Grant Thornton UK and auditing the LGPS

Shropshire County Pension Fund

20 June 2025

Agenda

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Role and powers of auditors
Financial reporting framework
Delivering the audit
Questions & Discussion

Introduction

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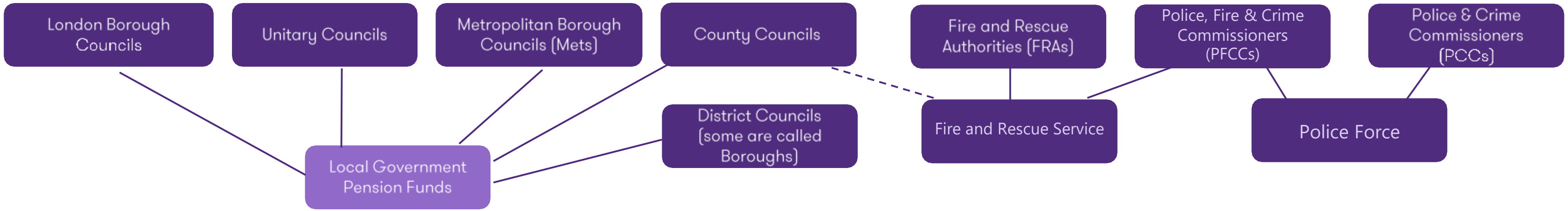
Local government structures in England



London Boroughs, Unitary Councils and Metropolitan Councils delver all council services. Some County Councils are Unitaries.

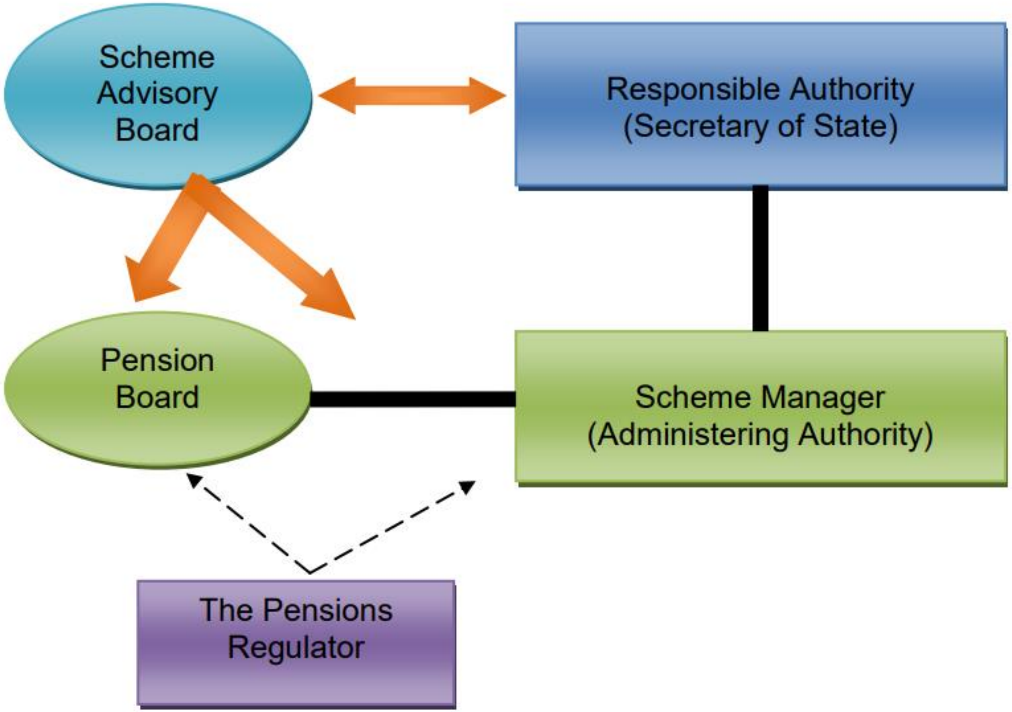
This is known as "two tier" local government, with services split between a county council and district councils in the county geography.

Some Fire and Rescue Services are part of a county council, some are stand alone bodies governed by FRAs, whilst some form part of a Police, Fire and Crime Commissioner (PFCC)

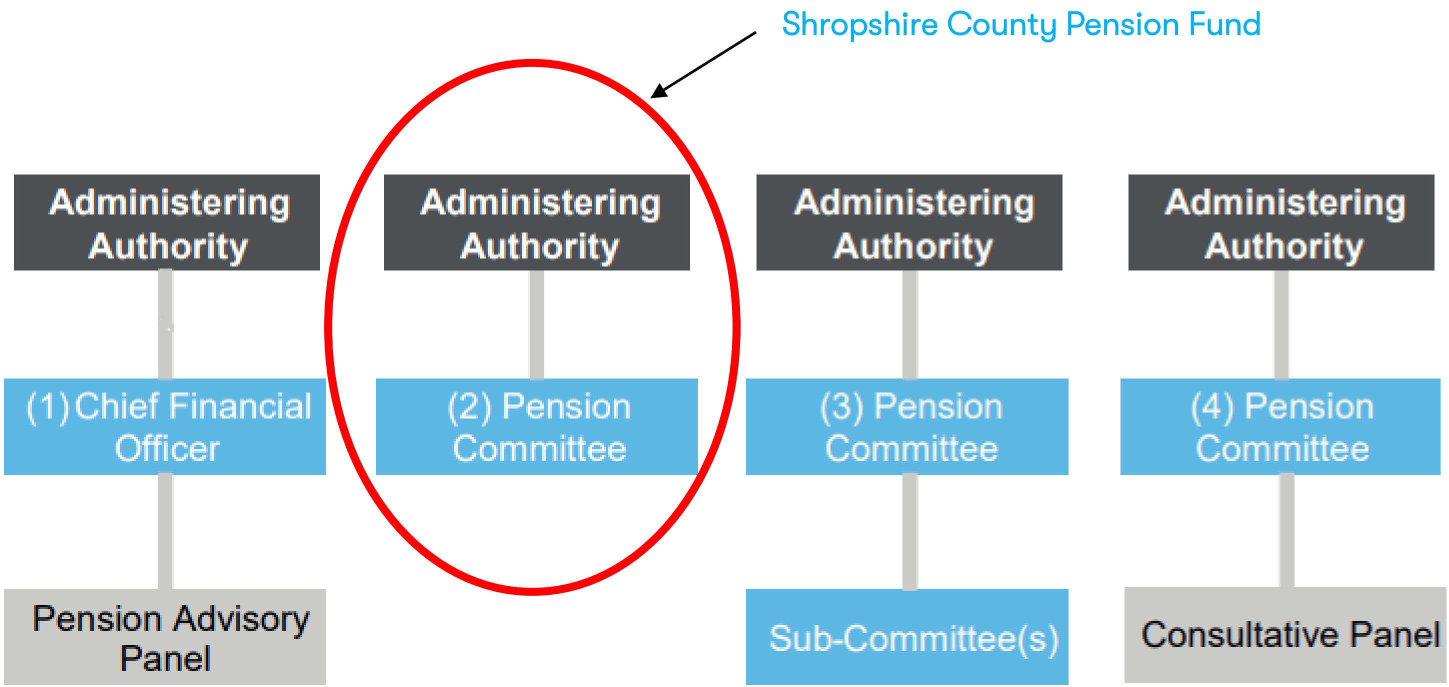
PCCs were created to hold Chief Constables to account and are elected locally and set the policing budget. Some have taken responsibility for Fire and Rescue Services – PFCCs.

There are other local government bodies such as Town and Parish Councils, Combined Authorities, National Parks, Waste Authorities and Drainage Boards. Some two-tier areas are going through local government reorganisation (LGR) which means the county and district councils would be replaced by one or more unitary council in their geography. In Scotland and Wales all councils are unitaries.

LGPS governance structure



Delegation structures



The role and powers of external auditors

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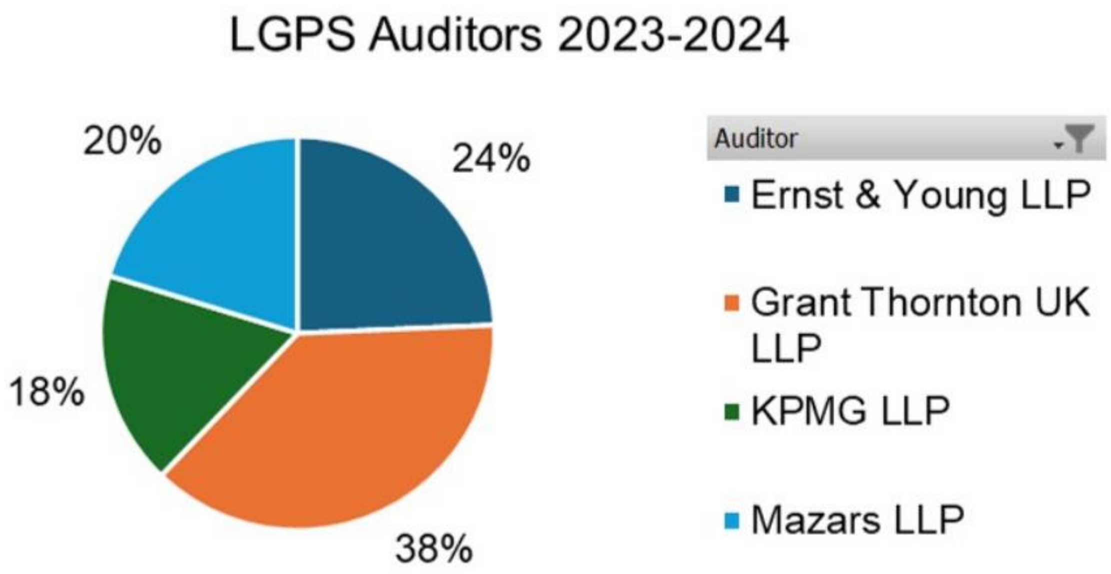
Current external audit framework

Organisations / Legislation	Role
Ministry for Housing, Communities and Local Government (MHCLG)	Overall system oversight
National Audit Office (NAO)	Set the scope of auditors' work: Code of Audit Practice for Local Auditors and provide associated guidance
Public Sector Audit Appointments Ltd (PSAA)	Runs national scheme to appoint auditors for LG and related (e.g. police/fire) bodies who opt in – currently around 97% of bodies; sets fees; publish annual Audit Quality Monitoring report.
Financial Reporting Council (FRC) & Institute of Chartered Accountants in England and Wales (ICAEW)	Regulate audit quality for firms involved in delivery of public audit. FRC employs system leader.
Chartered Institute of Public Finance and Accountancy (CIPFA) & Local Authority (Scotland) Accounts Advisory Committee (LASAAC)	Set the Code of Practice on Local Authority Accounting – Chapter 6.5 covers requirements for Pension Funds
Local Audit and Accountability Act 2014	Legislation setting out audit arrangements post abolition of the Audit Commission
Accounts and Audit (Amendment) Regulations 2024	Legislation setting out accounts publication requirements - first published 2015 but amended for Covid-19 in 2020 and 2021, and then updated in 2024 alongside an updated NAO Code reflecting backstop legislation

Grant Thornton's presence in the LGPS pensions sector



Source: SAB Annual Scheme Report 2024

Local audit reform

Green paper published 18 Dec 2024, government response to consultation 9 Apr 2025

Local Audit Office (LAO) to be established in April 2027 which will:

- be statutory and independent, with a remit to streamline and simplify the system.
- assume the functions of appointing and contracting auditors for local authorities. This would remove the power for authorities to appoint their own auditor.
- adopt ownership of the Code of Audit Practice from the National Audit Office (NAO) and deliver relevant training. It would have powers to interpret International Standards on Accounting (ISA) requirements for the local audit context (though the Financial Reporting Council (FRC) would continue to maintain ownership of ISAs for the UK as a whole).
- hold responsibility for quality oversight of local audit, including overseeing an inspection programme, enforcement and some elements of supervision
- publish national insight reports on local audit health, which could include emerging trends, quality, market sustainability, value for money arrangements, statutory recommendations and Public Interest Reports.
- oversee professional bodies with regard to their remit for the qualification, registration and conduct of local auditors.

Scope of external audit work

The NAO Code of Audit Practice sets the scope of the work to be performed by the external auditor:

Financial Statements	Value for Money – Focus on Council/Administering Authority but Pension Funds form part of review
• Opinion on "true and fair view" of the financial statements • Financial statements prepared in accordance with accounting and reporting framework • "Other information" (e.g. Narrative Report, Annual Governance Statement) consistent with financial statements • Certify completion of the audit	Requirement that auditors be satisfied that the body "has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources." Commentary on arrangements for: • Financial sustainability • Governance • Improving economy, efficiency and effectiveness Recommendations where any significant weaknesses identified.

Key external audit outputs

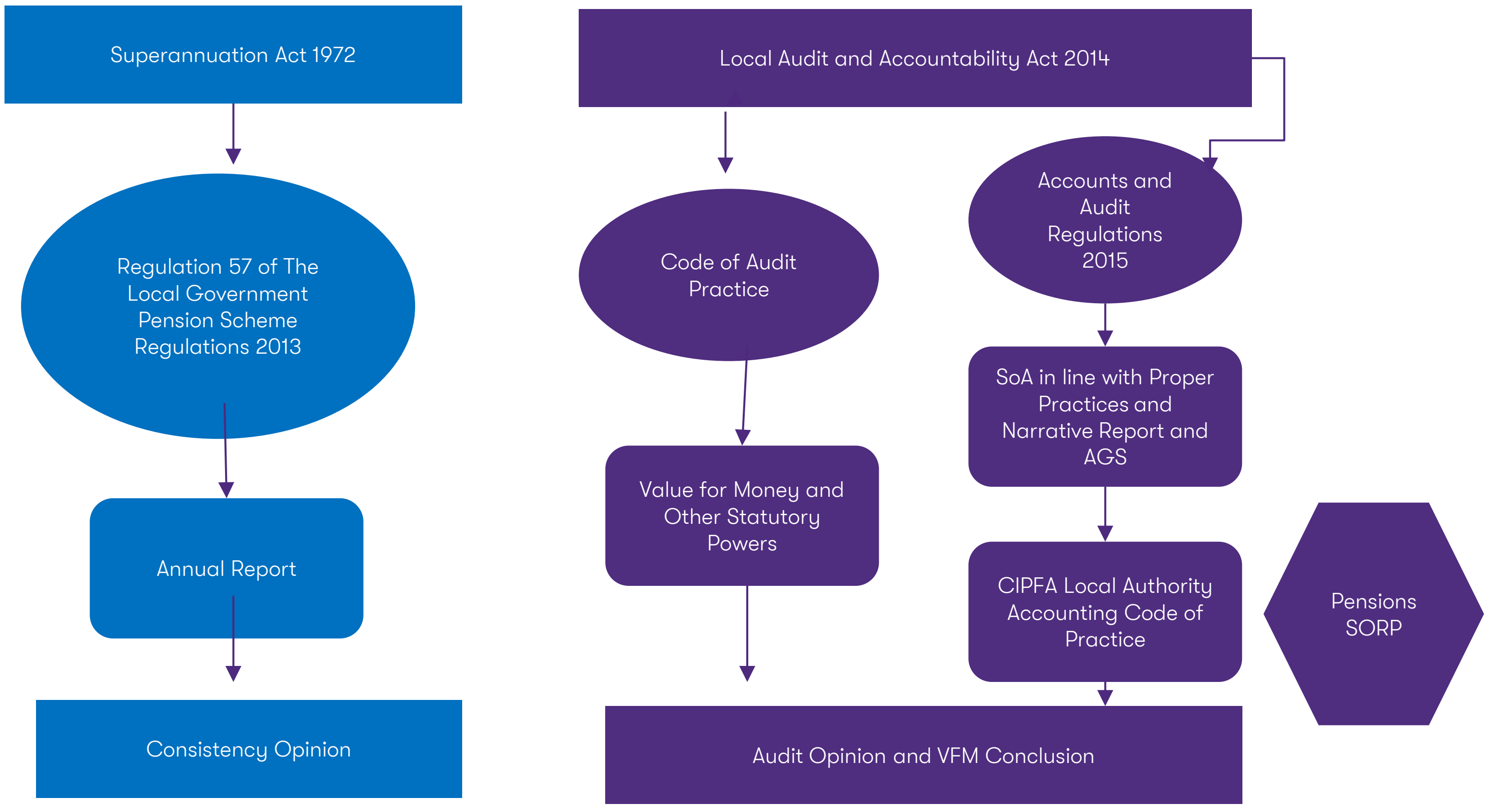
Title	Includes	Usually presented
Audit Plan	Planning materiality level, significant risks for our financial statements audit and any identified VFM significant weaknesses, proposed fee	By end of April
Audit Findings Report (ISA 260)	Findings from our financial statements audit, management recommendations, follow up of prior year recommendations, proposed fee	By December for Councils, aiming for September Committee cycle locally for the Pension Fund
Auditor's Annual Report (AAR)	Detailed commentary on Value for Money arrangements, recommendations for improvement	By end of November to Council/Administering Authority
Progress Report and sector update	Update on audit progress and any key findings, sector updates/articles/publications that may be of interest to Audit Committee members	Every Audit Committee. Looking at feasibility of developing specific Pension Committee updates.

Additional auditor powers

The Local Audit and Accountability Act 2014 sets out the following additional powers that can be used by external auditors	Responding to questions and objections on the accounts from local electors
	Applying for a court declaration that an item of account is contrary to law
	Issuing an advisory notice
	Making an application for judicial review
	Reporting matters in the public interest
	Written (statutory) recommendations to the audited body

Financial reporting framework

Summary of LGPS Statutory Reporting Framework



Accounting Framework

- CIPFA Code of practice on local authority accounting in the United Kingdom

- Section 6.5 – Accounting and Reporting by Pension Funds

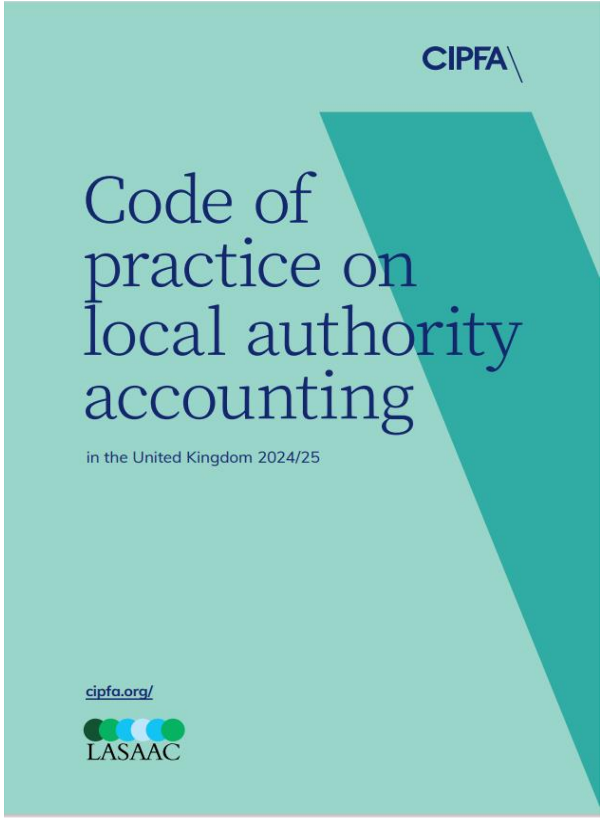
6.5 ACCOUNTING AND REPORTING BY PENSION FUNDS

6.5.1 Introduction

6.5.1.1 The objective of IAS 26 *Retirement Benefit Plans* is to provide guidance on the form and content of the financial statements prepared by retirement benefit plans. However, IAS 26 does not require retirement benefit plan statements to be prepared; rather it requires IAS 26 to be applied "where such statements are prepared". It complements IAS 19 Employee Benefits, which deals with the determination of the cost of retirement benefits in the financial statements of employers. Authorities shall account for retirement benefit plans in accordance with IAS 26, except where adaptations to fit the public sector are detailed in the Code.

6.5.1.2 IAS 26 (unlike the Pension SORP[48] under UK GAAP) does not set out to comprehensively specify the requirements for preparing financial statements for a retirement benefit plan; and other relevant provisions of IFRS apply to the extent that they are not superseded by specific IAS 26 requirements. So, for example, to the extent that they are not superseded by specific IAS 26 requirements:

- Similar to, and has regard to, 2019 Pensions SORP applicable to occupational pension schemes



The annual report

Pension fund annual report

57. (1) An administering authority must, in relation to each year beginning on 1st April 2014 and each subsequent year, prepare a document ("the pension fund annual report") which contains—

(a) a report about the management and financial performance during the year of each of the pension funds maintained by the authority;

(b) a report explaining the authority's investment policy for each of those funds and reviewing the performance during the year of the investments of each fund;

(c) a report of the arrangements made during the year for the administration of each of those funds;

(d) for each of those funds, a statement by the actuary who carried out the most recent valuation of the assets and liabilities of the fund in accordance with regulation 62 (actuarial valuations of pension funds), of the level of funding disclosed by that valuation;

(e) the current version of the statement under regulation 55 (governance compliance statement);

(f) for each of the funds, the fund account and net asset statement with supporting notes and disclosures prepared in accordance with proper practices;

(g) an annual report dealing with—

(i) the extent to which the authority and the Scheme employers in relation to which it is the administering authority have achieved any levels of performance set out in a pension administration strategy in accordance with regulation 59 (pension administration strategy), and

(ii) such other matters arising from a pension administration strategy as it considers appropriate;

(h) the current version of the statement referred to in regulation 58 (funding strategy statement);

(i) the current version of the statement under regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (statement of investment principles)[1];

Department for Levelling Up, Housing & Communities

Preparing the Pension Fund Annual Report

Guidance for Local Government Pension Scheme Funds

April 2024

Local Government Pensions SAB England and Wales

CIPFA The Chartered Institute of Public Finance & Accountancy

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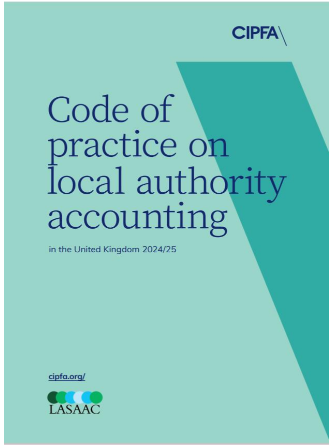
Forms of opinion – auditor's report and the consistency report



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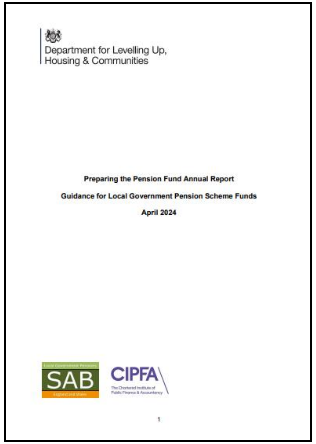

Independent auditor's report to the members of Shropshire Council on the pension fund financial statements of Shropshire County Pension Fund

Opinion on financial statements

We have audited the financial statements of Shropshire County Pension Fund (the 'Pension Fund') administered by Shropshire Council (the 'Authority') for the year ended 31 March 2025, which comprise the Pension Fund Account, the Pension Fund Net Asset Statement and notes to the Shropshire County Pension Fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2024/25.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2025 and of the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay promised retirement benefits after the end of the fund year;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2024/25; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Independent auditor's statement to the members of Shropshire Council on the pension fund financial statements of Shropshire County Pension Fund included within the pension fund annual report

Opinion

We have examined the pension fund financial statements of Shropshire County Pension Fund (the 'pension fund') for the year ended 31 March 2025 included within the pension fund annual report, which comprise the Pension Fund Account, the Pension Fund Net Asset Statement and notes to the Shropshire County Pension Fund financial statements, including a summary of significant accounting policies.

In our opinion, the pension fund financial statements included within the pension fund annual report are consistent, in all material respects, with the audited pension fund financial statements of Shropshire Council for the year ended 31 March 2025 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2024/25.

We have not considered the effects of any events between XX YYYYYY 2025, being the date we signed our report on the audited financial statements of Shropshire Council, and the date of this statement.

Delivering the audit

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Building blocks of the audit

Financial Reporting Framework (CIPFA)	NAO Code of Audit Practice and Guidance Notes
Annual Report Content (MHCLG/SAB/CIPFA)	Auditing Standards (ISAs), Ethical Standard and Practice Notes (FRC)

Audit

Planning a pension scheme audit – Those Charged with Governance (TCWG)

Audit Committee Terms of Reference

Financial reporting

37. To review and if necessary, approve the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council. When required, to approve the Annual Statement of Accounts

38. To consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.

Pensions Committee Terms of Reference

Terms of reference

a) To advise the council on the arrangements for the proper administration of the Shropshire County Pension Fund in accordance with the Local Government Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and any other relevant legislation;
b) To advise employing organisations and employees within the fund of their benefits, contributions, and the financial performance of the fund;

Governance Compliance Statement | June 2024

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Shropshire County Pension Fund

c) To advise and assist the council on the determination of any matters of general policy relating to the investment of the pension fund;
d) To approve the annual report and accounts of the fund.

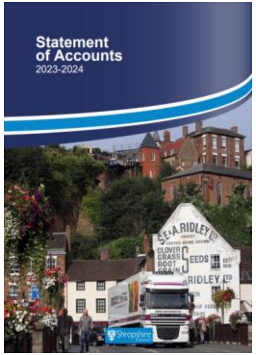
- Pension Fund financial statements form part of the administering authority's accounts which are generally approved by the administering authority's Audit Committee.
- However, often see Pension Committees have oversight of Pension Fund financial statements, especially as they form part of the Annual Report.

Who do we communicate with?


Standard
Audit and Assurance
FRC Financial Reporting Council
Updated May 2022
INTERNATIONAL STANDARD ON AUDITING (UK) 260 (REVISED NOVEMBER 2019)
Communication With Those Charged With Governance

- Those charged with governance – The person(s) or organization(s) … with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process.
- This would be the full Council. The Accounts and Audit Regulations 2015 (Regulation 9) permits signing and approval of the statement of accounts to be delegated to a committee.
- Therefore, at Shropshire Council we consider the Audit Committee are TCWG
- However, Para 12 of ISA 260 permits auditors to communicate with a subgroup. We have determined that primary reporting will be to the Pensions Committee with the information (Audit Plan and Audit Findings Report) also communicated to the Audit Committee.

Practical implications for the Pensions Committee



To have appropriate knowledge and understanding of the financial reporting requirements upon Pension Funds under the CIPFA Code.

To have appropriate and understanding of the Annual Report requirements and guidance published by MHCLG/SAB/CIPFA.

To consider whether appropriate accounting policies have been followed.

To approve the Letter of Representation and assertions within it.

To make recommendations to the Audit Committee in respect of approving the Pension Fund financial statements within the Council's Statement of Accounts.

Questions and discussion

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