



## London Borough of Enfield

<b>Report Title</b>	External audit update
<b>Report to</b>	Pension, Policy & Investment Committee (PPIC)
<b>Date of Meeting</b>	02 October 2024
<b>Cabinet Member</b>	Cllr Tim Leaver
<b>Executive Director / Director</b>	Fay Hammond
<b>Report Author</b>	Ravi Lakhani (Head of Pension Investments). Ravi.Lakhani@enfield.gov.uk
<b>Classification</b>	Part 1 Public

### Purpose of Report

1. To provide PPIC members with an update on the external audit of the Pension Fund.

### Recommendations

2. The Committee are asked to note the contents of the report.

### Background

3. All Pension Funds and administering authorities in the UK are required to have an external audit of their accounts.
4. The Pension Fund accounts in England are published alongside the administering authority. Enfield Pension Fund accounts are therefore published alongside the London Borough of Enfield Council accounts who are the administering authority for the Pension Fund.
5. The Statement of Accounts cover financial years from 1<sup>st</sup> April through to 31<sup>st</sup> March for any particular year. Draft accounts are to be published by 31 May of that year. Published audited accounts have had varying deadlines from September to November over the past few years that are as a result of the COVID-19 pandemic.

## External audit delays

6. Since 2019/20 there have been numerous delays to the external audit of Local Government accounts and where relevant the associated Pension Fund accounts.
7. The reasons for this include:
  - **Staff Shortages:** There has been a significant net loss of qualified auditors, with many leaving the sector.
  - **Increased Complexity:** The complexity of local government accounts has increased, requiring more time and expertise to audit.
  - **COVID-19 Impact:** The pandemic exacerbated existing issues, causing further delays.
  - **Regulatory Changes:** Changes in audit deadlines and requirements have also contributed to the backlog.
  - **Capacity Constraints:** Both local auditors and local government bodies face capacity constraints, making it difficult to complete audits on time.
8. As a result of these challenges, Enfield Council's and the Pension Fund accounts have not had external audits completed since the 2019/20 financial year.
9. The External auditors between 2019/20 and 2022/23 were BDO. From 2023/24 the External audit firm changed to Grant Thornton.
10. Due to the reasons mentioned in para 7, the 2019/20 external audit for the Pension fund has only just been concluded by BDO. Their audit report for the Council in its entirety, went to Enfield Council's General purpose committee (GPC) on 10th September 2024.
11. The audit for the Pension Fund is substantially complete and BDO anticipate being able to issue an unmodified audit opinion on the Pension Fund financial statements. This is sometimes referred to as a 'clean' opinion. The report is attached as an appendix 2.
12. During the GPC meeting on September 10th, several issues were discussed, including the Council's handling of its own Pension Fund liabilities and assets, which constitute a significant portion of the overall Pension Fund.
13. These discussions were reported on by a local media outlet, Enfield Dispatch, on 12 September 2024. The article is included here as Appendix A. The paragraph below addresses the comments made in the article and by members of the GPC.

## Comments on Enfield Dispatch article

14. Comment in Article:

*"After repeated delays to the finalisation of the civic centre's accounts for that financial year, it's now emerged there was a £293million overestimation of the pension fund value originally given in the first draft of the accounts*

*Independent auditors BDO revealed that the council's net pension liability was reported at £789m in its original accounts but was later adjusted to the much lower figure of £496m.*

*During a general purposes committee meeting at Enfield Civic Centre yesterday (Tuesday 10th), opposition leader Alessandro Georgiou called the difference in these numbers a "significant change" and said he was "not convinced" that valuation changes during the Covid-19 pandemic were the reason behind the adjusted figure."*

**Response –**

Firstly it is important to note, these numbers relate to Enfield Council's share of the Pension Fund's assets and liabilities rather than to the Pension Fund as an entity.

Secondly, the number was not a misstatement but rather a change in assumptions. This change related to the discount rate used to value the Council's pension liabilities. A higher discount rate means that there is a lower present value placed on future liabilities. The discount rate was adjusted from 1.7% in the draft accounts to 2.3% in the revised accounts. This adjustment was partly due to a review of assumptions following the onset of the Covid-19 pandemic, which caused extreme volatility in global financial markets. Therefore, it is perfectly reasonable for discount rate assumptions to change from the first draft of the accounts. Indeed, many administering authorities experienced similar movements.

Additionally, the term 'overstatement' is misleading as the impact would be an understatement rather than an overstatement in the Council's net pension assets. The revised calculation was fully reflected in the final accounts.

**15. Comment in Article:**

*The 2019/20 pension fund investment balance was also deemed a "misstatement". The "material error" was stated to have an £18.9m impact on the fund and in total had resulted in a "downward change" of £20.9m. Committee member Nia Stephens asked if the difference was accounted for and added to today's pension fund, as the difference would affect "investment strategy".*

**Response-**

The difference has been fully adjusted for in the revised accounts. As this committee knows, this would not have impacted investment strategy as the Pension Fund are long term investors and short term fluctuations do not lead to changes in long term investment strategy.

**16. She also expressed concerns over how dated the market positions were that were being used to calculate current "assumptions".**

**Response-**

Current market assumptions and investment strategy are always calculated using market positions from the latest quarter.

---

**Report Author:** Ravi Lakhani  
Head of Pension Investments  
Ravi.Lakhani@enfield.gov.uk  
020 8132 1187

## **Appendices**

Appendix A: Enfield dispatch article

Appendix B: Enfield Pension Fund audit report

## Appendix A: Enfield dispatch article

[Concerns raised after audit reveals Enfield Council pension fund 'misstatement' - Enfield Dispatch](#)

# Concerns raised after audit reveals Enfield Council pension fund 'misstatement'

12 September 2024 10:42am  
3 Min Read

12 September 2024  
Share This!

**After years of delays to the council's 2019/20 accounts, it's now emerged there was a £293m overestimation of the pension fund value, reports Grace Howarth, Local Democracy Reporter**



Enfield Council "misstated" key financial figures in its 2019/20 accounts, an audit report has revealed.

After [repeated delays](#) to the finalisation of the civic centre's accounts for that financial year, it's now emerged there was a £293million overestimation of the pension fund value originally given in the first draft of the accounts.

Independent auditors BDO revealed that the council's net pension liability was reported at £789m in its original accounts but was later adjusted to the much lower figure of £496m.

During a general purposes committee meeting at Enfield Civic Centre yesterday (Tuesday 10th), opposition leader Alessandro Georgiou called the difference in these numbers a "significant change" and said he was "not convinced" that valuation changes during the Covid-19 pandemic were the reason behind the adjusted figure.

Ciaran McLaughlin, an audit partner at BDO, told the committee it was a significant change and because the valuation can have "quite a large impact" it was not to be dismissed.

The pension liability is a current valuation of the future benefit payments projected to be paid to participants over the plan's life.

Fay Hammond confirmed conversations around the calculation and the "impact" of the adjustment had taken place.

The report detailed how the initial £789.8m figure was based on market conditions dating 29th February 2020, while the new adjusted figure was based against market conditions on 31st March 2020.

The 2019/20 pension fund investment balance was also deemed a "misstatement". The "material error" was stated to have an £18.9m impact on the fund and in total had resulted in a "downward change" of £20.9m.

Committee member Nia Stephens asked if the difference was accounted for and added to today's pension fund, as the difference would affect "investment strategy".

She also expressed concerns over how dated the market positions were that were being used to calculate current "assumptions".

"This is quite old information and a lot of things have happened in the market since then," she said.

Ciaran confirmed the accounts were now "up to date" and the impact was not necessarily "direct loss" as values "increased and decreased".

In total, BDO identified 13 material misstatements which, as well as an overstatement on the pensions liability, included a valuation of properties and a block of land at Meridian Water.

The council spent £29.7m on remediation works at Meridian Water during the year up to March 2020, but site delivering costs were not allowed for in the original costs estimation. This cost was “incorrectly” reflected in assets under construction instead of surplus assets.

Other land and building valuations were understated by £41.2m, due to assets being omitted when moving from one system to another, and £32.6m was understated due the social housing discount being applied to properties not on social rental agreements.

BDO expected it would later issue an “unmodified opinion” on the council's finances, meaning it had a reasonable level of assurance that with its new statements and adjustments a truer financial position for that time period had been reflected.