



Audit and Risk Management Committee

Date: TUESDAY, 27 SEPTEMBER 2022
Time: 2.00 pm
Venue: COMMITTEE ROOMS, 2ND FLOOR, WEST WING, GUILDHALL

7. CITY FUND AND PENSION FUND AUDIT ARRANGEMENTS

Report of the Chamberlain.

For Decision
(Pages 3 - 20)

Item received too late for circulation in conjunction with the Agenda.

John Barradell
Town Clerk and Chief Executive

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Agenda Item 7

Committee(s): Audit and Risk Management Committee – For decision	Dated: 27/09/2022
Subject: City Fund and Pension Fund audit arrangements	Public
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	All
Does this proposal require extra revenue and/or capital spending?	Y
If so, how much?	£57k
What is the source of Funding?	City Fund (£50k) £7k recharged across all funds
Has this Funding Source been agreed with the Chamberlain's Department?	Y
Report of: The Chamberlain	For Decision
Report author: Neilesh Kakad – Chief Accountant	

Summary

Following the appointment of Grant Thornton (GT) as the auditor of City Fund and the Pension Fund further discussions have been carried out on other areas of work that would support the auditing and reporting requirements outside of the statutory audit role. Two further areas of work are being proposed for GT to carry out which include an enhanced role in the audit of housing benefit claims and issuing of assurance letters to admitted bodies to the Pension Fund. This work is considered as non-audit service and are therefore brought to the committee for review and agreement that they do not give rise to any integrity, objectivity, or independence issues. GT have concluded that they do not see this as an issue.

Recommendation(s)

Members are asked to:

- Note the audit progress report and sector update provided by GT.
- Agree to the non-audit services being proposed.

Main Report

Background

1. Following agreement by your committee to appoint GT as the auditor of City Fund and the Pension Fund, further discussions have been had on facilitating some

level of audit work whilst awaiting the conclusion of the 20/21 accounts audit, upon which we are reliant before we can fully transition to our new auditor.

2. Having reviewed our requirements, there is an option to progress with two areas of work which are:
 - a. The audit of housing benefit claims including additional support from the specialist team GT maintain in this area.
 - b. Issuing of assurance letters to admitted bodies of the Pension Fund.
3. In relation to the first area of work this additional support will enable outstanding audit requirements to be completed in a timely manor as limited capacity, both internally and with our previous auditors has meant we have fallen behind in submissions. We are not the only authority in this position and DLUHC are aware of these delays.
4. In relation to the second area, our previous auditor had acted across all the City Corporation's funds and for the admitted body (Museum of London), which meant these assurances were provided internally between the relevant teams. Due to the change in audit provider and split in auditors between the City Corporation's funds, these assurances are now required between different auditors requiring more formal submissions.
5. These areas of work would normally be included as part of the audit plan presented to your committee but due to the delay in concluding the 20/21 accounts audit, these are being brought to your attention now to enable these works to be carried out. This will facilitate the timely conclusion of the housing benefit requirements and allow those entities dependent on pension fund assurance to receive this in line with their own reporting timelines.
6. GT have prepared a short progress report, including reference to the above additional work, and a sectoral update which can be found in appendix 1.
7. The City Corporation maintains a policy of allowing non-audit services to be procured so long as fees do not exceed 50% of the audit fee. These additional services will not breach that limit.
8. Auditing standards require that those charged with governance are made aware of these services and are content that they do not pose a risk to the independence of the auditors. The auditors have provided their view of this within their report and do not see this as an issue.
9. The areas of work being covered are within GT's remit in their role as auditor and is therefore not a significant extension in their role.

Corporate & Strategic Implications

Strategic implications – None

Financial implications – additional fees which are covered by existing budgets.

Resource implications - None

Legal implications - None

Risk implications – further delays in concluding audit requirements.

Equalities implications – None

Climate implications - None

Security implications - None

Conclusion

10. It is recommended that your committee agree to the proposed additional work to enable the timely conclusion to audit activity both within the City Corporation and for dependent entities.

Appendices

- Appendix 1 – City of London Progress Report and Sector Update

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City of London Audit progress report and sector update

Year ending 31 March 2022

September 2022

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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 Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

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This paper provides the Audit & Risk Management Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority.

Members of the Audit & Risk Management Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications <https://www.grantthornton.co.uk/en/services/public-sector-services/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact any member of your engagement team.

Progress at September 2022

Financial Statements Audit

We are working with officers to finalise the contract for your external audit and the letter of engagement.

We aim to commence our initial planning work for the 2021-22 audit in October, with work on your draft financial statements to follow straight after.

Our planning fieldwork will include:

- Documenting our review of the Authority's control environment
- Documenting our understanding of financial systems
- Reviewing Internal Audit reports on core financial systems

Understanding how the Authority makes material estimates for the financial statements

Early work on emerging accounting issues

The 2020-21 financial statements audit has not yet been signed off by your previous auditor, due to the national infrastructure accounting issue.

We will report our work in an Interim Findings Report and our Audit Findings Report and aim to give our opinion on the Statement of Accounts by 31 March 2022.

The Accounts and Audit Regulations 2015 were amended by SI 2021 No. 263. The Department for Levelling Up, Housing and Communities (DLUHC) previously stated their intention to introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 2021-22 accounts. This is enacted by The Accounts and Audit (Amendment) Regulations 2022 (SI 2022 No. 708) that came into force on 22 July 2022. The deadline for publishing audited local authority accounts for 2021-22 is extended to 30 November 2022 and thereafter changed to 30 September for years up to 2027-28.

Value for Money

The new Code of Audit Practice (the "Code") came into force on 1 April 2020 for audit years 2020-21 and onwards. The most significant change under the new Code was the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline for the issue of the Auditor's Annual Report is now no more than three months after the date of the opinion on the financial statements. We anticipate issuing our Auditor's Annual Report in March 2023.

Progress at September 2022 (cont.)

Other areas

Certification of claims and returns

We will certify the Authority's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DWP). The certification work for the 2020-21 claim will commence in November and we plan to complete our work and report to DWP in December 2022.

Meetings

We will meet regularly with Finance Officers as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments to ensure the audit process is smooth and effective. We will also met with your Chief Executive to discuss the Authority's strategic priorities and plans.

Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers will be invited to attend our Accounts Workshop in January/February 2023, where we will highlight financial reporting requirements for local authority accounts and gave insight into elements of the audit approach.

Further details of the publications that may be of interest to the Authority are set out in our 'Sector update' section of this report.

IAS 19 Assurance letters for Admitted Bodies

As auditor of the Pension Fund, we are required to perform and provide written assurances to the auditors of admitted and scheduled bodies to the Pension Fund. The scope of this work will be determined once we receive the formal request from the auditors of the admitted and scheduled bodies. For the Pension Fund, this will be for the following bodies:

- Bridge House Estates
- City Cash
- Museum of London
- City Fund

We expect to commence this work in October. We would also like to note that the final assurance letters cannot be issued until the specific testing of the areas requested by the auditors of the admitted and scheduled bodies is completed.

As this work is to support the IAS 19 assurances for the admitted and scheduled bodies, the Pension Fund will need to determine whether to recharge the cost to these bodies – refer to page 7 of the report for the detailed fee.

Audit fees

	Proposed fee 2021-22	Final fee 2021-22
City of London Corporation financial statements audit	£340,000	£TBC
City of London Pension Fund financial statements audit	£35,000	£TBC
Total audit fee	£375,000	£TBC

Assumptions

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- In setting the fees, we assume that the Authority will:
- prepare a good quality set of financial statements , 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; and
 - provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we will have 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.

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 (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. 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 Council.

Other services

The following other services provided by Grant Thornton are identified:

Service	Fees £	Threats	Safeguards
Audit related			
Holding Benefit Assurance Process		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 immaterial in comparison to the total fee for the audit 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.
2020-21	£25,000		
2021-22	£25,000		
IAS 19 Assurance letters	£9,000	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 immaterial in comparison to the total fee for the audit 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.
Total	£59,000		

The amount detailed is fee agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. This service is consistent with the Council'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.

The service to be provided is not subject to contingent fees.

Sector update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
government

Response to local audit consultation – Department for Levelling Up, Housing and Communities (“DLUHC”)

The Department for Levelling Up, Housing and Communities (“DLUHC”) has published its response to the local audit consultation. This follows the “Redmond Review”, which reported in September 2020.

The response confirms plans to establish a new regulator, the Audit Reporting and Governance Authority (ARGA), as the system leader for local audit within a new, simplified local audit framework.

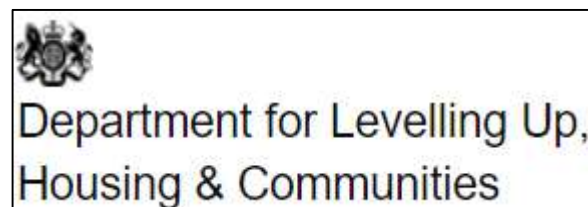
Ahead of ARGA’s establishment, a shadow system leader arrangement will start at the Financial Reporting Council (FRC) from September 2022.

The consultation response also announces:

- Plans to make audit committees compulsory for all councils, with each audit committee required to include at least one independent member. This will create greater transparency and consistency across local bodies.
- ARGA will take over statutory responsibility for preparing and issuing the Code of Audit Practice (from the National Audit Office).
- A post-implementation review of the new Value for Money arrangements. The Code is a key part of the local audit system, and it is important to ensure that it helps to facilitate effective local audit. To allow time for the new arrangements to bed in the response proposes this is completed within three years.

The full response can be found here:

[Government response to local audit framework: technical consultation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/government-response-to-local-audit-framework-technical-consultation)



The Value of Internal Audit – CIPFA

One of the key elements of good governance is an independent and objective internal audit service. Some organisations engage fully and reap significant benefits from the assurance, insight and expertise they bring whilst others pay lip-service to them and see their work as an administrative burden.

CIPFA's recent report, Internal Audit: Untapped Potential, lifts the lid on internal audit in public services. For some chief financial officers and chief executives, this report confirms the value and contribution of internal audit teams with 87% of respondents recognising the contribution internal audit makes to their organisation. However, some leadership teams saw internal audit as providing a basic service at minimal cost.

Getting the most out of the function requires honest conversations and long-term planning. Maintaining appropriate skills and knowledge within the function is necessary to ensure high quality internal audit in public services are retained.

Culture and governance

The Audit Committee should monitor the delivery of internal audit and their output will be a key part of the annual work-plan. However, internal audit is not a substitute for risk management and should enhance the overall assurances received by management. Executives and Officers should engage with internal audit recommendations to ensure the organisation gains maximum value from reviews.

Capacity

Reducing internal audit days can lead to a lack of 'corporate grip' and not identifying issues at an early stage. This report raises concerns over the capacity of internal audit across the public sector. The profession needs to be valued and invested in to make it more attractive to new blood and for bodies to be able to attract the best candidates to their service.

Expectations

To maximise the impact of internal audit, a clear and aligned strategic audit plan and annual audit plan should be in place. This should be agreed with all stakeholders.

Future plans

Internal audit needs to adapt to the changing landscape, including risks such as climate change, digital and technological developments, cyber-security and ongoing financial and service pressures within their planning processes. For financial resilience and medium- and long-term financial strategies internal audit can provide vital independent assurance to decision makers to allow them to take on more risk and be more ambitious. Leadership teams need to be clear on what assurances they will require going forward.

For more information, Rob Whiteman share his views on this report.



Audit and Risk Assurance Committee effectiveness tool – NAO

The National Audit Office (NAO) has published this tool which supports Audit Committees in assessing their effectiveness.

The NAO comment “Audit and Risk Assurance Committees (ARACs) play a crucial role in supporting the effective governance of central government departments, their agencies and arm’s-length bodies.

ARACs are operating in a highly challenging context. Government organisations are managing many short- and long-term risks and are required to be resilient to a number of pressures. This has created an environment where ARACs need to be dynamic and responsive to the changing risk profiles and demands of their organisations. ARACs can see this as an opportunity to work out how they can most proactively work with the Board and accounting officer.

Against this background, the NAO’s effectiveness tool provides a way for ARACs to assess their effectiveness against more than just the basic requirements. It provides aspects of good practice to give ARACs greater confidence and the opportunity to meet the requirements of their role.

The NAO’s effectiveness tool is a comprehensive way for ARACs to assess their effectiveness on a regular basis.”

The tool covers:

- Membership, independence, objectivity and understanding
- Skills and experience
- Roles and responsibilities
- Scope
- Communication and reporting

Although the tool is designed for central government Audit Committees it is also relevant to local government.



The guide can be found here:

[Audit and Risk Assurance Committee effectiveness tool - National Audit Office \(NAO\) Report](#)

Guide for audit and risk committees on financial reporting and management during COVID-19 – NAO

The National Audit Office (NAO) has published this guide which aims to help audit and risk committee members discharge their responsibilities in several different areas, and to examine the impacts on their organisations of the COVID-19 outbreak

The NAO comment “Audit and risk committees are integral to the scrutiny and challenge process. They advise boards and accounting officers on matters of financial accountability, assurance and governance, and can support organisations, providing expert challenge, helping organisations focus on what is important, and how best to manage risk.

Each organisation will have existing risk management processes in place, but risk appetite may have changed as a result of COVID-19, for the organisation to operate effectively and respond in a timely manner. This may result in a weakening of controls in some areas, increasing the likelihood of other risks occurring. Organisations will need to consider how long this change in risk appetite is sustainable for.”

The guide includes sections on:

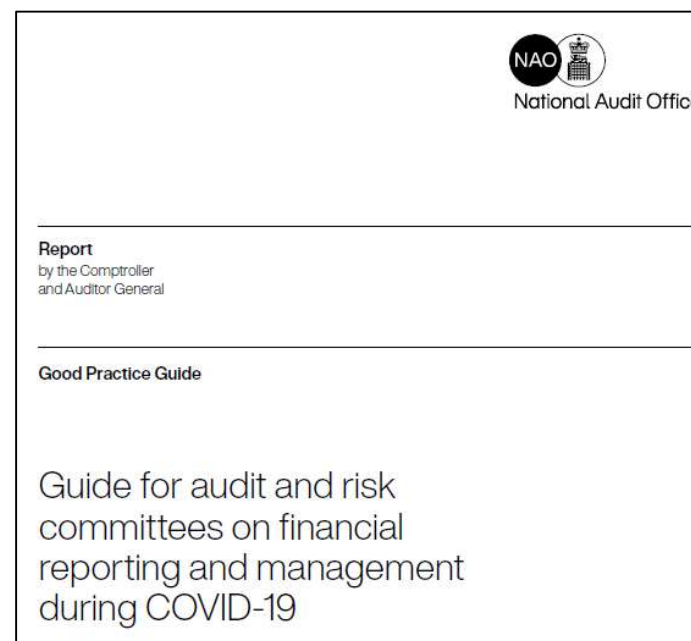
- Annual reports
- Financial reporting
- The control environment
- Regularity of expenditure

The guide can be found here:

<https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>

The guide includes a number of key questions covering areas such as:

- Property valuations
- Pension scheme valuations
- Completeness of liabilities
- Events after the reporting period
- Control environment
- Fraud and error



Good practice in annual reporting – NAO

The National Audit Office (NAO) has published this guide which sets out good practice principles for annual reporting with examples from public sector organisations

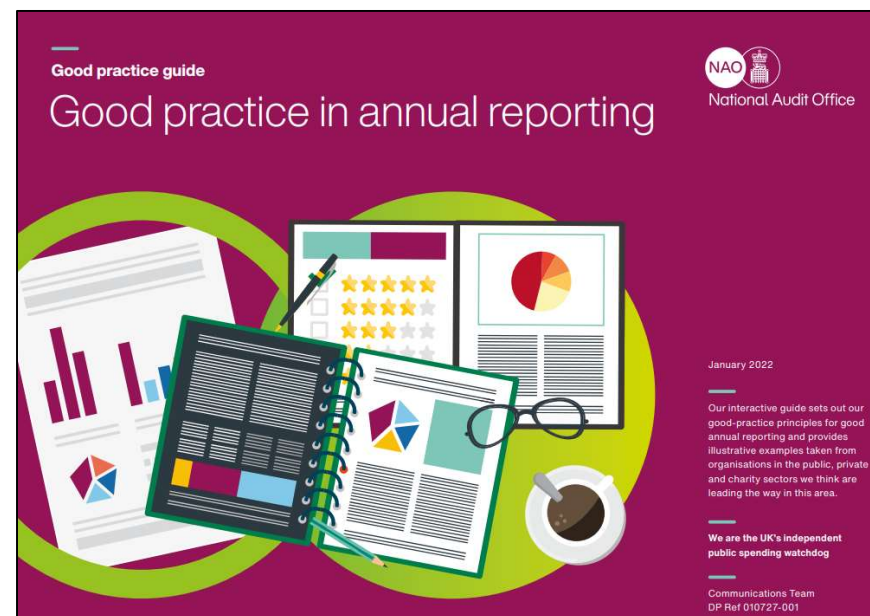
The NAO comment that the guide sets out “good-practice principles that we believe underpin good annual reporting. These principles are: Supporting Accountability; Transparency; Accessibility; and the need for the report to be Understandable.”

The NAO further comment “The best annual reports we have seen use these principles to tell the “story” of the organisation. It is important that stakeholders, including the public and Parliament, are able to hold an organisation to account. To do this effectively, stakeholders need to properly understand the organisation’s strategy, key risks that might get in the way of delivering this strategy and the effectiveness of their management, and the amount of taxpayers’ money that has been spent to deliver the outcomes the organisation seeks to achieve.”

The guide draws on examples of good practice from within each of the six sections of an Annual Report:

- Strategy
- Risk
- Operations
- Governance
- Measures of success
- Financial performance
- External factors

Although the guide does not include any local authority examples, those included, and the underlying principles, are equally relevant to all public facing organisations.



The guide can be found here:

[Good practice in annual reporting - National Audit Office \(NAO\) Report](#)

