City of London Corporation – City Fund indicative audit plan

Year ending 31 March 2024

May 2024

Contents

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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 Council 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.

Key matters

National context

The national economic context continues to present challenges to the local government sector. There are increasing cost pressures nationally, such as a growing population and increasing demand for local government services, especially in adult and children's social care. Combined with inflationary pressures, pay demands and energy price rises, the environment in which local authorities operate is highly challenging. Local government funding continues to be stretched and there have been considerable reductions in the grants received by local authorities from government.

Recently, we have seen the additional strain on some councils from equal pay claims, and there has been a concerning rise in the number of councils issuing s.114 notices. These are issued when a council's Chief Financial Officer does not believe the council can meet its expenditure commitments from its income. Additionally, the levels of indebtedness at many councils is now highly concerning, and we have seen commissioners being sent in to oversee reforms at a number of entities.

Our recent value for money work has highlighted a growing number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we have taken account of this national context in designing a local audit programme which is tailored to your risks and circumstances.

Audit reporting delays

Against a backdrop of ongoing audit reporting delays, in October 2023 PSAA found that only five local government accounts had been signed by the September deadline. In June 2023 the Public Accounts Committee (PAC) also produced a report setting out their concerns over these audit reporting delays. We issued our report About time? In March 2023 which explored the reasons for delayed publication of audited local authority accounts.

In response to the growing concerns about delays in the audit reporting process, Grant Thornton and City Fund have worked together to streamline the process and get the audit period back on track. We believe that this positive trend can continue into the future if City Fund continues to submit draft accounts that are of a good quality standard, supported by strong working papers. We commend City Fund's engagement with the audit process, and we believe that this level of cooperation and efficiency is key to ensuring timely and accurate reporting of local government accounts to the future.

Key matters

Our responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out in this Audit Plan has been agreed with the Chamberlain.
- To ensure close work with our local audited bodies and an efficient audit process, our preference as a firm is work on site with you and your officers. Please confirm in writing if this is acceptable to you, and that your officers will make themselves available to our audit team. We offer a private meeting with the Chamberlain quarterly as part of our commitment to keep you fully informed on the progress of the audit.
- At an appropriate point within the audit, we would also like to meet informally with the Chair of your Audit and Risk Management Committee, to brief them on the status and progress of the audit work to date.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our Value for Money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will continue to provide you and your Audit and Risk Management Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our local government audit committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretations, to discuss issues with our experts and to facilitate networking links with other audited bodies to support consistent and accurate financial reporting across the sector. We were pleased to see members of your finance team in attendance at our February 2024 workshop.
- With the ongoing financial pressures being faced by local authorities, in planning this audit we have considered the financial viability of the Authority. We are satisfied that the going concern basis remains the correct basis behind the preparation of the accounts. We will keep this under review throughout the duration of our appointment as auditors of the Authority.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of City of London Corporation – City Fund ('the Authority') for those charged with governance.

Respective responsibilities

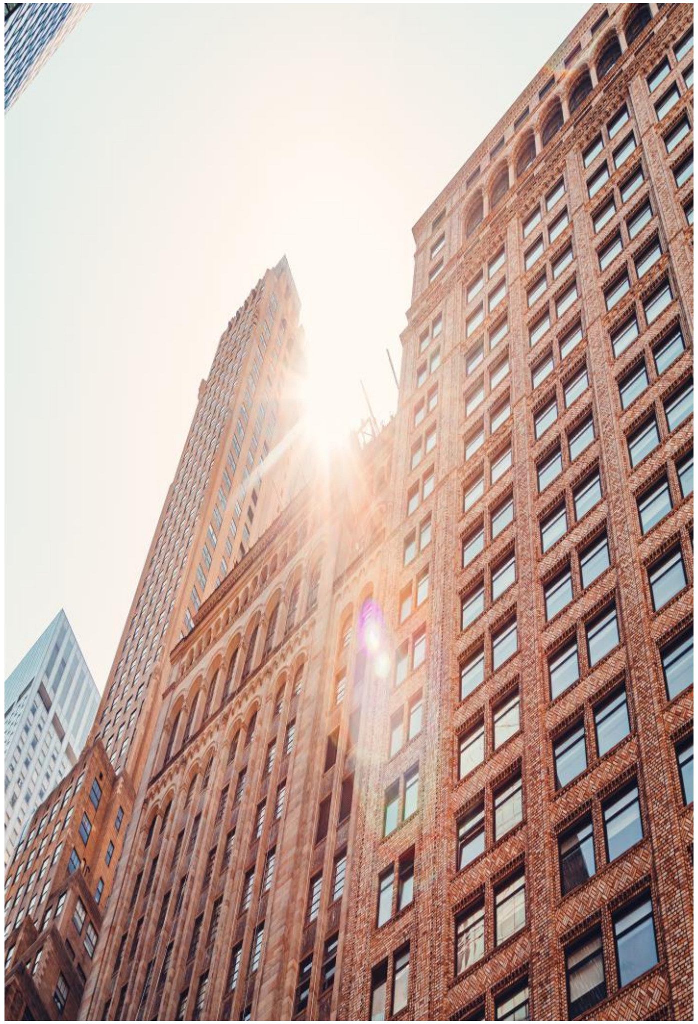
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed engagement letter and contract. We draw your attention to these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Authority's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Risk Management Committee); and we consider whether there are sufficient arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit and Risk Management Committee of their respective responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Authority's business and is risk-based.



Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of control;
- Valuation of land and buildings, council dwellings and investment properties; and
- Valuation of net pension fund liability.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality for the financial statements to be £11,957,000 (PY £12,031,500) for City Fund, which equates to approximately 1.95% of your prior year gross operating costs for the year.

We have determined a specific lower materiality of £100,000 for senior officers' remuneration and termination benefits.

We have set a planning performance materiality of £8,370,00, which equates to 70% of the financial statement materiality.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £598,000 (PY £601,600).

Value for Money arrangements

At the time of writing, we have yet to conclude our detailed VFM planning and risk assessment procedures. We will report the outcome of these planning procedures, our resulting risk assessment and our planned responses to any identified risks of significant weaknesses in arrangements at a future Audit and Risk Management Committee meeting.

We will continue to update our risk assessment until we issue our Auditor's Annual Report.

Audit logistics

Our planning visit took place in March 2024 and our final visit will take place July to September 2024. Our key deliverables are this Audit Plan, our Audit Findings Report and our Auditor's Annual Report.

Our preference is for all our work to take place on site alongside your officers.

Our proposed fee for the audit will be £360,000 (PY: £357,000) for City Fund. Our rationale for the fee is set out on page 23 and is subject to City Fund delivering a good set of financial statements and working papers, and no significant new financial reporting matters arising that require additional time and/or specialist input.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

Significant risks identified

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.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. City Fund faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how it reports performance. We have therefore identified management override of controls, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.	To address this risk, we will: • Evaluate the design and implementation effectiveness of management controls over journals. • Analyse the journals listing using data analytics tools and determine the criteria for selecting high risk unusual journals. • Test unusual journals made during the year and at year end for appropriateness and corroboration. • Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness. • Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Risk of fraud and error in revenue recognition(rebutted for all streams)	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA(UK) 240 and the nature of the revenue streams at City Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • There is little incentive to manipulate revenue recognition; • Opportunities to manipulate revenue recognition are very limited; and • The culture and ethical frameworks of local authorities, including that of City Fund, meaning that all forms of fraud are seen as unacceptable. We do not consider this to be a significant risk for City Fund and as such there is no specific work planned for this risk. To gain assurance over City Fund's revenue we will: • Select a sample of revenue items from each material revenue stream and test to supporting information and subsequent receipt of income to gain assurance over accuracy, occurrence and completeness. • Inspect transactions which occurred in the year and ensure they have been included in the current financial year. • Confirm our understanding of the revenue business process and determine if there are any relevant controls.	

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk

Valuation of land and buildings, council dwellings and investment properties	City Fund re-values its land and buildings and council dwellings on a rolling programme, such that the intervals between valuations do not exceed five years. This is to ensure that the carrying value of its assets are not materially different from the current value at the financial statements date. Investment properties are valued annually.
	
	The valuation of land and buildings, council dwellings and investment properties represents a key accounting estimate which is sensitive to changes in assumptions and market conditions. Management has appointed four external valuation experts, as well as the City Corporation's City Surveyor's department to carry out the valuation as at 31 March 2024.
	
	Other land & buildings (PY £604.6m): City Fund re-values its land and buildings on a rolling five-yearly basis. City Fund applies valuation techniques such as the depreciated replacement cost (DRC) for the valuation of its other land and buildings. In applying this method, key assumptions are made by the valuer to arrive to a value of a modern asset equivalent (MEA), meeting the capacity and location requirements of the services being provided by the replaced asset.
	
	Council dwellings (PY £249.1m): City Fund measures its dwellings at fair value, determined using the basis of existing use value for social housing and is re-valued on a cyclical approach using the Beacon methodology. Key assumptions are made by the valuer in applying this method of valuation.
	
	Investment properties (PY £1,543.2m): City Fund measures and re-values its investment properties at its highest and best use annually. The investment method is used in valuing most of the investment properties of City Fund. This method determines the property's value by estimating the potential income (market rents) and estimated yield. A small change in the inputs can have a significant impact on the estimated value of the property.
	
	We therefore identified valuation of land and buildings, council dwellings and investment properties as a significant risk, particularly key assumptions and inputs applied by the valuer at the financial statement date.
		To address this risk, we will:
		• Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work.
		• Evaluate the competence, capabilities and objectivity of the valuation experts engaged by you.
		• Write to or discuss with the valuation experts engaged by you, the basis on which the valuations were carried out.
		• Engage our own valuer expert to provide commentary on:
		  ◦ the instruction process in comparison to requirements from CIPFA/IFRS/RICS; and
		  ◦ the valuation methodology and approach, resulting assumptions adopted and any other relevant points.
		• Challenge the information and assumptions used by the valuers to assess completeness and consistency with our understanding.
		• Test, on a sample basis, revaluations made during the year to ensure they have been input correctly into City Fund's asset register.
		• Evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability (£913.2m net liability in 2022-23)	City Fund's pension fund net liability, as reflected in its balance sheet as net defined benefit liability, represents a significant estimate in the financial statements. The estimation of the pension fund net liability depends on a number of complex adjustments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages and mortality rates. A small change in the inputs can have a significant impact on the estimated pension fund liability. City Fund has appointed a consulting firm of actuaries (Barnett Waddingham LLP) to complete the valuation of the net pension liability as at 31 March 2024. The pension fund valuation is considered a significant estimate due to the size of the numbers involved (net liability of £913.2m as at 31 March 2023) and the sensitivity of the estimate to changes in key assumptions. City Fund's pension liability consists of City Fund's share of the City of London Corporation's net pension liability and the unfunded City of London Police pension scheme. We have therefore identified the valuation of the Council's pension fund as a significant risk. **Pinpointing the significant risk:** We plan to pinpoint the significant risk around the following: • Key assumptions applied by actuary; • Significant changes in assumptions applied from the prior year; • Material experience gain or losses recorded in the accounting period; and • Other factors considered to increase the risk of material misstatement based on auditor judgement.	To address this risk, we will: • Update our understanding of the processes and controls put in place by management to ensure that City Fund's pension fund net liability is not materially misstated and evaluate the design of the associated controls. • Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work. • Assess the competence, capabilities and objectivity of the actuary who carried out City Fund's pension fund valuation. • Assess the accuracy and completeness of the information provided by City Fund to the actuary to complete the pension fund valuation. • Test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary. • Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. • Obtain assurances from the auditor of City of London Corporation Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Fraud in expenditure recognition	In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). Having considered the risk factors related to this risk and the nature of the expenditure streams at City Fund, we have determined that the risk of fraud arising from expenditure recognition can be rebutted for City Fund's expenditure, because: • there is little incentive to manipulate expenditure recognition; • opportunities to manipulate expenditure recognition are limited; and • the culture and ethical frameworks of local authorities, including City Fund, mean that all forms of fraud are seen as unacceptable. However, we have identified that due to the level of estimation involved in the manual accruals of expenditure and the potential volume of accruals at year end there is an increased risk of error in expenditure recognition.	To address this risk, we will: • Inspect transactions incurred around the end of the financial year to assess whether they had been included in the correct accounting period. • Inspect a sample of accruals made at year end for expenditure but not yet invoiced to assess whether the estimation of the accrual was consistent with the value billed after the year. • Investigate manual journals posted as part of the year end accounts preparation that reduces expenditure to assess whether there is appropriate supporting evidence for the reduction in expenditure.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your financial statements, consider and decide upon any objections received in relation to the financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act);
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act; and
  - issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

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.

Matter	Description	Planned audit procedures
1	**Determination** We have determined financial statement materiality based on a proportion of the gross expenditure of City Fund for the financial year. Materiality at the planning stage of our audit is £11,957,000, which equates to 1.95% of your prior year period gross expenditure figure.	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; – assist in establishing the scope of our audit engagement and audit tests; – determine sample sizes; and – assist in evaluating the effect of known and likely misstatements in the financial statements.
2	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. We have identified senior officer remuneration and termination benefits as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £100,000 in these areas.
3	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.
4	**Other communications relating to materiality we will report to the Audit and Risk Management Committee** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Risk Management Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Audit and Risk Management Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of City Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £598,000 (PY £601,600). If management has corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Risk Management Committee to assist it in fulfilling its governance responsibilities.

Our approach to materiality

	Amount £	Qualitative factors considered
Materiality for City Fund's financial statements	11,957,000	We have determined the financial statement materiality based on a proportion of the prior year gross expenditure of City Fund, which has remained at approximately 1.95%.
Performance materiality	8,370,000	Our performance materiality is based on percentage of the headline materiality listed above. The threshold has remained constant, at 70%, to that applied in prior year.
Materiality for specific transactions, balances or disclosures senior officer remuneration and termination benefits	100,000	We have identified senior officer remuneration and termination benefits as disclosures where we will apply a lower materiality level, as they are considered sensitive disclosures.

Progress against prior year audit recommendations

We identified the following issues in our 2022-23 audit of the Authority's financial statements, which resulted in eight recommendations being reported in our 2022-23 Audit Findings Report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
In progress	**Management of the fixed asset register** The audit team noted several misstatements whilst carrying out detailed testing of PPE and investment property revaluations. The primary cause of the misstatements identified in our revaluations work, arose due to clerical errors made when recording the revaluations into the fixed asset register (FAR). There were several assets for which their respective revaluations were not recorded in the FAR, and subsequently the ledger, or where the asset value was not appropriately apportioned between City Fund and City Cash accounts. In many cases, assets were held at their prior-year value, adjusted for relevant movements such as depreciation, additions and disposals. This was despite the fact there had been an in-year revaluation on the assets carried out by external valuers, in line with City Fund's revaluation programme. **Recommendation** The prevalence of the issues in the FAR drives our recommendation for management to implement more robust controls through a formalised process of reconciling the FAR and the valuation reports. Management should prepare a reconciliation between the valuation reports and the FAR to ensure that each valuation has been captured accurately.	**Management response** Recommendation already in place and to be tightened.
In progress	**Community Infrastructure Levy (CIL) income recognition** In our procedures to confirm the completeness of income and debtors, we identified a control weakness in relation to management's income recognition processes that failed to identify CIL income pertaining to the 2022-23 financial period. Under the CIPFA Code para 2.2.2.8, CIL is received without outstanding conditions and is recognised at the commencement date of the chargeable development in the CIES. Management has failed to recognise CIL income at the appropriate time and have incorrectly recognised the income at the point in which it is billed, invoiced or the cash is received. **Recommendation** We recommend that management develop a robust process to recognise CIL income appropriately. The communication channel between the City Surveyor's department and the finance team should be robust so that the commencement dates of developments, schedules of ongoing/upcoming developments, and any other relevant matters are made known to finance the finance team to enable timely accrual of CIL income. In addition, we recommend management to review all standard operating procedures to ensure that they are in line with prescribed accounting treatment per the Code.	**Management response** Recommendation is in progress.

Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
In progress	**Debtors/Creditors between the City of London Corporation's funds** Our debtor testing identified instances where management did not remove a year-end debtor upon receipt of payment. Following further investigation, we came to understand that cashiers, on receipt of the funds, had allocated these receipts to a City Cash suspense account due to a lack of details about the transaction. The receipts should have been recognised under City Fund. We raised the risk created through management not clearing down suspense codes promptly, exacerbated by the complexities of having multiple funds using the same ledger system and bank accounts. **Recommendation** We recommended that management routinely review suspense codes across the whole organisation, with particular emphasis around year-end.	**Management response** Recommendation is in progress.
In progress	**Related Parties disclosure note preparation process and declaration of interest checks** During our testing of the Related Parties disclosure, we identified issues in the note preparation. As part our testing of the disclosure, we corroborated balances representing transactions between the City of London City Fund and their related parties, in the note, and the sum of the transactions on the ledger. We identified variances in this test. These variances indicated that the process of preparing the disclosure note was loosely defined and had insufficient controls in place to mitigate against the risk of inaccurate reporting of related party transactions. We also found issues relating to incomplete declarations of interests by Members. There is a risk around management not being aware of relationships as related party declarations may be inaccurate. Members who represent the City of London Corporation's interest in City development may also be able to facilitate transactions in their own interests if sufficient understanding of these interests is not known by the Corporation. **Recommendation** Management should seek to carry out checks of Companies House, on a regular basis for all members, to ensure that all interests are known to the Corporation. They should ensure that the guidance issued to members when completing their declarations is clear, particularly with respect to what constitutes as an interest.	**Management response** Recommendation is in progress.

Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
In progress	**Accounting treatment regarding revenue expenditure funded from capital under statute (REFCUS)** In testing additions and REFCUS, we identified a deficiency relating to the process in which management identify and record REFCUS. Management's approach is to capitalise all REFCUS as an asset under construction (AUC) until project completion. This approach overstates AUC account code and understate the REFCUS code until project is completed, where it is corrected. **Recommendation** We recommended that management develops a robust process to recognise REFCUS appropriately. This would involve ensuring that the nature of the capital spend is clearly known to the capital accountants recording the expenditure, and carrying out a review process, at least on an annual basis, to ensure that the assets under construction population does not include any REFCUS.	**Management response** Recommendation is in progress.
In progress	**Journal authorisation** As it was identified in 2021-22 audit, there are weaknesses around the internal control process regarding managements review of Journals. As part of our 2022-23, from our work on Journals, we identified this issue has not been resolved. We note for all Journals with individual lines >£100k the system retrospectively identifies these Journals, and it is shared with the approver automatically via email for their approval. However, we have not been able to obtain sufficient documentation to confirm the implementation of this control where the approver has confirmed authorisation of the journal lines. **Recommendation** We recommended that a clearer audit trail is maintained to demonstrate the Journal review process and that this is embedded into finance's working arrangements.	**Management response** The issue identified by the auditors pertains to the review and documentation of journals by approvers. While the reports are being circulated, obtaining documented proof of their review has been a challenge. This is recognised as a business issue, and efforts are underway to enhance communication with approvers, provide targeted training, implement regular follow-ups, and secure management support to reinforce compliance with audit requirements. Progress will be continually monitored and reported to ensure resolution of this matter.

Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
In progress	**Timeliness of revocation of user access in Oracle EBS** For a sampled leaver in Oracle EBS, it was identified that their access to the system was revoked six data after their termination date. Additional procedures verified that the user had not accessed the system since their termination date. 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. **Recommendation** It was 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.	**Management response** 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. 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. 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. The processing of a daily HR leavers list would be quite onerous.
Complete	**Management of generic database administrator accounts** 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. 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 **Recommendation** Management should implement suitable controls to restrict access to the KeePass password manager. 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.	**Management response** 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. The password database has now been moved to the DBA SharePoint site.

IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Oracle E-Business Suite	Financial reporting (full ledger)	Our IT Audit Team will carry out a review of the design and implementation of the City of London Corporation's financial reporting system (main ERP system hosted by City of London) and the iTrent system.
iTrent	Payroll	We will report any deficiencies identified, with our recommendations at the completion of this review work.

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2024

The National Audit Office issued its latest Value for Money guidance to auditors in January 2023. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and properly manages its risks.

Risks of significant VFM weaknesses

As part of our VFM planning work, we will consider whether there are any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources that we need to perform further procedures on. The risks we identify will be communicated to management and the Audit and Risk Management Committee, along with the further procedures we will perform. We may need to make recommendations following the completion of our work.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements.

Risks of significant VFM weaknesses

The Code sets out that the auditor's work is likely to fall into three broad areas:

- planning;
- additional risk-based procedures and evaluation; and
- reporting.

We undertake initial planning work to inform this Audit Plan. A key part of the risk assessment for 2023-24 is the consideration of prior year significant weaknesses and known areas of risk. We set out our reported assessment, based on 2022-23 findings, below:

Criteria	2022-23 Auditor judgement on arrangements informing our initial risk assessment		Additional risk-based procedures planned
Financial sustainability	Amber	No significant weakness in arrangements identified, but eight improvement recommendations made.	We will follow up progress against the improvements recommendations made and ensure that our work assesses the current arrangements in place.
Governance	Amber	No significant weakness in arrangements identified, but four improvement recommendations made.	
Improving economy, efficiency and effectiveness	Amber	No significant weaknesses in arrangements identified, but three improvement recommendations made.	

G	No significant weaknesses in arrangements identified or improvement recommendation made
A	No significant weaknesses in arrangements identified, but improvement recommendations made
R	Significant weaknesses in arrangements identified and key recommendations made

Audit logistics and team

March 2024
Planning and
risk assessment

Audit & Risk
Mgmt Committee
May 2024

Audit Plan

Year end audit
July to September 2024

Audit & Risk
Mgmt Committee
September 2024

Audit Findings
Report and
Auditor's
Annual Report

Audit
opinion to
follow
Committee
meeting

Sophia Brown, Key Audit Partner

Sophia is responsible for the overall client relationship, quality control, provision of the audit opinion, meeting regularly with key internal stakeholders. Sophia will share her wealth of knowledge and experience across the sector providing challenge and sharing good practice. Sophia will ensure our audit is tailored specifically to you, and is delivered efficiently. Sophia will review all reports and the team's work, focussing her time on the key risk areas to your audit.

Bheki Dlamini, Audit Manager

Bheki is responsible for the management of the audit, working with the members of your finance team. He will undertake review of the team's work, ensuring quality output, and draft reports. Bheki is the key contact for the delivery of the audit

Mary Adeson, Audit In-charge

Mary will work with the members of your finance team ensuring delivery of audit testing and resolution of accounting issues on a timely basis. Mary will be the key audit contact responsible for the day-to-day management of the audit work.

Audited entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to :

- Ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement.
- Ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you.
- Ensure that the agreed data reports are cleansed, are made available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing.
- Ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit (as per our responses to key matters set out on page 4).
- Respond promptly and adequately to audit queries.

Audit fees and updated auditing standards

	Proposed fee 2023-24
City of London Corporation – City Fund audit per agreed contract	£340,000
ISA 315*	£12,000
ISA 240*	£8,000
Total audit fees (excluding VAT)	**£360,000**

* Since our appointment as the external auditors of City Fund in 2022, there have been major changes in auditing standards, particularly with the revision of ISA (UK) 315 and ISA (UK) 240 These changes included updates to our risk assessment procedures and new requirements related to fraud in the audit of financial statements. As a result of these changes, our scope of work increased significantly in 2022-23, particularly in relation to our understanding of your business processes, IT systems, and fraud-related responsibilities. These requirements will continue to apply in 2023-24, and we have estimated the fee increment in relation to these updates in the table alongside.

Previous year

During the 2022-23 audit of City Fund, we charged a fee of £411,500, which was £54,000 higher than the proposed fee. This increase was due to various challenges we experienced during the audit process, which required us to invest more resources. The challenges were in part due to the cumulative impact of auditing the 2022-23 financial statements with two other sets of financial statements of City Fund not signed.

Assumptions

In setting these fees, we have assumed that the Authority will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.

Relevant professional standards

In preparing our fees, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Updated auditing standards

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements (ISA 220). We confirm we will comply with these standards.

IFRS 16 'Leases' and related disclosures

IFRS 16 will need to be implemented by local authorities from 1 April 2024. This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. As this is a shadow year for the implementation of IFRS 16, we will need to consider the work being undertaken by the Council to ensure a smooth adoption of the new standard.

Introduction

IFRS 16 updates the definition of a lease to:

> "a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration." In the public sector the definition of a lease is expanded to include arrangements with nil consideration.

IFRS 16 requires all leases to be accounted for 'on balance sheet' by the lessee (subject to the exemptions below), a major departure from the requirements of IAS 17 in respect of operating leases.

IFRS 16 requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There is a single accounting model for all leases (similar to that of finance leases under IAS 17), with the following exceptions:

- leases of low value assets; and
- short-term leases (less than 12 months).

Lessor accounting is substantially unchanged leading to asymmetry of approach for some leases (operating) although if an NHS body is the intermediary and subletting there is a change in that the judgement between operating and finance lease is made with reference to the right of use asset rather than the underlying asset

Authority's systems and processes

We believe that most local authorities will need to reflect the effect of IFRS 16 changes in the following areas:

- accounting policies and disclosures
- application of judgment and estimation
- related internal controls that will require updating, if not overhauling, to reflect changes in accounting policies and processes
- systems to capture the process and maintain new lease data and for ongoing maintenance

Planning enquiries

As part of our planning risk assessment procedures, we have made enquiries with management and the Audit and Risk Management Committee. We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of IFRS16 can be found in the HM Treasury Financial Reporting Manual. This is available on the following link:

IFRS 16 Application Guidance December 2020.docx (publishing.service.gov.uk)

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit, we have made enquiries of all Grant Thornton UK LLP teams providing services to the City of London Corporation.

Independence and non-audit services

Other services

The following other services provided by Grant Thornton were identified. The amounts detailed are fees agreed to-date for audit related services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with City Fund's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit. None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefit claim (2020-21)	25,000	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 £25,000 in comparison to the total fee for the audit of £360,000 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.
Certification of Housing Benefit claim (2021-22)	25,000	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 £25,000 in comparison to the total fee for the audit of £360,000 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.
Certification of Housing Benefit claim (2022-23)	50,000	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 £50,000 in comparison to the total fee for the audit of £360,000 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.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Escalation policy

The Department for Levelling Up, Housing and Communities are proposing to introduce an audit backstop date on a rolling basis to encourage timelier completion of local government audits in the future.

As your statutory auditor, we understand the importance of appropriately resourcing audits with qualified staff to ensure high quality standards that meet regulatory expectations and national deadlines. It is the Authority's responsibility to produce true and fair accounts in accordance with the CIPFA Code by 31 May 2024 and respond to audit information requests and queries in a timely manner.

To help ensure that accounts audits can be completed on time in the future, we have introduced an escalation policy. This policy outlines the steps we will take to address any delays in draft accounts or responding to queries and information requests. If there are any delays, the following steps should be followed:

Step 1 - Initial communication with the Chamberlain (within one working day of statutory deadline for draft accounts or agreed deadline for working papers)

We will have a conversation with the Chamberlain to identify reasons for the delay and review the Authority's plans to address it. We will set clear expectations for improvement.

Step 2 - Further reminder (within two weeks of deadline)

If the initial conversation does not lead to improvement, we will send a reminder explaining outstanding queries and information requests, the deadline for responding, and the consequences of not responding by the deadline.

Step 3 - Escalation to Town Clerk and Chief Executive (within one month of deadline)

If the delay persists, we will escalate the issue to the Town Clerk and Chief Executive, including a detailed summary of the situation, steps taken to address the delay, and agreed deadline for responding.

Step 4 - Escalation to the Audit and Risk Management Committee (at next available Audit and Risk Management Committee meeting or in writing to Audit and Risk Management Committee Chair within 6 weeks of deadline)

If senior management is unable to resolve the delay, we will escalate the issue to the Audit and Risk Management Committee, including a detailed summary of the situation, steps taken to address the delay, and recommendations for next steps.

Step 5 – Consider use of wider powers (within two months of deadline)

If the delay persists despite all efforts, we will consider using wider powers, e.g. issuing a statutory recommendation. This decision will be made only after all other options have been exhausted. We will consult with an internal risk panel to ensure appropriateness.

By following these steps, we aim to ensure that delays in responding to queries and information requests are addressed in a timely and effective manner, and that we are able to provide timely assurance to key stakeholders including the public on the Authority's financial statements.

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