



West Northamptonshire Council

Local Pension Board

25/1/2024

Mark Whitby – Head of Pensions

Report Title	Pension Fund Annual Report and Statement of Accounts 2022-23
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Contributors/Checkers/Approvers

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Appendix A – Grant Thornton Audit Plan 2022-23

Appendix B – Final Annual Report and Statement of Accounts 2022-23

Appendix C – Grant Thornton Audit Results Report 2022-23

1. Purpose of Report

1.1. To present to the Pension Board the Pension Fund’s audit plan, final Annual Report and Statement of Accounts and Results Report for the 2022-23 financial year.

2. Executive Summary

2.1 Grant Thornton act as the Northamptonshire Pension Fund’s external auditors. As the external auditors they have produced a plan of the 2022-23 audit of the Northamptonshire Pension Fund.

2.2 The report covers the key highlights from the Statement of Accounts. The Fund’s assets have fallen to £3,250m, following negative investment performance during the year with a net decrease of £117.7m. Contributions, Benefits, Management Expenses and Investment income have increased since last year.

2.3 The report covers the findings of the external audit for the Northamptonshire Pension Fund 2022-23. In Grant Thorntons opinion, the financial statements give a true and fair view of the financial position of the Fund. The statements have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

2.4 There are two recommendations for management which have been actioned.

3. Recommendations

3.1 The Pension Board is asked to note the contents of the report.

4. Report Background

- 4.1 The Pension Fund's Statement of Accounts (SOA) form part of the Council's Statement of Accounts. These are audited by the Council's external auditor Grant Thornton (GT). The auditor confirms whether, in their opinion, the SOA reflect a true and fair view of the financial position of the authority (and the Fund within it) for the financial year 1st April to 31st March and that the SOA is free from material mis-statement.
- 4.2 The accounts are based on transactions accounted for within the Fund's financial ledger, information received from Investment Managers and the Fund's Custodian Northern Trust, and assumptions and estimations utilising the professional judgement of officers and Fund professional advisers in order to give a true and fair statement of the Fund's financial position.
- 4.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued the Code of Practice on Local Authority Accounting in the United Kingdom 2022-23 (the Code), which governs the preparation of the financial statements for Local Government Pension Scheme funds. A CIPFA template is used each year to ensure that the reporting meets the requirements of the Code and is compliant with International Financial Reporting Standards (IFRS).
- 4.4 The publication of the Accounts is an essential feature of public accountability and stewardship as it provides information on how the Fund has used the members' funds for which it is responsible.
- 4.5 The structure and content of the Annual Report is governed by guidance issued by CIPFA in compliance with Regulation 57 of The Local Government Pension Scheme Regulations 2013 (as amended).

5. Audit Plan

- 5.1 GT have produced an audit plan, setting out identified audit risks, expected materiality levels, the audit logistics and the planned delivery of the audit process.
- 5.2 Page 7 of the accompanying report identifies the key risks and areas of auditor focus, details the Auditor's planned approach to these risk areas.
- 5.2.1 Valuation of Level 3 investments
- 5.2.2 Management override of controls
- 5.2.3 Triennial valuation
- 5.3 Page 11 of the accompanying report sets out the planned materiality levels for the audit. GT has adjusted its approach to materiality on Pension Fund audits since last year to be more risk focused. As such, Investment related materiality is set at 1.5% of the estimated Gross Assets, as opposed to net, to be more reflective of the risks associated with asset valuations. A lower materiality is set in respect of non-investment related transactions, at 10% of prior year gross expenditure, for a more focused approach.

Audit Area	Materiality
Planning Materiality – investment related	£48.1m
Planning Materiality – non-investment related	£12.9m
Audit Differences – Net Assets Statement	£2.4m

Audit Area	Materiality
Audit Differences – Fund Account	£645k

5.4 Page 15 of the accompanying report sets out the timeline for delivery of the audit. The key planned milestones are:

Milestone	Planned dates	Status
Interim Audit	February - March 2023	Completed
Report audit plan	July 2023	Completed
Year end Audit	June -September 2023	Completed
Audit Findings Report	September 2023	Completed

6. Annual Report and Statement of Accounts

- 6.1 The Fund Account and the Net Asset Statement provide a summary of the financial activity with the notes to the accounts providing further information.
- 6.2 The net decrease for the year was £117.7m, with the Fund's net assets falling to £3,250m reflecting negative performance in the first two quarters of the year.
- 6.3 Contribution receipts increased from £122.8m to £130.1m. The increase in contributions payments reflects the increase in the average contribution rate for 2022-23.
- 6.4 Benefit payments have increased from £103.4m to £105.5m. The increase in benefit payments reflects the growth in the number of pensioners during the year and CPI uplifts to benefits in payment.
- 6.5 Management expenses are broken down in Note 11. Administration expenses have increased from £2.3m to £2.5m due to increases in staff salaries and inflationary increases. Oversight and Governance costs have increased from £812k to £911k mainly due to actuarial valuation costs. Investment Management fees have increased from £12.9m to £13.2m due to increased commitments to alternative assets.
- 6.6 The one-year investment return as at 31st March 2023 was a net market loss of £166m.
- 6.7 Investment income increased from £28.9m to £34.0m mainly due to large income distributions from LionTrust UK Equities, Baillie Gifford Diversified Growth Fund and M&G Alpha Opportunities Fund. Investment income is impacted by market performance however the Fund's main investment returns are reflected in market value increases.
- 6.8 The Annual report and Statement of Accounts have been approved by Pension Committee and Audit and Governance Committee.

7. Audit Results Report

7.1 The Pension Fund Statement of Accounts has been subject to external audit fieldwork and GT have offered a separate audit opinion on the Pension Fund's Annual Report and Statement of Accounts within the ISA260 document, this is set out on page 3 of the Audit report.

“Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- *the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and*

- *have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.”*

- 7.2 The Pension Fund’s opinion cannot be finalised until the Council’s audit has concluded.
- 7.3 There is one corrected misstatement identified during the audit. The investment asset balances included a number of estimated asset valuations for Level 3 assets, these are based on December 2022 actual valuations adjusted for cash flows to the 31 March 2023. The actual valuations received for these assets showed the investment asset balance was understated by £7.6m. This value is below materiality thresholds.
- 7.4 There have been a small number of disclosure amendments shown in Appendix D of the results report.
- 7.5 There are two recommendations for management listed below (please also see page 22 of Appendix C), both recommendations have been actioned and communicated to the relevant teams:
- 7.5.1 Management should ensure that procedures are followed and that journals are authorised before posting to avoid segregation of duties risks.
- 7.5.2 Management should ensure that IT user responsibilities are monitored and reviewed to avoid segregation of duties.

8. Implications (including financial implications)

8.1 Resources and Financial

- 8.1.1 There are no resource or financial implications arising from the proposals in this paper. This paper is for information only.

8.2 Legal

- 8.2.1 There are no legal implications arising from the proposals.

8.3 Risk

- 8.3.1 The mitigated risks associated with this report has been captured in the Fund’s risk register as detailed below -

Risk	Residual risk rating
Contributions to the Fund are not received on the correct date and/or for the correct amount	Amber
Fund assets are not sufficient to meet obligations and liabilities.	Amber
Information may not be provided to stakeholders as required	Green
Those charged with governance are unable to fulfil their responsibilities effectively	Green
Risk of fraud and error	Green
Custody arrangements may not be sufficient to safeguard Pension Fund assets.	Green
Failure to administer the scheme in line with regulations and guidance.	Green

Risk	Residual risk rating
Pension Fund investments may not be accurately valued.	Green
Investment decisions and portfolio management may not achieve the return required or be performed in accordance with instructions provided.	Green

8.3.2 The executive summary can be found on the Fund’s website at the following link:

[Northamptonshire Risk Register](#)

8.4 Relevant Pension Fund Objectives

8.4.1 The following objectives as per the Business Plan have been considered in this report -

- To have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance.
- To manage the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund’s stakeholders, particularly the scheme members and employers.
- To ensure the relevant stakeholders responsible for managing, governing and administering the Fund, understand their roles and responsibilities and have the appropriate skills and knowledge to ensure those attributes are maintained in a changing environment.
- To continually monitor and measure clearly articulated objectives through business planning.
- To continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate.
- To provide scheme members with up-to-date information about the scheme in order that they can make informed decisions about their benefits.
- To seek and review regular feedback from all stakeholders and use the feedback appropriately to shape the administration of the Fund.

8.5 Consultation

8.5.1 The Pension Fund Accounts are produced utilising information and advice provided by Investment Managers, the Fund’s Custodian Northern Trust and the Fund’s Actuary, Hymans Robertson.