This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Grant Thornton

City of London – City Fund Indicative Audit Plan

Year ending 31 March 2023

August 2023

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Key matters

Local context

City Fund's largest area of spend is the City of London Police, which is largely funded via grants from government along with a contribution from the business rate premium. City Fund also benefits from a large property investment portfolio, overseen by the Property Investment Board, which generates additional income to fund its services. During the year the City Corporation instigated a new Target Operating Model (TOM) to achieve savings required to ensure financial sustainability going forward and to better align resources to organisational priorities. This has brought the overall cost of services down by £9m before accounting for any in-year service spend variances.

Within the financial year 2022-23, City Fund has recorded an underspend of £26.1m (2021-22 underspend £48.1m), with the significant driver being delays in drawing down central contingencies contributing to an underspend along with slippage on supplementary revenue projects. The Authority also maintains a strong balance sheet position with net assets totalling £1,869.4m at year end. The key movements which have contributed to an overall balance sheet increase of £777.6m are largely due to the reduction in pension liability compared to the previous year.

The current financial projections for City Fund across the medium-term planning horizon indicate that City Fund maintains adequate levels of both general and earmarked reserves (£262.2m) to support its functions across the short to medium term. The projected deficits in 2025-26 and 2026-27 will require addressing as part of the financial planning process carried out in the autumn.

National context

For the general population, rising inflation rates, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. At a national government level, recent political changes have seen an emphasis on controls on spending, which in turn is placing pressure on public services to manage within limited budgets.

Local Government funding continues to be stretched with increasing cost pressures due to the cost of living crisis, including increasing pay demands, higher agency costs and increases in supplies and services. Local authority front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into destitution and helping to build households long-term financial resilience. At a local level, authorities are also essential in driving strong and inclusive local economies, through their economic development functions and measures like

Key matters

increasing the supply of affordable housing, integrating skills and employment provision, and prioritising vulnerable households to benefit from energy saving initiatives. Access to these services remains a key priority across the country, but there are also pressures on the quality of services. These could include further unplanned reductions to services and the cancellation or delays to major construction projects such as new roads, amenities and infrastructure upgrades to schools, as well as pothole filling.

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

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

Audit reporting delays

In a report published in January 2023 the NAO highlighted that since 2017-18 there has been a significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. The NAO outlines a number of reasons for this and proposed actions. In our view, it is critical for early sign off that local authority draft accounts are prepared to a high standard and supported by strong working papers.

Grant Thornton produced a report ‘About Time’ that explores the reasons for delayed publication of audited local authority accounts. Local authority accounts are becoming increasingly complex as accounting standards evolve and local authorities enter more innovative financing arrangements and income generation projects. A significant challenge in managing local audits is the differing needs of various stakeholders. The report concluded that amongst other things, the local government sector, central government and regulators need to agree on the purpose of local audit and find a consensus on improving efficiency in publishing accounts.

Key matters

Our responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan, has been agreed with the Chamberlain.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our value for money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- Our final audit plan will include consideration of progress against previously agreed recommendations.
- We will continue to provide you and your Audit & Risk Management Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our audit committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation, discuss issues with our experts and create networking links with other audited bodies to support consistent and accurate financial reporting across the sector.

Introduction and headlines

Purpose

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

Respective responsibilities

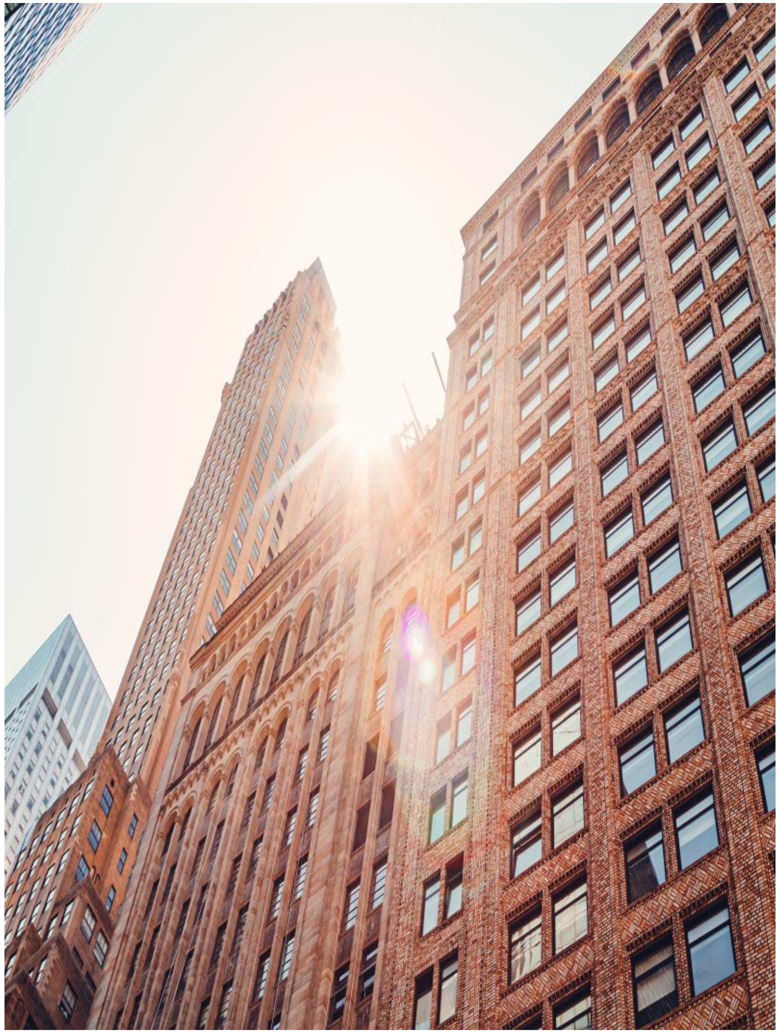
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed engagement letter and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

Scope of our audit

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

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

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



Introduction and headlines

Indicative significant risks

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

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

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

Materiality

At this indicative stage we expect materiality for City Fund to be approximately £8.1m (2021-22 £7.69m), which equates to 1.5% of your draft gross expenditure for the period.

Value for Money arrangements

We will report the outcome of our risk assessment regarding your arrangements to secure value for money in our final audit plan, including any risks of significant weaknesses that we identify.

New auditing standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this indicative plan.

Audit logistics

Our planning visit takes place in August and our final visit will commence in September. Our key deliverables are the Final Audit Plan, our Audit Findings Report and Auditor’s Annual Report.

Our proposed fee for the audit will be an increase from the prior year of £357,500 (PY: £340,000) for City Fund. The rationale for the increase is set out in detail on page 17 and is subject to the Authority delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Authority's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Indicative significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transaction (rebutted)	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA 240 and nature of the revenue streams at City Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including City Fund, mean that all forms of fraud are seen as unacceptable. We do not consider this to be a significant risk for City Fund.	We will rebut the presumed risk of fraud in revenue, and as such there is no specific work planned for this risk. To gain assurance over revenue, we will: • Document our understanding of the revenue business process. • Test a sample of revenue to gain assurance over the accuracy and occurrence of revenue recorded during the financial year. • Perform testing over post year-end receipts to assess completeness of revenue and receivables recognition.
Management override of controls	Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. City Fund faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for City Fund, which was one of the most significant assessed risks of material misstatement.	To address this risk we will: • Evaluate the design effectiveness of management controls over journals. • Analyse the journals listing and determine the criteria for selecting high risk unusual journals. • Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence. • Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

Indicative significant risks identified

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

Valuation of land and buildings, council dwellings and investment properties	City Fund re-values its land and buildings on a five-yearly rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions:
	
	Other Land & Buildings (£630.5m): City Fund re-values its land and buildings on a rolling five-yearly basis. City Fund has appointed three external valuers, as well as the City Corporation's City Surveyor's Department to carry out the valuations for 2022-23.
	
	Council dwellings (£249m): City Fund measures its dwellings at fair value, determined using the basis of existing use value for social housing and is re-valued on a cyclical approach using the Beacon methodology.
	
	Investment Properties (£1,337.8m): City Fund measures its investment properties at its highest and best use and is re-valued each year-end.
	
	Additionally, management will need to ensure the carrying value of assets not revalued as at 31 March 2023 in City Fund's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.
	
	We identified the valuation of land and buildings, council dwellings and investment properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.
		To address this risk we will:
		• Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work.
		• Evaluate the competence, capabilities and objectivity of the valuation experts.
		• Discuss with or write to the relevant valuers to confirm the basis on which the valuation was carried out.
		• Engage our own valuer expert to provide commentary on:
		    • the instruction process in comparison to requirements from CIPFA/IFRS/RICS; and
		    • the valuation methodology and approach, resulting assumptions adopted and any other relevant points.
		• Challenge the information and assumptions used by the valuers to assess completeness and consistency with our understanding.
		• Test revaluations made during the year to see if they have been input correctly to City Fund's asset register.
		• Assess the value of a sample of assets in relation to market rates for comparable properties.
		• Test a sample of beacon properties in respect of HRA dwellings to consider whether their valuation assumptions are appropriate and whether they are truly representative of the other properties within that beacon group.
		• Evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

Indicative significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of pension fund net liability	The pension fund net liability, as reflected in City Fund's balance sheet as pensions liability, represents a significant estimate in the financial statements. Further, regulation 62 of the Local Government Pension Scheme (LGPS) requires pension fund administering authorities to obtain an actuarial valuation of defined benefit pension scheme every three years. The triennial valuation reports as at 31 March 2022 were required to be obtained by 31 March 2023. Estimation of the net liability depends on a number of complex adjustments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages and mortality rates. The net liability has been valued by the City of London's independent consulting actuaries (Barnett Waddingham LLP). The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£913.2m as at 31 March 2023) and the sensitivity of the estimate to changes in key assumptions. City Fund's pension liability consists of City Fund's share of the City of London Corporation's net pension liability and the unfunded City Police pension scheme. We therefore identified valuation of City Fund's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	To address this risk we will: • Update our understanding of the processes and controls put in place by management to ensure that City Fund's pension fund net liability is not materially misstated and evaluate the design of the associated controls. • Evaluate the instructions issued by management to their management expert (actuary) for this estimate and the scope of the actuary's work. • Assess the competence, capabilities and objectivity of the actuary who carried out City Fund's pension fund valuation. • Assess the accuracy and completeness of the information provided by City Fund to the actuary to estimate the liability. • Test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary. • Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. • Document the scope of the actuary's work for the triennial valuation. • Identify, document and evaluate the procedures and controls used by City of London Pension Fund to establish the accuracy and completeness of the source data, and over the provision of this source data, to the actuary for the purposes of preparing the triennial valuation. • Perform audit procedures in respect of the triennial valuation data submitted to the actuary. • Consider testing the individual member data used by the actuary in their triennial valuation calculations against independent records.

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto. Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Indicative other risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Fraud in expenditure recognition	Practice Note 10 suggest that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially an entity that is required to meet financial targets. Having considered the risk factors relevant to City Fund and the relevant expenditure streams, we have determined that no separate significant risk relating to expenditure recognition is necessary, as the same rebuttal factors listed on page 8 relating to revenue recognition apply. We consider the risk relating to expenditure recognition would relate primarily to period-end journals and accruals which are considered as part of the standard audit tests and our testing in relation to the significant risk of Management override of controls set out on page 8.	To address this risk we will: • Perform testing over post year-end transactions to assess completeness of expenditure recognition. • Test a sample of operating expenses to gain assurance over the accuracy and occurrence of expenditure recorded during the financial year.

'In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them.' (ISA (UK) 315)

Other matters

Other work

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

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of City Fund.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2022-23 financial statements, consider and decide upon any objections received in relation to the 2022-23 financial statements;
  - issuing a report in the public interest or written recommendations to City Fund under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

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

Our indicative approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Matter	Description	Planned audit procedures
1	**Determination** We anticipate that we will determine financial statement materiality based on a proportion of the gross expenditure of City Fund for the financial year. At this indicative stage we expect materiality for City Fund to be approximately £8.1m, which equates to 1.5% of your draft gross expenditure for the period.	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; – assist in establishing the scope of our audit engagement and audit tests; – determine sample sizes; and – assist in evaluating the effect of known and likely misstatements in the financial statements.
2	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. We will confirm in our final audit plan whether we have identified any balances where we will apply a lower materiality level.
3	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.
4	**Other communications relating to materiality we will report to the Audit & Risk Management Committee** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Audit & Risk Management Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of City Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.4m (PY £0.38m). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit & Risk Management Committee to assist it in fulfilling its governance responsibilities.

IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on page 17.

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

IT system	Audit area	Planned level IT audit assessment
Oracle E-Business Suite	Financial reporting	Our IT Audit Team has carried out a review of the design and implementation of the City of London Corporation's financial reporting system (Main ERP system hosted by City of London). The work was carried out in December 2022 and identified two deficiencies. The first is in relation to the timeliness of revocation of user access in Oracle EBS, and the second is relates to the management of generic database administrator accounts. Recommendations for these two deficiencies have been raised with management and will be reported in the 2021-22 Audit Findings Report.
Orchard and Civica (Civica replaced the Orchard system in June 2022)	Benefits	Orchard to June 2022 - the audit team will carry out a detailed ITGC assessment (design implementation only). New system implementation – Civica was implemented in June 2022. Relevant risks for the new system include post-migration data completeness, and system functionality operating to design. Planned procedures to address the relevant risks will include: - Obtaining an understanding of the controls and processes in place for the system implementation; and - Audit of data migration activity, review of reconciliations and assessment of implementation results.
iTrent	Payroll	The audit team will carry out a detailed ITGC assessment (design implementation only).
Capita	Collection Fund	The audit team will carry out a detailed ITGC assessment (design implementation only).

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2023.

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

Improving economy, efficiency and effectiveness

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

Financial Sustainability

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

Governance

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

We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report.

Audit logistics and team

Planning and risk assessment August 2023

Audit & Risk Management Committee September 2023

Indicative Audit Plan

Final Audit Plan

Year end audit September to October 2023

Audit & Risk Management Committee November 2023

Audit Findings Report

Audit Opinion

Sophia Brown, Director

Sophia is the Engagement Lead, for City Fund, leads the work performed on the audit. Signs the audit opinion and holds regular meetings with senior officers.

Nick Halliwell, Audit Manager

Nick is responsible for the overall management of City Fund's audit and the quality assurance of audit work and output. Nick will attend Audit & Risk Management Committee, undertake reviews of the team's work and draft reports.

Antoinette Mtembu and Bheki Dlamini, Assistant Managers

Will work with the senior members of the finance team ensuring delivery of testing and agreement of accounting issues on a timely basis. Are the key audit contacts responsible for the day-to-day management and delivery of the audit work.

Audited entity responsibilities

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

Our requirements

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

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

Audit fees and updated Auditing Standards including ISA 315 Revised

In 2022, we were awarded a contract of audit for City of London Corporation – City Fund to begin with effect from 2021-22. The fee agreed in the contract was £340,000. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISAs which are relevant for the 2022-23 audit.

The major change impacting on our audit for 2022-23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding City Fund's IT Infrastructure, IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of City Fund's business model, which may result in us needing to perform additional inquiries to understand City Fund's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for an authority of your size, we estimate an initial increase of £4,000. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022-23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022-23, as set detailed overleaf is to be agreed with the Chamberlain.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures which* includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit & Risk Management Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2023. Based on our knowledge of the Authority we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, council dwellings and investment properties
- Depreciation
- Year end provisions and accruals, specifically for non domestic rates appeals provision
- Valuation of defined benefit net pension fund liabilities
- Credit loss and impairment allowances
- Fair value estimates

Accounting estimates and related disclosures

The Authority's Information systems

In respect of the Authority's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Authority uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate; and
- There are adequate controls in place at the Authority (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainly is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have sent enquiries to management and to Audit & Risk Management Committee. We would appreciate a prompt response to these enquires.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

Audit fees

	Estimated fee 2021-22	Proposed fee 2022-23
City of London City Fund Audit	£340,000	£357,500
Total audit fees (excluding VAT)	£TBC	£357,500

The 2022-23 fee is expected to increase due to the following factors:
- The need to meet the requirements of ISA 315 (Revised) - £6,000
- The need to meet the requirements of ISA 240 (Revised) - £4,000
- Pension fund triennial valuation additional procedures - £6,000
- New system implementation additional procedures - £1,500

Assumptions

In setting the above fees, we have assumed that City Fund will:

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

Relevant professional standards

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

Independence and non-audit services

Auditor independence

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Authority's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

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

Independence and non-audit services

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with City Fund's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings Report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefit Claim (2020-21)	£25,000	Self-interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £25,000 in comparison to the total fee for the audit of £357,500 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Benefit Claim (2021-22)	£25,000	Self-interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £25,000 in comparison to the total fee for the audit of £357,500 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
Research services analysing US financial services sector	£10,000	Self-Interest	The level of this fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit of £357,500 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

Communication of audit matters with those charged with governance

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

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

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

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

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Grant Thornton