



Audit and Risk Management Committee

Date: TUESDAY, 22 NOVEMBER 2022
Time: 2.00 pm
Venue: COMMITTEE ROOMS, 2ND FLOOR, WEST WING, GUILDHALL

6. 2020-21 CITY FUND AND PENSION FUND STATEMENT OF ACCOUNTS APPROVAL

Appendices to the Report of the Chamberlain:

Appendix 2 – City Fund audit completion report (pages 3 – 84)

Appendix 5 – 2020-21 Auditors Annual Report (pages 85 – 124)

For Decision
(Pages 3 - 124)

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

John Barradell
Town Clerk and Chief Executive

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Report to the Audit and Risk Management Committee

CITY OF LONDON CORPORATION CITY FUND

Audit Completion Report: year ended 31 March 2021

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We have pleasure in presenting our Audit Completion Report to the Audit and Risk Management Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2021, specific audit findings and areas requiring further discussion and/or the attention of the Audit and Risk Management Committee. At the completion stage of the audit it is essential that we engage with the Audit and Management Committee on the results of audit work on key risk areas, including significant estimates and judgements made by Management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit and Risk Management Committee meeting on 22 November 2022, and to receiving your input.

Note that an earlier version of this report was circulated to and presented at the 30 November 2021 Committee; changes on this earlier edition have been highlighted throughout the report where relevant.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

We would also like to take this opportunity to thank the Management and staff of the Corporation for the co-operation and assistance provided during the audit.

David Eagles, Partner
For and on behalf of **BDO LLP**, Registered Public Auditor

21 November 2022



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. This report has been prepared solely for the use of the Audit Committee and Those Charged with Governance and should not be shown to any other person without our express permission in writing. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

OVERVIEW

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This summary provides an overview of the audit matters that we believe are important to the Audit Committee in reviewing the results of the audit of the financial statements for the City Fund for the year ended 31 March 2021.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.



Overview

Our audit work is substantially complete and subject to the successful resolution of outstanding matters and clearance of BDO internal review and receipt of amended financial statements, we anticipate issuing an unmodified audit opinion on the Company’s financial statements for the year ended 31 March 2021 in line with the agreed timetable.

Outstanding matters are listed on page 80 in the appendices.

There were no significant changes to the planned audit approach and no additional significant audit risks have been identified.

We previously presented audit findings on 30 November 2021. However, subsequent to this:

- A prior period (material) adjustment with respect to the presentation of gross cash flows has been prepared and actioned
- National consultation around the accounting for infrastructure assets has taken place
- An adjusting event after the reporting period in relation to the conclusion of a legal case has occurred

Audit report

The implications of this on the audit, both in terms of known findings and the impact on timescales, has been highlighted throughout this report where relevant.

No restrictions were placed on our work.

Subject to clearance of the outstanding matters, we anticipate issuing an unmodified audit opinion on the financial statements and use of resources.

We will report an emphasis of matter in our audit report in relation to the material valuation uncertainty around PPE and Investment Property valuations.

We have no exceptions to report at this stage in relation to the arrangements in place to secure economy, efficiency and effectiveness in the use of resources.

Our audit certificate will be issued when we have completed our work on the Council’s value for money arrangements and Whole of Government Accounts work.

THE NUMBERS

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Final Materiality

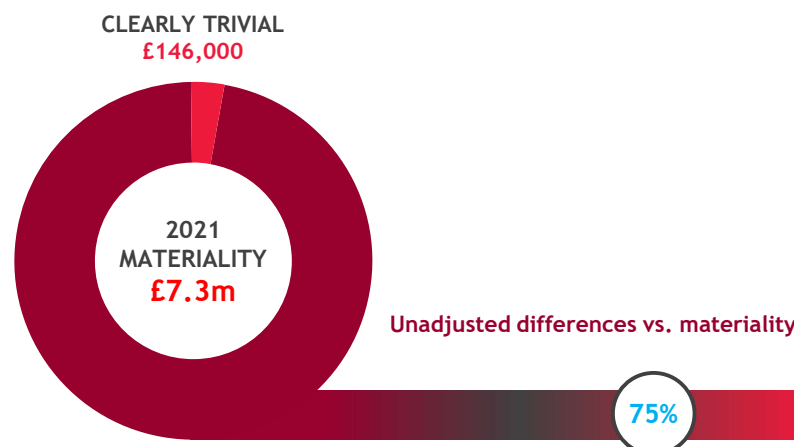
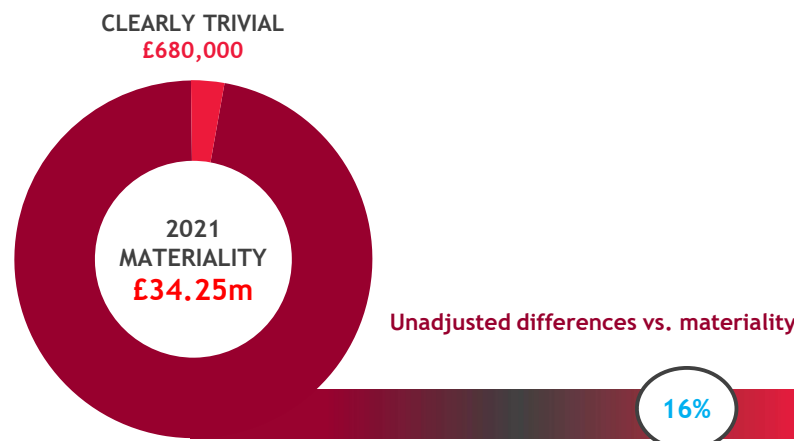
Group Materiality was determined based on 1% of income generating assets using the combined values of long-term assets, managed investments and cash resources as a suitable value for materiality.

This was revised upwards from £34 million reported in the audit planning report to £34.25 million based on the draft financial statements.

Specific materiality

Specific materiality for the Comprehensive Income and Expenditure Account was based on 1.5% of gross expenditure. We consider that a misstatement at a lower level through revenue expenditure would be material where this may impact on setting future council tax or HRA rent levels.

This was revised upwards from £6.9 million reported in the audit planning report to £7.3 million based on the draft financial statements.



Unadjusted audit differences

We identified audit adjustments that, if posted, would increase the deficit on the provision of services for the year by £5.5m.

OTHER MATTERS

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Financial reporting

- We have not identified any non-compliance with group accounting policies or applicable accounting framework.
- No significant accounting policy changes have been identified impacting the current year.
- Going concern disclosures are deemed sufficient
- [A prior period adjustment has been prepared and actioned with respect to the presentation of investing cash flows](#)
- [A national consultation in respect of accounting for infrastructure assets is currently in progress. On conclusion, this is expected to lead to changes to disclosure requirements in this area](#)
- We have noted that the vast majority of related parties included in the table in note 35 are deemed to be directors or key managers in common which does not meet the 'related' definition under IAS 24: Related Party Disclosures. This could detract the readers attention from those that are considered to be related party.
- The Narrative Report is consistent with the financial statements and our knowledge acquired in the course of the audit.
- The Annual Governance Statement is not inconsistent or misleading with other information we are aware of.
- We will complete our review of the Whole of Government Accounts Data Collection Tool (DCT) after we have completed our audit of the financial statements.

Other matters that require discussion or confirmation

- Control deficiency identified in relation to logical access controls over the IT application and internal control.
- In March 2021 we followed up on twelve IT related control recommendations arising from our 2019/20 audit work. While these recommendations were shared with Management in August 2020, these have not been formally reported to Those Charged With Governance before inclusion in this Audit Completion Report. None of the findings represented significant deficiencies but we encourage the Audit & Risk Management Committee and the successor auditor to monitor progress on these going forward. These are included on pages [61-68](#) of our report.
- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation.

Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Corporation in accordance with the Financial Reporting Council's (FRC's) Ethical Standard.



AUDIT RISKS OVERVIEW

As identified in our audit planning report dated 14 March 2021 we assessed the following matters as being the risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the directing of the efforts of the engagement team.

Significant Audit Risk	Risk Rating	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported	Specific Letter of Representation Point
1. Management override of controls	Significant	Yes	No	No	No	No
2. Revenue recognition	Significant	No	No	Yes	No	No
3. Expenditure cut-off	Significant	No	No	No	No	No
4. Valuation of non-current assets	Significant	Yes	Yes	No	No	Yes
5. Valuation of pension liability	Significant	Yes	Yes	No	No	Yes
6. Non-Domestic Rates appeals provision	Significant	Yes	No	No	No	Yes
7. Allowances for non-collection of receivables and debt	Significant	Yes	No	No	No	Yes
8. Related party transactions	Normal	No	No	No	Yes	No
9. Use of Resources	Significant	No	No	No	No	No

Areas requiring your attention

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MANAGEMENT OVERRIDE OF CONTROLS

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Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls.

Significant management judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant Control Findings to be reported in Mgmnt letter
Letter of Representation point

Risk description

Management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively. We are required to consider this as a significant risk of material misstatement due to fraud.

Details

We carried out the following planned audit procedures:

- Considered estimates and judgements applied in the financial statements to assess their appropriateness and the existence of any systematic bias;
- Reviewed and checked high value and unusual journal entries made in the year and agreed the journals to supporting documentation. We determined key risk characteristics to filter the population of journals and used our IT team to assist with the journal extraction; and
- Considered unadjusted audit differences for indications of bias or deliberate misstatement.

Results

Our views on significant management estimates are set out in this report and does not indicate any evidence of systematic bias in preparing the financial statements.

Our audit work on journals and estimates did not identify any issues.

Our review of unadjusted audit differences does not indicate bias or deliberate misstatement.

Conclusion

We have not identified any significant or unusual transactions which we consider to be indicative of fraud in relation to management override of controls.

REVENUE RECOGNITION

Auditing standards presume that income recognition presents a fraud risk.

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Significant Control Findings to be reported in Mgmnt letter

Letter of Representation point

Risk description

Under auditing standards there is a presumption that income recognition presents a fraud risk.

For the City Fund, we consider there to be a significant risk in respect of the existence (recognition) of revenue and capital grants that are subject to performance conditions before these may be recognised as revenue in the Comprehensive Income and Expenditure statement (CIES). There is also a risk around the existence of fees and charges and investment property rental income.

Details

We carried out the following planned audit procedures:

- Tested a sample of grants included in income to documentation from grant paying bodies and check whether recognition criteria have been met;
- Tested a sample of fees and charges to ensure that income has been recorded in the correct period and that all income that should have been recorded has been;
- Tested a sample of grants and donations to ensure completeness, accuracy, existence and classification (as restricted or unrestricted) in the financial statements;
- Tested a sample of investment income and confirm to third party investment manager reports; and
- Tested a sample of property rental income and agree to lease agreements and recalculations performed to determine whether the amounts are accurate and recorded in the correct period.

Results

Our audit testing has not identified errors in the recognition, completeness, accuracy, existence and classification of grant income. The only exception noted was with respect to an error made in applying the split of the NNDR creditor, resulting in an understatement of Taxation & Non-Specific Grant Income by £2.8m. This has been adjusted for.

Our audit testing in respect of fees and charges, investment income and property rental income has found that this income has been recorded accurately and recorded in the correct period with the exception of one item leading to an overstatement of investment property income. This has been recorded as an extrapolated unadjusted error of £0.3m.

Conclusion

We are satisfied that revenue has been correctly recognised in the CIES.

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EXPENDITURE CUT OFF

For public sector bodies the risk of fraud related to expenditure is also relevant.

Risk description

For net-spending bodies in the public sector there is also risk of fraud related to expenditure. For the Corporation, we consider the risk of fraud to be in respect of the cut-off of expenditure at year-end.

Details

We carried out the following planned audit procedures:

- Tested a sample of expenditure either side of year end, to confirm that expenditure has been recorded in the correct period and that all expenditure that should have been recorded at year end has been.

Results

We have completed the testing on expenditure invoice. We have note two sample related to February and March 2021 cleaning for Bishopsgate Police Station and 21 Garlick Hill which had not been accrued as at 31 March 2021. We have assess the error and noted that the potential impact of the error is £133k. This is below our reporting threshold.

No other issues have been identified in respect of expenditure invoice cut-off.

In the context of thematic regulatory findings on the audit of expenditure cut-off as a whole, the methodology we have applied this year has been updated as compared with the prior period. This has resulted in a larger number of sample items requiring testing this year and over a greater period of months post year end.

Conclusion

We have not identified any issues in respect of expenditure cut-off.

Significant management judgement

Use of experts

Unadjusted error

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There is a risk over the valuation of land, buildings, dwellings and investment properties where valuations are based on significant assumptions.

Significant management judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant Control Findings to be reported in Mgmnt letter
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Risk description

Land, buildings and dwellings are reported at fair value / carrying value. Operational assets are valued at current value and surplus assets / assets held for sale at fair value at the balance sheet date. Investment properties are reported at fair value at the balance sheet date.

The Corporation applies an annual revaluation process for investment properties and higher value operational assets to provide assurance that carrying values are not materially misstated; with the remainder of the immaterial value assets being revalued every 5 years. The Corporation has appointed four different valuers for investment property and other operational land and buildings. Internal valuers also carry out some valuations at year end.

In the prior year RICS issued guidance to valuers regarding material uncertainties over valuations of land and buildings due to prevailing market conditions as a result of the coronavirus pandemic. The Corporation's valuers responsible for valuing land and buildings included material uncertainties over their valuations in their updated valuation reports as at 31 March 2020. RICS latest guidance suggests that there is unlikely to be material uncertainties over valuations as at 31 March 2021. However, Gerald Eve have disclosed a material valuation uncertainty over car parks in their report, with a value of £16.4m.

Due to the significant value of the land, buildings, dwellings and investment properties and the high degree of estimation uncertainty, there is a risk over the valuation of these assets where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year-end.

Details

We carried out the following planned audit procedures:

- Reviewed the instructions provided to the valuer and the valuer's skills and expertise in order to determine if we can rely on the management expert;
- Confirmed that the basis of valuation for assets valued in year is appropriate based on their usage;
- Reviewed the accuracy and completeness of information provided to the valuer;
- Reviewed assumptions used by the valuer in light of the prevailing market conditions to support the valuations including any material uncertainty for classes of assets;
- Discussed with our Real Estate Team the reasonableness of assumptions on benchmark and yields range for investment properties;
- Followed up valuation movements that appeared unusual or outside of our expectations; and
- Confirmed that assets not specifically valued in the year have been assessed to ensure their reported values remain materially correct.

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There is a risk over the valuation of land, buildings, dwellings and investment properties where valuations are based on significant assumptions.

Significant management judgement
Use of experts
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Results

Our review of instructions to the valuer including the valuer's skills and expertise did not identify any issues.

We confirmed that the basis of valuation for assets valued in year is appropriate and in line with Code.

Our review of the accuracy and completeness of the data inputs used by the valuers identified no issues.

The results of our review of the significant assumptions and estimates used by the valuers for classes of assets are reported on the following pages.

Those assets not specifically valued in year have been assessed and are considered to be materially accurate at year end.

Representations required

We have sought specific representations over material assumptions used in the valuations including investment property yields and rebuild cost indices.

Conclusion

We are satisfied that the valuations of land, buildings, dwellings and investment properties have been appropriately calculated and the assumptions used are reasonable.

VALUATION OF NON-CURRENT ASSETS

Significant estimate - Investment properties

Estimates: Investment property £1,601.0 million

Investment properties are valued by reference to highest and best use market value using an income based approach. This valuation is based on the current passing rents for the existing lease term, expectations about future rents at the next rent review, market driven yield expectations for similar properties and the covenant strength of the existing lease and tenant. The significant valuation assumption is the market yield applied to the rents.

Investment properties decreased in value by £20.5 million to £1,601.0 million (1.3%) in 2020/21 driven primarily by the revaluation decrease of £24.4 million and addition of £3.9 million.

We set yield expectations for the portfolio based on year-end market trends and property type (such as office, retail or industrial). These expectations also included consideration of a property's location and security of future income.

The majority of investment properties comprise office buildings within the city and the following range of yields were applied:

- City office space (EC1 to EC4) -3.07% to 5.98%
- City strategic estate (Bonhill and Worship St) 1.97% to 5.01%

In consultation with our Real Estate and Valuation teams, we compared the yields used by the valuers to our expectations and discussed properties outside of these expectations with the valuer to assess the appropriateness of the yields used.

For those properties that were outside of the expected yields the valuers provided detailed information to support the valuations. We are satisfied that the yields applied to the valuations of investment properties are reasonable.



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VALUATION OF NON-CURRENT ASSETS

Significant estimate - Non-specialised other land and buildings

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Estimates: Non-specialised other land and buildings £267.9 million (£274.2)

Non-specialised other land and buildings decreased in value by £4.5 million (1.64%) in 2020/21. These valuations may be based on:

- income approach using the current net profits for the assets at market driven yield expectations for similar types of assets (eg car parks, markets); and
- recent market sales prices for similar assets adjusted for size and condition.

The significant valuation assumptions are the market yield applied to net profits and sales of similar properties.

Existing Use Value

We set detailed expectations for year on year valuation movements, taking into account various external sources of information tailored to the individual assets that were revalued. We compared the movements to our expectations and investigated assets with movements that fell outside of the expectations.

The inputs used in these valuations were agreed to income and expenditure data as per City Fund records. The reasonableness of the yield applied to the valuations were also tested by assessing against comparative data and the cost rate percentages applied were compared to expected estimates. We discussed the EBITDA multiple applied with the valuer to gain assurance that this was consistent with the industry standard used for this type of valuation.

Based on our work, we are satisfied that the valuations of using existing use value are reasonable.

Market Value (Spitalfields Market, Barbican Residential Estate and HRA commercial property)

We set detailed expectations for year on year valuation movements and checked the key inputs used in the valuations.

We agreed the income and expenditure used in the Spitalfields Markets valuation and the reasonableness of the yields and cost rates. While we noted some small variances in the rates these were within tolerable thresholds for testing.

We agreed the lease and rent data used for a sample of assets from the Barbican Estate and assessed yields and cost rates against our expectations. Some small variances were noted but these were within tolerable thresholds.

We compared the estimated rental values and yields for the HRA commercial property to similar properties and market benchmarks and all were found to be within expectations.

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VALUATION OF NON-CURRENT ASSETS

Significant estimate - Specialised other land and buildings

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Estimates: Specialised land and buildings £315.7 million

Specialised land and buildings increased in value by £6.2 million (2.00%) in 2020/21.

Land and buildings that do not have a market value due to their specialised nature are valued on a depreciated replacement cost basis. This valuation estimates the cost of replacing the 'service potential' of that asset using modern materials and adjusted to reflect the age and obsolescence of the asset to reflect its remaining useful economic life.

The service potential of the asset does not necessarily have to be a like-for-like replacement and a 'modern equivalent asset' replacement can be specified that may result in a different size or specification building or re-provisioning to a more appropriate location. Management determined that no adjustments are needed to the service potential valuations for building size, specification or location. Some assets are deemed to be of such cultural or historic significance that a rebuild cost uses assumptions to rebuild the asset in the same materials rather than modern materials that can increase the replacement cost valuation.

The key input to the depreciated replacement cost valuations is the size of the building and the key estimate is the rebuild cost to be applied.

Specialised property assets valued this year have been subject to detailed testing including agreeing the replacement size by checking the gross internal floor area (GIA) and agreeing the age / obsolescence adjustment to the remaining useful life provided by the valuer.

The rebuild cost assumptions have been agreed to data provided by RICS for Building Cost Indices including Weighted Overall Cost Rate, Location Factor, professional fees and external works percentages, and overall obsolescence factors applied.

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VALUATION OF NON-CURRENT ASSETS

Significant estimate - HRA dwellings

Estimates: HRA dwellings £184.1 million

Dwellings decreased in value by £37.3 million (16.8%) in 2020/21 and it is primarily driven by the change in the social housing discount factor.

HRA dwellings are valued at open market value and then reduced to reflect the discounted social rents charged to tenants. The reduction is a measure of the economic cost of providing council housing at less than open market rents. Current MHCLG guidance (2016) estimated that across London the average reduction was 75% (discount factor of 25%) but may be adjusted for local circumstances if considered more appropriate.

In previous years, the Corporation has adjusted the valuation by 70% (discount factor of 30%). In 20/21, a data set from the ONS which captures average rents for Studio, 1, 2, 3 and 4 bedroom accommodation in London shows that private rents across London have increased slightly, whilst social rents have largely remained unchanged. This has led to a decrease in the calculated discount factor to circa 26-27%. The MHCLG guidance note is clear that when within 5% of the suggested 25% figure, 75% should be used, as such the factor has been reduced from 30% to 25%.

Dwellings were subject to valuation based on the allocation of properties into relevant Beacons (for similar types of properties) and valued by reference to recent sales data for similar properties. Where possible, the City Surveyor has used other sales on City Fund Estates to support the valuations. Where there haven't been equivalent sales in the year, the City Surveyor has used other similar properties in the area or other City of London Estates.

The key input to the valuation is the allocation of all dwellings into an appropriate Beacon. The key estimates are the open market value of a Beacon by reference to recent similar sales or housing indices and the social housing discount factor applied.

Our testing of the allocation of dwellings into appropriate Beacons (by location, archetype and bedrooms) did not identify any issues.

The valuer has appropriately applied sales prices for recent sales for the limited number of City Fund dwellings sold in year along with sales of similar properties. We checked and agree the data used for these recent sales in determining the open market value for each Beacon property.

We also assessed the reasonableness of the overall valuation movement using London house price index data from Halifax and Nationwide, Land Registry data, and other publicly available external residential market data for central London from Knight Frank, CBRE and the GLA London Datastore. Our analysis of the market movement shows a fairly minimal movement year-on-year and the overall 0.76% valuation reduction is in line with our expectation.

We have reported in recent years that the useful economic lives (UEL) of dwellings has been set at 125 years based on the usual term for leases granted. This is significantly longer than the UELs used by other local authorities which tends to range from 60 to 80 years. The City Surveyor has stated that this is due to the robust structure and ongoing repairs, maintenance and cyclical replacement works programmes in place for these properties. Nevertheless, we consider this to be at the optimistic end for UELs but this would not result in a material difference in the annual depreciation charge had a UEL of 80 year been applied. Therefore, we have included the difference in depreciation as an unadjusted estimation error in our findings below.

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VALUATION OF PENSION LIABILITY

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The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty

Significant management judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant Control Findings to be reported in Mgmnt letter
Letter of Representation point

Risk description

The LGPS pension fund is required to report the pension liability for estimated promised future benefits for the whole fund. The Corporation's share of the net liability, including its share of the assets held in the pension fund, is allocated across the funds in proportion to the payroll cost for each fund. The City Fund also reports the pension liability for the City Police pension scheme and Judges pension scheme. Both are unfunded scheme and the Judges pension scheme is immaterial.

An actuarial estimate of the liability is calculated by an independent firm of actuaries. The estimate will be based on the submission of membership data from the 2019 triennial valuation exercise for the LGPS and the 2017 quadrennial valuation for the police pension, updated at 31 March 2021 for factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.

There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.

Details

We carried out the following planned audit procedures:

- Assessed the qualifications and competence of the actuary through the use of PwC consulting actuary (auditor's expert);
- Reviewed the reasonableness of the assumptions used by Barnett Waddingham (management's expert) for the calculation of the liability against other local government and police pension actuaries' assumptions and other observable data using the benchmark range of acceptable assumptions provided by PwC consulting actuary (auditor's expert);
- Reviewed the controls for providing accurate membership data to the actuary;
- Checked whether any significant changes in membership data had been communicated to the actuary;
- Assessed the impact of Goodwin and O'Brien cases regarding same sex couple discrimination on the pension fund liability and impact on employer fund;
- Discussed with the actuary the continuing impact of GMP equalisation and the McCloud judgement regarding age discrimination on the pension fund liability and impact on employer fund; and
- Reviewed the testing of the assets carried out as part of the LGPS audit and checked the accuracy of the calculations relating to the allocation of the share of the net assets across the funds in proportion to the employer's contribution's paid to the scheme.

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Results

We are satisfied that the actuary has the appropriate skills and experience, and has applied the appropriate technical actuarial standards to calculate the LGPS and police pension liabilities.

Management confirmed there has been no significant changes in the membership these funds during the year.

The actuary has applied full GMP indexation for members at state pension age and this is consistent with the previous year. The actuary has calculated the Corporation impact of McCloud at £12.9 million assuming that active members since 2012 will benefit from the scheme amendments. This is consistent with the assumptions in the previous year and with the recent consultation on the proposed remedy to remove age discrimination for those members in the scheme at the time that the age underpin was agreed.

The actuary has not included the potential additional liability arising from the Goodwin case and our assessment have found the impact to be immaterial.

No issues has been noted in our testing of the police pension scheme.

Our review of the assumptions used to calculate the present value of future pension obligations is noted in the following pages, and were found to fall within a reasonable range.

In our review of the financial statements, we have noted a number of errors in the disclosures in Note 23 (Pension Schemes), Note 25 (Judges' Pension Scheme) and Note 26 (Transactions Relating to Post-employment Benefits within the Financial Statements). Management has confirmed that they will be corrected in the final version of the financial statements and have been included in our adjusted schedule on page 51.

Representations required

We have sought specific representations over material assumptions used in the valuation of the pension liability include the financial and mortality assumptions.

Conclusion

We are satisfied that defined benefit obligation for the LGPS and Police pension schemes have been appropriately calculated and the assumptions used are reasonable.

VALUATION OF PENSION LIABILITY

Significant estimate - LGPS pension liabilities

Estimates: LGPS pension liabilities £1,075.5 million

City Fund's share of the liability has increased from £802.1 million to £1,075.5 million and it's share of the assets increased from £477.8 million to £606.4 million. The net deficit increased by £324.1 million to £469.0 million. The is mainly driven by £246.3 million losses arising from changes to financial assumptions including the salaries increases of 3.85% (previously 2.90%), pension increases of 2.85% (previously 1.90%), and decrease in discount rate of to 2.00% (previously 2.35%).

The key estimates are the financial and mortality assumptions. We have compared the assumptions used to an acceptable range provided by a consulting actuary commissioned for local public auditors by the NAO.

Financial:

Assumption	Actual used	Acceptable range	Comments
Discount rate	2.00%	1.95% - 2.05%	Reasonable
RPI	3.20%	3.15% - 3.35%	Reasonable
CPI	2.85%	2.80% - 2.85%	Reasonable
Pension increases	2.85%	2.80% - 2.85%	Reasonable
Salary increases	3.85%	3.80% - 3.85%	Reasonable

Mortality:

Assumption	Actual used	Acceptable range	Comments
Male/current	21.6 years	20.5 - 23.1 years	Reasonable
Male/non current	22.9 years	21.9 - 24.4 years	Reasonable
Female/current	24.3 years	23.3 - 25.0 years	Reasonable
Female/non current	25.7 years	24.8 - 26.4 years	Reasonable

We consider that the assumptions and methodology used by the actuary are appropriate and will result in a reasonable estimate of the pension liability.

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VALUATION OF PENSION LIABILITY

Significant estimate - Police pension liabilities

Estimates: Police pension liabilities £1,139.3 million

The police pension liability has increased from £935.1 million to £1,139.3 million. The increase in the liability includes a £208.0 million loss arising from changes to financial assumptions including salaries increases of 3.80% (previously 3.40%), pension increases of 2.80% (previously 1.90%), and a change in the discount rate to 2.00% (previously 2.35%). It also includes a gain on demographic assumptions of £14.2 million arising from decreased mortality assumptions of approximately 0.3 years.

The key estimates are the following financial and mortality assumptions. We have compared the assumptions used to an acceptable range provided by a consulting actuary commissioned for local public auditors by the NAO.

Financial:

Assumption	Actual used	Acceptable range	Comments
Discount rate	2.00%	1.95% - 2.05%	Reasonable
RPI	3.20%	3.15% - 3.35%	Reasonable
CPI	2.80%	2.80% - 2.85%	Reasonable
Pension increases	2.80%	2.80% - 2.85%	Reasonable
Salary increases	3.80%	3.80% - 3.85%	Reasonable

Mortality:

Assumption	Actual used	Acceptable range	Comments
Male/current	21.1 years	20.5 - 21.1 years	Reasonable
Male/non current	22.3 years	21.7 - 22.3 years	Reasonable
Female/current	23.3 years	22.7 - 23.3 years	Reasonable
Female/non current	24.8 years	24.2 - 24.8 years	Reasonable

We consider that the assumptions and methodology used by the actuary are appropriate and will result in an reasonable estimate of the pension liability.

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NON-DOMESTIC RATES APPEALS PROVISION

There is a risk in relation to the estimation of the provision due to potential incomplete data and assumptions used in calculating the likely success rate of appeals.

Significant management judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant Control Findings to be reported in Mgmnt letter
Letter of Representation point

Risk description

City Fund as a billing authority is required to estimate the value of potential refunds of business rates arising from rate appeals, including backdated appeals. The Valuation Office Agency (VOA) provides information regarding the appeals currently being assessed and settled.

Management use this information to calculate a success rate for specific business types for settled appeals and applies an appropriate rate to each type of business appeal still outstanding at year end.

There is a low number of appeals and settlements from the 2017 VOA list following the introduction of the Check - Challenge - Appeal process that means there is limited data on which to base the estimate for the provision. This increases the level of risk as the provision could be overstated based on the assumptions used for the 2017 VOA list provided by MHCLG.

Details

We carried out the following planned audit procedures:

- Reviewed the accuracy of the appeals data to confirm that it is complete based on the VOA list, and that settled appeals are removed; and
- Reviewed the assumptions used in the preparation of the estimate including the historic success rates to confirm that the rates applied are appropriate to outstanding 2010 appeals and expected losses for the 2017 rating list.

Results

Management commissioned an expert (Analyse LOCAL) to calculate the 2020/21 appeals provision. We have assessed the skills and competency of the management expert.

Key assumptions used by Analyse LOCAL to estimate the likely success rates of appeals and amounts refundable have been assessed on the following page. We note that City Fund's share of the provision has decreased from £49.2 million to £45.8 million this year. This is partly driven by the Business Rate Pool Pilot has moved from a 75% to a 67% scheme, has reduced the City Funds share of the appeal provision from 48% to 30%. [The £45.8m provision includes two elements; a main provision of £43.9m \(see assessment below\) and an additional City Fund Premium of £1.9m; the City Fund Premium has not been tested on account of immateriality.](#)

We checked and agreed that the data provided to the expert was complete and accurate. [We challenged management's provision workings by re-performing their calculations and determining our own estimation point by analysing the actual appeals data that has been settled and the resulting impact on NNDR appeal refunds. We independently formed our own estimate of £48.6m which was more than management's own estimate of £43.9m. We consider this to be an estimation misstatement and have included this in our summary of misstatements below.](#)

Representations required

We have sought specific representations over material assumptions for appeals success rates from Analyse LOCAL.

Conclusion

We are satisfied that the estimated NDR appeals provision is [materially accurate. An estimation difference of £4.7m has been recorded as an unadjusted misstatement.](#)

NON-DOMESTIC RATES APPEALS PROVISION

Significant estimate - Non-Domestic Rates appeals provision

Estimates: City Fund's share of the appeals provision £45.8 million

Analyse LOCAL has confirmed that their model estimates the expected rateable value (RV) loss resulting from any current and future appeals and the loss to NDR income that would cause based on the estimated effective date of the RV change. This is produced by the model's processing of the following factors for each NDR property on the listing - type of property (e.g. office), the size (in RV), and the geographical location. This produces a comparative average RV loss by inputting the results of all the appeals that have been settled since 1990 and weighting those with similar type, size and relevant location. The model therefore produces a listing of the estimated RV loss from all current appeals, but also the potential RV loss from all expected future appeals (threats).

Additionally, following previous findings management have undertaken an additional exercise to consider the impact on the provision of any reliefs that would reduce the appeal refund due for relevant properties. This has been estimated by analysing the current reliefs of each property in the provision and applying an average percentage over the last two years for both the threats and challenges, following an approach designed by the prior year audit team. Management have reviewed and agreed the data and method used last year and updated the calculation with this year's data.

We have been unable to obtain access to review the detailed assumptions used in Analyse LOCAL's system for the estimated RV loss from current appeals and expected future appeals. We have therefore carried out our own analysis to verify the reasonableness of the estimate calculated by Analyse LOCAL as follows:

- In respect of the provision made against the appeals submitted against the 2010 rating lists, we calculated an average success rate based on recent settled appeals in 2020/21 and applied to the 2010 listing.
- In respect of the provision made against the 2017 rating lists, we calculated an expected range by using MHCLG's estimated RV losses of 4.7% and an average success rate based on recent settled appeals in 2020/21 and applied both to the 2017 listing as we would expect the provision to fall somewhere between the two.

Our testing carried out on the provision made against the 2010 and 2017 rating lists indicates a lower potential success rate for refunding NDR appeals using the MHCLG rate assumption. However, by reference to our own estimate, we are satisfied that the provision is materially accurate (see findings on previous page).

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There is a risk over the valuation of the impairment allowance for the non-collection of arrears and debt.

Significant management judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant Control Findings to be reported in Mgmnt letter
Letter of Representation point

Risk description

The City Fund recognises an allowance for the non-collection of receivables (arrears and debt), primarily in respect of council tax, NDR, housing benefit overpayments, housing and commercial rents and parking charges. Management assesses each type of receivable separately in determining how much to allow for non-collection. There is a risk over the valuation of this allowance if incorrect assumptions or source data are used, or an inappropriate methodology is applied.

There is an increased risk of customer default over collection of receivables where the losses are measured at either the Incurred Credit Loss model for statutory debt (e.g. council tax and NDR) or Expected Credit Loss (contract receivables). For some receivables, the Corporation may have suspended recovery action or offered deferred payment terms, and some customers that may be taking advantage of these arrangements may be in financial difficulty.

Estimating potential losses from defaults on amounts due will be subject to a greater degree of estimation than in previous years, historical collection rates may offer only some indication of potential future losses and assigning key economic metrics that may reflect patterns of historic default rates may be imperfect in the current conditions.

Details

We carried out the following planned audit procedures:

- Reviewed the provision model for significant income streams and receivables / debt balances to assess whether it appropriately reflects potential default losses in light of current conditions using historical collection rates, an assessment of potential defaults for customers making use of deferral arrangements and aging of debt, and future losses and assessing the sensitivities to the impairment calculation and assumptions used by management;
- Followed up prior year recommendations to ensure that where impairment allowance percentages had been rolled forward for a number of years, these allowances have now been calculated using historical collection rates or similar types of evidence; and
- Checked that information has been accurately extracted from systems to support the modelling of collection rates by age.

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Significant management judgement
Use of experts
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Letter of Representation point

Results

Our review of the assumptions used to calculate the impairment allowance for non-collection of receivables is noted in the following pages, and were found to fall within a reasonable range based on the available data for historical collection rates.

We agreed the information used to calculate the impairment allowance for each type of receivable was correctly extracted from the underlying data.

Representations required

We have sought specific representations that:

- historic collection rates calculated in previous years for NDR arrears, Barbican residential and HRA rents remain consistent with collection rates in 2020/21; and
- historic collection rates are a reasonable basis for calculating expected credit losses and that enhanced forecasting of losses will not result in material differences in the impairment allowances.

Conclusion

Although the expected credit loss estimate does not include any enhanced forecasting of losses, we are satisfied that the impairment allowance estimate is reasonable.

ALLOWANCES FOR NON-COLLECTION OF RECEIVABLES AND DEBT

Significant estimate - Allowance for non-collection

Estimates: Allowances for non-collection £11.9 million

Management periodically review collection rates for each income stream to estimate the potential losses on receivables or arrears at balance sheet date. The impairment allowance is calculated by reference to losses and write-offs by age of the debt or current recovery stage. The expected credit loss and impairment allowance is based on these historic collection rates. Management has not undertaken a review of expected credit losses based on future expectations as required for receivables within the scope of IFRS 9 for financial assets as the majority of receivables are statutory debt subject to the previous incurred loss model and have determined that the historical losses model remains appropriate.

Non-domestic rate arrears and cost provision

City Fund's share of the arrears and provision as at 31 March 2021 were £85.0 million and £31.1 million respectively. Arrears of £1.3 million has been provided for in full (95-100%) as it is considered uncollectable or is due to be written off. We consider this reasonable given all stages of recoverability have been exhausted.

Debts that have entered the 'late demand' stage of recoverability total £37.3 million and 6% of this has been impaired. The impairment allowance is based on an analysis of debt collected against 31 March 2020 NDR arrears that was calculated to support the impairment allowance as at 31 March 2021. This analysis has been updated following a prior audit finding to support the 6% allowance, increased from 5% in the prior year, and applied to arrears as at 31 March 2021.

The remainder of the debt totalling £43.7 million is in various stages of debt recovery and an impairment allowance of £5.1 million has been estimated by reference to different stages of recovery and non-collection of 20% to 89%. These impairment rates are based on historical collection rates that have been rolled forward for a number of years. Management has refreshed the collection rates to assess the appropriateness of the continued use of these impairment allowances, although it is unlikely this would materially impact the impairment allowance as at 31 March 2021.

Rent arrears and cost provision

Arrears and provision as at 31 March 2021 were £9.0 million and £2.1 million respectively.

The management surveyor reviews all individual arrears over £30,000, which accounts for 93% of the total debt, to determine the likely rent to be recovered. Collection rates for the past three years have been applied to the remaining debt. However, audit evidence could not be provided to support the calculation of collection rates. Given that the total value of the remaining debt is £0.63 million any change to the provision already calculated against this debt would be minimal.

We are satisfied that the provision for non-collection of rent arrears assumptions are reasonable.

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ALLOWANCES FOR NON-COLLECTION OF RECEIVABLES AND DEBT

Significant estimate - Allowance for non-collection

Estimates: Allowances for non-collection £11.9 million

Penalty Charge Notices (PCN) arrears and cost provision

Arrears and provision as at 31 March 2021 were £8.8 million and £7.4 million respectively.

The cost provision covers debt from PCNs issued from 2012/13 to 2020/21. For each year, this is calculated as collectable debt for that year, less total cash received as at 31/03/2021, less debtors written off as at 31/03/2021, less forecast future collections.

Forecast future collection is calculated as the collectable debt for that year multiplied by a percentage. The percentage is based on the amount historically collected in the nth year from issue. This is calculated for the following 5 years from issue with any remainder included as a provision.

The PCN cost provision is based on historical collection rates which we consider to be reasonable for estimating future losses.

Other sundry debt arrears and cost provision

Arrears and provision as at 31 March 2021 were £22.7 million and £2.4 million respectively. The vast majority of the sundry arrears relate to HRA, Spitalfields Market, Port Health and Environmental Services and Police.

All significant debts in respect of these sundry debts are reviewed on a case-by-case basis and we are satisfied that reasonable assumptions have been made in calculating the provision for these debts.

We consider these to be reasonable for estimating future losses.

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RELATED PARTY TRANSACTIONS

There is a risk that related party disclosures are not complete or accurate.

Risk description

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud. Our audit approach includes the consideration of related party transactions throughout the audit including making enquiries of management and the Audit and Risk Management Committee.

There is a risk that related party disclosures are not complete or accurate.

Details

We carried out the following planned audit procedures:

- Reviewed management processes and controls to identify and disclose related party transactions;
- Reviewed relevant information concerning any such identified transactions;
- Discussed with management and reviewed members' and management declarations to ensure that there are no potential related party transactions which have not been disclosed; and undertaken Companies House and Charity Commission searches for potential undisclosed interests.

Results

Our audit testing identified five related party transactions that were not disclosed in the financial statements and one related party disclosure where the payable values were incorrectly disclosed. Management has confirmed that these will be corrected in the revised version of the financial statements. As in previous years, we have also noted, as part of this audit, that the vast majority of related parties included in the table in note 35 are deemed to be directors or key managers in common which does not meet the 'related' definition under IAS 24: Related Party Disclosures and therefore should not be disclosed as related party transactions. We recommend that management carry out a critical review of their related party disclosures and exclude those that do not meet the definition of a related party so as not to detract the readers attention from those that do meet the definition of a related party.

During our review of declarations, it was noted that a number of declarations have not been completed accurately nor completely, with the member either leaving sections blank, or omitting to sign the forms. A control weakness has been raised regarding this matter and that above on page 59.

Conclusion

Except for the issues noted above, the related party transactions disclosures are appropriate.

GOING CONCERN

We are required to highlight any judgements about events or conditions that may cast significant doubt over the entity's ability to continue as a going concern

The concept of going concern within the public sector context focuses on the continuation of service delivery.

Management's assessment of going concern

Management continue to regard the City Fund as a going concern. This is based on the current level of reserves held, a history of prudent financial management and the fact that the majority of the Fund's activities are Government-funded.

In coming to this assessment management has taken into account the Corporation's 2021/22 budget and the wider medium term financial plan which maps on a rolling basis expected financial pressures over a four years period. [This medium-term financial plan was subsequently updated further in February 2022.](#)

Discussion and conclusion

We have concluded that it is appropriate that the financial statements are prepared on a going concern basis given that there is no anticipated cessation of service provision.

We therefore agree with the Corporation's assessment that there are no events or conditions that may cast on the Corporation's ability to continue as a going concern.



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The following are additional matters arising during the audit which we want to bring to your attention:

Issue	
Bank and petty cash reconciliation differences	<p>The Corporation’s bank reconciliation does not reconcile by £128,000. Management believe that £90,000 of this relates to an old fraud case and amounts have yet to be analysed to confirm if they should be written out. The remaining difference of £38,000 could not be fully explained by management.</p> <p>The Petty Cash reconciliation log included un-investigated small differences totalling £456.</p> <p>This is below our reporting threshold for uncorrected misstatements. However, a bank reconciliation is a key internal control in order to confirm the accuracy of the cash balance on the balance sheet so we therefore recommend that the bank reconciliation differences are appropriately investigated and dealt with so that the bank reconciles correctly.</p>



OTHER MATTERS

NEW SECTION - INFRASTRUCURE ASSETS

The following are additional matters arising during the audit which we want to bring to your attention:

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Issue

Infrastructure Assets

Background

Historically it has been generally accepted public sector practice for authorities to not write out the value of replaced highways infrastructure components and/or those components which are fully depreciated from the balance sheet. This practice has recently been highlighted as contrary to the Code requirement that the carrying amount of replaced components be written out of the Balance Sheet. There are various reasons for the historic practice being adopted including; asset registers not recording infrastructure assets with sufficient level of detail to identify individual infrastructure assets or changes to them and processes which drive infrastructure spend (eg condition surveys) not recording historical information relating to previous spend.

The City Fund adopts this common approach to accounting for infrastructure assets. At 31 March 2020 the Council had infrastructure assets in its balance sheet with a net book value of £51.6 million, which is material. The balance as at 31 March 2021 is similarly material at £48.8 million. The corresponding gross balances are £118.3m and £123.6m respectively.

Over time, this common approach is likely to have resulted in a material overstatement of gross book value and accumulated depreciation in the notes to the balance sheet and net book value may be materially overstated if infrastructure is being replaced more frequently than useful economic lives suggest.

This issue has been raised nationally with the NAO, CIPFA and all public sector audit suppliers and a task and finish group has been set up by those stakeholders to review the options for addressing this noncompliance.

Several meetings have been held and CIPFA ran a consultation process to consider options including (but not limited to):

- Override of certain provisions within the Code and its guidance relating to the accounting for infrastructure assets
- Methods for obtaining missing data/records such that the extent of any misstatement can be reasonably quantified
- Modification of the audit opinion (although we are only aware of one instance of this occurring, with both auditors and local authorities almost exclusively opting to wait until the passing of a Statutory Instrument (see overleaf) that would eliminate the need for a modification on most cases.)

OTHER MATTERS

NEW SECTION - INFRASTRUCURE ASSETS

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Issue	
Infrastructure Assets (continued)	<p>Current status</p> <p>This matter is not yet resolved but our understanding of the latest position is detailed below.</p> <p>In respect of the gross book value and accumulated depreciation disclosures, we are anticipating that there will be an override of the existing Code requirement to disclose these amounts in the Statement of Accounts that will simply remove the requirement to do so. This is in the process of being agreed with CIPFA/LASAAC and the Financial Reporting and Advisory Board (FRAB).</p> <p>Once agreement has been reached, we understand that the wording of the Code override will be issued as an amendment to the Code, to apply retrospectively back to when IFRS was first introduced in 2010/11 and will be extant until at least 2024/25.</p> <p>On the matter of the material accuracy of the net carrying value of infrastructure assets, it is anticipated that a direction will be made, by way of a Statutory Instrument, that seeks a way forward on this issue which aims to limit instances of qualification of the accounts.</p> <p>We have not seen the proposed final wording for this Statutory Instrument (which is being drafted by DLUHC and CIPFA/LASAAC) but we expect it will be designed to be retrospective to avoid a rolling qualification on infrastructure asset balances. The Statutory Instrument will need to be approved by Parliament and there is presently no definitive timeline on when this might happen, but we know that once it is laid before Parliament it will take 21 days for it to clear that process.</p> <p>Application to City Fund</p> <p>The audit for the year ended 31 March 2021 was still open as at the time of this matter coming to light. The delays noted to the resolution of this matter at a national level have similarly delayed being able to conclude on this at an audited body specific level.</p> <p><u>This remains a live issue, with a number of key meetings in relation to this having taken place in late October, with outputs from these expected to materialise in the near future. A verbal update on further developments, and the likely implications on the audit, will be provided to the Audit and Risk Management Committee on 22 November 2022.</u></p>

OTHER MATTERS

NEW SECTION - INVESTING CASHFLOWS ADJUSTMENT

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Issue	
Investing cashflows adjustment	<p>Issue</p> <p>The Council have moved from disclosing investing cash flows from a net basis to a gross basis.</p> <p>This change affects the disclosures for 2020/21 but also the comparative disclosures for 2019/20, with the latter effected by way of a prior period adjustment. The adjustment is limited to the cash flow statement and its corresponding notes.</p> <p>Context - City of London Corporation’s treasury management arrangements</p> <p>The City of London Corporation, the legal entity of which the City Fund is a constituent fund, undertakes treasury management activities on behalf of a number of funds within the Corporation. This includes City Fund (the audited body), Bridge House Estates, City’s Cash and some smaller trusts. Cash and short term investment balances for investments within the Corporation’s portfolio are therefore split between these funds at any given date.</p> <p>While the Corporation’s treasury management records maintain a full list of gross investment activity needed to identify cash flows at the level of the Corporation as a whole, it is difficult for management to accurately isolate cash flows at an entity-specific level without manual detailed analysis. This is primarily due to the fact that the underlying investing cashflows take place <i>during</i> the day, whereas the balance sheet split is effectively an overnight position. In addition, the value of each constituent fund’s contribution to the Corporation-wide treasury management varies over the course of the year, effectively meaning that the quantum of gross purchases and gross sales attributable to a particular constituent fund needs to be weighted in a way that reflects the timing and value of these contributions.</p> <p>Accounting context</p> <p>While IAS7 does permit netting off of cash flows in some circumstances, this is only if certain criteria are met. We have reviewed these criteria and found that City Fund’s transactions do not qualify for any such exemption.</p> <p>This matter has been raised to City Fund in the past, having previously been treated as an unadjusted disclosure misstatement. This was not considered material to the financial statements primarily because the impact was limited to a note to the cash flow statements. However, the, and a technical reappraisal of this matter during the 2020/21 audit identified that this matter is now considered material. We also note that a similar situation has emerged at another London-based authority.</p>

OTHER MATTERS

NEW SECTION - INVESTING CASHFLOWS ADJUSTMENT

The following are additional matters arising during the audit which we want to bring to your attention:

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Issue	
Investing cashflows adjustment (continued)	<p>Developing a model</p> <p>Per discussions with the Group Accountant Investments & Treasury Management, two main factors drive the portion of cash flows attributable to City Fund.</p> <ul style="list-style-type: none">Firstly, the non-investment related cash flows of the participants within the treasury management strategy (including City Fund) need to be determined. This reflects the fact that, with the exception of a small headroom for prudence (c. £1m) all non-investment cash flows within the Corporation are used as part of the treasury management decision making process and therefore represent part of the pool of funds used in securing investments.Second, within the treasury management strategy itself there are frequent additions and disposals of investments within the portfolio. Typically these are money market investments with fixed terms of around six to twelve months. Given this activity is on behalf of all participants in the treasury management strategy (not exclusively City Fund), the City Fund’s share of the investing activity for a given day needs to be determined, by reference to the balance sheet for any given day.To prevent the double counting of cashflows identified in stage one against cashflows identified in stage two, the second stage only accounts for days on which there are both additions and disposals of investments (‘turnover days’) <p>Challenging of the model - daily aggregation</p> <p>While the approach above is intended to model gross cash flows attributable to City Fund, it is not able to account for the fact in practice investment activity decisions take place <i>during</i> the day. While this investment decision is based on management’s best estimate of expected cash flows over the course of the day, this will not always be exact, and there may be situations where a large receipt arrives a day earlier than anticipated, and so is not included in the investment deal decision making. This, in combination with the ‘headroom’ for prudence means that there will always to some degree be an ‘overnight’ balance, creating a mismatch between the modelled cash flows and the actual cash flows, by way of a time lag.</p> <p>While generally the difference between a cashflow being modelled for one day rather than the next or preceding day is minimal (as City Fund’s share of the Corporation’s balance sheet does not change significantly day to day) there is a risk that transactions at the start and end of the year are modelled to the incorrect accounting period.</p>

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NEW SECTION - INVESTING CASHFLOWS ADJUSTMENT

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Issue	
Investing cashflows adjustment (continued)	<p>To address this risk, the Corporation have analysed bank transactions at the start and end of the year (both for 2020/21 and the 2019/20 comparatives) so that this can be modelled in.</p> <p>Cashflow - modelled approach versus detailed approach</p> <p>Ultimately the cashflow model is a way of determining, based on aggregated data, the extent of investing cashflows attributable to City Fund based on underlying data. Potentially, the use of a more granular approach may yield a different result.</p> <p>In order to evaluate whether this difference could potentially be material, we requested the Corporation to produce a detailed analysis for a randomly selected month (September 2020) to assess the extent to which this more granular approach produced results that were consistent with the aggregated approach adopted in the model. A threshold based on 1/48th of materiality (£499k) was adopted, on the basis that differences greater than this (either for additions or disposals) may indicate that the model is not able to materially reflect the results of the more granular approach. The overall difference arising from this comparison was a difference of £178k for disposals and £137k for purchases, both below our threshold, with the net difference of £41k, which was also below our threshold.</p> <p>Audit work performed</p> <p>We reviewed the procedures management performed against the three year end cut-off dates noted above, as well as the two cut-off dates reviewed in the September 2020 detailed analysis. While we agreed with management’s overall approach, we found one instance (in relation to the 31st March 2021 cut-off date) where the method of splitting banking transactions designated as “not applicable” differed from the treatment adopted from those in the other cut-off dates reviewed. This did not result in a material misstatement, but has been included in our consideration of unadjusted misstatements below.</p> <p>No other exceptions.</p> <p>Testing of underlying data - accuracy</p> <p>The cashflow model is based on large volumes of aggregated data. For both 2020/21 and the 2019/20 comparatives we tested the following inputs on a sample basis:</p>

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Issue	
Investing cashflows adjustment (continued)	<div><ul style="list-style-type: none">Starting trial balance cash balance at a Corporation and City Fund specific level (needed to determine the share of cash attributable to City Fund on any given day)Corporation’s actual bank balance statement at the end of a day (needed to demonstrate the integrity of the model)Any manual adjustments made to the model (generally due to timing differences between cash receipt/payment and reflection in the general ledger)Testing of underlying investment activity<p>Our testing also considered the mathematical accuracy of the model and the Corporation’s arrangements for ensuring all relevant activity was identified to support the completeness of the disclosure.</p><p>As part of this process we identified a number of changes that needed to be made to the model, to account for situations where, while activity investment took place, no underlying cashflow took place on that day (i.e. rollover of an existing investment). The Corporation’s models and disclosures were updated to reflect this feedback and other minor findings.</p><p>As part of our comparison of the starting trial balance for 2019/20, we noted that the version used in the Corporation’s calculations was not the version used in the final version of the accounts for that year and that intercompany adjustments therefore had not been allocated for. This impacted City Fund’s overall share of cashflows both at the starting date and for the remainder of the year. However we assessed this and found that the impact of correcting this would not be material and so the matter has been reflected as an unadjusted misstatement.</p><p>We also note that both the 2019-20 and 2020-21 models include an unreconciled difference between the apportioned gross cashflows identified from the model, and the net movement in City Fund’s share of investing cash flows, of £0.1m and (-£1.8m) respectively. This variance results from the timing differences maintained on the GL (i.e. where the transaction date for cash-based transactions differs on the GL vs the bank statement).</p><p>None of our findings were fundamental to the integrity of the model and they were not individually or cumulatively material.</p></div>

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MATTERS REQUIRING ADDITIONAL CONSIDERATION

Fraud

Whilst the Council’s directors and officers have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds that have come to your attention since we last enquired when presenting the audit plan on 14 March 2021.

Laws and regulations

We consider that the most significant considerations for your organisation are the:

- Local Government Acts of 1972, 1985, 1992 and 2003
- Localism Act 2011
- Local Government Finance Acts of 1988, 1992 and 2012
- Local Government and Housing Act 1989
- Local Audit and Accountability Act 2014
- Accounts and Audit Regulations 2015
- GDPR (or Data Protection Act 2018)
- VAT legislation
- PAYE legislation.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

Related parties

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud.

We did not identify any significant matters in connection with related parties.

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We are required to bring to your attention unadjusted differences and we request that you correct them.

There are nine unadjusted audit differences identified by our audit work which, in conjunction with the impact of brought forward unadjusted errors, would increase the deficit on the provision of services for the year of £100.4m by £5.5m and would decrease net assets of £1,179.2m by £5.5m.

The general fund balance would decrease by £0.8m and the Collection Fund Adjustment Account by £4.7m if these audit differences were adjusted.

You consider the remaining differences to be immaterial in the context of the financial statements as a whole.

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance Sheet	
	NET DR/(CR) £m	DR £m	(CR) £m	DR £m	(CR) £m
Unadjusted audit differences					
Deficit on the provision of services for the year before adjustments	100.4				
1: Impact of brought forward unadjusted errors	(0.4)				
DR Net Assets				0.4	
CR Expenditure			(0.4)		
2: As part of our sample testing of fees and charges we identified one instance where recovery income from a Housing Benefit overpayment, totalling £39,303.12, had been classified as income rather than as a reduction to expenditure. Extrapolated across the sample population, this leads to an overstatement of income of £1,201,387.80 and a corresponding overstatement of expenditure of £1,201,387.80. There is no net impact on the accounts as a whole. This error is projected in nature.	0				
DR Gross Income		1.2			
CR Gross Expenditure			(1.2)		

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance Sheet	
	NET DR/(CR) £m	DR £m	(CR) £m	DR £m	(CR) £m
Unadjusted audit differences					
3: As part of our sample testing of non-rental investment property income, we noted one instance whereby the value of insurance income recognised was £30,276.79 greater than the value to which the authority was entitled. This arose from a tenant revaluation which results in a lower premium for policy years 2019-20 and 2020-21 for £30,095.01 and £30,276.79 respectively. While these amounts were credited in April 2021, the conditions giving rise to this revaluation existed prior to year end and should have been accrued for in 2020-21. An associated smaller error of £8,046.16 and an offsetting error of £4,857.59 was also noted giving a total error of £33,283.58 . Though this is trivial, this leads to an extrapolated overstatement of investment property income of £283,956.02 with a corresponding overstatement of accounts receivable.	0.3				
From discussions and correspondence with management, we note that while it was agreed that this should have been accrued for in principle, the ledger closure timetable limits management's ability to make adjustments for information received shortly after year end (and this credit was not material). This error is projected in nature.					
DR Investment Property income		0.3			
CR Accounts receivable					(0.3)

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UNADJUSTED AUDIT DIFFERENCES: DETAIL

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	Income and expenditure			Balance Sheet	
	NET DR/(CR) £m	DR £m	(CR) £m	DR £m	(CR) £m
Unadjusted audit differences					
4: As part of our testing of accruals within short term creditors we noted one instance whereby an invoice had been over accrued. The sampled item is an agency transaction with a corresponding short term debtor. Both sides are overstated by £1,775,131. There is no underlying impact on net income. This error is projected in nature.	0				
DR Short Term Creditors				1.8	
CR Short Term Debtors					(1.8)
5. Estimation difference on depreciation charged to HRA council dwellings due to high useful asset life of 125 years applied against a more comparative 100 years. This difference is judgemental in nature.	0.4				
DR Depreciation		0.4			
CR HRA Dwellings					(0.4)
6. Estimation difference on additions in the year with no depreciation applied. We note that the practice adopted is consistent with wider practice amongst local authorities. The misstatement is judgemental in nature as it is based on high-level assumptions around the profiling of asset additions across the course of the year.	0.5				
DR Depreciation		0.5			
CR Property, Plant and Equipment					(0.5)
7. Estimation difference on City Fund share of NNDR appeals provision. This is judgemental in nature.	4.7				
DR Expenditure		4.7			
CR Provisions					(4.7)

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	Income and expenditure			Balance Sheet	
	NET DR/(CR) £m	DR £m	(CR) £m	DR £m	(CR) £m
Unadjusted audit differences					
8. Investing cashflows - gross adjustment - 2020/21	N/A				
<p>In modelling City Fund's share of investing cashflows, the Corporation performs detailed reviews/adjustments at the start and the end of the accounting period. This includes a detailed review of all banking activity for that particular day, and identifying to which fund (e.g. City Fund) the banking activity is attributable to. For each period reviewed, a small balance of "N/A" transactions was identified. These were classed as N/A because the Corporation was not possible to retrospectively determine which Fund the transaction ultimately related to without further detailed analysis; these were therefore excluded from City Fund's share. For the purposes of this exercise, it is reasonable to only include transactions where the Corporation is certain that the underlying transaction relates to City Fund and so the auditor agreed with this treatment, and the assertion that the quantum of N/A's was not material.</p> <p>However, while this treatment of N/As was adopted for the cut-off dates 31/03/2019 and 31/03/2020, a different treatment was adopted as at 31/03/2021 with the balance of N/A being split 30%/40%/30% between the three main funds (BHE, City Fund and City's Cash respectively). On querying this treatment, we were advised that this was an estimate, but had not been based on a specific methodology. Given this treatment varied from the approaches taken for the previous two dates, but without a clear rationale, we consider the different approach to generate a misstatement by overstating City Fund's share of investment purchases to be understated by £1.0m.</p> <p>Given this misstatement arises from the inconsistent application of an approach, albeit an approach which itself involves a degree of judgement, we consider the error to be judgemental in nature.</p>					

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	Income and expenditure			Balance Sheet	
	NET DR/(CR) £m	DR £m	(CR) £m	DR £m	(CR) £m
Unadjusted audit differences					
9. Investing cashflows - gross adjustment - 2019/20	N/A				
In modelling City Fund's share of investing cashflows, the Corporation uses balance sheet information at a Corporation-wide and City Fund specific level to determine City Fund's share of assets at any given day, by reference to cost centre totals. This is done by establishing City Fund's share of the balance sheet at the start of the year and then tracing daily movements for the remainder of the year. For both years' disclosures the auditor re-performed this process on a sample basis. We noted that, in performing this exercise for 2019/20, incorrect starting data had been used. This was due to version control; the version used was that used perform interest allocations, rather than the final version with intercompany adjustments. We estimate that use of the correct version would have decreased City Fund's share of assets by an average of 0.4% over the course of the year, by approximately £3.2m.					
This error is projected in nature. This did not impact the 2020/21 disclosures against which a fresh data set had been used.					
Total unadjusted audit differences	5.5	7.1	(1.6)	2.2	(7.7)
Deficit on the provision of services for the year if above issues adjusted	105.9				

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UNADJUSTED AUDIT DIFFERENCES: DETAIL

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Impact on the General Fund balance and HRA balance	General Fund balance £m	HRA balance £m
Balance before unadjusted audit differences	254.3	(0.2)
Impact on deficit on the provision of services above	(0.8)	-
Adjustments that would be reversed from the General Fund and HRA balance through the Movement in Reserves Statement	-	-
Balance / Balances if above adjustments made	253.5	(0.2)

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UNADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

We are required to bring to your attention other financial reporting matters that the Audit and Risk Management Committee is required to consider.

The following unadjusted disclosure matters were noted:

- The front-end reporting of outturn does not reconcile to the Expenditure & Funding Analysis (EFA). The purpose of the EFA is to reconcile management information to what is in the accounts. This difference also means that the EFA does not provide the segmental information required by IFRS 8 as is presumed by the Code. This is a finding that has been raised in previous years.

We discussed this with management. In line with the approach taken last year, the EFA presents the general and earmarked reserve balances together whereas the front end focuses on the general reserve position and links to how the City Fund reports in year and at outturn. On this basis, the segmental position is provided, but in a way that excludes reserve movements in the EFA on order to come back to the CIES.

- In Note 35, there are a significant number of disclosures that do not appear to meet the definition of a related party transactions under IAS 24: Related Party Disclosures and therefore should not be disclosed as related party transactions. This is a finding that has been raised in previous years.

We discussed this with management. In line with the approach taken last year, management are of the view that including these additional disclosures is aimed at increasing transparency and so will be retained.



UNADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

We are required to bring to your attention other financial reporting matters that the Audit and Risk Management Committee is required to consider.

The following unadjusted disclosure matters were noted:

Related party transaction note 35 - management included a related party transaction with the Museum of London as it is financed by the City of London and the Greater London Authority (GLA) with the latter being the major funder as a 'co-sponsor.' Half of the appointments to the Board are made by the City of London and the other half by the GLA. Management has disclosed that the City of London does not exercise control over the Museum. Whilst management has concluded that it does not exercise control we are of the view that the City of London does have the power to exercise joint control and may need to account for the Museum as a joint venture, with group consolidation on an equity basis when/if this becomes material to the financial statements.

The Museum's published accounts for 2020/21 include net liabilities of £19.9m (2019/20: net assets of £1.9m). The in-year movement in net liabilities of £21.8m is primarily caused by an increase in the pension reserve by £22.1m.

Under the equity accounting method, it is likely that 50% of both the movement and closing balance would be considered City Fund's share. In addition, the Code requires net asset movements arising from equity accounting to distinguish between the investee's profit and loss (which should be reflected in the authority's surplus or deficit on the provision of services) and the investee's Other Comprehensive Income (which should be reflected in the authority's Other Comprehensive Income).

The City Fund should consider these different dimensions in assessing the materiality of the City Fund's relationship with the Museum. For 2020/21, we are of the view that neither the net liabilities position nor the movement in net assets were material, but this situation will need to be revisited by both the City Fund and the auditor on an annual basis.

Management remain of the review that the City of London Corporation does not exercise control of the museum. This position is based on the legal form of the relationship between the two bodies (as determined by the Museum of London Act 1965 'the Act') and the ultimately statutorily defined nature of the museum's activities, relative independence of appointees from the Corporation, and the extent to which this limits the ability of the Corporation to exercise control. Management have used this to inform a collaboration accounting assessment and concluded that this creates a situation whereby Joint Control (with the GLA) cannot be said to exist and that the legal status above means that the Corporation does not enjoy rights and obligations to the net assets of the museum.

The auditor has considered the information and arguments provided as part of our own assessment, and against the principle of 'faithful representation and substance over form', as reflected in the Code (2020/21) which clarifies that when the substance of an economic phenomenon and its legal form are not the same, providing information only about the legal form will not faithfully represent the economic phenomenon. This does create situations whereby, while the legal form of an arrangement should be considered when forming an assessment of the accounting treatment, the legal form alone does not bind the accounting treatment in situations where the accounting standards direct a different approach. On the basis of our technical review of the Act, the ability of the Corporation to appoint 50% of the Board provides the Corporation with the potential to exercise control even where this is not exercised in practice, and that this consideration creates a situation where a control relationship exists from an accounting perspective, even if the legal form of the arrangements do not support this. The matter is not material for 2020/21.

ADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year



There were two audit differences identified by our audit work and by management that were adjusted by management. This increased the draft deficit on the provision of services of £100.4m by £0.6m and decreased draft net assets of £1,179.2m by £0.6m.

There was no impact on the general fund balance.

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ADJUSTED AUDIT DIFFERENCES: DETAIL

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	NET DR/(CR) £m	DR £m	(CR) £m	DR £m	(CR) £m
Adjusted audit differences					
Deficit on the provision of services for the year before adjustments	100.4				
Adjustment 1: The GLA and NNDR elements of the balance sheet do not agree to NNDR 3. The working originally provided by the Group Accountant had distributed the balance of NNDR debtor based on the proportionate shares. However, central government has a deficit balance in the prior year which make the balances different: therefore these balances needed to be adjusted in order to bring them in line with NNDR 3.	(2.8)				
DR Creditors			(2.8)		
CR Taxation & Non-Specific Grant Income				2.8	

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	Income and expenditure			Balance Sheet	
	NET DR/(CR) £m	DR £m	(CR) £m	DR £m	(CR) £m
Adjusted audit differences					
Adjustment 2: Great Arthur House - subsequent event	3.4				
<p>An adjusting event after the reporting date was identified with respect to the conclusion of a legal case. The Code describes settlement after the reporting period of a court case that confirms a present obligation at the end of the reporting period (i.e. 31 March 2021) as an adjusting event. The issue was the extent to which the lessees of Great Arthur House are liable, under the terms of their leases, to contribute to the cost of carrying out substantial works to the structure and exterior of the building. The Court of Appeal ruled against City in late March 2021 . CoL appealed to the Supreme Court but that failed (in July 2022) meaning the costs concerned are no longer expected to be fully recoverable.</p>					
DR Taxation & Non-Specific Grant Income		3.4			
CR Short Term Debtors					(3.4)

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	NET DR/(CR) £m	DR £m	(CR) £m	DR £m	(CR) £m
Adjusted audit differences					
Adjustment 3: Gross cash flows					
As noted in 'Other Matters', the City Fund has moved from disclosing its cashflows from investing activities from a net basis to a gross basis.					
Previously, only the net movement in investing cashflows was disclosed, under a single line 'Movement in short-term and long-term investments' at £127.6m for 2019/20 and £57.8m for 2020/21. These are now disclosed on their gross basis, being gross purchases and sales of £2,266.1m/(£2.138.5m) and £1,943.7m/(£1,885.9m) respectively.					
This did not have a net impact.					
Adjusted deficit on the provision of services for the year	101.0				

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

Impact on the General Fund balance and HRA balance	General Fund	
	balance £'000	HRA balance £'000
Balance before audit differences	254.3	(0.2)
Impact on deficit on the provision of services above	-	-
Adjustments reversed from the General Fund and HRA balance through the Movement in Reserves Statement	-	-
Balances after the above adjustments	254.3	(0.2)

The adjusted audit differences do not impact the General Fund balance or the HRA balance. The adjusted audit impacts the Collection fund adjustment account, which is an unusable reserve.

ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

We are required to bring to your attention other financial reporting matters that the Audit and Risk Management Committee is required to consider.

The following are the most significant adjusted disclosure matters that were noted:

- Note 25 Judge's Pension scheme - disclosure of net liability needs to be updated to £2.8m for 2020-21.
- Note 23 Pension scheme - reconciliation of present value of the scheme liabilities table should be updated in the draft accounts so they match the prior year signed accounts.
- Note 23 Pension scheme - impact on the City Fund's cash flows needs to be changed from £470.5m to £469.0m.
- Note 30 Operating Leases (City Lessor) - amounts should be disclosed to nearest £0.1m
- Note 35 Related Party Transactions -
 - Eight Members Club: Receivables of £3,370.00 were not entered in the draft accounts
 - Hiscox Group: Receivables of £10,900.00 was not entered. Payables of £18,000.00 was entered in the draft account as opposed to the value in the AP listing records, being £18,070.00 from Hiscox Group.
 - Homerton University Hospital's payables of £83,440.00 was rounded to £84,000.00 rather than £83,000.00.
 - International Dispute Resolution Centre: No transactions were recorded on the Draft Accounts. The receivables listing showed £1,937,043.00.
 - PWC LLP: Draft Accounts records no transactions. Receivables listing records £11,143.00.
 - The CityUK: The Draft Accounts records £17,000.00. Neither the Receivables nor Payables listings recorded any transactions.
- Note 9 Exit Packages charged to City Fund - Four employees had been classified as 'Other Departures' whereas in practice these related to 'Compulsory Redundancies'. This error arose as a result of the note having been prepared by management based on summary information sent by Human Resources (explaining the reason for departures), but without having reviewed the underlying termination contracts (which had different reasons). This error did not change the overall value of exit packages.
- Note 13 There is a disclosure requirement in the code around the effective date of valuations that was absent from the original accounts.
- The Accounting Policies should make reference to IFRS 16.
- [Note 37 Contingent liabilities was removed due to the settlement of a legal case to which the contingent liability referred.](#)
- [An event after the reporting date has been recorded with respect to this same settlement.](#)
- [Note 35 Related party transactions was expanded to reflect City Fund's relationship with Museum of London, including an assertion that the City Fund does not exercise control over the Museum.](#)
- [The disclosures in relation to gross cash flows for investing activities have been clarified to draw the reader's attention to the presence of a prior period adjustment](#)
- [Note 13: Surplus Assets has £0.7m disclosure error on opening & closing cost and opening & closing accumulated depreciation for both current and prior year. Should be CY £3.1m, £2.3m, £0.0m, £0.0m and PY £3.0m, £3.1m, £0.0m, £0.0m](#)
- [Note 13: OLB has £0.6m disclosure error on opening & closing cost and opening & closing accumulated depreciation for both current and prior year. Should be CY £505.0m, £508.6m, \(£3.4m\), \(£3.9m\) and PY £498.8m, £505.0m, \(£4.9m\), \(£3.4m\)](#)

ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

- **Note 11: In the line for Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (transfers to or from the Capital Adjustment Account) the total is 72.1.** It was noted in the 19/20 audit that this included 1m that should have been moved from this line into the line Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account). This appears to also be the case in the 20/21 figures and therefore would indicate that this item is in error again this year as 1.1m from the MRP seems to have been included in this 72.1m.
- **Financial instruments note 18 table 1 and table 3 short term debtors total includes prepayments of 8.8m. These are not financial assets.**
- **Disclosure in note 19 interest rate section the narrative states 4.6m whereas the table states 4.3m. These should agree, with 4.3m being the correct value.**
- The Preface to the accounts refers to a “material valuation uncertainty” in relation to the valuation of property assets, citing a year end value of £1.1m. However, our review of valuation reports indicates that the City Fund’s external valuer has also identified a material valuation uncertainty with respect to all Car Park assets as set out in VPS 3 and VPGA 10 of the RICS Valuation - Global Standards, meaning that “in respect of these valuations less certainty - and a higher degree of caution - should be attached to our valuation than would normally be the case.”

These assets have a total value of £16.4m. Consequently, in respect of these material uncertainties, which are material to the accounts, management should enhance the disclosures under Note 2c) Assumptions Made About the Future and Other Major Sources of Estimation and Uncertainty - c) Property Valuations setting out these uncertainties (a similar approach was taken in 2019/20 for uncertainties identified in that year.) We will then need to refer to this in our auditor’s report by way of an emphasis of matter.
- A number of presentational or typographical changes were identified by the auditor and agreed with management, which are not material for separate itemisation within this report.

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REPORTING ON OTHER INFORMATION

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

Matter	Comment
We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	We are satisfied that other information in the Narrative Report is consistent with the financial statements and our knowledge.
We are required to report by exception if the Annual Governance Statement is inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Corporation review of effectiveness and our knowledge of the Corporation.	We have no matters to report in relation to the consistency of the Annual Governance Statement with the financial statements and our knowledge.

SPECIAL REPORTING POWERS AND DUTIES

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Matter	Comment
We have not identified the need to use and do not plan to use any special reporting powers and duties.	N/A.



WHOLE OF GOVERNMENT ACCOUNTS

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The Council is required to prepare a Data Collection Tool (DCT) return for use by the Department for Levelling Up, Housing and Communities (DLUHC) for the consolidation of local government accounts, and by HM Treasury at Whole of Government Accounts level.

Auditors are required to review Whole of Government Accounts (WGA) information prepared by component bodies that are over a prescribed threshold in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure.

The OSCAR II system for submission of the 2020/21 WGA DCT is not yet available and HM Treasury has not yet confirmed the thresholds or timetable for audit review. The Group Audit Instructions, which include the required programme of work for auditors, have therefore not yet been issued.

In the prior year, the threshold was £500 million and we were therefore required to perform tests on the DCT. This work included checking the consistency of the DCT return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.

We will update the Audit and Risk Management Committee on this issue when further information is available.



USE OF RESOURCES OVERVIEW

New Code of Audit Practice (“Code”)

The Comptroller & Auditor General has determined through a new Code and guidance that the key output from local audit work in respect of value for money (VFM) arrangements is a commentary as reported in the Auditor’s Annual Report, not a VFM arrangements ‘conclusion’ or ‘opinion’. There may be matters referred to in the auditor’s commentary that do not represent significant weaknesses in arrangements and where significant weaknesses are reported we are required to also report recommendations.

As auditors we need to gather sufficient evidence and document our evaluation of arrangements to enable us to draft our commentary under three reporting criteria. These criteria are:

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** (‘Improving 3Es’) - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Risk of Significant Weakness

At the time of our Audit Planning Report of 14 March 2021, we were awaiting formalisation of the scope and guidance.

We have since received these and completed our risk assessment. Against this, we identified two potential significant risks

- Medium Term Financial Planning - City Fund, City Police, Capital Schemes
- Limited Assurance Internal Audit Reports

Our work is substantively complete and our detailed commentary will be included as part of our Auditor’s Annual Report. We have no exceptions to report at this stage in respect of the Council’s value for money arrangements. Summary findings are included on the following pages.

Audit Risk	Criterion	Risk Rating	Findings
Medium Term Financial Planning - City Fund, City Police, Capital Schemes	Financial Sustainability	Significant	No identified significant weaknesses.
Limited Assurance Internal Audit Reports	Improving economy, efficiency and effectiveness	Significant	No identified significant weaknesses.

USE OF RESOURCES OVERVIEW - MEDIUM TERM FINANCIAL PLANNING - CITY FUND, CITY POLICE, CAPITAL SCHEMES SUMMARY FINDINGS

There is a risk that the Council has insufficient arrangements to identify and achieve savings requirements to balance its budget in the medium term, including through the appropriate integration of City Police funding and of Capital Schemes.

Risk description

There is a risk that the Council has insufficient arrangements to identify and achieve savings requirements to balance its budget in the medium term, including through the appropriate integration of City Police funding and of Capital Schemes.

Work performed

We carried out the following planned audit procedures:

- Reviewed the Council's arrangements for identifying significant financial pressures relevant to its short and medium financial plans, and how the Council plans to bridge known funding gaps and identify achievable savings;
- Reviewed the assumptions used in the Medium Term Financial Plan, including those pertaining to City Police and Capital Schemes.

Results

Our audit work did not identify any issues.

Discussion and conclusion

The Corporation's arrangements for 2020/21 were in the context of the response to the Covid-19 pandemic. To varying degrees of intensity, but for the whole period, the Corporation has as with other local authorities been at the 'front line' of then national response to the Covid-19 pandemic, requiring changes both to short term governance arrangements and medium-term planning, presenting significant financial and operational challenges.

The Corporation has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its statutory and strategic priorities in the medium term, including with respect to City of London Police and the integration of major capital projects into the medium-term planning arrangements.

However, the assumptions supporting the medium-term financial strategy are reliant on the identification of significant recurrent savings (12%) which, while progress has been made, have not yet been fully identified and have required some one-off non-recurrent savings to be made. However, as part of bilateral meetings the process for identifying ongoing medium-term savings continues. This is monitored by the Efficiency & Performance Sub (Finance) Committee.

Furthermore, we have noted that while the budget for 21/22 was set on a "steady cash" assumption (based on low inflation rates at the time), recent increases to the inflation rate may undermine this assumption in the medium term. We note however that the impact of this (as manifested in increased construction and contract/supplier costs) has been considered at the Resource Allocation Sub (Policy and Resources) Committee as part of its September 2021 'Away Day' update on Medium Term Financial Planning.

We have also noted that changes have been made to the authority's creditworthiness policy (for investments) and that, for the first time, the Corporation has identified the need for short term internal borrowing as part of its treasury management pending the timings of disposal of investment properties, with the planned loan expected to be intra-fund (with City's Cash). While it is common for local authorities to engage in borrowing, particularly through inter-authority loans or the Public Works Loan Board (although City Fund are not engaging in this type of borrowing), the authority should continue to monitor and challenge the use and purpose of borrowing or changes to investment strategy in the medium term, to ensure that appropriate oversight remains in place.

Significant risk

Normal risk

Financial sustainability

Governance

Improving economy, efficiency and effectiveness

Significant control findings to be reported

USE OF RESOURCES OVERVIEW - LIMITED ASSURANCE REPORTS SUMMARY FINDINGS

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The presence of limited assurance internal audit reports may undermine the Council's ability to secure improvements to economy, efficiency and effectiveness within affected service areas.

Risk description

The presence of limited assurance internal audit reports may undermine the Council's ability to secure improvements to economy, efficiency and effectiveness within affected service areas.

Work performed

We carried out the following planned audit procedures:

- *Reviewed the follow up arrangements in place for all 'amber' or 'red' rated assurance reports concluded in 2020/21*
- *Reviewed the Council's arrangements for reporting and following up on internal audit recommendations as a whole*

Discussion and conclusion

For 2020/21, the Corporation has had the arrangements we would expect to see to enable it to make informed decisions and properly manage its risks. As part of our risk assessment we considered whether the presence of 3 'red' limited-assurance reports represented a potential significant weakness in arrangements. However, from the follow-up work performed by the Corporation, it is clear that matters identified are being addressed and that the overall mechanisms for monitoring and addressing recommendations are robust.

Significant risk

Normal risk

Financial sustainability

Governance

Improving economy, efficiency and effectiveness

Significant control findings to be reported

Results

Our audit work did not identify any issues.

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We are required to report to you, in writing, deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Audit and Risk Management Committee.

As the purpose of the audit is for us to express an opinion on the City Fund’s financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

Area	Observation & implication	Recommendation	Management response
Bank and petty cash reconciliations	<p>Our audit testing has found that the Corporation bank reconciliation does not reconcile by £128,000.</p> <p>Management believe that circa £90,000 of this relates to an old fraud case and amounts have yet to be analysed to confirm if they should be written out.</p> <p>The remaining difference of £38,000 could not be fully explained by management.</p> <p>The Petty Cash reconciliation log included un-investigated small differences totalling £456.</p> <p>A bank reconciliation is a key internal control in order to confirm the accuracy of the cash balance on the balance sheet.</p>	<p>The bank and petty cash reconciliation differences are appropriately investigated and dealt with.</p>	<p>We agree with the recommendation and will update the Audit and Risk Management Committee separately in due course.</p>
Related party transactions	<p>Majority of related parties included in Note 35 are deemed to be directors or key managers in common which does not meet the ‘related’ definition under IAS 24: Related Party Disclosures. This could detract the readers attention from those that are considered to be related party.</p>	<p>We recommend that management carry out a critical review of their related party disclosures and exclude those that do not meet the definition of a related party so as not to detract the readers attention from those that do meet the definition of a related party.</p>	<p>We are of the view that including these additional disclosures helps to increase transparency and so these will be retained for the current year. The issue has recently been discussed with members, who similarly favour the extended reporting format adopted. However, the matter will continue to be reviewed ahead of the 2021/22 accounts closing process.</p>

CONTROL ENVIRONMENT: OTHER DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Payroll Contract	During our sample testing, we have noted 6 out of 40 contract has not been signed by the employees.	Signed contract ensures both parties (employer and employee) are in agreement to the terms and conditions of the employment and will serves to reduce the chance that one party will have grounds for legal action in future.	The recommendation is accepted. The Corporation are currently reviewing processes with in HR and will seek to address this as part of that review.
Related party transactions	<p>During our review of declarations, it was noted that a number of declarations have not been completed accurately nor completely, with the member either leaving sections blank, or omitting to sign the forms.</p> <p>Not receiving complete declarations may lead to management not identifying related party transactions during the accounts preparation process, and may also influence financial decisions during the year if a related party is not included on a register of interest.</p>	The importance of completed declarations should be reinforced to all members, through training if necessary. These declarations should then be reviewed when returned to ensure all information is complete before they are then subject to our review and consideration.	We acknowledge the issue and will continue to work with Members on the completion of returns. Whilst several opportunities were provided to officers and members to directly contact the team and Financial Services Director to support them in their responses - this obviously has not worked and we will seek how we can improve this section.
Exit packages charged to City Fund	<p>Four employees had been classified as 'Other Departures' whereas in practice these related to 'Compulsory Redundancies'. This error arose as a result of the note having been prepared by management based on summary information sent by Human Resources (explaining the reason for departures), but without having reviewed the underlying termination contracts (which had different reasons).</p> <p>A note was prepared incorrectly as the summary information sent by HR was incorrect and the detailed information not separately reviewed by the note preparer</p> <p>This led to the note being incorrect at first, with changes only identified due to the audit process.</p> <p>.</p>	Where notes to the financial statements are prepared, management should in all cases ensure that the underlying information has been reviewed prior to preparation.	We accept the recommendation and will work with HR colleagues to ensure accurate data is provided. The Corporation are currently reviewing processes with in HR and will seek to address this as part of that review.

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CONTROL ENVIRONMENT: OTHER DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Identifying gross cashflows	<p>As noted in 'Other matters', in order to determine gross investing cashflows both for the current year and the prior year, the Corporation were required to engage in a multi-stage, manual process involving large data sets. This increases the risk of misstatement.</p> <p>We understand that the Corporation is considering the procurement of a treasury management system, which would have the potential benefit of automating this quantification.</p>	The Corporation should continue to explore methods by which investment cashflows undertaken by the Corporation on behalf of its constituent funds can be systematically identified in a way that accords with the Corporation's treasury management policy.	Recommendation accepted and is already being looked into. We will seek to improve the current process now a baseline approach has been agreed.
HRA Dwelling Valuation Reconciliation	<p>The working paper used to calculate the valuation of HRA dwellings had a formula error on the summary page, causing a trivial difference which could have been prevented with an appropriate reconciliation.</p> <p>There is no reconciliation of the values for each estate valuation schedule and the summary schedule.</p> <p>Any errors on the summary schedule of the HRA dwelling valuations working are unlikely to be identified when preparing the draft accounts.</p>	There should be a reconciliation for the total HRA dwelling valuations to the valuations on each supporting estate working, which is reviewed and approved by a senior member of the capital team.	The recommendation is accepted. The Corporation are currently reviewing processes within the Capital team and will seek to address this as part of that review

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CONTROL ENVIRONMENT: IT DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Oracle EBS - CBIS	Access is not timely removed from the application, it takes around 6-8 business days to remove access post the HR termination date.	Access De-provisioning needs to be performed on the same date the user has left the organisation. The processes that are interlinked with removal of access from the application needs to be worked upon by City of London team so that there is no dependency to keep the account active post termination.	Input access to CBIS is removed immediately upon notifications of a leaver. Full access removal is linked to internal processes which must be complete before this can be actioned.
Oracle EBS - CBIS	No formal user access reviews are performed on a periodic basis. The risk is heightened as user activity logs also are not monitored on a periodic basis.	User access reviews should be performed at least quarterly and should include: <ul style="list-style-type: none"> Both administrator, Generic Account(if any) and standard user accounts; User group and individual customised levels of access reviews to identify any users who do not possess an appropriate level of access; and Checks against HR leavers lists to identify any users that should have been disabled. 	User access reviews are now in place.
Oracle EBS - CBIS	BDO noted that there is no audit logging on the system of user actions, which has been turned off due to system performance considerations and resulting in lack of monitoring of privileged and generic account access.	Audit trail should be enabled for privileged users and access activities to be reviewed on a defined frequency.	This issue will be considered as part of the system re-procurement.

CONTROL ENVIRONMENT: IT DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Oracle Database Server - CBIS	No external or independent party has been engaged to perform security assessment on Oracle database supporting central accounting application CBIS.	It is advisable for the management to consider whether a one-off or regular security assessment or penetration testing of key infrastructure elements supporting accounting applications. This testing should be carried out no less frequently than annually and should also be carried out following any significant systems change. Any test findings should be addressed in a timely manner and a remediation plan should be formally documented and approved by management.	Security assessment are now in place and are performed on a monthly and annual basis.
Oracle Database Server - CBIS	It is noted that no Data Encryption is enabled on the database supporting CBIS.	The database version should be upgraded and appropriate encryption technologies should be enforced for enhancement of security.	The current system is under re-procurement so this issue will be considered under the new system.
Oracle Database Server - CBIS	It is noted that there are no database user access reviews performed.	Database user access review should be performed at least quarterly and should include: <ul style="list-style-type: none"> Both administrator, Generic Account and standard user accounts (apart from Weir application users); User group and individual customised levels of access reviews to identify any users who do not possess an appropriate level of access; Checks against HR leavers lists to identify any users that should have been disabled. 	These reviews are now in place.
Oracle Database Server - CBIS	Auditing is enabled for the Oracle database supporting CBIS but access to make changes to the log is with the DBA's.	The logs should be made non-editable or access to the logs restricted outside of the DBA team to ascertain that logs are complete and accurate.	The system performance implications of this change mean it is not practical to implement but will be considered as part of the system re-procurement.

CONTROL ENVIRONMENT: FOLLOW UP OF PRIOR YEAR DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Prior year deficiency	<p>iTrent, Paris, Civica and Capita</p> <p>No formal user access reviews are performed on a periodic basis.</p>	<p>User access reviews should be performed at least quarterly and include:</p> <ol style="list-style-type: none"> Both administrator, Generic Account(if any) and standard user accounts; User group and individual customised levels of access reviews to identify any users who do not possess an appropriate level of access; Checks against HR leavers lists to identify any users that should have been disabled. 	<p><u>iTrent</u></p> <p>A quarterly report of all users can be run and a random check performed. (We have over 4000 users). This will cover points 1 & 2</p> <p>Leavers are disabled automatically by the system once they have left. A random check can be performed periodically.</p> <p><u>PARIS</u></p> <p>PARIS has a very small user base of 4-5 people and user access for new staff is requested via email from the manager to an administrator. There has been no turnover of the 4 permanent members of the team for the last 3 years and the trainee accountant position rotates once a year when the outgoing trainee's access is removed from PARIS and the new trainee accountant is set up with access. It is therefore not deemed necessary to perform quarterly reviews</p> <p><u>CAPITA</u></p> <p>Capita User Access was not reviewed during this audit. Users are only added after a signed instruction from a manager and are removed when a member of staff leaves. Access is reviewed on a regular basis and not less than annually.</p>
Prior year deficiency	<p>iTrent</p> <p>For samples selected with people manger role There are 2 approvals one coming from HR automated email and additional approval from line manager. These approvals were not retained by the application support team.</p>	<p>Any account within the system should only be created after formal approval. All the formal approvals should be retained on a shared drive for the purpose of the audit.</p>	<p>All email requests for People manager access will continue to be kept on the system.</p>

CONTROL ENVIRONMENT: FOLLOW UP OF PRIOR YEAR DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Prior year deficiency	<p>Capita and Orchard</p> <p>There are significant numbers of generic accounts on these systems. 6 of these accounts on Orchard also have systems access and there is on evidence of monitoring these accounts.</p>	<p>Management should reduce the number of administrative accounts available and look to only have user accounts uniquely identifiable to an individual user.</p>	<p><u>CAPITA</u></p> <p>Generic accounts are required to enable both external and internal audits. These are view only access and are only allocated during an audit. Access is removed once work is complete.</p> <p><u>Orchard</u></p> <p>Orchard has now been replaced by Civica CX. This recommendation has been incorporated as part of the implementation.</p>
Prior year deficiency	<p>Paris, Civica, Capita and Orchard</p> <p>Weak password parameters configured for the identified systems.</p>	<p>Passwords parameters should be updated to meet the current best practice guidance</p>	<p><u>PARIS</u></p> <p>[The software is old with just 4-5 users, it is purely an off-line income management system mainly for processing large volumes of income data & since it has very limited users & 3 of them being admin users, it would be counter-productive to keep changing the passwords every three months with all activity being reported daily on the log. The software is being replaced with the aim is to ensure that it meets future requirements.</p> <p><u>CAPITA</u></p> <p>Password access to the Capita system requires two passwords. This meets industry standard and are applied in line with Capita's advice.</p> <p><u>Orchard</u></p> <p>Orchard has now been replaced by Civica CX. This recommendation has been incorporated as part of the implementation.</p>

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CONTROL ENVIRONMENT: FOLLOW UP OF PRIOR YEAR DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Prior year deficiency	<p>iTrent</p> <p>Inappropriate provisioning of system admin privileges exists as both the Payroll team and the IT Team have system administrative privileges. Additionally there is no process in place to perform active review of the admin accounts. There risk is heightened as user activity logs for admin accounts are not monitored on a periodic basis.</p>	<p>We recommend that formal monitoring review over the critical activities performed by administrators which would impact financial data, be undertaken by management and evidence of this should be retained for audit purposes. This review should be performed on a quarterly basis.</p>	<p>One super user from both HR and Payroll to be made responsible for reviewing the number of sys admin users within each area.</p>
Prior year deficiency	<p>Paris, Capita and Civica</p> <p>For the identified systems, there is no monitoring of privileged user activities. For Civica the Generic account 'admin ' has system admin access and there is no activity log monitoring performed for admin account</p>	<p>The user access review process should be performed by an individual who is independent of the user access set up and deletion process. The process should include obtaining a system generated user list for the respective application which specifically details the access permissions that each user has been allocated. This should be signed by management to verify that this allocation is appropriate. If any changes are required as a result of this review, this should be requested via the formal request for user modification process. For all systems that are considered to be high risk, this review should take place on a quarterly basis. Reviews on systems considered to be a low risk should take place at least on an annual basis.</p>	<p><u>PARIS</u></p> <p>PARIS weekly activity log reports of the administrators' activities are sent to the Corporate Treasurer (who is independent of the user set up and deletion process) for review and monitoring. User access review is also mentioned here again but this is covered by the first answer above.</p> <p><u>Capita</u></p> <p>User access is controlled and monitored by the System Control Manager. All access including the type of access is signed off by the relevant line manager. As staff turnover is relatively low it is felt that an annual review is sufficient.</p>
Prior year deficiency	<p>iTrent</p> <p>There are no formal user access reviews of the database carried out.</p>	<p>We recommended that user access reviewed are performed at least quarterly and should include:</p> <ul style="list-style-type: none"> •Both administrator, Generic Account(if any) and standard user accounts; •User group and individual customised levels of access reviews to identify any users who do not possess an appropriate level of access; and •Checks against HR leavers lists to identify any users that should have been disabled. 	<p>A quarterly report can be run and a random check performed.</p>

CONTROL ENVIRONMENT: FOLLOW UP OF PRIOR YEAR DEFICIENCIES

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Area	Observation & implication	Recommendation	Management response
Prior year deficiency	Paris and Capita We noted that auditing at database level is not enabled.	The user access review process should be performed by an individual who is independent of the user access set up and deletion process. The process should include obtaining a system generated user list for the respective application which specifically details the access permissions that each user has been allocated. This should be signed by management to verify that this allocation is appropriate. If any changes are required as a result of this review, this should be requested via the formal request for user modification process. For all systems that are considered to be high risk, this review should take place on a quarterly basis. Reviews on systems considered to be a low risk should take place at least on an annual basis.	<u>PARIS</u> PARIS income management users are just 4-5 people & they do not have access to any other software apart from View only access to CBIS & Capita. Since the main users are the cashier team the Revenues Accountant (manager) does the review of the access of her own team and this is independent of the user account setup and deletion process which is performed by an administrator. Please see first answer page 64 for more details on user review.
			<u>CAPITA</u> User access is controlled and monitored by the System Control Manager. All access including the type of access is signed off by the relevant line manager. As staff turnover is relatively low it is felt that an annual review is sufficient.
Prior year deficiency	Paris No formal process for change management.	Management should ensure that authorised users must submit a Request For Change Form/Online Ticket which would be submitted to the correct authority for approval. This must outline the details of the request and be archived for at least one year.	PARIS has a very small user base of 4-5 people and change request is done via email as administering it via a ticket system is not viable for such a small user group

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Area	Observation & implication	Recommendation	Management response
Prior year deficiency	Orchard The change Management process is managed by vendor however there is no SLA or SOC report provided by the Vendor.	Management should ensure that for a formal SLA should be signed with the vendor / supplier who is responsible for performing any of the service to the business . The SLA should clearly define the scope of work to vendor and should mandate the vendor to provide assurance through the independent audit for the IT controls environment managed at the vendor side.	<u>Orchard</u> Orchard has now been replaced by Civica CX. This recommendation has been incorporated as part of the implementation.
Prior year deficiency	Capita No evidence could be provided in relation to default accounts	A process should be developed to ensure that evidence can be provided in relation to default accounts.	A review of default accounts will be implemented.
Prior year deficiency	iTrent There is no encryption of sensitive information.	Management should ensure that sensitive information is encrypted.	Managers can only view sensitive information agreed under the policy.

AUDIT REPORT OVERVIEW

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The Audit Report will be drafted and agreed once outstanding testing has been completed.

Opinion on financial statements

Subject to the resolution of outstanding matters on page 76, we anticipate issuing an unmodified opinion on the financial statements.

We wish to draw attention to the ‘emphasis of matter’ that we will be including in our audit report in respect of the material uncertainty in relation to PPE and Investment Property valuations.

Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting or the Council’s ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

There are no material uncertainties in relation to going concern disclosed in the financial statements of which we are aware that we need to draw attention to in our report.

Irregularities, including fraud

Our report will contain an explain to what extent the audit was considered capable of detecting irregularities, including fraud. Irregularities in this context means non-compliance with laws or regulations.

Other information

We have not identified any material misstatements that would need to be referred to in our report.

Annual Governance Statement

We have no matters to report in relation to the Annual Governance Statement as it is not inconsistent or misleading with other information we are aware of.

Use of resources

We have no matters to report at this stage in relation to the Council’s value for money arrangements.

INDEPENDENCE

Under ISAs (UK) and the FRC's Ethical Standard we are required, as auditors, to confirm our independence.

Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2021.

Details of services, other than audit, provided by us to the Council during the period and up to the date of this report are set out on the following page and were provided in our Audit Planning Report. We understand that the provision of these services was approved by the Audit Committee in advance in accordance with the Council's policy on this matter.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Planning Report. Since this planning report, the previously named manager (Kerry Barnes) has been replaced by a new manager (Sebastian Evans) for whom this is year one of involvement with a mandatory rotation period of 10 years. No other changes to key members of the audit team have occurred.

We have not identified any relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Council.

We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

FEES

Fees summary			
	2020/21 Actual £	2020/21 Planned £	2019/20 Actual £
Audit fee	TBC	TBC	185,000
• Code audit fee: financial statements and use of resources	TBC	111,000	108,000
Additional audit fee: overruns	TBC	-	77,000
Additional audit fee: new Use of Resources	TBC	TBC ¹	-
Additional audit fee: Covid related costs	TBC	16,650	-
Non-audit assurance services	TBC	5,000	TBC
Fees for reporting on government grants:			
• Housing benefits subsidy claim	N/A	N/A ²	Work is ongoing
• Pooling of housing capital receipts return	2,500	2,500	3,500
• Teachers' pensions return	TBC	2,500	TBC
Fees for other non-audit services			
• ICF China Green Finance Programme reasonable assurance report	N/A	N/A	7,000
Total fees	TBC	TBC	TBC

¹ We are in the process of finalising our fee outturn in connection with the 2020/21 audit. However, the final fee will include overruns with respect of

- Cashflows adjustment (net to gross)
- Infrastructure Assets
- Great Arthur House event after the reporting date
- Covid related costs (partly mitigated due to some on site working)
- Where applicable, other itemised costs relating to discrete areas of or testing where the scope of the work performed has increased since the Code audit fee was originally determined

The proposed fees will reflect the high level of senior output required to resolve these areas, particularly with respect to the Cashflows adjustment and Infrastructure Assets.

We will also propose an additional fee for our work on the Council's value for money arrangements as a result of the increased work scope introduced by the NAO, which will be subject to agreement by the Audit and Risk Management Committee.

² We have agreed with the Corporation for this work to be undertaken by another auditor, once we have been able to complete our work on the 2019/20 claim.

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OUR RESPONSIBILITIES

Responsibilities and reporting

Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on the City Fund’s financial statements. We report our opinion on the financial statements to the members of the Corporation.

We read and consider the ‘other information’ contained in the Annual Report such as the additional narrative reports. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

We report where we consider that the Corporation had not put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We review the Whole of Government Accounts Data Collection Tool provided to HM Treasury and express an opinion on whether it is consistent with the audited financial statements.

We are additionally required to include in our report:

- Where we conclude there is no material uncertainty in relation to going concern, a statement to that effect
- A conclusion that management’s use of the going concern basis of account is appropriate.
- An explanation of the extent to which the audit was capable of detecting irregularities, including fraud.

What we don’t report

Our audit is not designed to identify all matters that may be relevant to the Audit and Risk Management Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.



ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

	Issue	Comments
1	Significant difficulties encountered during the audit.	No exceptions to note
2	Written representations which we seek.	We enclose a copy of our draft representation letter.
3	Any fraud or suspected fraud issues.	No exceptions to note
4	Any suspected non-compliance with laws or regulations.	No exceptions to note
5	Significant matters in connection with related parties.	No exceptions to note

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COMMUNICATION WITH YOU

Those Charged with Governance (TCWG)

References in this report to Those Charged With Governance are to the Corporation as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit and Risk Management Committee.

Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Communication required	Date (to be) communicated	To whom
Audit planning report	14 March 2021	Audit and Risk Management Committee
Audit completion report	30 November 2021	Audit and Risk Management Committee
<i>Revised version</i>	<i>22 November 2022</i>	<i>Audit and Risk Management Committee</i>
Auditor’s annual report	22 November 2022	Audit and Risk Management Committee

OUTSTANDING MATTERS

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We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2021

The following matters are outstanding at the date of this report and could impact our audit opinion. We will update you on their current status at the Audit & Risk Management Committee meeting at which this report is considered:

- Subsequent events update
- Review of revised Annual Governance Statement
- Resolution of infrastructure assets matter including auditing changes to disclosures and targeted audit procedures
- Completion of senior review process and follow up of issues arising.
- Receipt and review of final financial statements
- Receipt of signed letter of representation



AUDIT QUALITY

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BDO is totally committed to audit quality

It is a standing item on the agenda of BDO’s Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream’s objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council’s Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at www.bdo.co.uk

LETTER OF REPRESENTATION

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
IP3 9SJ

[City of London Letter headed paper]

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Dear Madam

Financial statements of the Corporation of London - City Fund for the year ended 31 March 2021

We confirm that the following representations given to you in connection with your audit of the City Fund’s financial statements for the year ended 31 March 2021 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Corporation.

The Chamberlain has fulfilled our responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the City Fund as of 31 March 2021 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Corporation, in respect of the City Fund, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Corporation’s financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records of the Corporation, in relation to the City Fund, have been made available to you for the purpose of your audit and all the transactions undertaken by the City Fund have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of management and other meetings have been made available to you.

Going concern

We have made an assessment of the Corporation’s ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release.

As a result of our assessment we consider that the Corporation is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis. Furthermore, we confirm that the disclosures included in the financial statements are sufficient.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the Corporation and City Fund’s ability to continue as a going concern.

Laws and regulations

In relation to those laws and regulations which provide the legal framework within which the City Fund’s business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

Post balance sheet events

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

Fraud and error

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

LETTER OF REPRESENTATION 2

BDO LLP
16 The Havens
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Ipswich
IP3 9SJ

[City of London Letter headed paper]

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

Misstatements

We attach a schedule showing uncorrected misstatements that you have identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

Related party transactions

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable accounting framework.

As noted in the uncorrected narrative misstatements, we acknowledge that the vast majority of related parties included in the table in note 35 are deemed to be directors or key managers in common which does not meet the ‘related’ definition under IAS 24: Related Party Disclosures and therefore should not be disclosed as related party transactions. *However, we are of the view that including these additional disclosures helps to increase transparency and so these will be retained for the current year. The issue has recently been discussed with members, who similarly favour the extended reporting format adopted.*

Other than as disclosed in note 35 to the financial statements, there were no loans, transactions or arrangements between the Corporation and

Corporation members or their connected persons at any time in the year which were required to be disclosed.

Carrying value and classification of assets and liabilities

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the financial statements.

Accounting estimates

a) Pension fund assumptions

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) and Police pension scheme liabilities, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

- Rate of increase in salaries: LGPS 3.85% / Police 3.80%
- Rate of increase in pensions: LGPS 2.85%/ Police 2.80%
- Rate of discounting scheme liabilities: LGP 2.00% / Police 2.00%
- Commutation take up option: LPGS 50% / Police 50%

We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

b) Valuation of housing, other land and buildings and investment properties

We are satisfied that the useful economic lives of the housing stock and other land and buildings, and their constituent components, used in the valuation of the housing stock and other land and buildings, and the calculation of the depreciation charge for the year, are reasonable.

We confirm that the valuations applied to dwellings and other land and buildings revalued in the year, as provided by the valuer and accounted for in the financial statements, are reasonable and consistent with our knowledge of the business and current market prices.

We confirm that the assumptions used in calculating the social housing discount factor of 75% applied to HRA dwelling valuations is reasonable.

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LETTER OF REPRESENTATION 3

BDO LLP
16 The Havens
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IP3 9SJ

[City of London Letter headed paper]

The yields used in the valuation of investment property and other land and buildings valued on an income approach are appropriate and reflect current market conditions. There are principally:

- City office space (EC1 to EC4) -3.07% to 5.98%
- City strategic estate (Bonhill and Worship St) 1.97% to 5.01%

The rebuild costs applied for depreciated replacement cost valuations are appropriate and reflect our best estimate of replacing the service potential of the buildings. The rebuild cost assumptions have been agreed to data provided by RICS for Building Cost Indices including Weighted Overall Cost Rate, Location, Location Factor, professional fees percentages and overall obsolescence factors applied.

We are satisfied that investment properties have been appropriately assessed as Level 2 or Level 3 on the fair value hierarchy for valuation purposes and valued at fair value, based on highest and best use.

c) Non domestic rates appeals provision

We are satisfied that the provision recognised for non-domestic rates appeals is materially correct and that the assumptions used by Analyse LOCAL are reasonable for calculating expected losses on appeals received not yet settled and an allowance for future expected appeals that will be backdated to the start of the appropriate rating list.

We confirm that the success rates applied to outstanding appeals as at 31 March 2021 are consistent with our knowledge of the business.

d) Allowance for non-collection of receivables

We are satisfied that the impairment allowances for non-domestic rates, housing rent and sundry debt arrears are reasonable. The historic collection rates calculated in previous years for NDR arrears, Barbican residential and HRA rents remain consistent with collection rates in 2020/21.

We are satisfied that historic collection rates are a reasonable basis for calculating expected credit losses and that enhanced forecasting of losses will not result in material differences in the impairment allowances.

Litigation and claims

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the requirements of accounting standards.

Confirmation

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director and member has taken all the steps that they ought to have taken as a director or member of the Corporation in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Caroline Al-Beyerty - Chamberlain

Date:

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FOR MORE INFORMATION:

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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City of London Corporation - City Fund

Auditor's Annual Report: Year ended 31 March 2021

Report to the Audit and Risk Management Committee

21 November 2022

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Welcome

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This Auditor's Annual Report provides a summary of the key issues arising from our audit of City of London Corporation - City Fund (the 'Corporation') for the year ended 31 March 2021.

Financial statements

Our audit of the financial statements is substantively complete. However, as at the date of this report being circulated the opinion has not been issued. As with the vast majority of local authorities holding infrastructure assets, opinions are on hold pending national resolution of an accounting and reporting issue. This matter has been described in more detail in the Audit Completion Report accompanying the Auditor's Annual Report. Dependent on the outcomes of this, it may be necessary to modify our opinion with respect to all or part of the balances and disclosures relating to Infrastructure Assets. The final position of this matter will be reflected in our final Auditor's Annual Report.

Our audit identified a prior period adjustment in relation to investing cashflows, which needed to be reported gross.

Both of these matters have contributed to the delay in our work being completed, noting the majority of the other substantive work had been complete by December 2021. With the exception of the infrastructure assets resolution, which may result in the need for a qualification, our opinion is not expected to be modified in respect of these matters.

Value for money

We have not identified any significant weaknesses in respect of the Corporation's arrangements for securing economy, efficiency and effectiveness in its use of resources having regard to the specified criteria in the Code.

Note that the majority of the work to inform the reporting of our VFM commentary took place between September and November 2021. Delays in the main audit (referred to above) mean that a significant amount of time has elapsed since this work was originally performed.

Despite this, the focus of our report remains on arrangements for the year ended 31 March 2021 in line with the requirements of the Code, and so there has not been a need to substantively revise our overall conclusions. However, we have referred to events that have taken place since then (such as further increases to rates of inflation) to the extent that these have a bearing on the arrangements for 2020/21, as part of the concluding commentary for individual sections of the report.

Other reporting

We did not consider it necessary to use our auditor powers or report on other matters.

The contents of this report relate only to those matters which we are required to report under the NAO Code of Audit Practice (April 2020). This report has been prepared solely for the use of the Corporation and should not be shown to any other person without our express permission in writing. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person.



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Purpose and responsibilities

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Purpose of the Auditor's Annual Report

This Auditor's Annual Report summarises the key issues arising from the work that we have carried out in respect of the year ended 31 March 2021.

It is addressed to the Corporation but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public.

Responsibilities of the Corporation

It is the responsibility of the Corporation to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

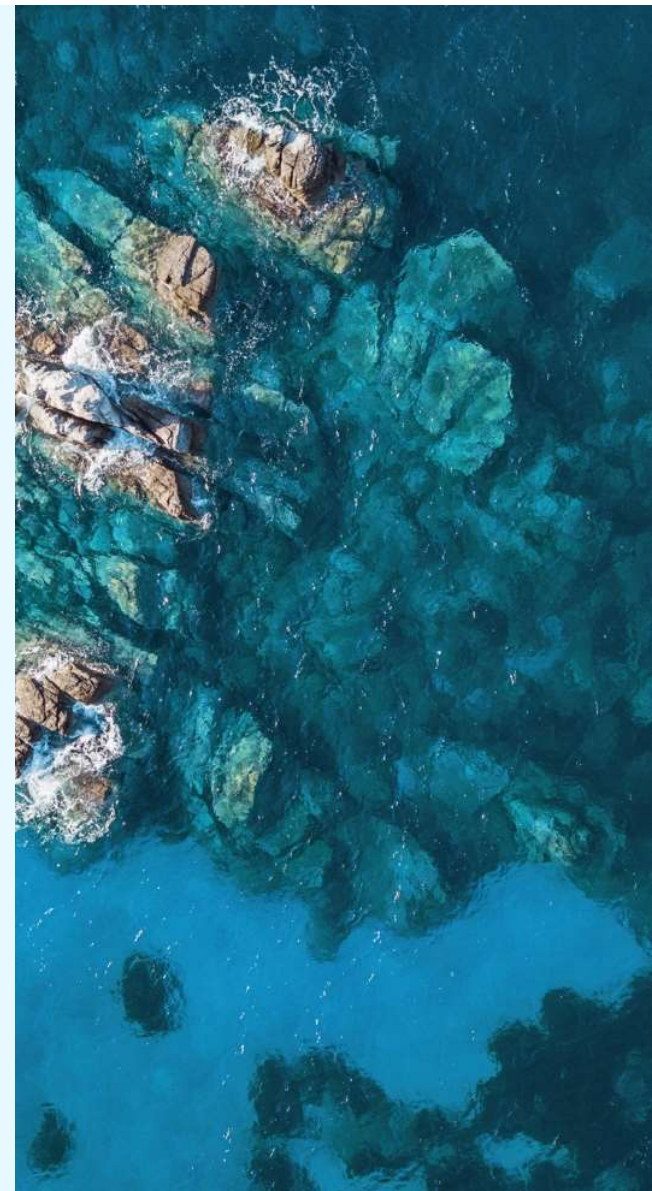
The Corporation is also responsible for preparing and publishing its financial statements, annual report and governance statement.

Responsibilities of auditors

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's (NAO's) Code of Audit Practice - April 2020 (the 'Code').

Under the Code, we are required to review and report on:

- Whether the financial statements give a true and fair view of the financial position of the Corporation and of its income and expenditure for the year and have been properly prepared in accordance with the relevant legislation;
- Whether the other information published together with the financial statements is consistent with the financial statements;
- Whether the auditable parts of the remuneration and staff report are properly prepared;
- Whether the governance statement complies with the guidance issued;
- Whether the Corporation has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources; and
- Where appropriate, make statutory recommendations, referral matters to the Secretary of State or issue a Public Interest Report.



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Audit conclusion

As at the time of this draft report being circulated, the audit is substantively complete with some matters outstanding, primarily with respect to the national consultation on accounting for infrastructure assets which requires resolution at a national level prior to being in a position to conclude at a City Fund-specific level. Pending confirmation of these timescales, the completion of this work, and clarification over reporting, we anticipate issuing an unqualified opinion on the financial statements early in 2023.

This means that, subject to concluding on these matters, we consider that the financial statements give a true and fair view of the financial position and its expenditure and income for the year.

An updated audit findings report has been circulated to the 22 November 2022 Audit and Risk Management Committee.

Significant deficiencies in controls

We did not identify any significant control deficiencies during the audit of the financial statements.

Audit differences

The audit identified no material misstatements.

There were nine unadjusted audit differences identified by our audit which would increase the deficit on the provision of services for the year by £5.5 million. Management did not adjust the financial statements for these items as the impact was not material.

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Scope

We are required to review and report on the Corporation's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where we identify significant weaknesses in these arrangements, we are required to report this in the auditor's report included in the financial statements and to make recommendations for improvement in the Auditor's Annual Report.

Specified criteria

The NAO has issued guidance for auditors to report against three specified reporting criteria:

- Financial sustainability - planning and managing resources to ensure the Corporation can continue to deliver its services;
- Governance - informed decisions and properly managing risks; and
- Improving economy, efficiency and effectiveness - using information about costs and performance to improve the way the Corporation manages and delivers its services.

The NAO guidance also includes a number of further areas for review within each criteria to allow the auditor to assess those arrangements.

Risk assessment

As part of our risk assessment, we are required to consider potential sources of significant weaknesses in arrangements and determine whether further work is required against these risks.

While the identification of a potential significant

weakness does not presuppose that a significant weakness exists in that specific area, this is used to inform the focus of our work.

This risk assessment identified two areas of potential significant weakness, as follows:

- Medium Term Financial Planning - City Fund, City Police, Capital Schemes
- Limited Assurance Internal Audit Reports

Context of Covid-19

The Corporation's arrangements for 2020/21 were in the context of the response to the Covid-19 pandemic. To varying degrees of intensity, but for the whole period, the Corporation has, as with other local authorities, been at the 'front line' of the national response to the Covid-19 pandemic, requiring changes both to short term governance arrangements and medium-term planning, presenting significant financial and operational challenges.

Audit conclusion

Against the risk areas considered above, and our review of other areas, we have not identified any significant weaknesses in respect of the Corporation's arrangements for securing economy, efficiency and effectiveness in its use of resources having regard to the specified criteria in the Code.

While we have not raised any recommendations, we have included as part of each section a summary of our views on the arrangements as they currently stand, being areas that may warrant focus in future periods.





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Auditor's commentary on arrangements

Areas reviewed

- *How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them*
- *How the body plans to bridge its funding gaps and identifies achievable savings*
- *How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities*
- *How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system*
- *How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans*
- *General commentary on commercialisation*

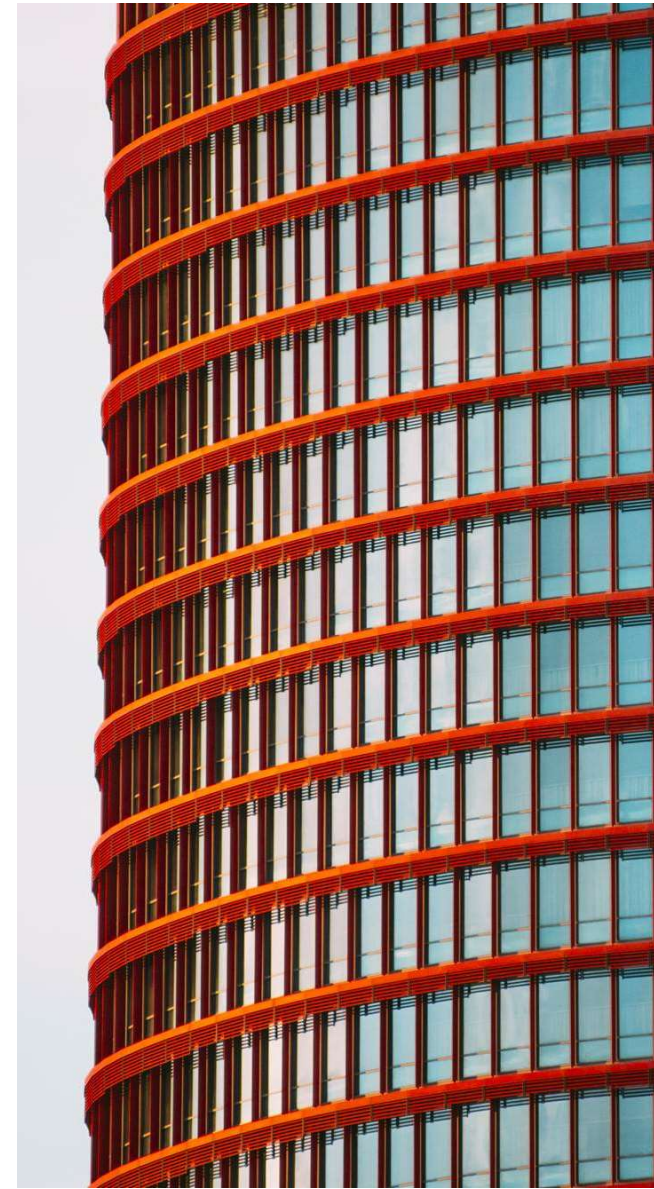
The Corporation's arrangements for 2020/21 were in the context of the response to the Covid-19 pandemic. To varying degrees of intensity, but for the whole period, the Corporation has, as with other local authorities, been at the 'front line' of the national response to the Covid-19 pandemic, requiring changes both to short term governance arrangements and medium-term planning, presenting significant financial and operational challenges.

The Corporation has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its statutory and strategic

priorities in the medium term, including with respect to City of London Police and the integration of major capital projects into the medium-term planning arrangements.

However, the assumptions supporting the medium-term financial strategy are reliant on the identification of significant recurrent savings which, whilst progress has been made, as at November 2021 had not yet been fully identified. Member-led bilateral meetings were scheduled to ensure 2021/22 savings were made and will be achieved year on year - whilst some remain unidentified the Chamberlain's department have continued to lead on these meetings with the aim of addressing savings in the longer term. Furthermore, we have noted that whilst the budget for 2021/22 was set on a "steady cash" assumption (based on low inflation rates at the time), recent increases to the inflation rate may undermine this assumption in the medium term. City Fund are planning to mitigate this through the repurposing of an unutilised COVID reserve (see further details below).

We have also noted that changes have been made to the Corporation's credit-worthiness policy (for investments) and that, for the first time, the Corporation has identified the need for 'bridging' loan finance as part of its treasury management. We have confirmed with management that this has only been used in connection with City's Cash rather than City Fund. While it is common for local authorities to engage in borrowing, particularly through inter-authority loans of the Public Works Loan Board, the Corporation should continue to monitor and challenge the use and purpose of borrowing or changes to investment strategy in the medium term, to ensure that appropriate oversight remains in place.





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1. How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

The Corporation's medium term financial planning is primarily formulated through the Medium Term Financial Strategy (MTFS). The MTFS maps out expected financial changes over a rolling four-years period. This is presented as part of the budget-setting paper annually, but also updated periodically as part of the consultation process with Members in setting the parameters for budget setting, most recently (for the 2020/21 period) in February and March 2021. This identifies financial pressure, changes in funding, and savings required so the overall financial direction of City Fund can be set and appropriate action taken.

We note that the use of a four-years rolling period is in line with wider practice in the sector, but that increasingly authorities are considering longer term timeframes, particularly where this is needed to inform treasury management decisions. In the case of City Fund, an additional model has been developed looking at a 10 year time horizon due to the requirements of the major projects. This is both to reflect known commitments with respect to major projects (such as Museum of London relocation and Salisbury Square redevelopment) but also to factor in the potential for longer term investments and how these would impact financing. The model exists in such a way that can be tailored to adjust for sensitivity, effectively meaning the impact of potential new projects can be 'plugged in' to the model. This in turn helps inform decision making over external financing requirements.

Cash is monitored by the treasury team with a rolling cashflow forecast covering City of London as a whole. A set of triggers have been identified and agreed in order to manage the risks over the MTFS designed to give the Corporation sufficient time to respond and put in place any preventive action; these form part of the on-going monitoring process.

This in year monitoring process would help to identify immediate financial concerns, and the MTFS update and annual budget setting process would identify issues in future financial years. Individual service committees can also flag issues to the Chamberlain/Head of Finance for consideration.

The MTFS recognises that some of the sources of significant financial pressure are outside the Corporation's control, such as the outcome of the Fair Funding Review and the risk that this might shift resources away from London, and the fact that the extension of Business Rates Retention, which is anticipated to benefit City of London during 2021/22 (estimated £27m), may not continue beyond this period with a 'reset' with potential significant financial implications. As noted below, known risks are modelled in.

Against this risk, we have not identified any significant weaknesses.





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2. How the body plans to bridge its funding gaps and identifies achievable savings

The Medium Term Financial Strategy, as well as identifying known gaps identifies the tools needed to address these.

Fundamental to achieving these are

- The achievement of 12% savings in 2021/22 and year on year
- The requirement to secure future “flightpath” savings from the Fundamental Review
- The need to manage the significant remaining COVID risks

In 2019/20, a Fundamental Review took place with the aim of aligning spending with the Corporation's Corporate Plan (2018-23) and to strengthen financial discipline at a time of declining financial resources, with the aim of applying these resources more effectively and identifying opportunities to increase income and make savings in the medium term between (2020/21 to 2024/25). Options arising from this process were built into budgets for future years; initially this was planned to be 2020/21 but in the context of Covid-19 the Resource Allocation Sub-Committee approved the re-phasing of Fundamental Review savings.

In support of this, for 2021/22 a general budgetary reduction of 12% has been applied to all budget heads over £100,000, with exceptions made in limited circumstances such as where there are co-funding arrangements (e.g. Museum of London relocation) or where there are known growth pressure (e.g. Academies, where an increase in pupil numbers is anticipated).

As part of efforts to reduce recurrent spend, following approval by the Court of Common Council in October 2016, an Efficiency and Sustainability Plan for the City Corporation was submitted to and accepted by the Department for Communities and Local Government (now the Ministry for Housing, Communities and Local Government). As part of this a framework for continuous efficiency improvement was established from 2017/18 onwards, including a 2% reduction target that continued during 2020/21.

Implementation of this is aided through the Efficiency and Performance Sub-Committee. This Sub-Committee has responsibility for monitoring and oversight of the Efficiency and Sustainability Plan and of departmental Economy, Efficiency and Effectiveness (EEE) Health Checks. These include consideration of income, helping to embed further a value for money culture within the Corporation's business planning processes.

A £30m risk reserve was established as part of the 21/22 budget setting process to mitigate the impact of COVID-19. This was established by way of not releasing £30m of general fund reserves for major project spend. While formally put in place during 21/22, in essence this was an allocation of the general reserve position as at 20/21. The Council did not need to utilise this reserve and so it was subsequently set aside for loss of rental income. The amount is now carried forward into 22/23 as a means of mitigating inflationary pressures (such as pay and energy).





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The EEE Health Checks are designed to achieve better alignment of business plans to the Corporate Plan, the delivery of the 2% year-on-year Efficiency and Sustainability Plan in local risk budgets, and to enable the Efficiency & Performance Sub-Committee to fulfil its duty to review periodically the performance of each Chief Officer in order to promote efficiency and value for money. Our review of the minutes of key Committees shows evidence of budget monitoring at a Committee level, for example the Community and Children's Services Committee received 2019/20 outturn reports on Community and Children's Services Committee, the Housing Revenue Account and the resetting of departmental budgets.

The Efficiency and Performance Sub Committee scrutinise the overall savings, with the Establishment Committee scrutinising achievement of Target Operating Model (TOM) Savings, the impact of flexible retirement policies and translation of vacancies into post permanent savings; alongside costs of the scheme.

The October 2021 update to the Efficiency and Performance Sub (Finance) Committee reported progress with respect to identifying the savings required to meet the (already embedded) 12% budget reduction. Whilst 29% of required savings were currently unidentified - totalling £4m as departments progress through the TOM and bilateral process timescales for achieving these savings permanently are being clarified. In the meantime, departments are seeking one off savings in 2021/22 (currently presenting 40% of the identified requirement; the remaining 31% are permanent savings), albeit there are several departments flagging potential risks to the 2021/22 budget position (as reported to Finance Committee) and the position has been explored

during the Autumn with the Service Committee Chairman.

The report also noted the Fundamental Review only 58% profiled for 2021/22 have been achieved to date.

A subsequent update in February 2022 reported further progress in this area, with the portion of required savings unidentified falling to 10% (£1.6m) with 87% of the Fundamental Review savings profiled for 2021/22 achieved to date. Of the 90% identified, 73% were green-rated (confirmed permanent savings) and 17% were one-off savings.

With respect to the ongoing Covid-19 risk, a COVID contingency fund is being maintained.

Against the overall risk of bridging funding gaps, we have not identified any significant weaknesses but note that while the Corporation has plans in place to address known gaps and identify savings, the 12% savings requirement is ambitious and, as at November 2021, progress against this has been partial, with some reliance on one-off savings. A subsequent update in February 2022 demonstrated further progress in this area with the unidentified element having reduced from 29% to 10%, and the percentage of permanent savings increasing from 31% to 73%.





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3. How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

Fundamentally, effective medium term financial planning aims to ensure that the Corporation is able to meet its strategic and statutory priorities. In extreme situations, local authorities may be required to issue Section 114 alerts which would result in no new expenditure being permitted with the exception of that funding. The Medium Term Financial Plan update provided in July 2021 contains a 'worst case scenario' model suggesting that, whilst the City Fund is not currently at risk of breaching its statutory duties, there is a risk of this occurring by 2024/25 (primarily through the impact of the Business Rates reset, which has been modelled in, and to a lesser extent by depletion of the Major Projects Reserve) as a 'worst case scenario position' based on modelling.

The Fundamental Review, as noted above, aims to link corporate-wide aims (i.e. strategic priorities) to financial planning arrangements. As well as the Medium Term Financial Strategy, support and scrutiny throughout the year is provided through Committees to support good practice and financial stewardship. The Finance Committee provides stewardship of City Corporation's funds with the aim of ensuring that the Corporation achieves value for money in all its activities. The Investment committee is responsible for strategic oversight and monitoring of performance of the Corporation's investments which are managed through three separate Boards, namely the Financial Investment Board, Property Investment Board and Social Investment

Board.

These are further supported by strategies and policies in operation:

- The Financial Strategy "provides a common base for guiding the City Corporation's approach to managing financial resources and includes the pursuit of budget policies that seek to achieve a sustainable level of revenue spending and create headroom for capital investment and policy initiatives";
- The Budget Policy "to balance current expenditure and current income over the medium term. Both blanket pressure and targeted reviews are applied to encourage Chief Officers continuously to seek improved efficiency;"
- Annual resource allocation process - This is the framework within which the City Corporation makes judgements on adjustments to resource levels and ensures that these are properly implemented;
- Corporate Property Asset Management Strategy - This aims to ensure that the City Corporation's operational assets are managed effectively, efficiently and sustainably, in support of the organisation's strategic priorities and business needs;





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- Capital project evaluation, management and monitoring - The City Corporation has a comprehensive system of controls covering the entire life cycle of capital and major revenue projects. An annual bids process was introduced from 2019/20 to enable Members to prioritise projects and align with the Corporate Plan objectives; and
- Treasury Management and Investment Strategies - Setting out the arrangements for the management of the City Corporation's investments, borrowing, cash flows, banking and money market transactions; the effective control of risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

The Financial Investment Board oversees all aspects of non-property related investment arrangements of the City of London's major funds and the Chamberlain's Treasury Management operations.

We reviewed the minutes of this Board and noted the regular receipt and review of investment analysis and monitoring reports, an annual report on Treasury Management, receipt of the City of London Pension Fund investment strategy and Local Government Pension Board investment activities (in line with the Corporation's role as administering authority to the Pension Fund). The Board also reviews a risk register that is specific to the remit of the Board.

We also note that during the year the revised Treasury Management Strategy was considered and approved by the Committee in February, and by the Finance Committee in the same month. This had been updated for 2021/22 to take into account the latest information concerning the organisation's capital plans and external factors, such as the prospects for interest rates.

The document includes various Treasury and Prudential Indicators required to be set for the City Fund to ensure that the City's capital investment plans are affordable, prudent, and sustainable and to help the organisation identify and control the risks around its treasury management activity.

The Strategy introduced a change in the City's creditworthiness policy to the extent that, in the context of ensuring cash deposits, "are only placed with counterparties of suitable credit standing", the minimum threshold for bank's creditworthiness (as defined by credit rating agencies) be downgraded from "A" to "A-" based on the rationale that the Corporation is able to diversify its credit risk, albeit with an emphasis on continuing to place larger deposits in the 'highest quality counterparties'.

This was subject to a degree of member challenge. It is also noted that the Medium Term Financial Strategy update (March 2021) anticipates the need for short-term internal borrowing in the medium term to support the major projects programmes.





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The borrowing requirement of £13.3m is considered a “bridging facility pending receipts from disposal of investment properties” and is considered short term in nature; the Prudential Indicators appendix presented alongside the Medium Term Financial Strategy estimates this gross external debt as £13.302m for the period 2020/21 to 2023/24 versus a total capital financing requirement of £299.071m for the same period, meaning anticipated compliance with the requirement for gross external debt not to exceed the capital financing requirement. Management have advised that, in the case of City Fund, the borrowing requirement is being financed internally, with no external loan being required for this purpose. While some external borrowing has taken place at a Corporation-wide level, this has been specifically in connection with City's Cash.

The Corporation's statutory responsibilities include those of the City of London Police. In this case, there is a separate ‘ring-fenced’ budget. As set out in the AGS, in-year work on the Medium-Term Financial Plan for the City of London Police has reduced forecast deficits through a combination of savings from the Police's Transform Programme and additional funding. Outturn for 2020/21 was managed within the Police's budget, and a balanced budget has been set for 2021/22 which has included additional Home Office funding for uplift in Police Officers.

The City Corporation has previously invested additional funding for Police capital priorities and, from 2020/21, moved to a loan-based capital funding mechanism. The City Corporation is also committing capital funding towards the Police Accommodation Strategy and Secure City infrastructure requirement.

From our review of Finance Committee minutes, we noted that in October 2020 a Finance Committee member was appointed to the Performance and Resource Management (Police) Committee, specifically as this “presented an opportunity to strengthen scrutiny around governance and financial discipline” and supporting the aim “that the Force had both a balanced Medium-Term-Financial Plan, and that maximum benefits and efficiencies are accrued from the Transform Programme.” This represents effective leverage of expertise from one committee to a service line level.

The Housing Revenue Account (HRA) is also legally ‘ring-fenced’ and cannot be supported by the General Fund. It is therefore monitored separately and considered as a separate budget within the Medium Term Financial Strategy and annual budget setting process.

Against this risk, we have not identified any significant weaknesses but note that the potential use of loan financing and the concurrent changes to the Corporation's creditworthiness policy both represent changes in the overall treasury management environment. While it is common for local authorities to engage in borrowing, particularly through inter-authority loans of the Public Works Loan Board, the authority should continue to monitor and challenge the use and purpose of borrowing or changes to investment strategy in the medium term, to ensure that appropriate oversight remains in place. We note in this instance that City Fund has not engaged in external borrowing.





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4. How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

As noted in the Governance section below, the annual financial planning process is presented concurrently alongside updates to a number of supporting strategies (such as Capital and Treasury), given the integral nature of these to delivering financial planning as a whole. Financial sustainability does not exist in isolation and needs effective integration with service level financial monitoring arrangements; as noted above, the development of the Target Operating Model and the emphasis on bi-lateral is a means of ensuring overall savings requirements are mapped to individual service areas. These are fundamental to the delivery of the Medium Term Financial Strategy and we have commented on the Corporation's arrangements for this above.

Property rental income is forecast based on expected rental income for each property, allowing for anticipated vacancy levels, expiry of leases and lease renewals. This includes further reduction in rental income is anticipated in later years as a consequence of the planned disposal of properties to fund the major projects.

Outside these changes, the City's rental income is protected to some extent in the short-term as our leases are long term with medium-term specified break clauses. Forecast rental income

is regularly reviewed and any potential reduction will be factored into updates to the medium-term financial plan. This is a reasonable basis for inclusion.

The forecast for treasury management income takes account of the likely path of short-term interest rates (chiefly, the Bank of England base rate) over the upcoming financial year.

The starting point for the 2021/22 budget is 'flat cash' from the previous resource allocation in 2020/21, with provision made for the pay award agreed by the December 2020 Establishment Committee.

At the time of the medium term planning, the reduction in CPI inflation was anticipated to ease the pressure of living with flat cash budgets, from which the 12% savings will need to be achieved. We note that per Office for National Statistics Consumer price inflation time series (MM23) the rate for December 2020, January 2021 and February 2021 (i.e. the period during which the medium term plan was under development) was 0.8%, 0.9% and 0.7% respectively i.e. relatively low when considered against previous periods.





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However, as at October 2021, the equivalent rate is 3.8%, having increased sharply since April 2021, which may represent a significant challenge in its own right, and particularly when considered in conjunction to deliver 12% savings (which use pre-inflationary figures as a starting point).

Major deficits in the Police Medium-Term Financial Plan have, over the last two years, been significantly reduced through a combination of Police savings plans and additional Business Rate Premium funding. However, deficits continue to exist across the medium-term, particularly linked to an assumption that future funding will not be inflation-linked, and work continues to focus on mitigation strategies.

City of London Police have committed to balancing the books in 2021/22 and also to making 12% saving on Corporation funding to the Force. The Police Settlement included an additional increase in the precept grant. The Police budget forecast shows deficits across the period, but the Force has committed to closing the gap - so no provision has been made within City Fund for Police deficits. This represents a relative improvement on previous years arrangements where the extent of direct reliance on the City of London local authority was more pronounced.

For 2021/22, the Corporation is forecasting a small surplus, largely due to an additional year of business rates retention income (albeit at a much-reduced level to previous years). However, as things stand, the medium term financial plan can only be balanced with the use of general fund reserves. Despite the savings planned to date

through the Fundamental Review and in line with the 12%, overall, City Fund faces substantial growing annual deficits over the planning period and the 10-year horizon.

As noted above, the “Fundamental Review: Design Principles and Governance” uses The Corporate Plan 2018-23 as its strategic framework. The review “seeks to provide Members with information in an accessible, timely manner, about how the City Corporation is currently allocating resources against Corporate Plan priorities so that Members can take decisions that ensure that the City Corporation is, in fact, spending according to corporate priorities, and that the organisation’s financial plans are sustainable in the medium term.”

This introduced a requirement for all departments to consider a 12% savings target. Alongside this a further piece of work is in progress around matching resources to the Corporate Plan.

More broadly, the Corporation-wide integration of financial planning is performed through the Finance Committee, which describes one of its ‘principal roles’ as ensuring that ‘the City of London Corporation achieves value for money in all its activities’ and providing ‘[careful] stewardship of the City Corporation’s funds’. In this it is supported by the following Committees and subcommittees which, combined, support the Finance Committee in its principal role.





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The Capital Buildings Committee is responsible for the management and oversight of major capital building projects (i.e. those projects with an estimated budget of £100 million or more), together with other such projects which have been referred to it. Our review of the Committee papers shows that updates on individual capital projects are considered at each meeting, approximately six times a year.

The Investment Committee, which is “responsible for the strategic oversight and monitoring of the performance of the City Corporation’s investments which are managed through three separate Boards, namely the Financial Investment Board, Property Investment Board and Social Investment Board.” Given the oversight meeting of the Committee it has met twice during the year but in both cases has fulfilled its role of receiving reports from the three separate Boards. A review of the Financial Investment Board and Property Investment Board, which meet more frequently, showed evidence of the following:

Financial Investment Board:

- use of external specialist reports (monthly investment analysis) to inform decision making, with regular monitoring of the investment position.
- Evidence of Committee-specific risk reporting against the Finance Investment Board’s local risk register
- Receipt and review of end of year treasury management review (2019/20) and evidence of member challenge
- Consideration of the City of London Pension

Fund investment strategy and investment activities

- Approval and challenge of Treasury Management Strategy (for 2021/22) which had been updated to take account of the latest information concerning the organisation’s capital plans and external factors, such as the prospects for interest rates, and by reference to Treasury and Prudential Indicators
- The City’s capital expenditure plans in respect of its local authority functions (the City Fund) are detailed in the 2021/22 Budget Report and Medium-Term Financial Strategy, which also contains the City’s Prudential Indicators. The Prudential Indicators summarise the City Fund’s annual capital expenditure and financing plans for the medium term.

Property Investment Board

- Use of departmental risk registers
- Monitoring of outturn reports
- Regular updates on business plan
- Monitoring of capital projects contingency fund
- Receiving detailed updates on individual property investments





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The Efficiency and Performance Sub (Finance) Committee, which is 'responsible for the better performance of the Finance Committee's duties in the areas of efficiency and performance'. We have commented more on the role of this Committee in connection of monitoring progress against the 12% savings targets.

Against this risk we have not identified any significant weaknesses, but we note that the 'flat cash' assumptions used as the starting point for expenditure assumptions may need to be revisited in the context of the increase in the inflation rate since the medium term financial strategy was last updated. In addition, there is a continued expectation that general fund reserves will need to be used to support medium term financial sustainability.

We also note that since our initial work was performed, the rate of inflation has increased further to 8.8% (as at September 2022). The City Fund have put in place mitigations at the start of 2022/23 by carrying forward underspends to support inflationary pressures, and have repurposed a £30m reserve (originally established to mitigate COVID risk) to support reductions in rental income.





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5. How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

The Medium Term Financial Strategy includes an element of scenario planning. For example, a graphical representation provided to the Resource Allocation Sub-Committee compares the baseline City Fund outlook up to 2025/26, alongside alternative outturns in the case of removal of business rates income, 10% reduction in rental income, 25% reduction in savings and Barbican financial targets not being met.

The restrictions imposed by the Covid-19 pandemic and the immediate economic impact of this represented a significant unplanned change in demand. In response to this the budget process was revised to take into account the impact of Covid-19 pressures, adding more budget to certain areas, for example Barbican, due to income pressures.

We noted that the financial impact of Covid-19 was considered at the level of the Court of Common Council, for example, at the May 2020 meeting the impact of Covid-19 to the City of London Corporation's budget, on smaller businesses which serviced office workers, and changes needed to support social distancing in the City was challenged and discussed.

A Covid Contingency fund was established in May 2020. This was drawn from an existing but currently unused Brexit contingency fund (established in December 2018), which the Court of Common Council determined was appropriate given the absence of foreseeable major draw-

down required against the Brexit at the time. This shows flexibility in the application of contingencies in the context of the pandemic.

In December 2020, a budget re-setting exercise took place where the Court of Common Council "recommended to approve a series of proposals arising from an in year re-budgeting exercise, intended to assist in repairing the damage to the City's budgets arising from the Covid-19 pandemic." As at that point in time, the impact of Covid-19 stood at just over £28m in 2020/21 and, whilst the City expected to recover an estimated £13.6m from the Government's compensation scheme, the remaining deficit would need to come from reserves."

This assessment was based on an earlier exercise reported at the Finance Committee in October 2020. The re-setting of budgeting in response to the circumstances of the pandemic is a good example of financial reprioritisation in the context of changes in demand and the revisiting of assumptions.





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Where temporary measures are introduced in an emergency context, it is good practice to have clear arrangements in place for reviewing the ongoing applicability of these measures such as ensuring the measures are time bound and/or continuously reviewed. This occurred with respect to write-off limits for debt write-off and award of discretionary belief, where the 'streamlined' approval limit introduced amidst the pandemic had a set expiry date of 31 October 2020, but were renewed until 31 March 2021 owing to the fact that "the reason for the increased delegation limits continued, with many businesses and individuals likely to suffer further financial difficulties as a result of the pandemic." We also noted that the Finance Committee received regular updates on decisions taken under delegated authority (during the pandemic).

Legal proceedings, whether commenced or pending, can also have a significant impact on a local authority if these result in claims that the Council is unlikely to be able to satisfy without a significant impact on its financial sustainability. Compliance with laws and regulations is considered primarily at a service committee level and supported (at a Fund-wide level) by the Comptroller and City Solicitor.

The Corporation is also subject to regulatory scrutiny, most notably from the Office for Standards in Education, Children's Services and Skills (OFSTED), the Care Quality Commission (CQC) and His Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS). While no formal inspections took place during 2020/21, the most recent reports

prior to this had not identified any matters that might be considered representative of potential significant weaknesses in arrangements.

The receipt of reports and informal updates at appropriate Committees helps ensure these remain front of mind; the Audit and Risk Management Committee has received reports with respect to regulatory reporting (e.g. OFSTED updated received at July 2020 Committee, HMICFRS update report at October 2020 Committee).

The June 2020 Court of Common Council received an update on fire safety in respect of the City's housing stock and the work being done to ensure compliance and address known issues. This is evidence of matters of potential material legal significance being considered at the highest level. Similarly, the Procurement Sub (Finance) Committee - November 2020 - received a report on Procurement Regulations and Brexit, evidence of active focus on regulatory environment in so far as it affects procurement.

Our review of the Corporate Risk Register also identified a number of Corporate Risks (each of which had been 'red-rated' at some point in the year i.e. high priority) on connection with Road Safety, Wanstead Park Reservoirs and Operational Security.

Work performed by the auditor concurrently with the accounts have not identified any material undisclosed legal liabilities.

Against this risk, we have not identified any significant weaknesses.





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General Commentary on Commercialisation

Increasingly, in the context of continued financial constraints in the sector, local authorities are seeking to bridge funding gaps through commercial activities. Most commonly these can include local authority trading companies, with property investment through wholly-owned subsidiaries.

Where supported by appropriate governance and oversight arrangements, these can represent effective ways of creating new streams of income, often in a way that is compatible with an authority's strategic priorities (e.g. regeneration). However, there have been several high-profile failures of commercial ventures, particularly in instances where an authority has limited institutional experience of the area being entered into or does not apply effective financial management and scrutiny.

The Corporation, owing to its unique structure, already engages in a degree of activity that may be defined as commercial (such as operation of the Barbican Centre and financing of major capital projects), but these are areas in which the Corporation has many years of experience. For investment properties, the Property Investment Board is appointed by the Investment Committee and is responsible for determining and approving management and investment matters relating to the property within the City's Cash, City Fund and Bridge House Estates in accordance with the management plans and investment strategies. The Board is also responsible for acquisition, management, and

disposal of all City property within its remit. Rental activity at Leadenhall Market is also overseen by the Board.

We reviewed the minutes of this Board and noted evidence of regular receipt of departmental risk registers, quarterly business plan updates, updates on the Covid-19 capital projects contingency fund, receipt of the report on annual valuations from the City Surveyor, in-year updates on the 2020/21 business plan and revenue budgets, receipt of the City Surveyor's revenue outturn report for 2019/20 and the draft business plan for 2021/22, evidence of engagement with local stakeholders (e.g. Culture Mile) and updates on individual significant investments.

Against this area of focus, we have not identified any significant weaknesses.





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Auditor's commentary on arrangements

Areas reviewed

- *How the body monitors and assesses risk, and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud*
- *How the body approaches and carries out its annual budget setting process*
- *How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information; supports its statutory financial reporting requirements; and ensures corrective action is taken where needed*
- *How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency*
- *How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour*

For 2020/21, the Corporation has had the arrangements we would expect to see to enable it to make informed decisions and properly manage its risks.





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6. How the body monitors and assesses risk, and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The monitoring and assessing of risk is primarily the role of the Audit and Risk Management Committee. The Committee oversees the City of London Corporation's systems of internal control and makes recommendations to the Finance Committee relating to the approval of the Annual Statements of Accounts.

The Committee also oversees audit work undertaken for the City of London Police, Guildhall School of Music and Drama, and the Barbican Centre, as well as the City of London Corporation's Risk Management Strategy and anti-fraud and corruption arrangements, to ensure that the City of London Corporation's risk assurance framework properly reflects the risk environment.

On an annual basis it also considers and approves the Annual Governance Statement which is submitted with the City Fund Annual Statement of Accounts.

One of the main tools the Audit and Risk Management Committee uses to monitor and assess risk is the Corporate Risk Register. This register, which is presented to the Committee on a circa quarterly basis, rates corporate risks on a traffic light system based on magnitude and likelihood, with the highest possible risk rating being '32' (although during the year no risk was above '24').

Overall, there were twelve risks which, at some point in the year, were rated as 'red' (16 or above). For each risk the Committee receives details on the potential cause, event and impact of the risk, its latest status, actions taken against the risk and a summary of standing mitigating actions in place.

Movements in risk rating are also reported and shows a regular re-examination of what areas require the most focus. More broadly, the updates received on risks cover both key corporate but also higher risk divisional matters. Deep dives over the year have included CR34 COVID-19, CR16 Information Security, CR29 Information Management, CR09 Health, Safety and Wellbeing, Smithfield Canopies and subsequent remedial work update, CR21 Air Quality, CR23 - Police Funding, CR17 Safeguarding and CR35 - Unsustainable Medium Term Finances. The timings of this report (23 March) was shortly after the agreement of the Budget plans (including Medium Term Financial Strategy) for 2021/22 at the 4 March Court of Common Council and also aligned to the target risk date of 'end of March 2021' for reviewing and moving the risk from Red 24 to Amber 12.

The Finance Committee also received this deep-dive. Combined, this shows a good degree of integration between 'deep-dive' risk reporting and the Corporation's wider governance arrangements.





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We considered the extent to which the Corporate Risk Register covered the three VFM sub-criteria against which we report and found that the level of coverage was proportionate and adequate.

The Audit and Risk Management Committee (ARMC) has received assurance over a wide range of areas; alongside the results of individual internal audit reports, the results of follow up reports and deep dives have been reported. In addition, there has been evidence of a reasonable degree of involvement of the ARMC in setting and reviewing the annual and strategic audit plans.

In line with good practice, the internal audit charter is reviewed annually. A review of Internal Audit updates shows that Internal Audit have used the Committee as a channel for escalation. For example, for a 2019/20 report into Corporate Wide Project Management, the July 2020 Audit and Risk Management Committee received an escalation on account of the fact that the report was red-rated, but that it had not been possible to receive satisfactory management responses to all of the issues raised.

The outcome of Internal Audit reports more generally has been considered as part of the section "Improving economy, efficiency and effectiveness" further down in this report.

The AMRC has also received detailed updates on fraud through the Anti-Fraud & Investigations 2020/21 Update Report. (November 2020 Committee) and Anti-fraud and Investigations - 2020/21 Annual Report (May 2021 Committee).

Against this risk, we have not identified any significant weaknesses.





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7. How the body approaches and carries out its annual budget setting process

As set out in the Annual Governance Statement, and vouched to Committee papers, the budget for 2020-21 was agreed by the Court of Common Council (the City Corporation's primary decision-making body) in March 2020 for both capital and revenue expenditure. This arrangement was reprised in March 2021 with respect to the budget for 2021/22 and the corresponding Medium Term Financial Strategy. We have commented further on the Medium Term Financial Strategy as part of our view of Financial Sustainability further up in this report.

As previously noted, the budget setting process for 2021/22 was accelerated in response to the financial impact of the pandemic, with proposals to balance the budget for 2021/22 being approved by the Finance Committee in December 2020. As a result, the budget that was presented had already been considered some way in advance with adjustments having been made to departmental local risk budgets following Policy and Resources approval, effectively creating a resource limit for each department and relevant service committee.

The annual budget process brings together the Medium Term Financial Plan, Council Tax setting, Business Rates, approval of the Capital Strategy, changes to the Treasury Management Strategy and to take into account the Chamberlain's assessment of the robustness of estimates and the adequacy of reserves and contingencies. It also considers the City Fund as a whole, including the Local Government, Police and Port Health services).

Against this risk, we have not identified any significant weaknesses.





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8. How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information; supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

The Corporation reviews its in-year position on a monthly basis via budget monitoring where budget managers, with support from the Finance units, forecast their income and expenditure against the budget set. This is presented to the Finance Committee on a quarterly basis although, due to Covid-19, monthly reports/updates were provided during 2020/21 (i.e. more frequently).

A new executive leadership board has also been established and will receive a copy of the monthly financial report on the in-year position, the Chamberlain will seek to use the board to raise any concerns/urgent matters. This ensures that both Members and Chief Officers are aware of and can take action on any risks that emerge during the year. Such action was seen during 2020/21 when the Corporation carried out an in-year re-budgeting exercise to address the financial impacts of Covid-19, identifying the likely spending pressures and reallocating resources to manage these.

The Finance Committee holds oversight of City Fund's financial position and sign off the annual budget (including the medium term forecast) and financial statement. This gives them an overview of City Fund and would highlight any concerns which would need to be addressed. Quarterly in-year monitoring is presented setting out the forecast position, which the Finance Committee review, challenge and can take potential action.

The Resource Allocation Sub-Committee agree all financing requests before any spend can take place. This ensures no un-funded spend can take place.

The Chamberlain, as section 151 Officer, is charged with the responsibility of ensuring proper administration of City Fund's financial affairs. This duty is fulfilled through the various rules and regulations in place by which the organisation operates. These include setting financial regulations and the scheme of delegation which determine what actions individuals can take.

The in-year monitoring process contributes to identifying immediate financial concerns, and the MTFP update and annual budget setting process commented above would identify issues in future financial years.





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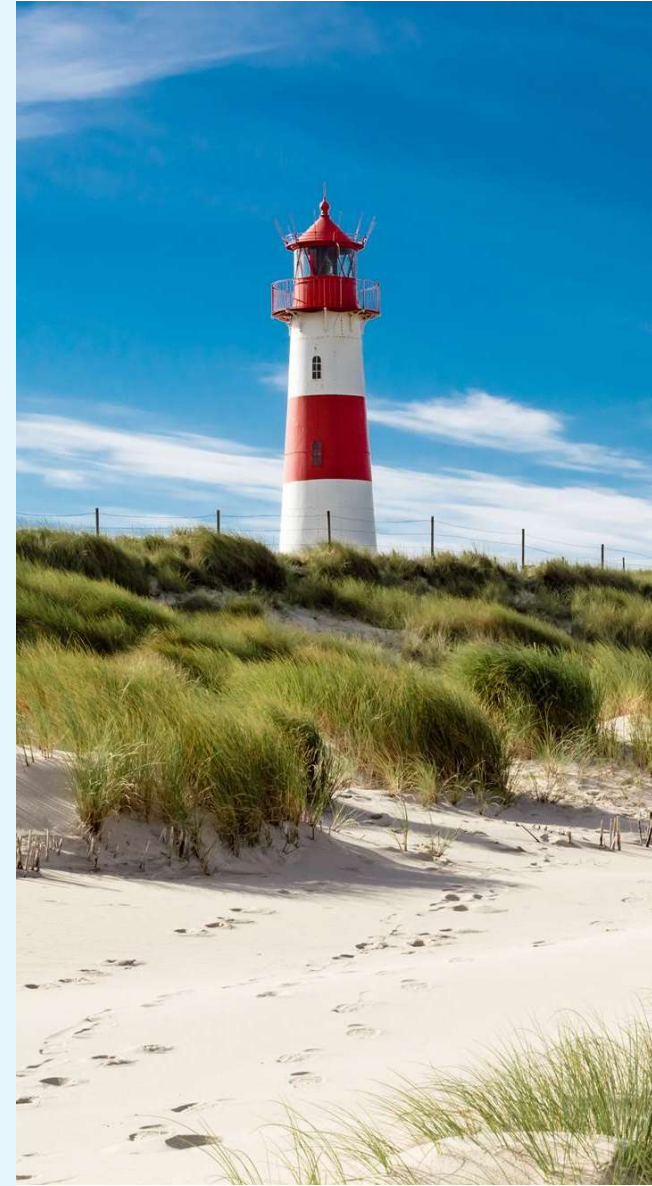
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Individual service committees can also flag issues to the Chamberlain/Head of Finance for consideration. To assess the significance of these risks, and the potential impact, discussion with the relevant Chief Officer and the Head of Finance/Chamberlain would assess those risks and the financial implications and be incorporated into the financial plan where necessary.

The Audit and Risk Management Committee holds the responsibility for the organisation risk register and assessing the likelihood and impact of risks. Risk registers include actions to be taken to mitigate those risks.

Financial plans are put in place, e.g. saving targets, where the forecasted position highlights financial pressure. ARMC have also introduced triggers which will increase the risk rating on the financial position should the relevant measure change negatively.

Against this risk we have not identified any significant weaknesses.





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9. How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency

Informed decision making is ultimately the responsibility of the Court of Common Council as the primary decision-making body of the Corporation.

To ensure it is able to make informed decisions, the Court receives regular reports from other Committees where, in line with their terms of reference, matters relating to specific service lines or Corporation-wide activities are considered in more detail. For example, as part of the budget-setting Council meeting noted above (March 2021), the Court of Common Council also considered reports from the Capital Buildings Committee, the Audit and Risk Management Committee, the Planning and Transportation Committee, Port Health and Environmental Services, the Finance Committee and the Property Investment Board. This allows the Court of Common Council to then consider this in the context of the Corporation's overall priorities. For example, at the budget setting Committee, the option to raise Council tax was discussed in the context of helping to potentially address medium term financial challenges. However, the Chairman advised that the Finance Committee had taken the view that now was not the correct time to increase such taxes in view of the challenges facing residents and businesses at this difficult time. This suggests a balancing of political and financial considerations.

It is a common feature of Sub Committees to have annual reviews of their own terms of reference and local risk registers. This helps ensure that the

Committees remain aligned to the overall governance requirements of the Corporation as whole.

The Audit and Risk Management Committee also plays a key role in enabling challenge and transparency. To help support effective decision making, the Corporate Risk Management Policy and Strategy is presented to the Audit and Risk Management Committee on an annual basis for review and endorsement

The governance structure is supported by relatively low levels of turnaround at the senior level. For example, a new Chamberlain came into post in 2021, the previous Chamberlain having been in post for seven years.

In order to make informed decisions, it is important that the assurances being received align to the Corporation's risk profile and that, where this risk profile changes, arrangements are in place to ensure assurances being received remain relevant. We noted that the audit plan was updated / re-prioritised in year as a result of Covid impacts - this was discussed at the October 2020 Audit and Risk Management Committee and subsequently revised and presented to the November 2020 Audit and Risk Management Committee. This helps to ensure that assurance is prioritised over areas of greatest strategic significant importance to the Corporation, enhancing decision making over these areas.





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We noted that the Audit and Risk Management Committee Work Programme, presented in May 2021, has challenge sessions planned into the annual programme. "The City Surveyor's Risk Challenge Session would be scheduled for December 2021; - The Comptroller and City Solicitor's Risk Challenge Session would be scheduled for January 2022." Challenge from "Those Charged with Governance" is a key element of effective governance. While we have noted positive challenge and engagement from members from the minutes of Committees we have reviewed, having challenge session planned into the programme of work provides the opportunity to take a strategic approach to challenge.

We have previously noted the impact of Covid-19 on medium term financial planning arrangements. At a more procedural level, temporary amendments to the Code of Corporate Governance were introduced to ensure processes and systems could be adopted, in the short term, to the emergency situation. This included facilitating the holding of virtual decision-making meetings (this having required legislation) and the streamlining of decision making itself to ensure institutional focus was directed as far as possible on critical and / or "frontline" services.

As reported to the 21 May 2020 Court of Common Council, 14 requests were made by service departments in respect of potential changes to the Scheme of Delegations to Officers and the Project Procedure, requesting temporary delegations to Chief Officers to make decisions on certain matters without recourse to Committees. Of these, 11 were accepted (in 7 cases subject to member involvement) but 3 were rejected. For those that were accepted, these were made on a time-limited basis expiring on 31 October 2020.

Where emergency delegation occurs it is good practice to ensure these are properly considered and that arrangements are in place to ensure the delegations are time-bound, both of which occurred.

We also noted the introduction of other temporary governance arrangements needed to support the Covid response. This included the introduction of a command-and-control structure through the Council's 'Gold Group', prior to the introduction of virtual decision-making meetings, ensuring matters requiring immediate formal committee decisions were dealt with in accordance with Standing Order No 41(a) i.e. under the urgency procedures, with arrangements in place to give all relevant members of a committee the opportunity to comment before a decision was taken. In addition a risk management protocol was established and which set out the process by which the corporate risk for Covid-19 (CR34) and operational risks (silver/ thematic group) were identified, assessed, managed, and reported. The processes are supported by the Corporate Risk Manager. We have noted that the CR34 report was monitored by the Audit and Risk Management Committee, including through a specific deep-dive in July 2020.

Furthermore, an external review of the City Corporation's business continuity response to Covid-19 was undertaken in July/August 2020, which recognised the positive impact of effective risk management in maintaining Corporation services.

Against this risk, we have not identified any significant weaknesses and noted the effective challenge of the need for and application of emergency arrangements.





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10. How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour

The Corporation has three primary regulators: Ofsted (schools, children's social care); CQC (Department of Community Services); and HM Inspectorate of Constabulary. In all cases the most recent reports ratings did not raise any areas of significant concern.

As well as standards relating to service delivery, the Corporation also has a requirement to comply with capital or other statutory requirements, such as the Prudential Code, CIPFA Treasury Management Code, CIPFA Financial Management Code, MHCLG Investment Standards, and also the authority's own Constitution.

The Corporation's Annual Governance Statement (AGS) has not identified any areas of significant concern and specifically describes arrangements over good governance, and the role of the Standards Committee. The principles of good governance are embedded within the published Code of Corporate Governance, which covers both the local authority and police authority roles, and links together a framework of policies and procedures.

The Standards Committee oversees conduct of members and co-opted members, monitors and reviews the operation of the Code of Conduct for Members, considers alleged breaches of the Code and monitors Members' declarations to ensure compliance with both the statutory and local registration requirements.

As noted in the Financial Sustainability section above, the Corporation's Treasury Management strategy, in line with The Local Government Act 2003 and supporting regulations requiring the City to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice. The Prudential Indicators are used in the annual budget report (March 2021).

As set out in the AGS, overall responsibility for Information Management Governance and cyber-security is vested in the Digital Services (Finance) Sub Committee. The Information Management Board reports to the Summit Group (since changed to the Executive Leadership Board). The Comptroller and City Solicitor is the Senior Information Risk Owner (SIRO) and Local Information Asset Owners (IAO) have now been appointed in all departments with the designation of Local Information Manager. Key tasks in the last 12 months included the building and maintenance of an information asset register.

Against this risk, we have not identified any significant weaknesses.





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Auditor's commentary on arrangements

Areas reviewed

- *How financial and performance information has been used to assess performance to identify areas for improvement*
- *How the body evaluates the services it provides to assess performance and identify areas for improvement*
- *How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve*
- *How the body ensures that the commission or procurement of services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits*

For 2020/21, the Corporation has had the arrangements we would expect to see to enable it to make informed decisions and properly manage its risks.

As part of our risk assessment we considered whether the presence of 3 'red' limited-assurance reports represented a potential significant weakness in arrangements. However, from the follow up work performed by the Corporation, it is clear that matters identified are being addressed and that the overall mechanisms for monitoring and addressing recommendations are robust.





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11. How financial and performance information has been used to assess performance to identify areas for improvement

A Corporate Strategy exists for both the City Fund (Corporate Plan 2018-23) and City Police (City of London Police Corporate Plan 2018-23). These set out the strategic framework and how the strategies are to be delivered. These are supported by performance management arrangements which identify linkages between corporate strategy and local implementation / KPIs, designed to act as a "Golden Thread".

While the City is looking to make the arrangements "more robust in coming years" and some elements of business planning were pared down during the Covid-19 pandemic response, the current process still involves a number of mechanisms to evaluate and improve performance overall:

- requirement for departments to produce annual departmental business plans to be approved by relevant service committees, linked to the overall Corporate Plan with key objectives identified alongside financial and staffing resources;
 - requirement for regular reporting on progress against business plan objectives, and financial monitoring arrangements, to service committees;
 - performance and Development Appraisals are carried out for all staff;
- following the Fundamental Review work commenced to develop a Corporate Performance Framework which is designed to act as a single source of performance information on strategic Key Performance Indicators across the whole of the City Corporation and enable comparison with publicly-held benchmarking data. This remains a work in progress; as at the time of the Annual Governance Statement being published 75% of KPIs are now populated with some data, 15% have data that needs improvement and 10% do not yet have data;
- The Corporate Strategy and Performance team have provided effective governance through these processes and have supported the Corporate Plan outcomes and the linking of KPIs to corporate outcomes in Business Plans and strategies wherever possible.





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We have noted that assessment of performance takes place at a Committee and Sub-Committee level. For example, the Efficiency and Performance Sub (Finance) Committee receives regular updates on performance management reporting (such as from the Department of Communities and Children's Services). As this Sub-Committee is also responsible for monitoring flightpath savings, this creates a direct link between performance monitoring and financial monitoring.

The identification of areas for improvement also takes place at a governance level. Robert Rodgers, The Lord Lisvane, was commissioned to undertake an independent review of the City Corporation's governance arrangements in 2019. His findings were received in September 2020 and in the process of being considered by the Corporation.

As reported in the Annual Governance Statement, as at 31 March 2021 "consideration has been given to the organisation's constitutional arrangements and support given to the abolition of the Standards Committee and the Standards Appeal Committee, the introduction of Independent Panels to receive allegations of misconduct, determine whether to investigate, present findings to the Court, and hear any appeal; the creation of Innovation and Growth Advisory Board as well as an Emergency Committee to provide Member oversight in emergency situations in the future."

A parallel governance review was performed in 2020/21 by the City of London Police Authority which helped to identify areas for change to "improve clarity of role, the guidance and information for Members & ... Communities and to strengthen decision making processes."

Though more abstract than the direct use of finance and performance information, these are nevertheless ways in which the Corporation is able to reflect, identify and act upon potential improvements in the overall governance process, which in turn improves its receptibility to finance and performance information from elsewhere and therefore its ability to deliver its role.

The Internal Audit work programme for 2020/21 also contains reviews that are relevant to financial and performance information. We have considered specific internal audit findings in more detail further down in this report.

Against this risk, we have not identified any significant weaknesses.





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12. How the body evaluates the services it provides to assess performance and identify areas for improvement

As noted in our review of Governance arrangements above, the Audit and Risk Management Committee receives regular updates from Internal Audit. The presence of a strategic Internal Audit plan and risk-based one-year plans (which, as noted above, can be updated during the year if the risk profile changes as in the case of Covid-19) ensures that the Corporation gets regular feedback on areas for improvement.

Whilst the overall Head of Audit and Risk Management Annual Opinion found that “the City has adequate and effective systems of internal control in place to manage the achievement of its objectives”, the programme of work carried out over the year identified a number of opportunities for improving controls.

Internal Audit conclusions are reported under three gradings - Green, Amber and Red, with Red being the lowest rating. Recommendations are raised where control deficiencies are noted, which are also rated Green, Amber and Red. Three Red-rated reviews are reported in 2020/21. While this was a reduction on the previous year (six) the presence of Red-rated reviews may indicate areas of significant weakness; a broad definition provided to the Audit and Risk Management Committee by Internal Audit in July 2021 is that where a report is rated Red “there is a significant risk of fraud, loss or error or failure to achieve objectives or this has already occurred: limited or no assurance as to the adequacy of the internal control environment.” As such, failure to follow up on red-rated areas in a timely manner may cause problems to persist or worsen.

While less extreme, the failure to follow up on amber-rated reviews may have a similar impact.

Therefore, we considered the extent to which follow up of recommendations for Amber and Red-rated reports could be evidenced. For all Amber-rated reports raised during 2020/21, follow up has either already taken place (in some cases with the assurance rating increasing to Green) or is scheduled to take place in the near future.

The three Red-rated reports in 2020/21 were:

- Chamberlain's IT - Software Lifecycle Management (reported October 2020)
- Chamberlain's IT - Legacy Technology and Community and Children's Services (reported January 2021)
- Adult Skills and Education Service Safeguarding (May 2021)





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We inquired with the Head of Audit and Risk Management (Chamberlain's Department) as to the extent of follow up performed over each:

- The Software Lifecycle Management is currently in the process of a second follow up, the recommendations having not yet been implemented as at January 2021 (the time of the first follow up)
- The Legacy Technology has since moved to substantial (Green) after follow-up
- The Adult Skills and Education review follow-up was reported in October 2021, noting that "evidence has been obtained of significant work to strengthen the control environment in this area, resulting in an increase in assurance from limited to moderate at the time of follow-up"

As such, we do not consider any of the Red-rated reviews to present potential areas of significant weakness when considered as part of the Corporation's overall value for money arrangements.

It should be noted that of the 58 reviews completed in 2020/21, 27 were rated green, 28 amber and 3 red with the number of green, amber and red recommendations (of 257 raised overall) as 88, 158 and 11. As such the overall rate of red-rated opinions (5%) and red-rated recommendations (4%) does not suggest an unduly high proportion. Therefore, in our view this does not suggest a fundamental weakness in arrangements overall.

We also note that, as at the time of the Head of Audit and Risk Management Annual Opinion, 88% of Internal Audit's work for 2020/21 had been completed to at least the draft stage (despite Covid restrictions).

Another way in which the Corporation evaluates services is through the Sub-Committee structure. For example, and as set out in the Annual Governance Statement, the Police Performance and Resource Management Sub-Committee's responsibilities include overseeing the Police's resource management in order to maximise the economic, efficient and effective use of resources to deliver its strategic priorities; monitoring government and other external agencies' policies and actions relating to police performance; overseeing the Police's risk management arrangements; ensuring continuous improvement in the Police's finance function and financial accounting systems; and ensuring that the Police delivers value for money. The Sub-Committee also receives regular updates on the work of internal audit in relation to the Police and inspection reports from HMICFRS.

The Policing plan itself has specific performance measures. The June 2020 City of London Police Authority Board, for example, received an update on achievement of performance against measures for Q4 2019/20. Similar reports were received quarterly at subsequent Board meetings. We also noted that the City of London Police received its own internal audit updates, which enables a service-specific consideration of areas for improvement.

Against this risk, we have not identified any significant weaknesses.





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13. How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Corporation's Committee structure incorporates a mix of Corporation-wide and service-specific forums, including with identified significant stakeholders both internally and externally.

For example, the City of London Police Authority Board's role is "to make sure the City of London Police runs an effective and efficient service by holding the Commissioner to account; to ensure value for money in the way the police is run, and to set policing priorities taking into account the views of the community." The Community and Children's Services Committee's is "responsible for the provision of accommodation and sporting and leisure opportunities for residents of the City and those who work in the City or for the City of London. A review of the minutes of these Committees suggests, for example, budget monitoring and risk management takes place at a local level for both of these committees, enabling identification of weaknesses and improvements at a local level.

The Corporation also engages with external stakeholders. While none of these take the form of *formal* joint arrangements, we have noted instances where important external stakeholder considerations have been integrated into the Corporation's planning. For example, in May 2021 the Property Investment Board considered a report of the Director of Innovation and Growth on the Culture Mile Business Partnership. The Culture Mile is also considered within the Medium Term Financial Strategy given the centrality of the Museum of London relocation (which City of

London partly finances) to the development of the Culture Mile; as part of the Budget Report in March 2021, existing resources were specifically re-prioritised to accommodate funding bids relating to policy initiatives, of which Culture Mile was identified as one.

We also note that, where appropriate, the scope of the Committees include affairs relating to City's Cash and Bridge House Estates. For example, the Medium Term Financial Strategy simultaneously considers the City Fund and City's Cash (Bridge House Estates is subject to separate arrangements), the Property Investment Board considers all three.

In total, there are over 100 Committees, sub-committees, overview and scrutiny committees, consultative committees, working parties and other bodies forming part of the Corporation's Committee structure. This includes a wide range of Committees either with roles for significant individual external stakeholders (individual schools, Safeguarding, Health and Social Care, Inner North East London Joint Health Overview) or for the most 'public-facing' elements of the Corporation's activities such as Housing Management and Homelessness.

Against this risk, we have not identified any significant weaknesses.





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14. How the body ensures that the commission or procurement of services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits

The City of London Procurement Code ("The Procurement Code") governs the procurement arrangements in place at the Corporation and sets out the rules that officers are required to follow with reference to the Public Contracts Regulations 2015 and other relevant legislation including Public Services (Social Value) Act 2012. The Code sets out procurement thresholds for operational purchasing, one-off purchasing and strategic purchasing. The Code also defines the contracts letting approval process, waiver approval process, the approval process for contract extension and the approval process for increases in contract value.

The Procurement Code also sets out which standard procurement documents should be used (for example, for Invitations to Tender).

The Procurement Code is supported by the City Procurement Strategy 2020-2024 which, amongst other aims, seeks to 'upskill' key people across the organisation in commercialism, contract management and procurement.

Procurement activities are regularly reviewed by internal audit. Since 2018/19, six reviews have taken place into different elements of procurement and contract management (both

corporate wide and with respect to specific service lines).

Benefits realised are identified and monitored by reference to the CoL and CoLP Procurement Efficiency & Savings Process.

All contracts above 'Find a Tender' thresholds are required to develop a performance management system including budget controls to ensure the performance of the contract. For contracts valued over £1m, a Performance Scorecard includes a corporate KPI for commercialism and innovation which is reviewed annually. This enables Procurement to consider how innovation has been introduced or considered by key suppliers, assists in monitoring opportunities and their implementation and to track savings and efficiencies outputs from the contract.

The findings of the Performance Scorecard are reported to the Procurement Sub (Finance) Committee. Established in 2018/19, the Sub-Committee is responsible for scrutinising and ensuring value for money is obtained on all City Corporation and City of London Police procurement contracts of value of over £2m at key stages, including initial tender strategy to final contract award sign off.





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The Sub Committee also ensure compliance with the UK Public Contract Regulations and the Corporation's Procurement Code. Category Boards have also been established which are responsible for approving and overseeing procurement strategy and performance monitoring in major areas of expenditure including Construction, IT and Facilities Services.

We reviewed the activities of the Sub-Committee and noted the receipt of quarterly update reports, including waiver performance and implementation of Procurement Policy notes (see further detail below), updates on departmental risks, consideration of the impact on Procurement Regulations of Brexit and a report in April 2021 around options to promote supplier diversity. Throughout the year the Sub-Committee also received regular updates with respect to individual procurement exercises. The Finance Committee, as parent Committee, also receives quarterly procurement updates.

To comply with the requirements for publishing procurement data under the Local Government Transparency Code 2015, The Data and Reporting team publish monthly reports on expenditure over £500, open tender opportunities of over £100,000 and contract awards of over £25,000.

Contract management arrangements are in place to secure value for money from existing suppliers. This is performed through the Commercial Contract Management (CCM) team who have developed a Performance Scorecard process containing 10 elements that suppliers are expected to deliver on. The CCM team have also developed a guide and a Toolkit for contract

managers which is available on Sharepoint and in the Part 2 of the Procurement Code.

During the onset of the Covid-19 pandemic the Government issued a series of temporary Procurement Policy Notes that were adopted by the Corporation. A report explaining the impact of this was presented to the Procurement Sub (Finance) Committee in July 2020.

With respect to PPN 01/20 'Responding to Covid-19' this included putting in place a temporary exemption code for urgent purchases and to issue guidance on revised procurement processes and contract items such as *force majeure*.

With respect to PPN 02/20 'Supplier Relief due to Covid-19', the Corporation's response was to collate, assess and review the status of all critical suppliers, issue letters to these suppliers outlining government support and our local support and how to access these, updating internal procedures to pay Small & Medium Enterprises immediately on receipt of valid invoices and all suppliers within 20 days, designed an application, assessment and relief award process for advance payments and designed standard Contract Change terms to implement advance payment agreements under contract.

The report also set out the impact of Covid-19 on live and soon-to-commence procurement exercises.





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As of August 2021, competitive procurement exemptions brought in for Covid-19 have been rescinded, as determined by the City Procurement Senior Management Team in August 2021. Noting the long period this represented since the start of Procurement exemptions (March 2020), we queried what decision-making process was used to determine the timing of the rescindment. The rescindment took place as part of an annual review process on the basis that Covid-19 was no longer seen as an 'unforeseeable event', which was a requirement of the Competitive Procurement Exemptions policy.

On this basis the Corporation had reasonable and structured arrangements in place for rescinding exemptions put in place during the pandemic's early stages.

Against this risk, we have not identified any significant weaknesses.



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We have concluded throughout the report that the Corporation has appropriate arrangements in place and that we have not identified any significant weaknesses in relation to arrangements in any of the 3 criteria, Financial sustainability, Governance and Improving economy, efficiency and effectiveness.

As such, we do not have any formal recommendations to raise.

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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