

The Audit Findings Report City of London Pension Fund

Year ended 31 March 2022

March 2023



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of City of London Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Our audit work was completed on site/remotely during November 2022 – February 2023. Our findings are summarised on pages 4 to 12. We have identified no adjustments to the financial statements that have resulted in an adjustment to the Pension Fund's reported financial position. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters;

- completion of the 2020/21 financial statements audit by your predecessor auditor and our review of their workpapers;
- completion of planning procedures – awaiting responses to the enquiries sent to management;
- final manager, and partner review of the audit file and resolution of any residual queries arising;
- receipt of management representation letter;
- review of the Annual report; and
- review of the final set of financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and will be discussed with the Audit and Risk Management Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the completion of the following items:

- completion of the 2020/21 financial statements audit by your predecessor auditor and our review of their workpapers;
- completion of planning procedures – awaiting responses to the enquiries sent to management;
- review of IT General Controls for the Altair system;
- final manager, and partner review of the audit file and resolution of any residual queries arising;
- receipt of management representation letter;
- review of the Annual report; and
- review of the final set of financial statements.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

2. Financial Statements



Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan on 16 January 2023.

We detail in the table below our determination of materiality for City of London Pension Fund.

	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	13,881,000	This represents 1% of the Net Assets reported at 31 March 2022.
Performance materiality	9,716,700	This represents 70% of the Materiality threshold above.
Trivial matters	694,000	This represents 5% of the overall materiality.



2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
<p>Management override of controls</p> <p>Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Pension Fund faces external scrutiny of its spending and its stewardship of its funds, this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for the Pension Fund, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> • Evaluated the design effectiveness of management controls over journals. • Analysed the journals listing and determine the criteria for selecting high risk unusual journals. • Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • Gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence. • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>Our work to date has not identified any issues except for the ongoing control deficiency identified in 2020/21 financial statements audit by the predecessor auditor. We will update the Audit and Risk Management Committee of our findings on completion of our work.</p>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of Level 3 investments

You value your investments on an annual basis with the aim of ensuring that the carrying value of these investments is not materially different from their fair value at the balance sheet date.

By their nature, Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (PY: £189m) and the sensitivity of this estimate to changes in key assumptions.

Under ISA 315, significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.

We therefore have identified Valuation of Level 3 Investments as a significant risk.

We have:

- evaluated management's processes for valuing Level 3 investments and gain an understanding over the role of the custodian in the valuation process;
- reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met;
- independently requested year-end confirmations from investment managers and the custodian;
- for the private equity (£34.1m) and infrastructure funds (£68.7m), obtained audited financial statements for the investments as at 31 December 2021 and we have reconciled any cash movements between the intervening period to 31 March 2022. 89% of the private equity funds and 100% of the infrastructure funds were tested;
- performed additional testing for the full pooled property investments (£101.1m) by using indices obtained externally to benchmark against those used by the Fund Manager. The indices reports we have used are from Gerald Eve and from the GT Real Estates Team;
- evaluated the competence, capabilities and objectivity of the valuation expert; and
- review investment manager service auditor report on design and operating effectiveness of internal controls.

Our audit work has not identified any issues in respect of the valuation of Level 3 investments.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – £203.9m	<p>The Pension Fund has investments in the following:</p> <ul style="list-style-type: none"> Infrastructure funds that in total are valued on the balance sheet as at 31 March 2022 at £68.7m; Private equity funds that in total are valued on the balance sheet as at 31 March 2022 at £34.1m; and Pooled property investments that in total are valued on the balance sheet as at 31 March 2022 at £101.1m; <p>Management have reviewed the year end valuations provided by the Fund Managers and have treated them as management experts. These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs.</p> <p>The value of the investment has increased by £14.9m from 2020/21, largely due to the increase in Pooled property investments by £12.9m in year.</p>	<p>From the procedures undertaken:</p> <ul style="list-style-type: none"> We have deepened our risk assessment procedures performed including understanding processes and controls around the valuation of Level 3 investments. We have obtained audited accounts for all Infrastructure and Private Equity funds and are satisfied that the movements between 31 December 2021 and 31 March 2022 are reconciled to appropriate and known movements in the intervening period. We have performed additional testing for pooled property investments by using indices obtained externally to benchmark against those used by the Fund Manager. We are satisfied that the method, data and assumptions used by management to derive the accounting estimate is appropriate. We are satisfied that the disclosure of the estimate in the Fund's financial statements is sufficient. We have reviewed the accounting policies and valuation techniques stipulated within the financial statements and these are in line with expectations. <p>Our audit work has not identified any issues in respect of the valuation of Level 3 investments.</p>	Light Purple

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £1,165m	<p>The Pension Fund have investments in pooled funds that in total are valued on the balance sheet as at 31 March 2022 at £1,165m, which is an increase of £60m from 2020/21.</p> <p>The underlying investments are traded on an open exchange/market although the pooled valuation of the investment is subjective.</p> <p>The Fund obtains valuations from the fund manager and custodian to ensure that valuations are materially fairly stated.</p>	<p>From the procedures undertaken:</p> <ul style="list-style-type: none"> We have reviewed the estimation process for the Level 2 investments and are satisfied that these are in line with industry standards. We have compared the valuations provided by the fund managers with the custodian and are satisfied that there are no significant differences in the valuations. We have reviewed the accounting policies and valuation techniques stipulated within the financial statements and these are in line with expectations. <p>Our audit work has not identified any issues in respect of the valuation of Level 2 investments.</p>	Light purple

Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Risk Management Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation will be requested from the Pension Fund to be signed alongside the final draft of the financial statements in advance of the conclusion of the audit.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to your custodian, fund managers and banks. This permission was granted and the requests were sent.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements subject to review of the senior management.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements



Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Pension Fund and the environment in which it operates the Pension Fund's financial reporting framework the Pension Fund's system of internal control for identifying events or conditions relevant to going concern management's going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Disclosures	No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We expect to issue our 'consistency' opinion on the Pension Funds Annual Report alongside the opinion of the financial statements.



3. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

3. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following non-audit services were identified which were charged from the beginning of the financial year to February 2023 as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Non-audit Related			
IAS19 Assurance letters for Admitted Bodies	7,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,000 in comparison to the total fee for the audit of £35,000 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Risk Management Committee. None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 4 recommendations for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2022/23 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	<p>Timeliness of revocation of user access in Oracle EBS.</p> <p>For a sampled leaver in Oracle EBS, it was identified that their access to the system was revoked six days after their termination date.</p> <p>Additional procedures verified that the user had not accessed the system since their termination date.</p> <p>Risk</p> <p>Where system access for leavers is not disabled in a timely manner, there is a risk that former employees will continue to have access and can process erroneous or unauthorised access transactions. There is also a risk that these accounts may be misused by current system users to circumvent internal controls.</p>	<p>It is recommended that for all leavers, logical access to Oracle EBS is disabled on their leave date. Where this is not possible, access should be disabled no later than the next working day. This will help prevent unauthorised access to the network, applications and underlying data.</p> <p>Management response</p> <p>The Oracle Team currently receive a weekly leavers list from HR - the leavers on the HR report have to be compared to a list of Oracle users, in order to identify which leavers have an Oracle user account that requires action.</p> <p>This list is actioned on the same day as it is received - leavers' responsibilities are removed to prevent them from using Oracle until their user account can be closed, during which time only their Worklist remains accessible which shows notifications such as approvals for Requisitions/POs, unmatched Aps and AP Invoice Price Variances. If we are made aware (by other means) that a person is due to leave in the future, we place a future end date on their responsibilities.</p> <p>The closing of the user account itself necessarily takes longer as there are a number of steps, starting with the employee account, that have to be made before the user account can be closed.</p> <p>The processing of a daily HR leavers list would be quite onerous and the removal of responsibilities largely mitigates the risk until the user account can be closed.</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	<p>Management of generic database administrator accounts.</p> <p>Whilst the passwords for privileged generic accounts for both the Oracle EBS application and supporting Oracle database are held in a KeePass password manager, we were unable to verify whether access to the password manager is restricted to the DBA team as it is held in a shared network drive.</p> <p>Risk</p> <p>Without effective restriction of access to the passwords for privileged generic accounts, the misuse of such accounts could result in financial data being changed or deleted without authorisation, impacting on its completeness and accuracy</p>	<p>Management should implement suitable controls to restrict access to the KeePass password manager.</p> <p>This could be through limiting access (i.e. a specific network folder or SharePoint site) to the KeePass password manager to only authorised members of the DBA team.</p> <p>Management response</p> <p>The password database is itself password protected so regardless of where it lives on the network only persons who know the password (the current 3 dbas) have the ability to open it.</p> <p>The password database has now been moved to the DBA SharePoint site..</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements

B. Follow up of prior year recommendations

The predecessor auditor identified the following issues in the audit of City of London Pension Fund's 2020/21 financial statements, which resulted in 4 recommendations being reported in our 2020/21 Audit Findings report. We have followed up on the implementation of our recommendations and note 1 is still to be completed. Our work on the other two open recommendations are ongoing and as such, we are not able to conclude on this.

Assessment

- ✓ Action completed
- X Not yet addressed

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	Journals authorisation The predecessor auditor has identified that there is no evidence is retained in the management's review of journals.	As part of our journals testing, we have determined that this is not resolved. For all journals where individual lines are over £100k, this is flagged retrospectively by the system provider and shared with the approver automatically via email for their approval. However, we have not been able to obtain documentation to confirm the implementation of this control where the approver has confirmed their authorisation of the journal lines. We recommend that this control is documented by the approver for a clear audit trail.
X	Bank Reconciliation The prior year ISA 260 report (unsigned version) includes the following deficiency on the Pension Fund's bank reconciliation process. There is an unexplained £15 in the bank reconciliation at year end. Bank reconciliation is a key control for good financial governance. All reconciling differences should be investigated in a timely manner.	We have performed our review of the bank reconciliation prepared for 2021/22 but this is subject to senior management review and therefore, cannot be concluded.
✓	Oracle EBS - CBIS – IT General Controls The prior year ISA 260 report (unsigned version) includes 7 deficiencies in relation to the Oracle EBS – CBIS identified as part of the IT General Controls work.	We have engaged Grant Thornton's IT audit team to complete a review of the Oracle EBS system and their findings are listed within pages 17 to 18.
X	Altair – IT General Controls The prior year ISA 260 report (unsigned version) includes 5 deficiencies in relation to the Altair system identified as part of the IT General Controls work.	For 2021/22, this review is ongoing and currently cannot be concluded.

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
Management and Financial Performance Report	<p>Scheme administration report paragraph states that there are 4,6729 active members. This should read 4,729 to be consistent with Note 1.</p> <p>Management response</p> <p>Paragraph was amended as requested.</p>	✓
Management expenses	<p>Disclosure includes audit fees of £21,500 that have been charged to the Pension Fund, with the fee relating to 20/21 audit. Per the CIPFA code, the Pension Fund is required to accrue for the audit fee (par 3.4.4.1.7). This would be the audit fee per the audit plan of £35,000 for 2021/22.</p> <p>Management response</p> <p>We do not accrue for audit fees as the audit had not yet taken place. Instead, we have included a sentence about the amount that will be payable in respect to the 2021-22 audit. Note that when the 2021-22 accounts were being produced, we did not have an auditor appointed and therefore did not know what the fee would be.</p>	✓

D. Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee	Indicative Final fee
Pension Fund Audit	£35,000	£35,000
Total audit fees (excluding VAT)	£35,000	£35,000

Non-audit fees for other services	Proposed fee	Final fee
IAS19 Assurance letters for Admitted Bodies	£7,000	£7,000
Total non-audit fees (excluding VAT)	£7,000	£7,000

