							
700	Somerset Council	20.1%	£5.56m	£6.06m	£6.61m	20.1% plus £5.56m	20.1% plus £6.06m	20.1% plus £6.61m
Individual Employers								
720	Avon and Somerset Police and Crime Commissioner	18.67%	£0.869m	£0.901m	£0.936m	18.67% plus £0.869m	18.67% plus £0.901m	18.67% plus £0.936m
Town and Parish Councils								
Funding Pool	Town and Parish Councils							
734	Glastonbury Town Council	22.30%	-	-	-	22.30%	22.30%	22.30%
735	Shapton Mallett Town Council	22.30%	-	-	-	22.30%	22.30%	22.30%
736	Street Town Council	22.30%	-	-	-	22.30%	22.30%	22.30%
737	Minhead Town Council	22.30%	-	-	-	22.30%	22.30%	22.30%
Academies								
Funding Pool	Academies							
806	Holyrood Academy	20.30%	4.10%	4.10%	4.10%	24.40%	24.40%	24.40%
807	Kingshead Academy	20.30%	4.10%	4.10%	4.10%	24.40%	24.40%	24.40%
807	Kings of Wessex Academy	20.30%	4.10%	4.10%	4.10%	24.40%	24.40%	24.40%
808	Minhead Middle School	20.30%	4.10%	4.10%	4.10%	24.40%	24.40%	24.40%

29. Employer contribution rates will vary between funds and between employers in the same fund, as shown above. This is due to different membership profiles in terms of age, salary, longevity etc. Smaller employers, such as town and parish councils, tend to be grouped into pools with a common contribution rate, as shown above.

FUNDING DEFICITS

30. Funding deficits can be recovered over periods up to either:

- the average remaining service life of current contributing employees,
- the expected life of contracts in place with public service providers, or
- the length of sponsoring organisation covenants or guarantees.

31. Typically, this will be 13-20 years for open, ongoing employers, with the deficit recovered through a combination of lump sum payments or increased contribution rates.

32. For organisations assessed as having a higher risk of not being able to pay contributions into the pension fund, the usual expectation is that any deficits will be recovered over a shorter period. This could be as little as 3-6 years.

33. Paragraphs 7-8 of Part 3 to Schedule 2 of The Local Government Pension Scheme Regulations 2013 in England and Wales require that newly-admitted employers safeguard the pension fund against possible financial failure, either by way of a third-party financial

guarantee or by accepting a legal charge over the employer's assets. This avoids the potential situation where the last employer to leave the scheme must pick up any residual liabilities created by other members.

34. Similar provisions are contained in Part 2 to Schedule 2 of The Local Government Pension Scheme (Scotland) Regulations 2014.

ACTUARIAL ACCOUNTING REPORTS

35. In addition to triennial valuations, which are commissioned and paid for by the pension fund, actuarial accounting reports are also required (and must be paid for) for each employing body. These reports estimate the value of LGPS assets and liabilities to be included in the employer's year-end Balance Sheet, together with the associated accounting disclosures.

36. Employers can commission annual accounting reports from the pension fund's actuary (usually a more cost effective and more efficient procurement route), or from a different actuarial firm. If making a separate appointment, employing bodies should be careful to:

- only appoint an actuary with appropriate levels of skill and experience - the LGPS is a specialist area with which not all actuarial firms are familiar,
- ensure that data sharing arrangements between their own actuary, the pension fund actuary and the pension fund administrator are put in place, which involve third-party payroll providers where necessary, and
- confirm that the actuary is familiar with the employing body's own financial reporting framework.

37. The preparation method for the accounting report is similar in principle to that adopted for a triennial valuation, although detailed calculations are based on the requirements set out in accounting standards. For example, the discount rate specified in both IAS 19 and FRS 102 must be a "high quality corporate bond rate" whereas for triennial valuations most actuaries will use a discount rate that reflects the actual investment profile of the fund. In recent years this has typically been a higher rate, linked to equity and property returns rather than bonds.

38. Where pension fund actuaries are also responsible for preparing accounting reports, they will usually base the calculations on a roll-forward of membership and investment data obtained at the previous triennial valuation. If a different actuary is commissioned to prepare the accounting report, this can raise issues in respect of access to supporting information, possibly leading to duplicated time and effort and higher fees. Different firms of actuaries also use different calculation methods and underlying assumptions, which can complicate the process.

39. Such considerations need to be addressed at the commissioning stage with information sharing protocols put in place well before the year-end.

40. As well as engaging an actuary to prepare year-end accounting disclosures, some employing bodies may also appoint another actuary to provide independent advice. This additional information should help the employer to understand and challenge the actuarial assumptions which are being used to set contribution rates and to calculate accounting adjustments at each year end.

OBTAINING ACTUARIAL ACCOUNTING REPORTS

41. LGPS pension fund administrators should liaise with actuaries to facilitate the provision of year-end accounting information for employing bodies, irrespective of whether these are being produced by the pension fund actuary or not. Different actuarial practices, different year-end reporting dates and multiple financial reporting frameworks add considerably to the complexity of this process, not to mention the varying expectations of employing bodies and their external audit firms.
42. Effective liaison with both administrators and actuaries is necessary to ensure that the accounting report will be available by the date required, bearing in mind that some employers belong to several local authority pension funds, which all need to be communicated with separately. Also, many employers will be working to a Balance Sheet year-end date which is different to the pension fund's year-end of 31 March and might not be preparing accounts that cover a 12-month period. To avoid misunderstandings, these facts need to be made clear well before the Balance Sheet date.

GOVERNMENT ACTUARY'S REVIEW

43. GAD exercises oversight of the LGPS in terms of funding levels, solvency and cost effectiveness under Section 13 of the Public Services Pensions Act 2013. As part of this work, GAD reviews LGPS triennial valuation reports – see [GAD reviews local authority pension valuations - GOV.UK \(www.gov.uk\)](http://www.gov.uk/government/reviews/local-authority-pension-valuations) and [Review of Local Government Pension Scheme \(Scotland\) - GOV.UK \(www.gov.uk\)](http://www.gov.uk/government/reviews/local-authority-pension-valuations).

44. In response to GAD's desire to see greater consistency in both the format of valuation reports, and the assumptions underpinning them, all four firms employed by LGPS pension funds (Mercers, AON, Hymans Robertson, and Barnett Waddingham) now produce information in a comparable format and financial and demographic assumptions are more clearly explained.
45. The GAD report is usually published too late to be of direct benefit to auditors in terms of confirming (or otherwise) the reasonableness of actuarial methods and assumptions. The GAD report on March 2019 England and Wales triennial valuations was published in December 2021 and the report on March 2020 valuations for LGPS in Scotland was published in March 2023. The fact that this process takes place at all however, with recommendations acted on before the next triennial takes place, does provide general assurance on the quality of the control environment surrounding LGPS valuation work.
46. More information on the work of the Government Actuary's Department can be found at [Government Actuary's Department - GOV.UK \(www.gov.uk\)](http://www.gov.uk/government/department).

ACTUARIAL METHODOLOGIES

47. Although the purpose of year-end actuarial accounting and triennial valuation reporting is different, the valuation method is similar. Estimates are based on:
- current payments to pensioners,
 - the projected value of benefit payments accrued to date (based on membership records),
 - expected contributions from employers and members, and
 - projected investment returns.

48. Key factors used will include forecast inflation rates, possible pay and pension growth, interest rate changes, investment return assumptions and longevity estimates. Also relevant are average retirement age, potential staff transfers and refunds, and marriage and divorce statistics.
49. To arrive at these valuations, the actuary must first calculate accrued pension benefits based on the current cohort of employees, pensioners, and deferred members (usually previous employees with accrued benefits no longer paying into the scheme). This calculation is discounted to arrive at a present-day value, often referred to as the Net Present Value or NPV. The discount rate selected will significantly affect the calculation of the fund's liabilities, as the higher the discount rate, the lower the NPV of accrued benefit payments.
50. Each firm of actuaries will calculate their own discount rate, but the most common approaches for funding purposes include:
- an asset-based discount rate assumption using the pension fund's current investment portfolio and asset allocation policy, or
 - use of an economic model based on assumed dividend income plus a measure of estimated growth.
51. For accounting purposes:
- discount rates will be calculated in line with relevant accounting standards, and
 - liabilities will be calculated in terms of the movements during the year (usually the result of assumption and discount changes coupled with any significant workforce changes since the last triennial took place) rather than a calculation of benefit entitlements based on individual membership records.
52. The value of accrued liabilities is then compared to the current value of investment assets. Pension fund asset portfolios and contributions income are not ring-fenced to individual employing bodies but are tracked by the fund actuary at employer level for funding valuation purposes. Each actuarial firm will have its own way of allocating fund assets between employing bodies and should be able to explain the method(s) adopted if these are not already set out in the triennial valuation report and supporting information.
53. A highly simplified example of actuarial calculations that support triennial valuations at employing body level is shown below:

ACTUARIAL CALCULATIONS - WORKED EXAMPLE

LIABILITIES AT BALANCE SHEET DATE		
1 For current employees and deferred pensioners		
Based on membership data,		
200 employees, on average 40 years old with 15 years past service		
On average, expected to retire at 65 and live to 85 years old ie will receive a pension for 20 years		
Average pay per employee	32,000	
Assume pay and price inflation of 3% per annum (see NOTE 1 below)=		3%
Pension Accrual rate of 1/49th		
Estimated average pensionable pay at retirement:		
£32k x 1.03 ¹⁵ =	49,855	
Estimated average accrued pension		
15yrs service (to date) =	15	
Accrued benefit for actives (15 yrs x 1/49 x £49.8k)	15,262	
		£ £
so total paid in retirement to current employees	£2,019,131	
Discounted to current value (assume average 3% discount each year)		28,307,636
2 For existing pensioners		
assume 300 pensioners with average pension of	23,000 per annum	
current average age is 70, expected to live to 85 years old ie for another 15 years		
Assume pension inflation of 3% per annum.		
so total paid in retirement to current pensioners	128,332,506	
Discounted to current value at 3% each year		100,485,437
		128,793,073 = net present value of accrued liabilities (in disclosure note)
ASSET ALLOCATION		
1 Total of pension fund investment assets = £1bn at employer's year end date		
A notional allocation of assets between employing bodies has been arrived at by reference to previous funding levels, current membership profile, and the net present value of each employer's accrued liabilities.		
		10,000,000
		<u>118,793,073 = net pensions liability in Balance Sheet to be met from future contributions</u>
NOTE 1:	In the above example we have assumed that prices and wages increase at the same rate to simplify the maths. This makes the calculations similar to those for final salary pensions. CARE pension schemes revalue each years accrual during employment in line with price inflation. In this example we have ignored that sophistication.	
NOTE2:	In the example we have assumed that pensions are paid at the year end and have ignored mortality throughout.	

- 54. In practice, of course these calculations would be much more complex with adjustments to reflect (amongst other considerations) gender profiles, lump sum entitlements, 50/50 options and survivor pensions.
- 55. For the purposes of actuarial accounting reports, estimates of pension fund assets and liabilities will often be based on the most recent triennial valuation, adjusted for cash flows (contributions income, benefits paid) and investment returns in the intervening period. [Appendix B](#) contains extracts from a typical actuary's year-end accounting report which demonstrates this "roll forward" approach.

OTHER VALUATION ISSUES

- 56. If an employer has no active membership, but still has outstanding pension commitments, a capital payment (known as a 'cessation payment') may be made to cover any further benefits and so enable the employer to leave the LGPS. To protect other employers in the fund, the administering authority will instruct the pension fund actuary to calculate the value of the payment.
- 57. Changes introduced in 2020 in England and in 2022 in Scotland provide new flexibilities whereby employers seeking to exit the scheme can request that they either enter into a deferred debt

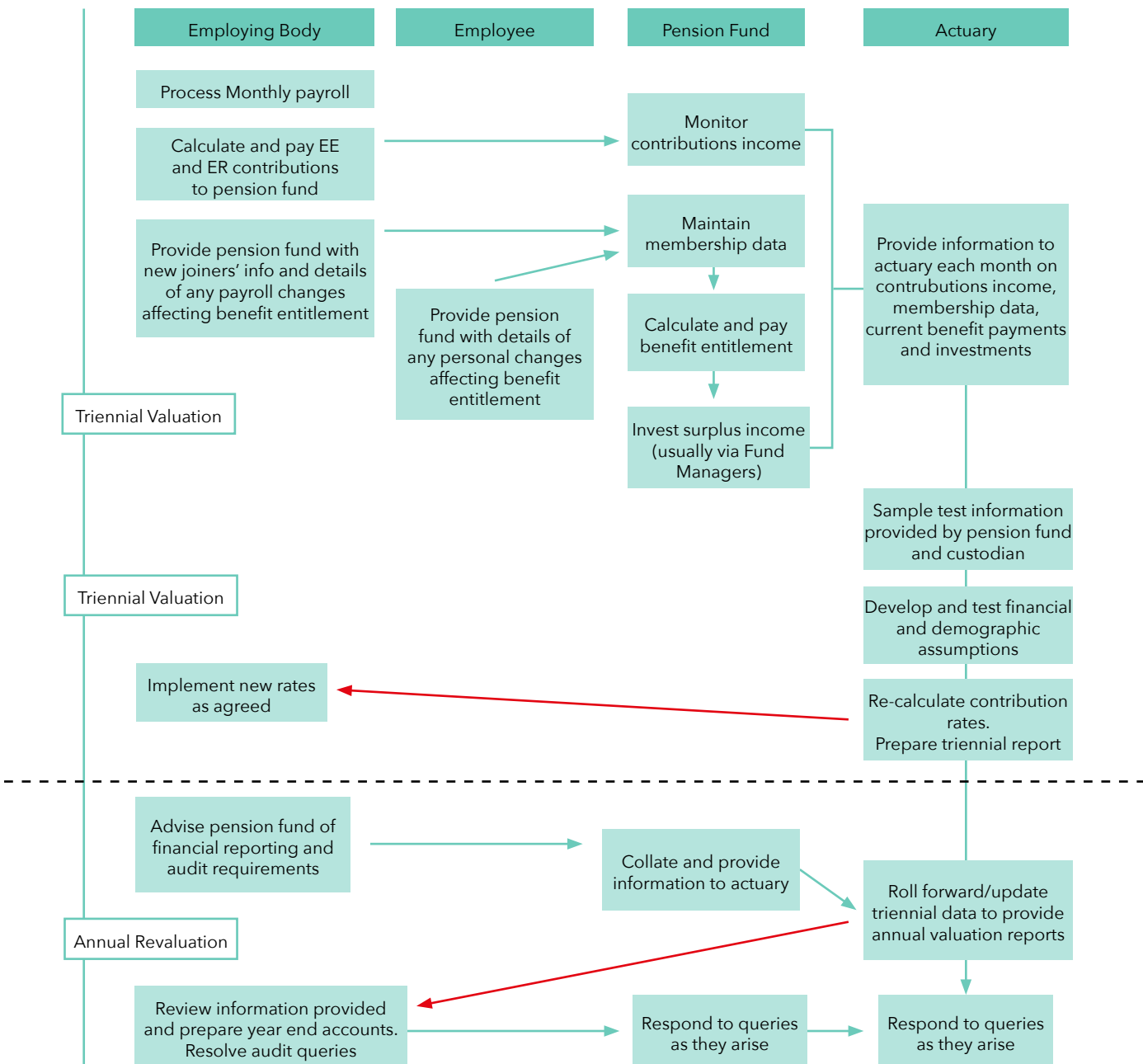
agreement (where cessation payments are delayed for up to five years) or a debt spreading arrangement whereby exit payments can be made in instalments. However, the employer's ability to do this is very much at the pension fund's discretion and there is likely to be a policy in place which expects exiting employers to pay up in full if they can.

58. If an employer wishing to leave the scheme is in surplus, the administering authority is obliged to consider whether a repayment should be made. The Local Government Pension Scheme (Amendment) Regulations 2020 (which apply to England and Wales) and the Local Government Pension Scheme (Scotland) (Miscellaneous Amendments) Regulations 2022 (which apply in Scotland), allow pension funds to determine how, and in what circumstances, exit repayments (sometimes referred to as exit credits) should be made, taking account of any considerations specified in the regulations as well as local policies. Settlement offers made to date have tended to be conservative, as funds can make no further call on the employer if the cessation payment later proves to have been insufficient.
59. In December 2023, the LGPS Scheme Advisory Board for England and Wales issued a statement on pension fund surpluses on [SAB Statement on Surpluses.pdf \(lgpsboard.org\)](#). This statement does not directly relate to accounting issues but does provide some useful information about how the emergence of LGPS surpluses in these jurisdictions is being managed and administered.

SECTION FOUR: KEY INFORMATION FLOWS

60. The main processes and information flows involved in the production of an actuary's annual accounting reports are set out below:

KEY INFORMATION FLOWS



61. Key features of these arrangements are as follows:

outsourcing arrangements, major restructuring, early retirement schemes or planned redundancies.

EMPLOYING BODIES

62. Under the LGPS Regulations, all eligible employees are contractually enrolled into the LGPS on appointment if they are under the age of 75 and their contract of employment is for more than three months. The LGPS is also a qualifying scheme for Automatic Enrolment (AR), although employees that are contractually enrolled will be unaffected by this unless they decide to opt out of the scheme.

63. Responsibilities of employing bodies include the following:

- allocating employees joining the LGPS to the correct contributions band, so they pay into the pension fund at the correct deduction rate,
- deducting pension contributions from employee's remuneration and remitting these deductions, together with the employer's own pension contributions, and details of each individual employee's pensionable pay, to the administering authority (usually monthly),
- exercising benefit discretions (where available) e.g. for early retirement,
- notifying the administering authority of all relevant changes to membership data (e.g. new starters, leavers, retirement) and other relevant issues such as staff wishing to exercise 50/50 options, and
- providing actuaries and pension fund administrators with accurate and up-to-date information.

64. Employers should notify the administering authority about any proposals which might lead to significant numbers of staff either joining or leaving the scheme, e.g. business expansion plans, proposed

INVESTMENT MANAGERS AND CUSTODIANS

65. A small number of local authority pension funds operate in-house investment management teams, but most portfolios are managed through external appointments. Regional asset pools were first introduced in England and Wales eight years ago and by November 2023, 39% of LGPS assets in these jurisdictions were managed directly by regional asset pools, with a further 9% in transit and another 31% subject to asset pool advisory or oversight arrangements.

66. Investment manager responsibilities include the following:

- investment of pension fund assets in accordance with current LGPS legislation and in line with local investment management agreements (mandates). Regional asset pools are usually involved in this appointment process,
- maintaining asset allocations as directed by the investments or pensions committee,
- selecting securities within each asset class for acquisition and disposal, and
- preparing regular investment valuation and performance reports.

67. The custodian is responsible for the safekeeping of "proof of ownership" documentation such as share certificates, title deeds etc. Separation of fund management and custodianship responsibilities is, for most local authority pension funds, a key component of their systems of internal control. Most LGPS pension funds currently use State Street, BNY Mellon or Northern Trust as their custodian.

ASSURANCE REPORTS

68. Many aspects of LGPS administration are outsourced. In addition to investment management services, year-end accounts production, payroll services and membership record administration can all be provided by third party organisations.
69. Most investment managers and custodians are regulated entities and will provide assurance reports (sometimes referred to as ISAE 3402 type I or type II reports) to their LGPS clients every 12 months. If the assurance reports available do not cover the same period as the employing body's financial year, bridging letters may be requested to ascertain whether any significant changes have occurred since the date of the last report.
70. For other outsourced functions (such as payroll, pension administration etc.) the provision of assurance reports is discretionary and is not requested by pension funds in all cases. Even when reports are obtained, they may simply describe the controls in place rather than provide an assessment of effectiveness.
71. If any assurance reports are requested, these will need to be paid for by the employing body and the request should be scoped to ensure external audit requirements are met.
72. Maintaining accurate and up to date information is increasingly important now that CARE has replaced final salary as the basis for calculating pension entitlement, and 'Freedom and Choice' gives current members many more options regarding contribution payments and benefits.
73. Under the terms and conditions of most pension administration strategies, employing bodies are required to provide source data to the pension fund monthly, usually via electronic file transfer from payroll and HR systems.
74. The format of the file transfer will be specified by the pension fund and will depend on their pension administration system. Where payroll processing is outsourced, employers need to ensure that the payroll provider is fully aware of data sharing protocols and can provide the necessary information to the pension fund in the correct format and within the timescales required.
75. Whilst employers may be responsible for providing this information in the first instance, pension scheme administrators are ultimately responsible for maintaining membership records which are accurate and up to date. Most pension funds will either carry out annual data quality audits, or put in place monthly processes for:

MEMBERSHIP DATA

72. Quality of membership data is a key issue because the information is used in two ways:
- by pension fund administrators to calculate individuals' benefit entitlement, and
 - by actuaries when undertaking triennial valuations, preparing annual accounting reports, and calculating employer contribution rates.
- collecting data changes and processing them within ten days of receipt,
 - requiring all employees to check and confirm their own data records on a regular basis,
 - initiating a pre-retirement data check for all fund members, and
 - cross-checking membership data against third-party information held by HMRC, national insurance databases and the National Fraud Initiative.

77. The Pension Regulator’s guidance on membership data requires that all schemes should:
- continually review their data and carry out a data review exercise at least once a year,
 - run data quality reports every three months, and
 - where poor or missing data is identified, put in place a data improvement plan to address these issues.

ACTUARIES

78. [Appendix C](#) set out some of the work undertaken by actuaries that underpins the production of triennial valuations and accounting reports. Both types of report should set out in detail:
- the source data that has been used to prepare the report,
 - a summary of the membership data and employer contribution rates used,
 - any specific issues reflected in the report,
 - the employer’s share of net assets at the reporting date, and expected percentage returns,
 - the calculation methodology,
 - demographic and statistical assumptions selected (and why),
 - financial assumptions selected (and why),
 - the approach adopted to valuing any past service costs or gains, settlements, or curtailments occurring during the period.
79. A typical example of the contents page for an actuary’s year-end accounting report is provided below:

TYPICAL CONTENTS OF AN ACTUARY’S YEAR-END ACCOUNTING REPORT

Contents

Introduction.....	3
Characteristics of defined benefit plans and associated risks.....	4
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SECTION FIVE: KEY ACCOUNTING REQUIREMENTS

LGPS PENSION FUNDS

80. Accounting requirements for LGPS administering authorities are set out in CIPFA's Code of Practice on Local Authority Accounting in the UK ("the Code"), see www.cipfa.org/policy-and-guidance/publications/c/code-of-practice-on-local-authority-accounting-in-the-United-Kingdom-202223-online.

The Code is published annually by CIPFA/LASAAC and is based on International Financial Reporting Standards (primarily IAS 26 in the context of LGPS accounting) rather than the UK Statement of Recommended Practice for Pensions.

81. Local authority pension fund accounts consist of:

- a Fund Account, summarising employer and employee contributions, investment income, benefit payments and administration costs,
- a Net Asset Statement, comprising the fair value of investments and any other assets and liabilities,
- descriptions of the Fund's activities, membership numbers, and investment arrangements,
- a detailed analysis of contributions income and benefit payments, administration costs and investment management fees,
- other relevant disclosure notes, in line with Code requirements. Principally these relate to IFRS13 (Fair Value) and IFRS 9 (Financial Instrument) disclosures.

82. Examples of a local authority Pension Fund Account and Net Asset Statement are provided below and further information is available via [LGPS Fund Accounts 2020/21 | CIPFA](#).

FUND ACCOUNT

2019/20		Notes	2020/21
£000			£000
	Deals with members, employers and others directly involved in the fund		
(215,976)	Contributions	7	(193,229)
(25,238)	Transfers in from other pension funds	8	(34,464)
(241,214)			(227,693)
232,580	Benefits	9	226,858
48,896	Payments to and on account of leavers	10	23,536
281,476			250,394
40,262	Net (additions)/withdrawals from dealings with members		22,701
13,270	Management expenses	11	14,008
53,532	Net additions/withdrawals including fund management expenses		36,709
	Returns on investments		
(52,660)	Investment income	12	(39,167)
773	Taxes on income		604
(300,444)	Profit and losses on disposal of investments and changes in the value of investments	14A	820,896
(352,331)	Net return on investments		782,333
(298,799)	Net (increase)/decrease in the net assets available for benefits during the year		819,042
(4,197,810)	Opening net assets of the scheme		(4,496,609)
(4,496,609)	Closing net assets of the scheme		(3,677,567)

Source: CIPFA Example Pension Fund Accounts 2020/21

NET ASSET STATEMENT

2019/20			2020/21
500	Long-term investments	14	600
4,415,424	Investment assets	14	3,663,182
(11,051)	Investment liabilities	14	(7,391)
4,404,873	Total net investments		3,656,391
30	Long-term debtors	21A	240
103,648	Current assets	21	36,402
4,508,551			3,693,033
(436)	Long-term borrowing		(409)
(11,506)	Current liabilities	22	(15,057)
4,496,609	Net assets of the fund available to fund benefits at the end of the reporting period		3,677,567

Source: CIPFA Example Pension Fund Accounts 2020/21

83. Administering authorities in England are required to include LGPS accounts in the local authority's financial statements as well as the pension fund annual report. This is not the case in Wales and Scotland where publication takes place solely through the pension fund annual report.

84. All LGPS accounts are subject to audit, although delays to the completion of administering authority audits in England has also led to delays in the publication of audited LGPS accounts. Historically, however the level of audit adjustments identified in LGPS financial statements is very low and this is not the cause of audit delays at most local authorities.

85. Although LGPS accounts include estimates of accrued benefit liabilities by way of a disclosure note, these liabilities are not usually reflected in the Net Asset Statement itself. There is an option under the Code for accrued benefit obligations to be included in the Fund Account and Net Asset Statement, but to date only one fund (Somerset) has adopted this approach.

86. LGPS accounts include limited financial information in respect of individual employing bodies, as their purpose is to reflect the transactions and balances of the pension fund in total. These accounts do however provide a detailed analysis of the pension fund's investment holdings at 31 March each year, as shown to the right:

INVESTMENTS ANALYSIS - BY FUND MANAGER

Market value 31 March 2020			Market value 31 March 2021		
£000	%		£000	%	
Investments managed by XYZ regional asset pool:					
936,960	21	N and G Investment Management	805,230	22	
79,420	2	Faraday Investment Management Ltd	61,621	2	
-	-	SFM International (UK) Ltd	613,284	17	
-	-	White Stone Investment Managers	597,434	16	
500	-	XYZ Regional Asset Pool	600	-	
1,016,880	23		2,078,169	57	
Investments managed outside XYZ regional asset pool:					
639,671	15	SFM International (UK) Ltd	-	-	
416,672	10	ABC Investment Management	290,424	8	
39,265	1	Alternative Asset Management (AAM)	72,078	2	
420,480	10	Offside Investment Management Ltd	420,880	11	
154,190	3	Gold Bricks Limited	168,158	5	
1,364,626	31	White Stone Investment Managers	200,282	5	
353,089	8	Ellebeau in-house investment team	426,400	12	
3,387,993	77		1,578,222	43	
4,404,873	100	Total	3,656,391	100	

Source: CIPFA Example Pension Fund Accounts 2020/21

ANALYSIS BY TYPE OF INVESTMENT

NOTE 14: INVESTMENTS²⁸

Market value 31 March 2020		Market value 31 March 2021	
£000		£000	
	Investment assets		
416,672	Bonds	290,424	
593,118	Equities	180,726	
	Pooled funds		
936,960	Fixed income unit trusts	805,230	
79,420	Diversified growth funds	61,621	
639,671	Infrastructure funds	613,284	
37,898	Hedge funds	47,582	
763,815	Global equity	597,434	
2,457,764		2,125,151	
	Other investments		
154,190	Pooled property investments	168,158	
420,480	Private equity and joint venture funds	420,880	
340,239	Directly managed property	317,441	
	Derivatives:		
2,497	■ Futures	15,466	
6,731	■ Purchased/written options	8,462	
534	■ Forward foreign exchange	5,834	
924,671		936,241	
12,850	Cash deposits	108,959	
7,608	Investment income due	-	
2,741	Amounts receivable for sales	21,681	
23,199		130,640	
4,415,424	Total investment assets	3,663,182	

Source: CIPFA Example Pension Fund Accounts 2020/21

87. Employing bodies are subject to a wide range of different financial reporting frameworks including:

- UK GAAP ie FRS 102 or FRS 101 for smaller organisations,
- Statements of Recommended Practice (SoRPs) for specific sectors such as charities and registered social landlords,
- Accounts Directions, eg for academy trusts see [Academies Accounts Direction 2023 to 2024 and submitting your audited financial statements - GOV.UK \(www.gov.uk\)](#),
- CIPFA’s Code of Practice on local authority accounting in the United Kingdom (which follows IAS 19 as adapted for local authorities). At the time of writing, CIPFA/LASAAC were consulting on a reduced set of pensions disclosures for employing bodies, for use with 2023/24 and 2024/25 statement of accounts. If implemented, these will be set out in a Code Update on the CIPFA website, and
- International Financial Reporting Standards (IFRS) for state-owned and publicly listed companies, with IAS 19 setting out the accounting and disclosure requirements for employing organisations.

88. Financial reporting frameworks differ in terms of their detailed disclosure and accounting requirements. However, the key principles underlying all of the various frameworks is that for funded, defined benefit pension schemes such as the LGPS:

- pension liabilities should be recognised as they accrue, in advance of the liability crystallising at the date of retirement. This is fundamentally different from principles set out in some other accounting standards, which only require liabilities to be recognised when they contractually fall due.

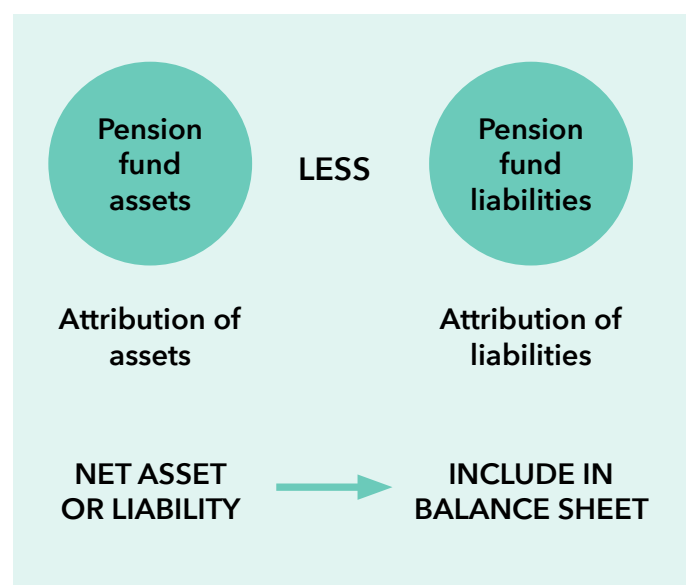
- accrued pension liabilities should be included in the financial statements of employer bodies rather than in the financial statements of the pension fund. The rationale for this accounting principle is that, although the pension fund is responsible for administering the scheme and for making benefit payments, the employing body remains responsible for meeting the eventual cost.

89. To help employing bodies meet these requirements, actuaries produce an accounting report at the Balance Sheet date for each employer, which:

- calculates the year-end value of pension fund assets and liabilities,
- analyses the movements in these balances between financial years, and
- includes other information required for accounting disclosures.

90. For financial reporting purposes, each employer’s allocation of the pension fund’s assets and liabilities is calculated separately. Each share is then reflected in the employing body’s Balance Sheet as shown below:

ACCOUNTING FOR PENSION FUND LIABILITIES - EMPLOYING BODIES



91. Because pension fund assets are not ring-fenced to individual employing bodies, they must be notionally allocated to employers for the purposes of year-end financial reporting. All actuarial firms approach this task differently, but their reports should set out how the calculations have been carried out. [Appendix D](#) provides details of some of the asset allocation methodologies most often used by actuaries to prepare triennial valuations and accounting reports, but it should be emphasised that this is not an exhaustive list.
92. For employing bodies not in funding pools, the value of accrued liabilities is usually calculated separately for each triennial report, using individual membership profiles in terms of age, years' service, expected retirement age etc. This creates differential funding levels and different contribution rates for employing bodies within the same fund. The triennial valuation is then rolled forward for the purposes of producing year-end accounting reports.
93. As well as including any net pensions liabilities on the Balance Sheet, all employing bodies must include the following disclosures in their financial statements each year:
- the value of pension fund assets and liabilities at the beginning and end of each financial year,
 - key components of the change in both assets and liabilities,
 - key components of the in-year pensions charge ie the difference between pension fund assets and liabilities at the beginning and end of each financial year expressed in terms of service costs, actuarial gains and losses, other experience gains and losses (these occur every three years when actual experience catches up with the rolled forward actuarial assumptions) and any curtailments or settlements taking place,
- a summary of the key demographic and financial assumptions used by the actuary in calculating pension liabilities.
94. [Appendix E](#) provides an example of some of the key LGPS disclosure requirements under FRS 102, as currently published. The FRC has recently issued amendments to FRS 102 but the effective date for most of these amendments is periods beginning on or after 1 January 2026. [Appendix B](#) cross-references these disclosure requirements to a typical actuary's accounting report.
95. It should be emphasised that for employees belonging to defined contribution schemes and unfunded public sector pension schemes (such as teachers, firefighters, and police officers), different accounting and disclosure requirements apply. These requirements are outside the scope of this informer.
96. Accounting disclosure requirements not included in [Appendix E](#) would typically relate to the more generic accounting standards. For example:
- key accounting policies in relation to LGPS disclosures,
 - any significant changes to the estimation methodology, and
 - judgements exercised by management, for example in respect of surplus recognition.
97. Although all of the various accounting frameworks follow a similar approach to that set out above in principle, specific accounting requirements are different in each case. These should be discussed and agreed in advance with the actuary and the pension fund administrator.

98. CIPFA in February 2024 consulted on proposals for a temporary switch from IAS 19 to FRS 102 disclosure requirements, to facilitate the timeliness of local authority reporting and audit, see [Consultation on short term England only measures in the Code | CIPFA](#).

99. It should also be recognised that some employing bodies, especially larger housing associations and academy trusts, are likely to have staff belonging to multiple numbers of different pension schemes. Some of these will be defined benefit schemes with similar accounting and disclosure requirements to the LGPS, others will be defined contribution schemes or unfunded schemes with different requirements, which fall outside the scope of this informer.

100. Where employing bodies are reporting under IAS 19, paragraph 131 specifically requires that “an entity shall offset an asset relating to one plan against a liability relating to another plan when, and only when, the entity (a) has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan; and (b) intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously”. Therefore, if an employer has a net surplus in one scheme and a net deficit in another, these will need to be separately disclosed in the Balance Sheet unless the specific requirements set out above have been met.

101. For more general information on accounting standards and financial reporting requirements, please refer to [Corporate reporting resources | ICAEW](#) and [Financial reporting | ICAS](#).

STATUTORY OVER-RIDE MECHANISMS FOR LOCAL AUTHORITIES

102. Under the provisions of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, the financial reporting framework for local authorities allows any difference between employer contributions and the total IAS 19 charge each year to be transferred into unusable balances through a pensions reserve. The statutory over-ride applies to all organisations that are defined as local authorities in section 23 of the Local Government Act 2003 and report in line with Code requirements, including fire authorities, police bodies and national parks.

103. Similar arrangements are also in place for Scottish and Welsh authorities, as set out in the Government Pension Reserve Fund (Scotland) Regulations 2003 and the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003. The mechanism ensures that:

- council tax bills and local authority budgets are not subject to large variations because of pension fund accounting, and that,
- only the contributions paid into the pension fund each year are reported as a revenue cost.

104. For other employing bodies, this exemption does not apply. Any changes to the overall pension position each year will be included as a charge or credit in the Income and Expenditure Account (or equivalent). This charge or credit will normally be separated into:

- pension service costs, which should be accounted for as operating expenditure, and

- changes relating to actuarial assumptions, which should be accounted for as other comprehensive income or expenditure.

PASS-THROUGH AND SUBSUMPTION ARRANGEMENTS

105. A pass-through arrangement is one in which the financial risks inherent in participating in the LGPS are shared between employing bodies, typically with most of the financial risk being carried by the divesting organisation. This might mean, for example, that if the need for secondary contributions were identified, the previous employer rather than the current one would be responsible for these amounts. Pass-through arrangements in most circumstances are accounted for as reimbursement rights. This effectively nets the end results to defined contribution accounting.
106. Subsumption agreements are similar arrangements whereby, most commonly, local authorities will assume responsibilities for the pension fund assets and liabilities of a newly admitted employing body. This may take place in return for a one-off payment to the pension fund or to the authority.

POOLED CONTRIBUTION ARRANGEMENTS

107. Smaller employers in pooled contribution arrangements may be able to account for their participation in the LGPS as if it were a defined contribution scheme, if they can demonstrate that pension fund assets and liabilities cannot be identified for them at individual employer level.
108. Appropriate accounting in this scenario would be to recognise the financial value of contributions paid into the

LGPS as part of the Income and Expenditure Account (or equivalent), but not to include any other accounting adjustments. Therefore, there would be:

- no pension fund assets or liabilities in the Balance Sheet,
 - no non-cash adjustments in the Income and Expenditure Account (or equivalent), and
 - reduced disclosure requirements (see Code paragraph 6.4.3.45(14) or FRS 102 paragraph 28.41A).
109. For both pass-through and pooled contribution arrangements, however, the correct accounting treatment will also depend on any specific requirements contained in the employing body's own financial reporting framework.

PREFUNDING

110. Prior to the 2022 triennial valuations, many LGPS funds offered employing bodies the option to pay employer contributions anything from one year up to three years in advance, on the basis that:
- the employer would benefit from a discount for early payment, and
 - the LGPS would benefit from earlier access to contributions income that can then be invested to generate additional income and/or capital growth.
111. Now that most funds have moved into a surplus position overall, the benefit of prefunding has been reduced. As interest rates have also increased, many employers are finding more attractive investment options elsewhere.
112. If prefunding options are being considered, employing bodies should, at an early stage, discuss their proposal with the pension fund and the actuary.

A key step will be obtaining a new Rates and Adjustment Certificate to reflect the revised payment profile being agreed. Some actuaries do set out prefunding options in the original Rates and Adjustment Certificate for illustration purposes, but the exact proposals would need to be discussed and agreed.

113. The revised Rates and Adjustment Certificate will drive the accounting treatment because it clarifies:
- the appropriate value of employer contributions charged to each financial year, and
 - the correct value of LGPS assets and liabilities to include in the Balance Sheet each year.
114. It should be noted however that detailed financial reporting requirements, e.g. in terms of how discounts obtained for early payment should be accounted for and presented, do vary between financial reporting frameworks. The proposed accounting treatment should always be discussed with specialist accounting advisers and the external audit team.

ACCOUNTING FOR PENSION SURPLUSES

115. Where accrued pension liabilities are fully covered by investment asset allocations, the question often arises as to whether this funding surplus can be treated as an asset on the employing body's Balance Sheet.
116. For employing bodies reporting under International Financial Reporting Standards (which includes the CIPFA Code) an "asset ceiling test" limits the amount of the net pension asset that can be recognised in the Balance Sheet. Specific guidance for local authorities on how to account for pension fund surpluses has been provided by CIPFA

in Bulletin 15 - see [CIPFA Bulletin 15 Reporting of pensions surpluses and IFRIC 14 | CIPFA](#).

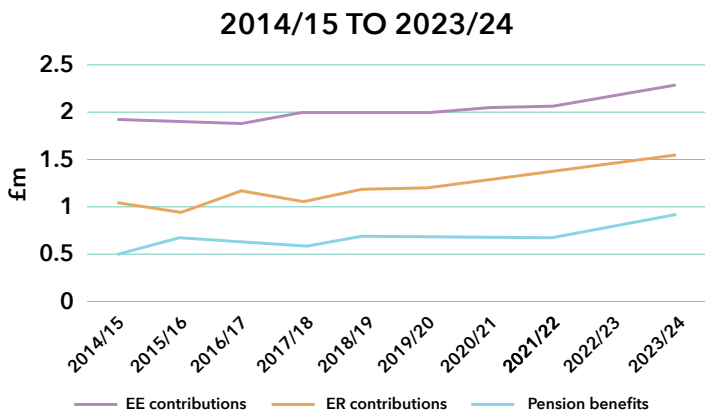
117. Asset ceiling adjustments are not specifically recognised under UK GAAP, and paragraph 28.22 of FRS 102 states that "if the present value of the defined benefit obligation at the reporting date is less than the fair value of plan assets at that date, the plan has a surplus. An entity shall recognise a plan surplus as a defined benefit plan asset only to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan".
118. In practice the approach to recognising a pension fund surplus varies between sectors, between financial reporting frameworks and between different accountancy firms. Employers in this position should refer to their own specific accounting requirements. If the position is still not clear, they should raise the issue with their local accounting advisers and external audit team.

CONSISTENCY CHECKS, TREND ANALYSIS AND ANALYTICAL PROCEDURES.

119. Employers are not expected to be trained actuaries, but as with any other source of financial information, appropriate checks need to be carried out before data provided by third parties is reflected in financial statements.
120. A suggested consistency checker for employer bodies is provided in [Appendix F](#) which compares key figures in the actuary's annual accounting report against pension fund and payroll information.

121. Completing a basic analytical procedure or trend analysis, which compares key components of annual accounting reports over time, can demonstrate that the accounts disclosures are consistent with previous years or confirm that variations are in line with expectations. Before completing a trend analysis, however, it is important to recognise that market yields are inherently volatile, and this affects several key components of the information being provided.
122. One simple example of trend analysis is provided below, focussing on employee contributions and benefits which should, in the absence of any significant workforce changes, remain relatively consistent over time and in relation to each other:

LGPS DISCLOSURES - TREND ANALYSIS



SECTION SIX: THE AUDIT PROCESS

INTERNATIONAL STANDARDS ON AUDITING (UK)

123. Numbers that appear in financial statements represent, to auditors, a series of “assertions”. All relevant assertions must be tested if they relate to material transactions and balances in the accounts being audited.
124. Although audit firms use different audit methodologies, these are all based on the requirements of [International Standards on Auditing \(UK\)](#). One example of what this approach might mean in practice is provided below:

Assertion	Meaning
Existence	Have the transactions and balances recorded in the financial statements taken place and do they appertain to this accounting entity?
Completeness	Have all of the transactions and balances taking place been recorded?
Valuation	Have the transactions and balances been valued at the most appropriate amount?
Cut-off	Have these transactions and events been recorded in the correct accounting period?
Accuracy	Have amounts and other data relating to the recorded transactions been recorded appropriately and have related disclosures been appropriately measured and described?
Rights and Obligations	Does the entity hold or control the right to the asset, or is the liability the obligation of the entity?
Classification	Have material transactions and balances been correctly classified, described and analysed in the financial statements?
Presentation	Have the transactions and balances been disclosed and presented in the financial statements in line with the requirement of the relevant financial framework?

125. This means that in the context of LGPS Balance Sheet accounting disclosures, auditors may need to confirm that:
- the Balance Sheet and associated disclosure notes do not materially misstate the value of pension fund assets or liabilities (completeness and existence),
 - valuation methods employed by the actuary are in line with the current requirements of the relevant financial reporting framework (usually IAS 19 or FRS 102),
 - the basis of any estimates and assumptions included in the annual accounting report are reasonable (see below),
 - information is provided as at the employing body’s year-end date and covers the whole of the accounting period, and
 - presentation of the disclosures is in line with the relevant financial framework.
126. In addition to these general testing requirements, there are 36 specific auditing standards which must be adhered to and evidenced as part of every individual audit engagement. Some of these are set out below, together with their specific relevance to the audits of LGPS disclosures in employing body accounts.

SELECTED AUDITING STANDARDS AND THEIR RELEVANCE TO LGPS ACCOUNTING DISCLOSURES

Auditing Standard	Specific considerations for LGPS accounting disclosures
<u>ISA (UK) 220 - Quality management for an audit of financial statements</u>	Sets out the key elements of quality management for the audit engagement partner, including a requirement to stand-back to determine that they have taken overall responsibility for managing and achieving quality on the audit engagement. Also included is guidance on the importance of professional skepticism and professional judgement in performing audit engagements.
<u>ISA (UK) 300 - Planning an audit</u>	Requires auditors to identify and document at the planning stage where key accounting information comes from and how it is produced.
<u>ISA (UK) 315 - Identifying and assessing the risks of material misstatement</u>	Also at the planning stage, the auditor is required to (a) consider whether the processes used to produce material pensions disclosures, and the control environment surrounding these processes are adequate, and (b) assess the balance or disclosure against a spectrum of risk and relevant "assertions" (see above). ISA (UK) 315 also requires documentation of the design and implementation of relevant controls, including general IT controls.
<u>ISA (UK) 320 - Audit materiality</u>	<p>An auditor is required to determine materiality and performance materiality for each set of financial statements that they are presented with. A clear understanding of the materiality level which auditors are working to is essential for the employing body and the actuary, especially in cases where audit materiality is lower than the approximations inherent in a roll-forward approach.</p> <p>In planning the audit, the auditor makes judgments about misstatements that may be considered material. These judgments provide a basis for:</p> <ul style="list-style-type: none"> • determining the nature, timing and extent of risk assessment procedures, • identifying and assessing the risks of material misstatement, and • determining the nature, timing and extent of further audit procedures.
<u>ISA (UK) 330 - Response to identified audit risks</u>	The auditor is required to design and carry out audit procedures that are responsive to the assessed risk of material misstatement. The nature and extent of testing is determined by the level of identified risk.
<u>ISA (UK) 402 - Audit considerations for entities using service organisations</u>	Sets out specific audit requirements to be considered when the financial information being produced depends on outsourced arrangements for administration, processing or financial management.
<u>ISA (UK) 500 - Audit evidence</u>	This ISA defines the concept of "management's expert" (i.e. the role of the pension fund actuary in preparing annual accounting statements) and includes the requirement for auditors to assess the competency of management's expert before using their work.
<u>ISA (UK) 505 - External confirmations</u>	Direct confirmation of transactions and balances with a third party is often a preferred source of audit evidence. In this context, information provided by the actuary as part of the annual accounting report is likely to be cross-checked against not just information held by the audited entity (such as payroll and contributions records) but also to information held by the pension fund, fund managers and custodians.
<u>ISA (UK) 520 - Analytical procedures</u>	Defines an analytical procedure as an "evaluation of financial information through analysis of plausible relationships among both financial and non-financial data." The auditor will carry out these procedures to assist in substantiating pensions disclosures in the accounts. These procedures do not provide sufficient evidence in themselves but by comparing actual to expected amounts, they can be used to reduce the level of perceived audit risk.

Auditing Standard	Specific considerations for LGPS accounting disclosures
ISA (UK) 540 - Accounting estimates	See below.
ISA (UK) 620 - Using the work of an auditor's expert	This ISA explains the requirement for auditors to appoint their own expert (e.g. another firm of consulting actuaries) to review the work undertaken by management's experts (the pension fund actuaries) when the audit team themselves do not have the requisite skills.

127. More specific information about the audit of defined benefit pension schemes is provided in [Auditing pensions figures - sponsor accounts | ICAEW](#), although it should be remembered in this specific context that:
- LGPS funds are not governed by Trust Deed and do not have trustees,
 - information relating to investment management, governance and control environment is already publicly available, and
 - investment assets are not ringfenced to individual employing bodies, or to specific groups of pensioners or employees.
128. FRC's audit quality review of pensions disclosures - media.frc.org.uk/documents/Audit_of_Defined_Benefit_Pension_Obligations.pdf also provides a useful insight into the external audit regulator's expectations in this area.

ISA (UK) 540 - AUDITING ACCOUNTING ESTIMATES

129. Pension liabilities are not precise amounts that can be determined by reference to contract documentation or to cash outflows that will occur at some point in the future. They are estimates based on an actuary's assessment of currently available data and the likelihood of future events. As accounting estimates are inherently subjective, the approach to be followed by auditors is set out in [ISA \(UK\) 540](#), "Auditing Accounting Estimates and Related Disclosures."

130. In terms of the practical implementation of ISA (UK) 540, auditors first need to document and evaluate the processes involved in calculating the pensions liability and then complete a risk assessment in line with ISA (UK) 315 (see above), to determine the extent of further audit work required. Auditors must also specifically consider the risk of fraud and management bias.
131. This risk assessment will be based on factors such as:
- the complexity of the assumptions, calculations, and processes,
 - the degree of subjectivity and uncertainty involved, and
 - the quality of the control environment which surrounds the production of each accounting estimate.
132. Pensions balances are usually identified as a significant audit risk because of the estimation uncertainty and the value of gross assets and liabilities in relation to the rest of the Balance Sheet.
133. Auditors must recognise that various methods will be used to calculate accounting estimates and that a range of different assumptions and calculation methods can all be considered "reasonable". At the same time, however, auditors are required to evaluate the information provided and must obtain sufficient and appropriate audit evidence to address the various levels of identified risk.

134. Auditors will expect to see confirmation that LGPS accounting reports take account of any current legal cases which might, if successful, increase existing pension liabilities for employers. The McCloud case, for example, has had a significant impact on pensions accounting in recent years although the specific issues it raised around age discrimination have now been largely resolved (see [Underpinv1.0.pdf \(lgpslibrary.org\)](#)).

135. There are likely to be further legal cases which challenge public sector pension schemes on grounds of age and gender discrimination. The LGPS regulations will need to be continually reviewed to ensure they continue to reflect the law and current lifestyle patterns.

OBTAINING AUDIT EVIDENCE

136. For appointments made by Audit Scotland and Audit Wales, or through the Public Sector Audit Appointments (PSAA) framework in England, a data sharing protocol is in place for the LGPS. Under this protocol, LGPS auditors will provide information to employing body auditors on issues such as sample testing of membership records, investment holdings, benefit payments, and contributions income.

137. The National Audit Office (NAO) engage PwC to review and report on the key demographic and financial assumptions used by the four actuarial firms who provide services to the LGPS. Unfortunately, none of this information is made available to auditors of employing bodies outside the scope of the Local Audit and Accountability Act 2014.

138. While the Scheme Advisory Board (and other stakeholders) are keen to find ways of sharing this information more widely, under current arrangements

many auditors will need to obtain information elsewhere. It should also be recognised that:

- use of the PwC report as a source of information does not remove the need for audit firms to develop their own testing strategies, and
- the scope of the PwC report i.e. for a March year end reduces its usefulness for employing bodies with a different Balance Sheet date.

139. [Appendix G](#) provides examples of template questionnaires that employing bodies and their auditors could use when collecting information about LGPS transactions and balances. However, all of the LGPS actuaries, and some of the administering authorities, already publish information packs and organise briefing events. Together with pension fund annual reports, committee minutes and website content, these already provide most of the generic information that employing bodies and their auditors typically request information about.

140. Under normal circumstances, pension funds and their actuaries should not need to be contacted directly about information that is already in the public domain.

141. However:

- not all administering authorities produce a briefing pack, and not all packs are comprehensive. For example, some included copies of assurance letters from custodians and fund managers, and copies of actuaries’ terms of reference whereas others did not.
- information that pension fund actuaries provide is typically aimed at employing bodies rather than their external auditor.

- better signposting would ensure that all audit firms and not just those within the PSAA (or equivalent) framework, have ready access to all of the available information.
142. The LGPS Scheme Advisory Board is intending to provide further guidance on these issues noted above during 2024/25.

DOCUMENTATION

143. Employers should be liaising with pension funds and actuaries well before the year-end date to clarify reporting arrangements and expected timescales. Any significant operational events that might impact on the year-end accounting report should be identified at this point.
144. Employers should be collecting evidence throughout the year to confirm that they understand, and are satisfied with, the contents of annual accounting reports, as well as the processes that have taken place to produce them. Strictly speaking it is the employing body’s responsibility to set financial and demographic assumptions and, although in practice these are recommended by the actuary, employers should evidence their discussion and agreement.
145. Employers can, if they wish to do so, also request that actuarial assumptions are amended. However, actuaries are unlikely to accept any proposed changes that result in calculations which:
- would lead to a departure from the requirements of the relevant financial reporting framework,
 - the actuaries would consider to be unreasonable or not in line with their professional obligations, or which,

- the actuaries would not expect the employing body’s auditors to accept.
146. Liaison arrangements and key points of contact should also be clarified at this stage. For example, within the audit team there may well be three distinct areas of operation:
- the core team dealing with all the general aspects of the audit,
 - pensions specialists, who are auditors but not qualified actuaries, and
 - actuarial specialists appointed by the audit team.
147. Clarifying who should receive which piece of information, and how queries can best be dealt with, at the planning stage can help to save confusion and wasted effort later. Where possible, a single point of contact should be nominated so that the same piece of information is only requested once, and queries referred to actuaries directly can be kept to a minimum.
148. Records should be kept throughout the year to confirm the following:
- membership data provided to the pension fund is accurate and up to date,
 - employer and employee contributions have been paid over and agree to payroll data,
 - the pension fund is aware of any specific issues affecting year-end accounting calculations,
 - accounting reports satisfy key requirements of the relevant financial reporting framework,
 - meetings have taken place to discuss and agree key actuarial assumptions, and
 - accounting reports have been obtained and reviewed.

149. Where meetings take place to discuss key judgements or disclosures that might have a significant impact on the year-end financial statements and the reported financial position of the employing body, it is important that these meetings are attended by staff with sufficient seniority and expertise to understand the implications of what is being agreed and to make decisions accordingly.

150. Information obtained and discussion notes may represent sufficient and appropriate audit evidence. These should be kept together, preferably electronically, with an index to assist the auditors with navigation. Audit firms should provide employers with their own list of working paper requirements, which should be provided at the beginning of the audit.

151. One example of such a working paper index has been provided below. This example is not necessarily an exhaustive list of working paper requirements. The requirements will depend upon the complexity of the fund and the underlying audit risks.

Working Paper Index	
Sample checks to confirm the accuracy of payroll data provided to LGPS	WP 1
Emails to confirm LGPS administrator and actuary are aware of early retirements and staff transfers	WP 2
Emails to confirm the accounting report will take account of unfunded liabilities and current legal cases	WP 3
Emails to confirm (a) Balance Sheet date of 31 August (b) receipt of FRS 102 accounting report by 30 September and (c) audit queries responded to within 10 working days of receipt	WP 4
Notes of meetings with LGPS and actuary to discuss key assumptions	WP 5
Actuary's terms of engagement plus confirmation that their report will meet SoRP requirements	WP 6
Completion of consistency checker and trend analysis	WP 7
FRS 102 year-end accounting report	WP 8
Contact details and other supporting information	WP 9-15

SECTION SEVEN: COMMON PROBLEMS

LIAISON ARRANGEMENTS

152. Common problems experienced in practice include the following:

- an actuarial accounting report has not been obtained,
- the report obtained is non-coterminous with the employing body's year-end date, or
- a report has been obtained for the requisite period, but it is either not in the correct accounting format or has not been prepared in line with the correct accounting framework.

153. These problems ultimately stem from poor liaison arrangements. Employing bodies must inform the pension fund as soon as possible about:

- its year-end date, and any changes made to this. If, for example, an accounting report is required for a period other than 12 months, this should be flagged up at an early stage,
- the financial framework it is operating under, and any recent or expected changes to these requirements. Actuaries are not qualified accountants and may need to see worked examples of the disclosures being requested if these depart from standard IAS 19, FRS 102 or CIPFA Code requirements.
- timescale requirements, which need to allow for audit needs as well as accounts preparation time. Academy trusts, for example, must sign off audited accounts within four months of

a 31 August year-end. Whatever time constraints exist, the actuary needs to be made aware of them.

154. Employing bodies are responsible for ensuring that the information they provide to scheme administrators is accurate, up to date and comprehensive. Establishing a systematic way of providing this information, rather than simply relying on individual members of staff to remember to do it, should be a priority for both payroll and HR staff.
155. [Appendix H](#) provides a checklist for employing bodies, setting out the key tasks and timescales relevant to LGPS accounting.

YEAR-END REPORTING DATE

156. Year-end accounting reports are usually based on estimated in-year cashflows such as:
- employee and employer contributions,
 - pensions benefit payments, and
 - investment returns.
157. Typically, estimates will be based on actual cash flows for month 9 data, extrapolated over the last three months of the year. This approach provides the actuary with sufficient time to produce reports within the necessary timescales.
158. Auditors and employing bodies should recognise that this is an accepted part of the estimation process. It does, however, re-emphasise the need for employers

to notify the actuary of any significant events during this three-month period that might be relevant, for example any major restructuring, outsourcing plans or redundancies.

- whether material differences are likely to be identified, and therefore,
- whether a second accounting report needs to be commissioned and reviewed.

159. Problems can also arise when employing bodies do not have a 31 March year-end date because, typically, any information provided to the actuary by the pension fund will be based on investment values and membership information at this date. Auditors may need to seek assurances that values at the employing body's year-end date are not significantly different from those at 31 March.
160. This can often be addressed by obtaining a copy of the pension fund's most up-to-date investment monitoring report, available from the administering authority's website. Most funds will report on investment values and returns on a quarterly basis.
161. Similar issues also arise where actuary's reports are based on estimates of investment values which have been arrived at prior to the year-end because, in situations where financial markets are volatile, the actual value of investments at the year-end may be significantly different.
162. A common response in these situations is the request for a second accounting report. It should be recognised however that the preparation and review of a second report takes time and will involve additional cost. As a first step, one way forward is to obtain updated asset values and cash flow information post year-end from the pension fund, ideally towards completion of the audit. This can help to inform decisions by the employer about:

APPOINTING ACTUARIES

163. Problems can arise if an employing body or their auditor appoints an actuary who is not familiar with how the LGPS operates, or with the financial reporting and accounting requirements that apply. In practice, such considerations often restrict these appointments to either one of the four consulting actuaries who advise the LGPS, or one of the in-house actuarial teams employed by accountancy firms delivering the PSAA contract.
164. Information sharing is another common issue, which usually arises when an actuary who has not prepared the triennial valuation is commissioned to prepare an annual accounting report. Again, early discussion is the best way to address this, with a view to putting information sharing protocols in place.
165. When drawing up terms of engagement with actuaries, employers should include the requirement for actuaries to engage directly with their auditors and to respond to any queries that arise. An agreed pricing framework for any additional work should be put in place.

AUDIT CONFIRMATION OF ASSET VALUES

166. LGPS funds do not ring-fence investment assets for individual employers, therefore asset values included in accounting reports will usually be a notional apportionment of the pension fund asset portfolio in total. Actuaries should be able to explain how this apportionment has been arrived at, if the information is not already included in their accounting report.

167. The pension fund should also be able to provide an analysis of its total investment holdings at (or very near to) the employer's Balance Sheet date. This information is usually reported to the pensions or investments committee via quarterly investment reports available from administering authority websites.

INVESTMENT PRICING

168. Ten years ago, most LGPS investments were directly held equity shares, bonds, or unit trusts with unit prices that auditors could easily verify by reference to information published daily in the financial press. Today, over 80% of investments are held as pooled funds, often through shared investment management arrangements referred to as regional asset pools.

169. Pooled funds are created by combining individual sub-funds under the management of a single fund manager, an Authorised Contractual Scheme (ACS), or limited partnership structure. The manager of the pool will then appoint sub-managers to oversee different portions of the fund in line with the investment objectives agreed. Pricing of pooled funds can be carried out by the Fund Manager, the custodian, or by the pension fund itself.

170. Pooled investments are relatively easy to value if they have published prices or are regularly traded. For investments held in regional asset pools, for example, price information might be included in year-end financial statements or in-year investment reports. Where pricing has been carried out by custodians or fund managers, details of the methodology adopted might be included in their annual assurance reports, together with confirmation that this meets relevant financial reporting requirements.

171. Where this is not the case, valuation will usually involve either drilling down to individual components and establishing a value for each one, or estimating a value based on similar funds which are more regularly traded. With complex investment classes such as infrastructure, private equity and venture capital, valuations and trading windows also tend to take place less frequently.

172. In any event, most auditors will not be able to carry out such valuations themselves. If no other information is available, an independent investment advisor may need to be appointed as an auditor's expert to provide assurance on pricing. Auditors should establish at the planning stage whether this type of technical expertise is likely to be necessary, so that a suitable engagement can be put in place in good time. It is important to appoint someone with the necessary specialist experience, particularly if the underlying assets relate to infrastructure, commercial property, emerging technologies, or private equity.

MATERIALITY CALCULATIONS FOR AUDITS OF SMALLER EMPLOYERS

173. For external audit firms, materiality is usually expressed and calculated as a percentage of either turnover, total expenditure, or net revenue costs. For smaller organisations this usually means a lower materiality level and potentially, more audit queries in respect of smaller Balance Sheet values and disclosure amounts.

174. To try and manage this risk, auditors need to be upfront about the expected materiality levels at the planning stage of the audit. Employers need to ensure that the actuary is aware of the materiality level that the auditor is working to and provide the pension fund and the actuary with accurate and up-to-date source data.

APPENDIX A: EMPLOYEE CONTRIBUTIONS AND BENEFITS 2024/25

LGPS EMPLOYEE PENSION CONTRIBUTIONS 2024/25 - ENGLAND AND WALES

If your actual pensionable pay is:	You pay a contribution rate of:
Up to £17,600	5.5%
£17,601 to £27,600	5.8%
£27,601 to £44,900	6.5%
£44,901 to £56,800	6.8%
£56,801 to £79,700	8.5%
£79,701 to £112,900	9.9%
£112,901 to £133,100	10.5%
£133,101 to £199,700	11.4%
£199,701 or more	12.5%

LGPS EMPLOYEE PENSION CONTRIBUTION RATES 2024/25 - SCOTLAND

If your actual pensionable pay is:	You pay a contribution rate of:
On earnings up to and including £27,000	5.5%
On earnings above £27,001 and up to £33,000	7.25%
On earnings above £33,001 and up to £45,300	8.5%
On earnings above £45,301 and up to £60,400	9.5%
On earnings above £60,401	12%

In both jurisdictions payment bands are re-published annually, see www.lgpsmember.org/your-pension/the-essentials/your-contributions/ and [Your contributions :: LGPS Scotland \(scotlgpsmember.org\)](http://www.lgpsmember.org/Your-contributions-::LGPS-Scotland-scotlgpsmember.org) for further details.

LGPS PENSION BENEFITS

The table below compares the main elements of final salary and CARE schemes:

	LGPS 2014 (England and Wales)/2015 (Scotland)	LGPS 2008 (all jurisdictions)
Basis of pension	Career average revalued earnings (CARE)	Final salary
Accrual rate	1/49th	1/60th 2008 - 2014 (2015 Scotland) 1/80th pre-2008
Revaluation rate	Consumer Prices Index (CPI)	Based on final salary
Pensionable pay	Pay including non-contractual overtime and additional hours	Pay excluding non-contractual overtime and non-pensionable additional hours
Contribution flexibility	Members can pay 50% contributions for 50% of the pension benefit (employer's contributions remain as 100%).	No
Normal pension age	Equal to the individual member's state pension age	65
Lump sum trade off	Trade £1 of pension for £12 lump sum	Trade £1 of pension for £12 lump sum
Death in service lump sum	3 x pensionable pay	3 x pensionable pay
Death in service survivor benefits	1/160th accrual based on tier 1 ill health pension enhancement	1/160th accrual based on tier 1 ill health pension enhancement
Ill health provision	Tier 1 - immediate payment with service enhanced to normal pension age Tier 2 - immediate payment with 25% service enhancement to normal pension age Tier 3 - temporary payment of pension for up to 3 years	Tier 1 - immediate payment with service enhanced to normal pension age (65) Tier 2 - immediate payment with 25% service enhancement to normal pension age (65) Tier 3 - temporary payment of pension for up to 3 years
Indexation of pension in payment	CPI	CPI (RPI for pre-2011 increases)
Vesting period	Two years	Three months

APPENDIX B: EXTRACTS FROM ACTUARIAL ACCOUNTING REPORTS

The following examples are from an actuarial accounting report prepared for a 5 April Balance Sheet date.

Appendix 1 Statement of financial position as at 5 April 2020

Net pension asset as at	5 Apr 2020	23 Sep 2018	24 Sep 2017
	£000s	£000s	£000s
Present value of the defined benefit obligation	30,727	32,425	34,253
Fair value of Fund assets (bid value)	13,847	15,022	14,958
Deficit / (Surplus)	16,880	17,403	19,295
Present value of unfunded obligation	317	378	409
Unrecognised past service cost	-	-	-
Impact of asset ceiling	-	-	-
Net defined benefit liability / (asset)	17,197	17,781	19,704

Corresponds to Note x (h) in [Appendix E](#)

Appendix 2 Statement of profit and loss for the period to 5 April 2020

The amounts recognised in the profit and loss statement are:	Period to	Year to
	5 Apr 2020	23 Sep 2018
	£000s	£000s
Service cost	312	246
Net interest on the defined liability (asset)	718	503
Administration expenses	14	14
Total loss (profit)	1,044	763

Corresponds to Note x (e) in [Appendix E](#)

Appendix 5 Remeasurements in other comprehensive income

Remeasurement of the net assets / (defined liability)	Period to	Year to
	5 Apr 2020	23 Sep 2018
	£000s	£000s
Return on Fund assets in excess of interest	(777)	469
Other actuarial gains/(losses) on assets	268	-
Change in financial assumptions	(597)	1,191
Change in demographic assumptions	1,543	448
Experience gain/(loss) on defined benefit obligation	57	-
Changes in effect of asset ceiling	-	-
Remeasurement of the net assets / (defined liability)	494	2,108

Corresponds to Note x (e) in [Appendix E](#)

Appendix 3 Asset and benefit obligation reconciliation for the period to 5 April 2020

Reconciliation of opening & closing balances of the present value of the defined benefit obligation	Year to	
	31 Mar 2020	31 Mar 2019
	£000s	£000s
Opening defined benefit obligation	32,803	34,662
Current service cost	312	246
Interest cost	1,319	881
Change in financial assumptions	597	(1,191)
Change in demographic assumptions	(1,543)	(448)
Experience loss/(gain) on defined benefit obligation	(57)	-
Liabilities assumed / (extinguished) on settlements	-	-
Estimated benefits paid net of transfers in	(2,417)	(1,368)
Past service costs, including curtailments	-	-
Contributions by Scheme participants and other employers	73	49
Unfunded pension payments	(43)	(28)
Closing defined benefit obligation	31,044	32,803

Corresponds to Note x (f) in [Appendix E](#)

Reconciliation of opening & closing balances of the fair value of Fund assets	Year to	
	31 Mar 2020	31 Mar 2019
	£000s	£000s
Opening fair value of Fund assets	15,022	14,958
Interest on assets	601	378
Return on assets less interest	(777)	469
Other actuarial gains/(losses)	268	-
Administration expenses	(14)	(14)
Contributions by employer including unfunded	1,134	578
Contributions by Scheme participants and other employers	73	49
Estimated benefits paid plus unfunded net of transfers in	(2,460)	(1,396)
Settlement prices received / (paid)	-	-
Closing Fair value of Fund assets	13,847	15,022

Corresponds to Note x (g) in [Appendix E](#)

The total return on the fund assets for the period to 5 April 2020 is (£176,000).

Appendix 4 Sensitivity analysis

Sensitivity analysis	£000s	£000s	£000s
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	30,638	31,044	31,455
Projected service cost	211	215	219
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	31,066	31,044	31,021
Projected service cost	215	215	215
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	31,433	31,044	30,659
Projected service cost	219	215	211
Adjustment to life expectancy assumptions	+1 Year	None	-1 Year
Present value of total obligation	32,722	31,044	29,456
Projected service cost	222	215	208

Corresponds to Note x (c) in [Appendix E](#)

Financial assumptions

The financial assumptions used to calculate the results are as follows:

Assumptions as at	5 Apr 2020	23 Sep 2018	24 Sep 2017
	% p.a.	% p.a.	% p.a.
Discount rate	2.10%	2.70%	2.60%
Pension increases	2.00%	2.45%	2.60%
Salary increases	2.00%	2.45%	2.60%

Corresponds to Note x (b) in [Appendix E](#)

Demographic/Statistical assumptions

The demographic assumptions adopted were requested by the employer, as in previous years, and are not our standard assumptions. The post retirement mortality tables adopted are the S2PA tables with a multiplier of 111% for males and 99% for females. These base tables are then projected using the CMI_2019 Model, allowing for a long-term rate of improvement of 1.25% p.a., smoothing parameter of 7.5 and no initial addition to improvements

These have been updated from last year's assumptions where the same post retirement mortality tables were adopted but these were projected using the CMI_2016 Model, allowing for a long-term rate of improvement of 1.5% p.a.

The assumed life expectations from age 65 are:

Life expectancy from age 65 (years)		5 Apr 2020	23 Sep 2018
Retiring today			
Males		21.0	21.2
Females		23.8	24.0
Retiring in 20 years			
Males		22.3	22.6
Females		25.3	25.5

Corresponds to Note x (b) in [Appendix E](#)

Assets

The return on the Fund (on a bid value to bid value basis) for the period to 5 April 2020 is estimated to be -1%. The actual return on Fund assets over the period may be different.

The estimated asset allocation for Reading Transport as at 5 April 2020 is as follows:

Asset breakdown	5 Apr 2020		23 Sep 2018	
	£000s	%	£000s	%
Equities	7,818	56%	7,092	47%
Other Bonds	1,289	9%	2,241	15%
Property	1,903	14%	2,022	13%
Cash	1,635	12%	2,238	15%
Target Return Portfolio	583	4%	601	4%
Commodities	82	1%	291	2%
Infrastructure	1,135	8%	989	7%
Longevity Insurance	-598	-4%	-452	-3%
Total	13,847	100%	15,022	100%

Corresponds to Note x (d) in [Appendix E](#)

We have estimated the bid values where necessary. Please note that the individual percentages shown are to the nearest percentage point for each asset class and may not sum to 100%. The final asset allocation of the Fund assets as at 5 April 2020 is likely to be different from that shown due to estimation techniques.

Based on the above, the Employer's share of the assets of the Fund is approximately 1%.

Scheduled contributions

The table below summarises the minimum employer contributions due from Reading Transport to the Fund over this inter-valuation period. The calculated cost of accrual of future benefits is 22.7% of payroll p.a.

Minimum employer contributions due for the period beginning	1 Apr 2020	1 Apr 2021	1 Apr 2022
Percent of payroll	22.7%	22.7%	22.7%
plus monetary amount (£000s)	602	624	646

Corresponds to Note x (a) in [Appendix E](#)

APPENDIX C:

WORK UNDERTAKEN BY ACTUARIES TO CONFIRM INFORMATION FLOWS

In relation to the triennial valuation the following checks and processes would typically take place:

1. Parameter checks and consistency testing on membership data provided by the pension fund would be combined with follow up work on any discrepancies identified. Professionally, the actuary is not able to issue the triennial Rates and Adjustment Certificate until they are satisfied that the source data used to compile it is sufficiently accurate.
2. Asset values would be confirmed by reference to the custodian's report and Fund Manager reports as at the triennial valuation date, also to information supplied by the pension fund. Any differences identified would be referred to the pension fund administering authority to investigate but again, the Rates and Adjustment Certificate cannot be issued until the actuary is satisfied that the investment values being used are materially correct.
3. Processes and controls implemented by the actuary to provide assurance on the accuracy of data used to prepare triennial valuations would usually involve a combination of the following:
 - triangulation i.e. ensuring that the information obtained from the pension fund to support triennial valuations is consistent with data obtained for other purposes during the intervening period,
 - predictive techniques i.e. forecasting contributions income and benefits payments by reference to previous experience but adjusted for known events, and
 - direct confirmation e.g. by confirming investment values with Fund Managers.
4. Key economic assumptions would be derived from publicly available information at the triennial valuation date for RPI/CPI changes, wage growth etc.
5. The discount rate used to arrive at the Net Present Value of accrued pension liabilities would typically be based on forecasting the expected investment returns (revenue yield plus change in market prices) over the expected duration of accrued benefit payments earned to date by current members, deferred members, and pensioners.
6. Key demographic assumptions would be reviewed every three years based on published statistics coupled with the pension fund's own experience in terms of retirement age and longevity. These demographic assumptions will not be specific to each employing body but will be arrived at for the pension fund as a whole.
7. The LGPS does not maintain individual asset "pots" for each employing body. A notional allocation of assets between employing bodies would be arrived at by reference to previous funding levels, current membership profile, and the net present value of each employer's accrued liabilities.

In relation to the actuarial accounting report the following checks and processes would typically take place:

8. Membership numbers would be rolled forward between each triennial and assumed to remain unchanged unless the actuary was aware of some specific and significant event which would affect the previous data e.g. outsourcing, bulk transfers or business expansion, in which case any known significant events would be adjusted for.
9. Demographic assumptions would also remain unchanged between triennial valuations unless a change to these assumptions was specifically requested by the employing body.
10. Financial assumptions in respect of RPI, CPI, wage inflation etc would be based on information publicly available at the employer's year-end date.
11. In line with current accounting requirements, the projected unit method (PUM) would be used to calculate service costs.
12. Discount rates used to arrive at the Net Present Value of accrued pension liabilities would be based on a "good UK corporate bond rate", identified from publicly available information at the employing body's year-end date.
13. Asset allocations and liability calculations reported at the previous year-end would be updated to reflect in-year cash flows in terms of benefit payments, employee and employer contributions and investment yield. Most actuaries would also deduct an allowance for administration expenses and investment management fees.
14. Contributions and benefits figures would usually be arrived at by extrapolating actual cash flows up to Periods 9, 10 or 11, depending on the employer's specified timescales for receipt of information.
15. Cash flow data on contributions income, benefit payments and investment yield is provided to the actuary by the pension fund. The processes and controls implemented by the actuary to provide assurance on the accuracy and completeness of this data would usually involve a combination of consistency checks, parameter checks, and triangulation aimed at identifying significant and systematic errors in the data rather than errors in individual staff bandings, benefit payments or contribution rates.

APPENDIX D:

EXAMPLES OF ASSET ALLOCATION METHODS

Set out below are examples of asset allocation methods used by actuaries for the purposes of triennial valuations and actuarial accounting reports. It should be emphasised however that this is not an exhaustive list. Every firm of actuaries will develop a different approach, sometimes by combining methodologies and sometimes by using one methodology to prepare the calculation and another as a reasonableness check.

METHOD 1

The notional market value of assets from the previous funding valuation is adjusted for cashflows in respect of each employer. These include employer and employee contributions, pensions and retirement lump sums paid, transfers in and out, investment returns achieved etc. If the exact date of the cashflow is known then this can be allowed for in the calculation, otherwise all cashflows are assumed to occur halfway through the year. The accumulated value of the starting assets plus the net cashflows subsequently provides the asset value at the new valuation date. This is sometimes referred to as the "roll forward" method.

METHOD 2

As above but asset shares are adjusted for any difference between the above calculation (combining all employer assets at 31 March each year) and the total asset value for the LGPS fund at that same date.

METHOD 3

A pooling approach shares individual employer's actuarial experience among a "pool" of employing bodies with similar characteristics. This approach is applied in practice by bringing together all of the accumulated assets of the pool participants from the last valuation and then allowing for net cashflows for all pool participants since that point to derive a pool asset value at the current valuation. This pool asset value is then allocated to each employer in the pool in proportion to that employer's liability value, ensuring that each employer in the pool has the same funding level.

METHOD 4

The actuary may adjust the asset values by applying a smoothing factor whereby the asset value over each day for the six-month period around the valuation date (based on published market indices) is derived and an average is taken for accounting purposes.

METHOD 5

Similar to Method 1 but may involve approximations. For example, if the Fund's actual returns are not available at the accounting date, a notional return based on suitable market indices can be applied. If actual cashflows for the full accounting period are not available, year to date cash flows are pro-rated up to annual amounts.

METHOD 6

A surplus or deficit is calculated by comparing actual experience with what was assumed at the previous valuation. For example, changes in actuarial assumptions, investment returns against forecast and net cash flows against expected. The resulting surplus or deficit is added to the employer's previous net surplus or deficit to arrive at a new net surplus or deficit at the current valuation date. Asset values are then calculated as the difference between the new net surplus or deficit and the calculated value of employer liabilities. This is sometimes referred to as the "analysis of surplus" approach.

APPENDIX E:

LGPS ACCOUNTING DISCLOSURES

Set out below is a template example of some of the current financial reporting requirements for LGPS disclosures in employing body accounts. The template includes internal consistency checks which are highlighted in red below. [Appendix B](#) cross-refers this accounting template to extracts from an actuary's accounting report.

NOTE X (A) DESCRIPTION OF THE FUND

The LGPS is a funded defined benefit pension scheme, administered by (name of administering authority). The total contribution made by (name of reporting entity) for the year ended xx xx xx was £xxx, of which employers' contributions totalled £xxx and employees' contributions totalled £xxx. Employer contributions were as follows:

	Previous financial year	Current financial year	Next financial year
As a % of payroll			
£ values			

(Include details of any additional payments made to cover accumulated deficits or to reduce employer contributions in future years. Also include comparative data as required).

NOTE X (B) VALUATION METHOD

LGPS disclosures in these financial statements are based on actuarial valuations produced by (insert name and qualifications of appointed actuary). Principal actuarial assumptions are set out below:

	Previous financial year	Current financial year
% increase in salaries	X%	X%
% increase for benefit payments and inflation	X%	X%
Discount rate for scheme liabilities	X%	X%
Inflation assumption	X%	X%
Commutation of pensions to lump sums	X%	X%
Assumed life expectancy on retirement at aged 65:		
Retiring today - male/female	xx years/xx years	xx years/xx years
Retiring in 20 years' time - male/female	xx years/xx years	xx years/xx years

NOTE X (C) - SENSITIVITY ANALYSIS:

	Previous financial year £'000	Current financial year £'000
Discount rate +/- 0.1%	xx/xx	xx/xx
Longevity assumptions +/- 1 year	xx/xx	xx/xx
CPI rate +/- 0.1%	xx/xx	xx/xx

NOTE X (D) - LGPS ASSETS

The (name of reporting entity's) share of the assets in the LGPS scheme were as follows:

	Previous financial year £'000	Current financial year £'000
Equities		
Gilts		
Corporate Bonds		
Property		
Cash and liquid assets		
Other assets (list if significant)		
Total market value of investments (1)		

(1) - SHOULD AGREE TO (4) BELOW

The investment return on scheme assets was £xxx (previous year £xxx)

NOTE X (E) - AMOUNTS RECOGNISED IN THE INCOME AND EXPENDITURE STATEMENT (OR EQUIVALENT)

	Previous financial year £'000	Current financial year £'000
Service costs		
Asset ceiling adjustment		
Interest and investment income		
Benefit costs		
Losses and gains on curtailment and settlement		
Administration expenses		
Actuarial gains and losses		
Total cost recognised in I&ES (2)		

(2) - SHOULD AGREE TO I&ES OR EQUIVALENT

NOTE X (F) - CHANGES IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS

	Previous financial year £'000	Current financial year £'000
Balance at the start of the financial year	X	X
Transfers in	X	X
Transfers out	X	X
Current service cost	X	X
Interest cost	X	X
Employee contributions	X	X
Actuarial gains and losses	X	X
Benefits paid	X	X
Past service costs	X	X
Losses or gains on curtailments and settlements	X	X
Unfunded pension payments	X	X
Balance at the end of the financial year (3)	X	X

(3) - SHOULD AGREE TO (5) BELOW**NOTE X (G) - CHANGES IN THE FAIR VALUE OF LGPS ASSETS**

	Previous financial year £'000	Current financial year £'000
Balance at the start of the financial year	X	X
Transfers in	X	X
Transfers out	X	X
Employer contributions	X	X
Interest income	X	X
Employee contributions	X	X
Actuarial gains and losses	X	X
Benefits paid	X	X
Asset ceiling adjustments	X	X
Losses or gains on curtailments and settlements	X	X
Balance at the end of the financial year (4)	X	X

(4) - SHOULD AGREE TO (1) ABOVE AND (6) BELOW**NOTE X (H) - NET MOVEMENT IN LGPS PENSION LIABILITIES**

	Previous financial year £'000	Current financial year £'000
Fair value of LGPS assets (5)	X	X
Present value of defined benefit obligations (6)	X	X
Net pension liability recognised in the Balance Sheet (7)	X	X

(5) - SHOULD AGREE TO (1) AND (4) ABOVE**(6) - SHOULD AGREE TO (3) ABOVE****(7) - SHOULD AGREE TO LONG TERM LIABILITIES IN THE BALANCE SHEET**

APPENDIX F:

CONSISTENCY CHECKER - ACTUARY'S ACCOUNTING REPORT

Contributions

- Primary employer contribution rates disclosed in the actuary's year-end accounting report should be consistent with payroll records and the most recent Rates and Adjustment Certificate.
- The value of employee and employer contributions disclosed in the actuary's report should be consistent with payroll records.

Benefits

The employing body is unlikely to have a full record of current pensioners, but it should be able to check incremental changes as follows:

- Numbers of new pensioners per the actuary's year-end accounting report should equal retirees during the year as per payroll (plus any new retirees with deferred pension status).
- Changes to benefits paid should be consistent with changes to numbers of pensioners overall.
- Average amount paid per pensioner should equal the previous year's average plus the annual cost of living increase (which should be in line with inflation), adjusted to reflect changes in pensioner numbers.

Investments analysis

Should be consistent with the analysis of investments provided in the pension fund's own accounts.

Interest charges

Discount rate should be consistent with published high quality bond rates.
Check interest charges by applying discount rate to gross obligation/asset at start of year.

Curtailments and Settlements

Should correspond with information provided by the scheme administrator during the year.

APPENDIX G:

TEMPLATE QUESTIONNAIRES

These questionnaires can be used either by employing bodies or by their auditors to collect information about LGPS transactions, balances and disclosures, where these are material in the context of the employing body's financial statements as a whole.

Where possible, generic information (highlighted in blue) should be obtained from information already provided by the pension fund or by its consulting actuary or from information already in the public domain. More specific items (highlighted in red) will usually need to be dealt with by direct enquiry.

Questionnaire 1 - for pension fund actuaries

What calculation method has been used to produce this accounting report? Does this valuation method meet the financial reporting requirements of (state relevant financial framework e.g. charities SoRP or equivalent)

What are the key information flows that support the production of this report? What work has been done to confirm the accuracy of this information?

What roll-forward and estimation techniques have been applied?

Has the accounting report been prepared by someone with appropriate knowledge, qualifications and experience?

What quality assurance and review processes have been applied to this report?

How has the allocation of total pension fund assets to xyz employing body been arrived at?

How have the financial and demographic assumptions set out in Appendix xx and yy have been arrived at and how has the reasonableness of these assumptions been tested and confirmed?

Is the calculation method based on estimated cash flows?

An independent actuary has been engaged by (provide details) to review the calculation of accrued pension liabilities totalling £xxx, as set out on page xx of the accounting report. Please respond to the following queries which have been raised (list queries.....)

Questionnaire 2 - for pension fund administrators

Do engagement letters for fund managers and custodians confirm that all investments have been valued in accordance with the requirements of IFRS 13?

Have assurance letters been obtained from fund managers, the custodian, service organisations, and the regional asset pool within the past 12 months? Has the content of these letters identified any significant concerns?

Please confirm the following:

- total value of Employer and Employee contributions and paid into the pension fund by xyz employing body in the period from xx to xx.
- total value of benefit payments during the period from xx to xx

APPENDIX H:

EXAMPLE CHECKLIST FOR EMPLOYING BODIES RELEVANT TO LGPS ACCOUNTING

ON A MONTHLY BASIS

- Provide membership data to the pension fund (usually through electronic file transfer from payroll and HR systems). If these arrangements are outsourced, ensure that data sharing arrangements are put in place between the LGPS and service provider(s).
- Pay employee and employer contributions deducted to the LGPS administering authority.
- Provide additional information to the pension fund and consulting actuaries as required.

AT LEAST 3 MONTHS BEFORE THE YEAR END

- Appoint either the LGPS pension fund actuary or another actuary with appropriate levels of skill and experience, to prepare year-end accounting reports in line with the audited body's financial reporting framework.
- Liaise with external auditors to clarify their requirements for working papers and supporting information.
- Confirm that the actuary is aware of, and familiar with, the employing body's year-end date, requisite timescales, and external audit expectations.
- Clarify liaison arrangements, process, and cost details for dealing with audit queries.
- Discuss and agree key actuarial assumptions, source data requirements and data cleansing arrangements.
- If separate actuaries are appointed, ensure that data sharing protocols between the pension fund actuary and the pension fund administrator are put in place.

IN THE FINAL 3 MONTHS OF THE FINANCIAL YEAR

- Inform consulting actuary(ies) of any changes to the employment profile that might impact on estimated cashflows.
- Carry out sample checks to confirm that employees have been allocated to the correct contributions band and have paid the correct deduction rate.

FOLLOWING RECEIPT OF ACTUARY'S ACCOUNTING REPORT

- Complete consistency checks and trend analysis.
- Prepare year-end financial statements and compile working papers for external audit.
- Issue audit questionnaires to actuary and pension fund administrator.

DURING THE AUDIT PROCESS

- Respond to audit queries, liaising as necessary with the LGPS administrator and actuary.
- Obtain actual, as opposed to estimated, information on investment values and cash flows. If necessary, obtain a second accounting report from the actuary.
- Amend draft accounts if there has been a material change from the estimated data provided earlier.

APPENDIX I: LINKS TO FURTHER INFORMATION

GENERAL INFORMATION ABOUT THE LGPS SCHEME

For England and Wales, see [Home :: LGPS \(lgpsmember.org\)](https://www.lgpsmember.org/)

For Scotland, see pensions.gov.scot/local-government#Yourlocalgovernmentpensionscheme.

LEGISLATION AND STATUTORY GUIDANCE

[Pension Schemes Act 2021 \(legislation.gov.uk\)](https://www.legislation.gov.uk/),

[Public Service Pensions Act 2013 \(legislation.gov.uk\)](https://www.legislation.gov.uk/),

For The Local Government Pension Scheme Regulations 2013 (England and Wales), see [The Local Government Pension Scheme Regulations 2013 \(legislation.gov.uk\)](https://www.legislation.gov.uk/)

For The Local Government Pension Scheme (Scotland) Regulations 2014, see www.legislation.gov.uk/ssi/2014/164/made

For other English and Welsh LGPS Regulations, see [LGPS Regulations and Guidance \(lgpsregs.org\)](https://www.lgpsregs.org/)

For other Scottish LGPS Regulations, see [Regulations | SPPA \(pensions.gov.scot\)](https://pensions.gov.scot/)

OVERSIGHT ORGANISATIONS

LGPS Scheme Advisory Board (England and Wales) [LGPS Scheme Advisory Board - Home \(lgpsboard.org\)](https://www.lgpsboard.org/)

Scottish LGPS Advisory Board [LGPSAB | Local Government Pension Scheme Advisory Board](https://www.lgpsab.org.uk/)

The Pensions Regulator [The Pensions Regulator - GOV.UK \(www.gov.uk\)](https://www.gov.uk/)

Government Actuary's Department (GAD). [Government Actuary's Department - GOV.UK \(www.gov.uk\)](https://www.gov.uk/)

Scottish Public Pensions Agency (SPPA) pensions.gov.scot/

ACCOUNTING AND REPORTING

General information on accounting standards and year-end financial reporting see [Corporate reporting resources | ICAEW](https://www.icaew.com/technical/audit-and-assurance/corporate-reporting/corporate-reporting-resources).

For chartered accountants in Scotland, see [ICAS](https://www.icas.org.uk/) and specifically [Financial reporting | ICAS](https://www.icas.org.uk/technical/audit-and-assurance/financial-reporting)

For academy trusts see www.gov.uk/guidance/academies-accounts-direction

For housing associations and registered social landlords, see [National Housing Federation - Accounting and the Housing SORP](https://www.nationalhousingfederation.org.uk/technical/audit-and-assurance/accounting-and-the-housing-sorp)

CIPFA LGPS Annual Report Guidance (2019) [Preparing the Annual Report | CIPFA](https://www.cipfa.org/policy-and-guidance/publications/codes-of-practice)

CIPFA's Code of Practice on Local Authority Accounting in the UK - <https://www.cipfa.org/policy-and-guidance/publications/codes-of-practice>

Proposals to simplify pensions disclosures for local authorities, see [Consultation on short term England only measures in the Code | CIPFA](#)

LGPS example accounts (CIPFA 2021) [LGPS Fund Accounts 2020/21 | CIPFA](#)

Copies of LGPS annual reports (England and Wales only) see [LGPS Scheme Advisory Board - Fund Annual Reports 2023 \(lgpsboard.org\)](#)

Guidance for local authorities on accounting for LGPS surpluses [CIPFA Bulletin 15 Reporting of pensions surpluses and IFRIC 14 | CIPFA](#)

AUDITING

General information on international and UK auditing standards [Auditing Standards \(frc.org.uk\)](#).

More specific information about the audit of defined benefit pension schemes [Auditing pensions figures - sponsor accounts | ICAEW](#)

OTHER INFORMATION

GAD review of LGPS triennial valuations, see [www.gov.uk/government/news/gad-reviews-local-authority-pension-valuations](#), and [www.gov.uk/government/news/review-of-local-government-pension-scheme-scotland](#)

LGPS Scheme Advisory Board Statement on Surpluses [SAB Statement on Surpluses.pdf \(lgpsboard.org\)](#).

FRC's audit quality review of pensions disclosures [media.frc.org.uk/documents/Audit_of_Defined_Benefit_Pension_Obligations.pdf](#)

McCloud remedy [Underpinv1.0.pdf \(lgpslibrary.org\)](#).

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* includes parent companies. Source: ICAEW member data
February 2024, Interbrand, Best Global Brands 2023