



# Report to Pension Fund Board

**Date:** 19<sup>th</sup> July 2023

**Reference number:** N/A

**Title:** Buckinghamshire Pension Fund Accounts to 31<sup>st</sup> March 2022

**Relevant councillor(s):** N/A

**Author and/or contact officer:** Julie Edwards, Pensions & Investments Manager

**Ward(s) affected:** Not applicable

**Recommendations:** The Board is asked to note the audited Statement of Accounts for Buckinghamshire Pension Fund for the year ended 31st March 2022.

## Executive Summary

1.1 The audited Statement of Accounts for the Buckinghamshire Pension Fund for the year ended 31 March 2022 is attached as Appendix 1. The Pension Fund Accounts and Net Assets Statement show that in the year to 31<sup>st</sup> March 2022 the value of the Buckinghamshire Pension Fund increased by £275m to £3.913bn. The audit work was completed remotely by Grant Thornton. Grant Thornton's work is substantially complete and they have not identified any adjustments to the financial statements which have an impact on the Pension Fund's reported financial position. Grant Thornton anticipates issuing an unqualified audit report opinion.

## Content of report

1.2 The Pension Fund Accounts and Net Assets Statement show that in the year to 31<sup>st</sup> March 2022 the value of the Pension Fund increased by £275m to £3.913bn. This is the net result of the contributions made (£169m) including transfers in from other pension schemes, employers' and employees' contributions; payments out £144m including pensions, commutations, lump sum retirement benefit and death benefits; management expenses £17m plus net returns on investments (£268m).

1.3 The table below summarises the income, expenditure and returns on investments for the financial years 2020/21 and 2021/22.

<b>31 March 2021</b>		<b>31 March 2022</b>
<b>£000</b>		<b>£000</b>
<b>(2,913,700)</b>	<b>Value 1st April</b>	<b>(3,638,265)</b>
(176,790)	Income	(168,510)
121,280	Benefits	127,601
18,959	Payments to and on Account of Leavers	16,708
18,371	Management expenses	17,136
(706,385)	Returns on Investments	(267,831)
<b>(3,638,265)</b>	<b>Value 31st March</b>	<b>(3,913,161)</b>

1.4 The draft Audit Findings Report for the Buckinghamshire Pension Fund for the year ended 31<sup>st</sup> March 2022 is attached as Appendix 2. The audit work was completed remotely by Grant Thornton. Grant Thornton’s work is substantially complete and they have not identified any adjustments to the financial statements which have an impact on the Pension Fund’s reported financial position.

1.5 The formal sign off for the Pension Fund accounts will take place at the same time as the formal sign off for Buckinghamshire Council’s accounts which is anticipated to be during 2024. On 10<sup>th</sup> May 2023 the Audit and Governance Committee approved the Buckinghamshire Pension Fund Statement of Accounts 2021/22 and delegated final sign off of the Statement of Accounts to the Chairman of Audit and Governance Committee and the S151 Officer subject to:

- No material changes in the accounts.
- Final sign off by the external auditors of Buckinghamshire Council accounts 2021/22.
- And, subject to the Pension Fund Committee endorsing management’s proposed treatment of not adjusting the Statement of Accounts to reflect the £2.623m overstatement.

1.6 On 5<sup>th</sup> July 2023 the Pension Fund Committee endorsed management’s proposed treatment of not adjusting the Statement of Accounts to reflect the £2.623m overstatement. Four recommendations were identified because of issues identified during the audit. The recommendations related to IT deficiencies, investment management expenses, employer body changes and errors identified from member data controls testing. Details of the issues and risks and recommendations are documented on pages 19 to 21 of the Audit Findings Report. The management response to the draft

Audit Findings Report for the Buckinghamshire Pension Fund for the year ended 31st March 2022 is attached as Appendix 3.

- 1.7 The investment management expenses are recognised in the Statement of Accounts by journaling the total investment management expenses for each portfolio less the investment management expenses recognised in the Statement of Accounts from the custodian investment accounting information. A formula had been overwritten with a hard coded amount which resulted in an error in the investment management fees of £452k.
- 1.8 The audit work identified an issue in respect of the valuation of Level 3 investments. The 31<sup>st</sup> March 2022 value in the accounts was overstated by £2.623m compared to the value in the 31<sup>st</sup> March 2022 capital statements. The capital statements are provided by the investment managers quarterly in arrears. The 31<sup>st</sup> March value in the accounts is based on the previous 31<sup>st</sup> December valuation adjusted for any payments to the fund or distributions received. There will always be a difference but the 31<sup>st</sup> March 2022 difference is greater than usual reflecting the impact of the war in Ukraine on asset valuations. Although a large monetary amount, the £2.623m represents 0.07% of the Pension Fund net asset value and management propose not adjusting the Statement of Accounts since the amount is not material. The Audit and Governance Committee agreed to approve management's proposed treatment of not adjusting the Statement of Accounts to reflect the £2.623m overstatement, subject to the Pension Fund Committee endorsing this approach. On 5<sup>th</sup> July 2023 the Pension Fund Committee endorsed management's proposed treatment of not adjusting the Statement of Accounts to reflect the £2.623m overstatement.
- 1.9 Most of the audit work for the Buckinghamshire Pension Fund Statement of Accounts for the year ended 31st March 2021 took place during the summer of 2021. The audited accounts and the draft Audit Findings Report were presented to Pension Fund Committee and the Audit and Governance Committee on 7<sup>th</sup> September 2021 and 29<sup>th</sup> September 2021 respectively. Since September 2021 there has been some further work undertaken on Level 2 investments and further review of the audit working papers following a change of Audit Director. Level 2 investments are investments where quoted market prices are not available, the Financial Reporting Council (FRC) introduced additional audit requirements in 2022. A copy of the revised draft Audit Findings Report for Buckinghamshire Pension Fund Statement of Accounts for the year ended 31st March 2021 is attached as Appendix 4.
- 1.10 There are three main changes to the draft Audit Findings Report considered by the Pension Fund Committee in September 2021:
- Page 10 significant judgement or estimate Level 2 investments £3,410m.
  - Page 23 reclassification of cash in the current and prior period.

- And; Page 26 Note 3 - Contributions

1.11 Page 10 significant judgement or estimate Level 2 investments £3,410m - the Buckinghamshire Pension Fund has investments in a range of bonds, pooled investment vehicles and property unit trusts that in total are valued in the net assets statement as at 31<sup>st</sup> March 2021 at £3,410m. Grant Thornton's testing identified an overstatement of £2.21m in the value of the Brunel Smaller Companies fund as a result of differences in the share price used by Buckinghamshire Pension Fund and the share price recorded on FT.com. Grant Thornton estimated the potential error in the untested residual population as an overstatement of £6.72m, giving a total overstatement of £8.939m which has been recorded as an unadjusted error. On the 5<sup>th</sup> July 2023 the Audit and Governance Committee agreed to approve management's proposed treatment of not adjusting the Statement of Accounts to reflect the £8.939m overstatement, which was subsequently endorsed by the Pension Fund Committee.

1.12 Page 23 reclassification of cash in the current and prior period – in note 12, pages 22, 24 and 25 of the Buckinghamshire Pension Fund Statement of Accounts the Fund was erroneously classifying cash held in money market funds as a financial asset at amortised cost.

1.13 Page 26 Note 3 – Contributions – a footnote was added to explain the increase in employee contributions to note 3, pages 13 of the Buckinghamshire Pension Fund Statement of Accounts.

### **Other options considered**

1.14 Not applicable.

### **Legal and financial implications**

1.15 There are none arising directly from this report.

### **Corporate implications**

1.16 Not applicable.

### **Consultation and communication**

1.17 Not applicable.

### **Background Papers**

1.18 Not applicable.