

## PENSIONS INVESTMENT COMMITTEE

<b>REPORT TITLE</b>	Adjustments to the Pension Fund Accounts 2011/12		
<b>KEY DECISION</b>	No	<b>Item No: 5</b>	
<b>WARD</b>	N/A		
<b>CONTRIBUTORS</b>	Executive Director for Resources & Regeneration		
<b>CLASS</b>	Part 1	<b>Date:</b>	15 November 2012

### 1. PURPOSE OF THE REPORT

- 1.1 This report provides Members with an update on the key accounting adjustments to the Pension Fund accounts for 2011/12. It summarises the nature of these adjustments and provides a brief explanation from officers as to the reasons why such adjustments have been necessary to make to the accounts.

### 2. RECOMMENDATION

- 2.1 Members are asked to note the contents of this report.

### 3. BACKGROUND

- 3.1 The Pension Fund financial statements are an important mechanism for the Council to account for its stewardship of public funds. Members of the Pensions Investment Committee have a final responsibility for these statements.
- 3.2 The Pension Fund Annual Governance Report has been published and there is an agreed action for officers. The auditors have provided an unqualified opinion on the financial statements of the Pension Fund for 2011/12.

### 4. ADJUSTMENTS TO THE ACCOUNTS

- 4.1 In the Lewisham Pension Fund Annual Governance Report, the auditors provided their opinion on the financial statements. They said that there were two amendments to the accounts that had an impact on the value of investments disclosed in the Net Assets Statement. The total impact of these amendments was an increase in the value of investments (£2m) on the Net Assets Statement and a corresponding increase in the change in market value in the fund account. The adjustments are set out as follows:

- Harbourvest – Private Equity Investments. Due to timing, the custodian report used by the Council in preparing the accounts was dated as at

December 2011, instead of March 2012. Therefore, this led to the auditors noting a discrepancy between the accounts and the external fund manager confirmation received of £2.2m.

- M&G – UK Companies Financing Fund Investments. Due to timing, the custodian report used by the Council in preparing the accounts was dated as at September 2011, instead of 31 March 2012. Therefore, this led the auditors noting a discrepancy between the accounts and the accounts and the external fund manager confirmation received of £260k.

4.2 Officers have had extensive dialogue with the auditors regarding these issues, as well as convening specific meetings with managers at Harbourvest and M&G. Furthermore, a meeting has been held with the Pension Fund custodian, Northern Trust to seek a solution or an alternative approach to redress this issue.

4.3 It is the view of Officers that discrepancies have not arisen due to poor accounting practice, but is entirely due to timing differences between the preparation of the financial statements and the provision of information by the respective fund manager. This happens every year and is specific to the types of mandates of venture capital and financing fund investments which both Harbourvest and M&G manage, respectively. This is common across the industry. The Lewisham Pension Fund is not alone in receiving such comments and any pension fund which hold such mandates will face the same issues of timing.

4.4 In summary, when the Custodian provides the Council with the data, these two investment managers only provide estimates, as the actual results are not available at that time. The Custodian will then add any capital calls to these valuations and an estimated market value of the investment officers in the Council's Budget Strategy Team. The actual results are then provided by the Investment Manager after the accounts have been prepared and an adjustment is then made to our accounts.

4.5 This will continue to happen every year. However, Officers are committed to working with the new external auditors to agree a mechanism which will mean avoiding such issues being described as discrepancies in future years.

4.6 Members should note that there were some further minor adjustments to the accounts which have been corrected, prior to the final unqualified audit opinion being issued.

## **5. FINANCIAL IMPLICATIONS**

5.1 There are no specific financial implications directly arising from this report. However, Members should note that changes in valuation methods or dates used can have apparently large impacts on fund values reported. However, due to the substantial values of pension investments, these impacts are not material (in this case, for example, they are less than 0.5% of the value of the fund) and of course that accurate market values are always used when assets are bought and sold.

## **6. LEGAL IMPLICATIONS**

- 6.1 The Pension Fund financial statements for the year ended 31 March 2012 are audited under the Audit Commission Act 1998. The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable by law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

## **7. ENVIRONMENTAL IMPLICATIONS**

- 7.1 There are no environmental implications directly arising from this report.

## **8. HUMAN RESOURCES IMPLICATIONS**

- 8.1 There are no human resources implications directly arising from this report.

## **9. CRIME AND DISORDER IMPLICATIONS**

- 9.1 There are no crime and disorder implications directly arising from this report.

## **10. EQUALITIES IMPLICATIONS**

- 10.1 There are no equalities implications directly arising from this report.

## **11. CONCLUSIONS**

- 11.1 As part of the Annual Governance Report action plan, officers will work with the Grant Thornton auditors to agree an approach for accounting for venture capital and companies financing mandates.

### **FURTHER INFORMATION**

If there are any queries on this report or you require further information, please contact Selwyn Thompson, Group Manager Budget Strategy on 020 8314 6932.