



## Supplementary Guidance Note (SGN) 03

# Considering the impact of the Local Government Pension Scheme 2022 Triennial Valuation

Version issued on: 18 May 2023

### About Supplementary Guidance Notes

Supplementary Guidance Notes (SGNs) are prepared and published by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General (C&AG) who has power to issue guidance to auditors under Schedule 6 paragraph 9 of the Local Audit and Accountability Act 2014 (the Act).

SGNs are prepared and published when the C&AG wishes to address a particular issue, including setting out what the C&AG considers to be best professional practice in relation to that issue, having regard to the principles of proportionality and efficiency embodied by Chapter One of the 2020 Code of Audit Practice. SGNs are part of the full suite of Auditor Guidance Notes (AGNs) which as such constitute guidance to which local auditors must have regard under Section 20(6) of the Act. The guidance in SGNs supports auditors in meeting their requirements under the Act and the [Code of Audit Practice](#) published by the NAO on behalf of the C&AG.

The NAO also issues Weekly Auditor Communications (WACs) to local auditors to bring to their attention relevant information to support them in carrying out audit work. The firms that are local auditors under the Act may use WACs to update their own internal communications and reference tools.

SGNs are numbered sequentially and published on the NAO's website. Any new or revised SGNs are brought to the attention of local auditors through the WACs.

The NAO prepares Supplementary Guidance Notes (SGNs) solely to provide guidance to local auditors in interpreting the Code of Audit Practice made under the Local Audit and Accountability Act 2014. The contents of SGNs cannot be reproduced, copied or re-published by parties other than local auditors without permission from the NAO.

The SGNs are designed to assist local auditors in forming their own understanding of the requirements of the Code. Auditors are required to have regard to SGNs, which means that they must take into account the guidance issued by the NAO, and, if they decide not to follow it, they must give clear (in the sense of objective, proper, and legitimate) reasons within audit documentation as to why they have not followed the guidance. SGNs are in no way intended as a substitute for the exercise of the independent professional skill and judgement of a local auditor in deciding how to apply the NAO's guidance or when providing explanations as to why guidance has not been followed.

Local auditors should not assume that SGNs are comprehensive or that they will provide a definitive answer in every case.



This Supplementary Guidance Note is relevant to all local auditors of local public bodies covered by the Local Audit and Accountability Act 2014 and the [Code of Audit Practice](#) (the Code) including auditors of NHS foundation trusts but except for auditors of smaller authorities. Guidance on auditors' work on value for money arrangements is published in AGN 03, considerations when exercising additional powers is published in AGN 04 and reporting is published in AGN 07.

## Introduction and context

This SGN has been issued to provide additional guidance to support external auditors when considering the impact of the 31 March 2022 Triennial Valuation of the Local Government Pension Scheme (LGPS) on the balances reporting in financial statements for 2021-22 and earlier, where opinions on those statement have yet to be issued.

## Considering the impact of the 2022 LGPS Triennial Valuation

1. Auditors will be aware that the Triennial Valuation of the LGPS as at 31 March 2022 was recently published. Given that the valuation provides updated information on the position as at 31 March 2022 (for example in terms of scheme membership numbers), some auditors have queried how to assess the impact of the valuation on 2021-22 audits of admitted bodies where opinions have yet to be issued.
2. Where the updated information suggests that, in effect, actuaries now have updated information that may suggest material adjustment to previously prepared IAS 19 reports is required, auditors are considering whether to ask authorities to obtain updated IAS19 figures at 31 March 2022 and amend their accounts accordingly.
3. Such action would have a number of consequences in terms of delaying efforts to tackle the existing backlog of audit opinions (identified by PSAA Ltd as 632 at 30 November 2022 for PSAA-appointed audits), and placing additional burdens and costs on both local authorities and auditors to assess whether impacts may be numerically material and then obtain and audit updated figures.
4. The C&AG is keen to work with stakeholders across the system to identify proportionate solutions in support of a return to the timely production of audited financial statements. To that end and following consultation with the Director of Local Audit and colleagues at the Financial Reporting Council (FRC), the C&AG is issuing this Supplementary Guidance Note to local auditors carrying out work under the 2020 code of Audit Practice. The circumstances of every audit engagement vary, and professional judgement is critical in applying auditing standards in this and every case.
5. In particular, some auditors are questioning whether movements in membership data could have a material impact on balances reported as at 31 March 2022 and whether amendments are necessary as a result. With regard to this issue, auditors are reminded that movements in membership data would not normally be considered in the IAS 19 roll forward approach, which has always included an inherent element of uncertainty (quantified by PWC in their 2022 report as 2-3% per year (6-9% over three years). At the time of issue of this SGN, the draft final 2023 report has been circulated to local audit firms for comment. When published, it will be available on the LACG Extranet. Local auditors will be notified of its publication via the WAC.
6. Auditors will be aware that ISA(UK) 560: Subsequent Events requires the auditor to perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified. The auditor is not, however, expected to perform additional

audit procedures on matters to which previously applied audit procedures have provided satisfactory conclusions. In this case, auditors will be likely to have already performed audit procedures on net pension liabilities (or assets) and reached satisfactory conclusions.

7. Triennial valuations are prepared on a different basis to IAS 19 figures using differing discount rates, meaning the two are not directly comparable. As a result, and given this level of inherent uncertainty, the passage of time and the pressing need to eliminate the backlog of delayed audits, it would be disproportionate and of little or no benefit to users of the accounts to seek to reproduce and subsequently audit updated IAS19 figures at 31 March 2022.
8. Auditors should also note that the Chartered Institute of Public Finance and Accountancy (CIPFA) has published [CIPFA Bulletin 14 Supplement - The Triennial Valuation and IAS 19 Reporting](#). This considers the accounting implications of the triennial valuation of the LGPS being produced before auditors have provided their opinion on the 2021-22 financial statements. It provides additional information to assist local authorities in assessing the impact of the valuation and considering its materiality. Auditors may also find reference to the Addendum helpful when considering these matters.
9. We are aware that several local authorities have already obtained revised IAS 19 schedule of results to understand the reasons for any material changes and whether these are adjusting or non-adjusting events. Where this is the case, it may now be more cost effective to continue that approach.
10. **However, where revised IAS 19 figures have not been obtained, and with regard to any outstanding audits of 2021-22 financial statements involving LGPS related balances and figures reported in accordance with IAS 19, auditors should not seek to obtain revised figures unless there is clear evidence that information is now available that the actuary should have been aware of and incorporated into the IAS 19 reports when they were originally prepared. Examples of such events would include, but not be limited to, actuaries failing to update mortality assumptions to reflect the impact of COVID-19, or an authority failing to notify the actuaries of a large restructuring/redundancy programme at the time.**



## Other Support and Raising Technical Issues or Queries on this SGN

11. Auditors in firms should raise queries within the firm, in the first instance, so that the relevant technical support service can consider whether to refer queries to the NAO's Local Audit Code and Guidance (LACG) team by e-mailing [LACG.queries@nao.org.uk](mailto:LACG.queries@nao.org.uk).

12. Information supporting auditors is available on the LACG extranet. This includes details of third-party reports and information. Copies of referenced third party information and service auditor reports will also be available on the LACG extranet following issue. Updates will be communicated through the Weekly Auditor Communication (WAC). If there is a need for further statutory guidance during the year, the NAO may issue an addendum to this SGN.

13. The NAO also engages with the firms through its Local Auditors Advisory Group (LAAG) and supporting technical networks to consider any emerging regime-wide technical issues on a timely basis. Auditors should follow their in-house arrangements for bringing significant emerging issues to the attention of their supplier's representative on LAAG or the relevant technical network.