

Committee(s): Audit and Risk Management Committee – For decision	Dated: 26/02/2024
Subject: City Fund Statement of Accounts Update	Public
Which outcomes in the City Corporation’s Corporate Plan does this proposal aim to impact directly?	N/A
Does this proposal require extra revenue and/or capital spending?	N
If so, how much?	N/A
What is the source of Funding?	N/A
Has this Funding Source been agreed with the Chamberlain’s Department?	N/A
Report of: The Chamberlain	For Decision
Report author: Daniel Peattie, Assistant Director – Strategic Finance Liton Rahman, Interim Chief Accountant	

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.

The audited 2022-23 Statement of Accounts are presented in appendix 1 for approval. This reflects all changes agreed with the auditors at the time of submitting this report.

Recommendation(s)

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

- **Recommend** approval of the 2022-23 Statement of Accounts to Finance Committee.
- **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 of the audit opinion by Grant Thornton, which is expected on 26th February 2024.
- **Consider** the Audit Progress Report for the City Fund 2022-23 as set out in Appendix 2.
- **Consider** the Auditor’s Annual Audit Report 2022-23 as set out in Appendix 3.

Main Report

Background

1. The update provided to the committee on 6th November 2023 highlighted significant progress and ongoing challenges in the audit and financial reporting processes for the City Fund and Pension Fund accounts. Since then, here are the key points summarised from that update:

Prior year accounts

2. Revised versions of the 2020-21 and 2021-22 accounts, incorporating all agreed changes were presented to the Committee and sign off was expected imminently.

2022-23 Accounts

3. Significant changes were identified during the audit, including adjustments related to lease premiums, reclassification of creditors, and corrections in revenue expenditure funded by capital under statute (REFCUS).
 - 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.
4. Audit processes were progressing smoothly, with significant improvements noted since the previous audit cycle.
5. Auditors engaged in inquiries regarding fraud and compliance with laws and regulations.
6. Overall, the update highlighted both progress and challenges in the audit and financial reporting processes, with efforts ongoing to address outstanding issues

and ensure accurate and timely reporting for both the City Fund and Pension Fund accounts.

Current Position

Prior year accounts

7. The 2020-21 City Fund and Pension Fund accounts were signed off by the auditors on 8th November 2023, with an unqualified opinion. These accounts, unchanged from the version presented to the Committee on 6th November 2023, have been published on the Corporation's website.
8. The 2021-22 City Fund and Pension Fund accounts were officially signed off by auditors on 7th December 2023, with an unqualified opinion. There have been no material changes since the version presented to the committee on 6th November 2023. These accounts have been promptly published on the Corporation's website.

2022-23 Accounts

9. The updated version of the 2022-23 City Fund and Pension Fund Statement of Accounts is provided in Appendix 1. This revised version incorporates the following significant changes identified during the audit of the published accounts and results in a total decrease in Total Comprehensive (Income) and Expenditure, including the adjustments mentioned above, of £36.6m (from -£777.6m to -£741.0m):
 - Community Infrastructure Levy (£3.2m) – the Code states that CIL income accrues to the billing authority on the commencement date of the development. However, past practice has been to record the CIL income on the date when invoice was raised instead of the date when income accrued which is not consistent with the Code. This has resulted in £3.2m increase in the balances held as capital grants unapplied in 2022-23 with a total increase of £10.6m since the introduction of CIL.
 - Barbican Library (£1.8m) – the Barbican library was a double counted asset in the Fixed Asset Register. The asset was sitting against one asset code at its prior year depreciated value of £1,8m, but also on a different code at its revalued amount.
 - New Spitalfields Market (£2.8m) – the revaluation of the 'New Spitalfields Market' asset was not recorded and was being held at the prior year value less depreciation. The asset should have been valued at £50m to be in-line with the valuation report but was being held at £52.8m, resulting in an overstatement to OLB of £2.8m.
 - Central Criminal Court (£20.4m) – the value of the Court in the Fixed Asset Register does agree to the valuation report, however the value of the asset was not split accordingly between City Fund and City's Estate resulting in an overstatement in the value held by City Fund.
 - Suspense Account (£2.6m) – during testing of debtors, the auditors identified 2 instances where debtors held at year end were not removed upon receipt of payment. As a result, debtors were overstated, and cash

understated by £2.6m. Following further investigation of the error, the auditors gained understanding that these were isolated cases due unallocated funds managed in a suspense account.

- Salisbury Square (£17.1m) – costs in relation to Investment Properties transferred to Property, Plant and Equipment had not been derecognised in the Fixed Asset Register resulting in an overstatement of Investment Properties held on the balance sheet.

Corporate & Strategic Implications

10. 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

11. At present, there are no further queries remaining regarding the 2022-23 accounts. Having provided their Audit Findings Report and Value for Money Opinion, the external auditor is conducting final reviews of the Statement of Accounts, and an unqualified audit opinion is expected to be issued by GT by the end of February.

12. Should any material adjustments to the statement of accounts be required before that position is reached, it is recommended that authority to approve such amendments should be delegated to the Chamberlain in consultation with the Chairmen and Deputy Chairmen of the Audit and Risk Management and Finance Committees.

Appendices

- Appendix 1 – Revised City Fund Accounts 2022-23
- Appendix 2 – City Fund Audit Findings Report 2022-23
- Appendix 3 – Auditor's Annual Audit Report 2022-23

Background Papers

Audit and Risk Management Committee – Tuesday 30th November 2021 – Item 4: City Fund and Pension Fund Statement of Accounts 2020-21

Finance Committee – Tuesday 7th December 2021 – Item 9: 2020-21 City Fund and Pension Fund Statement of Accounts

Finance Committee – Tuesday 25th January 2022 – Item 15a: City Fund Accounts

Finance Committee – Tuesday 20th September 2022 – Item 7: 2020-21 City Fund and Pension Fund Statement of Accounts – Delegation of Approval

Audit and Risk Management Committee – Tuesday 22nd November 2022 – Item 6:
2020-21 City Fund and Pension Fund Statement of Accounts Approval

Audit and Risk Management Committee – Monday 16th January 2023 – Item 9: City
Fund Audit Progress report and sector update

Audit and Risk Management Committee – Monday 13th March 2023 – Item 7:
Auditor’s Annual Report on the City of London Corporation: City Fund

Audit and Risk Management Committee – Monday 13th March 2023 – Item 15a:
Audit Progress Report

Audit and Risk Management Committee – Monday 13th March 2023 – Item 15b:
Audit Findings Report: Pension Fund

Audit and Risk Management Committee – Monday 11th September 2023 – Item 7:
City Fund and Pension Fund Statement of Accounts Update

Audit and Risk Management Committee – Monday 11th September 2023 – Item 8:
City Fund and Pension Fund Audit Plan 22-23

Finance Committee – Tuesday 19th September 2023 – Item 8: City Fund and
Pension Fund Statement of Accounts Update

Audit and Risk Management Committee – Monday 6th November 2023 – Item 9: City
Fund and Pension Funds Statement of Accounts Update

Finance Committee – Wednesday 8th November 2023 – Item 9: City Fund and
Pension Funds Statement of Accounts Update

Daniel Peattie

Assistant Director – Strategic Finance

E: daniel.peattie@cityoflondon.gov.uk

Liton Rahman

Interim Chief Accountant

E: liton.rahman@cityoflondon.gov.uk