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| <b>Committee(s):</b><br>Audit and Risk Management Committee – For information<br>Finance Committee – For information<br>Pensions Committee – For Information | <b>Dated:</b><br>06/11/2023<br>08/11/2023<br>21/11/2023 |
| <b>Subject:</b> City Fund and Pension Funds Statement of Accounts Update   | <b>Public</b>   |
| <b>Which outcomes in the City Corporation’s Corporate Plan does this proposal aim to impact directly?</b>  | <b>N/A</b>  |
| <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:</b> The Chamberlain  | <b>For Information</b>                                  |
| <b>Report author:</b> Daniel Peattie, Assistant Director – Strategic Finance   |   |

### Summary

This report provides an update on the audit of the 2020-21 and 2021-22 Statement of Accounts, and the publication and audit of the 2022-23 Statement of Accounts.

### Recommendations

The **Audit and Risk Management** Committee is asked to:

- **Note** the progress made on the 2020-21 Statement of Accounts.
- **Consider** the Audit Findings Report for the City Fund 2021-22 as set out in Appendix 3.
- **Consider** the Audit Findings Report 2021-22 for the Pension Fund as set out in Appendix 4.
- **Consider** the Audit Progress Report for the City Fund 2022-23 as set out in Appendix 6.
- **Consider** the Audit Findings Report for the Pension Fund 2022-23 as set out in Appendix 7.
- **Note** the responses from Management as per Appendix 8 and Appendix 9.

The **Finance Committee** is asked to:

- **Note** the progress made on the 2020-21 accounts.
- **Consider** the Audit Findings Report for the City Fund 2021-22 as set out in Appendix 3.
- **Consider** the Audit Findings Report 2021-22 for the Pension Fund as set out in Appendix 4.
- **Consider** the Audit Progress Report for the City Fund 2022-23 as set out in Appendix 6.
- **Consider** the Audit Findings Report for the Pension Fund 2022-23 as set out in Appendix 7.
- **Note** the responses from Management as per Appendix 8 and Appendix 9.

The **Pensions Committee** is asked to:

- **Note** the progress made on the 2020-21 Statement of Accounts.
- **Consider** the Audit Findings Report 2021-22 for the Pension Fund as set out in Appendix 4.
- **Consider** the Audit Findings Report for the Pension Fund 2022-23 as set out in Appendix 7.
- **Note** the responses from Management as per Appendix 9.

## **Main Report**

### **Background**

1. In the last Committee meeting of September 2023, an overview of the City Fund and Pension Fund accounts was presented, encompassing the following key points:

#### 2020-21 Accounts

2. The 2020-21 City Fund and Pension Fund accounts were submitted to the Audit and Risk Management Committee in November 2021 and later to the Finance Committee in December 2021 for approval. Despite minor unresolved matters, the audit was largely completed. The Chamberlain, in consultation with the Finance Committee Chairman and Deputy Chairman, was delegated the authority for final sign-off.
3. Delays occurred due to a late audit issue related to a disclosure note supporting the cashflow statement and a national technical accounting concern regarding infrastructure asset accounting. Resolution came with the release of temporary accounting code variations by CIPFA in January 2023.

#### 2021-22 Accounts

4. The audit of the draft 2021-22 accounts commenced in November 2022. Revisions were necessary in February 2023 to address technical matters concerning infrastructure assets. By the time of the last update, 90% of the audit samples had been cleared by auditors.
5. Outstanding items included completing the 2020-21 accounts audit by previous auditors BDO, concerns about the appropriateness of accounting treatment for lease premia (£176.9m), and addressing the impact of the latest triennial valuation of the pension fund on the City Corporation's pension fund liabilities.
6. The City Corporation commissioned updated actuarial reports to assess the impact of the triennial valuation on the City Corporation's pension fund liability. This assessment indicated a £37.8m change in the value reported on the balance sheet. Due to the significant movement, the accounts needed to be restated. A working paper demonstrating the impact and the affected areas of the accounts was shared with the auditors. External audit procedures were undertaken to validate this conclusion using underlying data.
7. Updated actuarial reports for the Pension Fund itself were commissioned and were expected imminently.

8. The issue concerning the accounting for lease premia was largely resolved, and the City Corporation's approach was agreed upon. The auditors were in the final stages of their work in this area.
9. With the majority of the work on the 2021-22 audit completed and the 2020-21 audit opinion expected in the coming weeks, it was anticipated that Grant Thornton would be able to issue their audit opinion on the 2021-22 accounts by the end of September 2023. The Chamberlain, in consultation with the Finance Committee Chairman and Deputy Chairman, was delegated the authority for final sign-off.

#### 2022-23 Accounts

10. The audit of the 2022-23 accounts was set to commence in September 2023. Grant Thornton's work plan for this audit of the City Fund and Pension Fund Accounts for 2022-23 was presented as a separate agenda item for the Audit and Risk Management Committee meeting on 11th September 2023.

### **Current Position**

#### 2020-21 Accounts

11. The latest version of the 2020-21 City Fund and Pension Fund accounts are included in Appendix 1 of this report. Apart from some minor changes to wording, this revised version incorporates one significant change to the version of the accounts last presented to Committee in November 2021:
  - Reclassification of creditors (£91.3m) – balances owed to Central Government in respect of S31 Grant for NNDR reliefs were incorrectly recognised as short-term creditors in 2020-21. These monies should have been recognised as Grants and Contributions Received in Advance. This error has been rectified in the revised financial statements and is purely a reclassification with no impact on the overall City Fund position.
12. Currently, the 2020-21 City Fund and Pension Fund accounts are undergoing BDO's internal quality review process, there have been significant delays due to:
  - a. BDO moving onto NHS audit work and not having the resources to finalise their audit opinion;
  - b. Subsequent delays have meant, queries raised by Grant Thornton during 2021/22 and 2022/23 audit work has led to further work on 2020/21.
13. As a consequence of the above, the auditors have now raised concerns around the potential impact of Reinforced Autoclaved Aerated Concrete (RAAC) on any of the assets owned by the Corporation. The Corporation have initiated a comprehensive evaluation of properties constructed with RAAC. This evaluation involved meticulous desktop exercises, visual inspections, and consultant evaluations to identify structures potentially affected by the RAAC issue.
14. As of October 2023, the inspections related to RAAC have not necessitated adjustments to the carrying amounts of property, plant, and equipment included in these financial accounts. The assessment revealed no immediate need for

impairment or significant adjustments related to the RAAC issue. The inspection process is ongoing, and further evaluations may potentially lead to adjustments.

15. Audit sign-off is anticipated by the end of October, contingent upon the outcome of ongoing evaluations.

#### 2021-22 Accounts

16. The revised version of the 2021-22 City Fund and Pension Fund Statement of Accounts can be found in Appendix 2. This revised version incorporates six significant changes identified during the audit of the accounts:

- Balance sheet misstatement (£30m) - It was identified that the Balance sheet was misstated with Grants Received in Advance having a typo and being misstated by £30m.
- Pension liability (£37.8m) – the pension liability in the draft 2021-22 accounts was based on the triennial valuation carried out at 31 March 2019, which was the latest information available at the time. However, since publication of the draft accounts, the valuation at 31 March 2022 became available. As a result, the auditors requested revised reports, detailing what impact this updated information had on the net pension liability disclosures at 31 March 2022. The updated information highlighted a reduction in the net liability of £37.8m. This also meant that the pension schemes note relating to the LGPS scheme required updating.
- Overstatement of debtors and creditors (£2m) – this was due to coding errors when an error relating to a PO was incorrectly adjusted to the wrong Balance sheet code.
- Lease premiums (£47m) – lease premium accounting principles incorrectly applied to two key items. This resulted in an increase to the Investment property valuations by £47m. The impact of this is to increase the Authority's asset base but due to statutory accounting does not impact the City Fund balance.
- Reclassification of creditors (£131.9m) – balances owed to Central Government in respect of S31 Grant and CARF monies were incorrectly recognised as short-term creditors in 2021/22. These monies should have been recognised as Grants and Contributions Received in Advance. This error has been rectified in the revised financial statements and is purely a reclassification with no impact on the overall City Fund position.
- Revenue Expenditure Financed by Capital Under Statue (REFCUS) correction (£21m) – A review of the EFA and depreciation charges identified that £21m of REFCUS expenditure had been erroneously included within the depreciation, amortisation and impairments line in the Income and Expenditure analysed by nature disclosure note. This error has been rectified in the revised financial statements and is purely a reclassification with no impact on the overall City Fund position.

17. The majority of the audit work has been completed, and the findings have been incorporated into this version. However, as of the latest update, Grant Thornton (GT) are in the midst of their final review process and are awaiting the conclusion of the 2020-21 audit by BDO before they can conclude the 2021-22 audit.

18. The audit findings reports for 2021-22 are available in Appendices 3 and 4 (for the City Fund and Pension and respectively). GT will present a comprehensive overview during the Committee meeting. It is expected that an unqualified opinion will be issued based on the work conducted up to this point.

#### 2022-23 Accounts

19. The updated version of the 2022-23 City Fund and Pension Fund Statement of Accounts is provided in Appendix 5. This revised version incorporates three significant changes identified during the audit of the published accounts:

- Lease premiums (£224m) – during the audit of the 2021-22 accounts, the auditors raised concerns about the appropriateness of the accounting treatment applied to lease premia by the Corporation. At that point in time officers did not have access to sufficient information to satisfy the auditors concerns and therefore the lease premium adjustments were removed from the 2022-23 accounts that were published. However, upon further investigation, officers were able to provide the auditors with detailed justification of the previous accounting treatment and therefore the lease premium adjustments have now been added back in this version of the accounts.
- Reclassification of creditors (£57m) – balances owed to Central Government in respect of S31 Grant and CARF monies were incorrectly recognised as short-term creditors in 2021-22. These monies should have been recognised as Grants and Contributions Received in Advance. This error has been rectified in the revised financial statements and is purely a reclassification with no impact on the overall City Fund position.
- REFCUS correction (£4.6m) – During the preparation of the accounts for City's Cash, officers identified that £4.6m of REFCUS expenditure relating to City's Cash had been incorrectly recognised in the City Fund accounts and were financed from the Major Projects Reserve. This error has been rectified in the revised financial statements and has resulted in an increase in a £4.6m increase in the Major Projects Reserve balance.

20. The audit process commenced in September 2023 for City Fund and is progressing smoothly. Auditors have noted significant improvements since the audit of the 2021-22 accounts. It is expected that the majority of the fieldwork will be completed by date of the Committee meeting, indicating a positive pace in the audit proceedings. The audit of the Pension Fund accounts commenced in August 2023 and has been successfully concluded, with only minor changes required, detailed in Appendix 7.

21. As part of their audit procedures, the auditors have engaged in a series of inquiries with the management regarding various aspects such as fraud and compliance with laws and regulations. The responses to these inquiries are presented in Appendices 8 and 9 (for the City Fund and the Pension Fund respectively) for your review. Members are encouraged to take note of these responses and provide any additional comments for further consideration.

### **Corporate & Strategic Implications**

22. Strategic implications – There are no specific links to the Corporate Plan. However, the accounts assist the City Corporation in maintaining a clear and transparent dialogue regarding its activities with residents and other stakeholders.

## **Conclusion**

23. At present, there are no remaining queries regarding the 2020-21 accounts. The external auditor is conducting final reviews of the Statement of Accounts, and an audit opinion is expected to be issued by BDO by the end of October.

24. The 2021-22 audit has now reached substantial completion. It is expected that an unqualified opinion will be issued based on the work conducted up to this point.

## **Daniel Peattie**

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## **Appendices**

- Appendix 1 – Revised City Fund Accounts 2020-21
- Appendix 2 – Revised City Fund Accounts 2021-22
- Appendix 3 – City Fund Audit Findings Report 2021-22 (only for A&RM and Finance Cttees)
- Appendix 4 – Pension Fund Audit Findings Report 2021-22
- Appendix 5 – Revised City Fund Accounts 2022-23
- Appendix 6 – City Fund Audit Progress Report 2022-23 (only for A&RM and Finance Cttees)
- Appendix 7 – Pension Fund Audit Findings Report 2022-23
- Appendix 8 – Enquiries of Management (City Fund) 2022-23 (only for A&RM and Finance Cttees)
- Appendix 9 – Enquiries of Management (Pension Fund) 2022-23

## **Background Papers**

- Audit and Risk Management Committee – Tuesday 30<sup>th</sup> November 2021 – Item 4: City Fund and Pension Fund Statement of Accounts 2020-21
- Finance Committee – Tuesday 7<sup>th</sup> December 2021 – Item 9: 2020-21 City Fund and Pension Fund Statement of Accounts
- Finance Committee – Tuesday 25<sup>th</sup> January 2022 – Item 15a: City Fund Accounts
- Finance Committee – Tuesday 20<sup>th</sup> September 2022 – Item 7: 2020-21 City Fund and Pension Fund Statement of Accounts – Delegation of Approval
- Audit and Risk Management Committee – Tuesday 22<sup>nd</sup> November 2022 – Item 6: 2020-21 City Fund and Pension Fund Statement of Accounts Approval
- Audit and Risk Management Committee – Monday 16<sup>th</sup> January 2023 – Item 9: City Fund Audit Progress report and sector update

- Audit and Risk Management Committee – Monday 13<sup>th</sup> March 2023 – Item 7: Auditor’s Annual Report on the City of London Corporation: City Fund
- Audit and Risk Management Committee – Monday 13<sup>th</sup> March 2023 – Item 15a: Audit Progress Report
- Audit and Risk Management Committee – Monday 13<sup>th</sup> March 2023 – Item 15b: Audit Findings Report: Pension Fund
- Audit and Risk Management Committee – Monday 11<sup>th</sup> September 2023 – Item 7: City Fund and Pension Fund Statement of Accounts Update
- Audit and Risk Management Committee – Monday 11<sup>th</sup> September 2023 – Item 8: City Fund and Pension Fund Audit Plan 22-23
- Finance Committee – Tuesday 19<sup>th</sup> September 2023 – Item 8: City Fund and Pension Fund Statement of Accounts Update