

<b>Committee(s):</b> Audit and Risk Management Committee – For decision	<b>Dated:</b> 22/11/2022
<b>Subject: 2020-21 City Fund and Pension Fund Statement of Accounts Approval</b>	<b>Public</b>
<b>Which outcomes in the City Corporation’s Corporate Plan does this proposal aim to impact directly?</b>	6/7
<b>Does this proposal require extra revenue and/or capital spending?</b>	<b>N</b>
<b>If so, how much?</b>	<b>N/A</b>
<b>What is the source of Funding?</b>	<b>N/A</b>
<b>Has this Funding Source been agreed with the Chamberlain’s Department?</b>	<b>N/A</b>
<b>Report of: The Chamberlain</b>	<b>For Decision</b>
<b>Report author: Neilesh Kakad, Chief Accountant</b>	

### Summary

Following the delay in approving the 2020-21 City Fund and Pension Fund Statement of Accounts we are now in a position to present the accounts for final review and approval. Whilst approval of the accounts was received by your Committee in November 2021, a late query regarding disclosures supporting the cashflow statement prevented final audit sign off. This was then further delayed by a national issue on the accounting of infrastructure assets arising, which meant all audit firms stopped issuing audit opinions until further guidance was issued by CIPFA/Govt.

This latter issue remains pending, with Govt consulting on a possible remedy at the time of writing. Due to this impending change, a final audit opinion has not been issued as audit firms await the outcome of the consultation to guide their opinion. However, the accounts are being presented for approval as our auditors, BDO, have completed their work aside from assessing the impact of this potential regulatory change, and therefore can provide their opinion on all but this one matter. Their audit completion reports can be found in appendix 2 and 3 of this report. The auditors annual report, which sets out the value for money conclusion, can be found in appendix 5.

An unqualified opinion will be issued on the accounts except for infrastructure assets. Subject to the current consultation this opinion would be extended to the whole accounts should a suitable regulatory change be agreed. If this isn’t agreed, we would expect an “except for” opinion to be issued, which would qualify this element of the accounts.

The key changes to the accounts from the previous circulation are:

1. Revision to note 32 supporting the cashflow statement, where the gross movements in investments i.e. sales and purchase amounts, are disclosed

rather than the net movement. This did not change the overall position on City Fund.

2. Incorporation of the Great Arthur House legal judgement where the City Corporation is no longer able to recover certain costs from leaseholders. This was previously disclosed as a contingent liability. This change reduced debtors by £3.4m, with the shortfall in historic capital funding being met from capital receipts.
3. The final version of the 2020-21 Annual Governance Statement has been incorporated.

### **Recommendation(s)**

The Audit and Risk Management Committee are asked to:

- Consider the content of BDO's audit completion reports;
- Recommend approval of the 2020-21 City Fund and Pension Fund Statement of Accounts to Finance Committee, acknowledging the outstanding issue regarding infrastructure assets is still to be resolved; and
- Delegate authority to the Chamberlain, in consultation with the Chairman and Deputy Chairman of the Audit and Risk Management Committee, approval of any material changes to the financial statements required before the signing including agreement of the final audit opinion to be issued linked to the resolution of the accounting of infrastructure assets.

## **Main Report**

### **Background**

1. The 2020-21 City Fund and Pension Fund Statement of Accounts were previously presented to your November 2021 Committee for approval with the expectation that final sign-off would be achieved in December 2021.
2. This process was delayed due to a late audit issue arising with respect to a disclosure note supporting the cashflow statement and a national technical accounting issue on the accounting of infrastructure assets. This latter issue meant all outstanding audits were prevented from being signed off until a resolution has been agreed, which is being led by the Chartered Institute of Public Finance and Accountancy (CIPFA) along with Govt.
3. The 2020-21 City Fund and Pension Fund audits have therefore remained open until these issues have been resolved.

### **Current Position**

4. Whilst there have been several timelines in which resolution of the infrastructure assets issue was to be resolved, agreement has yet to be reached on a way forward, with Govt currently consulting on a proposed solution which seeks to limit the need for disclosure changes and avoid mass qualification of local authority accounts (a copy of the consultation, which set out the issue and the proposed solution, can be found in appendix 4). As has been the case since this issue arose, audit firms are withholding audit opinions until clarity is reached on this issue.
5. Whilst awaiting this guidance, all other areas of audit work have been completed. A revised copy of the accounts can be found in appendix 1, with copies of BDO's audit completion reports for City Fund and the Pension Fund found in appendix 2 and 3 respectively. The auditors annual report, which set out in more detail the value for money conclusion for the year, is found in appendix 5. Colleagues from BDO will talk through these documents at the committee meeting.
6. From the version of the accounts previously presented to you in November 2021, 3 changes have been incorporated which are:
  - Revision to note 32 supporting the cashflow statement, where gross movements in investments i.e. sales and purchase amounts, are disclosed rather than the net movement. This did not change the overall position on City Fund.
  - Incorporating the impact of Great Arthur House judgement where the City Corporation is no longer able to recover certain costs from leaseholders. This was previously accounted for as a contingent liability. This change reduced debtors by £3.5m, with the shortfall in historic capital funding being met from capital receipts.

- The final version of the 2020-21 Annual Governance Statement has been incorporated into the document.
7. In all other respects the accounts are substantively as per those presented to you previously. The report submitted in November 2021 is included in the background papers which sets out the key movements within the accounts.
  8. The accounts are being presented to your Committee at this time to enable a quick resolution once we are clear on the approach to infrastructure assets. Whilst we await this guidance, review and approval at this stage will allow for:
    - Comment and queries on the accounts from the Committee to be addressed and any agreed amendments to be incorporated.
    - Comment and challenge on the work of BDO, which is largely complete.
    - Provide the required assurance to Finance Committee supporting sign off of the accounts, where delegate authority is in place to complete this process.
    - Enable the full engagement of our new City Fund and Pension Fund auditors, Grant Thornton, who are dependent on the 2020-21 audit being completed before starting their work on 2021-22.
  9. With respect to the audit work completed to date, an unqualified opinion is to be issued. However, this opinion may alter subject to the outcome of the current discussions regarding infrastructure assets. Should the current proposal be agreed as set out in appendix 4, the unqualified opinion would be extended to the whole of the accounts, with a minor presentational change required of the infrastructure asset numbers.
  10. Should this change not be agreed, continuing the delay in concluding the audit, the option of an “except for” audit opinion would be explored where an unqualified opinion on the accounts would be given except for the area of infrastructure assets, where a qualified opinion would be reached.
  11. Whilst not ideal, this would allow us to move on from the current stalemate and enable Grant Thornton to fully take on their role as our new auditor, allowing this issue to be managed through the engagement of one auditor across the medium term.

## **Conclusion**

12. It is proposed that approval of the 2020-21 City Fund and Pension Fund Statement of Accounts be recommended to Finance Committee, acknowledging the pending resolution of the infrastructure asset issue, with delegation to the Chairman and Deputy Chairman to agree the final position on this issue once guidance is published.

## **Corporate & Strategic Implications**

Strategic implications – none

Financial implications - none

Resource implications - none

Legal implications - none

Risk implications - none

Equalities implications – none

Climate implications - none

Security implications - none

## **Appendices**

- Appendix 1 – 2020-21 City Fund and Pension Fund Statement of Accounts A&RM 2022.
- Appendix 2 – City Fund audit completion report (*to follow*)
- Appendix 3 – Pension Fund audit completion report
- Appendix 4 – DLUHC consultation on infrastructure accounting remedy
- Appendix 5 – 2020-21 Auditors Annual Report (*to follow*)

## **Background Papers**

City Fund and Pension Fund Statement of Accounts 2020-21 (A&RM paper November 2021)

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