Grant Thornton

City of London Corporation City Fund - Audit Findings

Year ended 31 March 2022

City of London Corporation – City Fund

October

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.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of City of London Corporation - City Fund Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Authority's financial statements give a true and fair view of the financial position of the Authority and income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local Authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed in a hybrid manner in two visits November 2022-March 2023 and July-September. We had planned to complete the 21-22 audit in the first visit and the break taken was necessitated by our commitments to completing NHS final account audits. When we took on the contract which was a direct appointment and sits outside the PSAA contract the expectation had been that we **would complete the 2021-22 audit from November 2022 to March 2023**. The time spent from July-September resulted from the audit not progressing at the pace we would have expected and resulted in significant additional costs to the audit process. The key factors behind these overruns are:

- The Authority has a large net asset base relative to its overall spend when compared with other local authorities. This combined with some working papers being of poor quality in some cases and transaction listings not being cleansed (eg creditors listing containing significant numbers of debits) resulted in much larger sample sizes that we would usually expect or that the Authority itself is used to. We note this has required more time input from both the audit team and the Authority's officers.
- During the audit there was a relatively high level of staff turnover in the Authority's finance team. This was particularly the case between November 2022 to March 2023 in which several staff changed and, in some instances, detailed handovers regarding audit queries had not always been provided. This inevitably added to the time the audit took to complete. We note the Authority has continued to invest in the finance team and pro-actively worked with us to improve the audit response process over time. However, there are clearly challenges and time lags for new staff to bed into roles and familiarise themselves with a complex local Authority, with multiple years of audits being worked on simultaneously. We also recognise the Finance team has had to address multiple audits across the Funds.
- The Authority had two key judgements relating to the Museum of London and Lease premia accounting that both materially impact the Authority's Balance sheet. This required significant levels of audit attention and review from senior members of our audit technical team around key accounting judgements.
- When we were appointed as auditors was on the understanding the 2020-21 audit was expected to be signed by the end of the 2022 calendar year. However, at the date of this report the 2020-21 financial statements audit still has not been signed. This prevents us completing a number of key procedures required under the auditing standards, including gaining assurance over the opening balances. Also, when issues were identified in our audit these then have to be considered with the predecessor auditor to identify the impact on the 2020-21 financial statements.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of City of London Corporation - City Fund Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements continued….

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Authority's financial statements give a true and fair view of the financial position of the Authority and income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local Authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We continue to work closely in partnership with your finance team and Senior finance officers to seek to recover as much of the delay as possible in the completion of the audit backlog. Senior officers have taken key steps to support the audit process, but as noted there have been a number of complexities involved in the process. Management have worked hard to mitigate these factors as far as possible including:

- Investing money in interim staff members specifically to help work through the audit backlog.
- Filling staff vacancies with experienced personnel.
- Improving the process in which sample evidence/queries are responded to.

The above has taken some time to bed in but with the above in place we have confidence we can also substantially complete the 2022-23 financial year audit in the 2023 calendar year., subject to the 20/21 audit being signed off by the predecessor auditor.

From our part we remain committed to dealing the Authority's backlog of audits, in particular in light of discussions around backstop dates. **Therefore, as a team we have invested more resource on the audit.** We have also ensured that the team booked to the audit has the **appropriate resource and experience level for what is a complex audit**. In addition, following overruns were possible we have **kept continuity in the team and extended the teams time on the engagement**. However, this has had cost implications on the audit as the audit has effectively taken double the level of resource we had planned for. This has had cost implications on the audit and our proposed fee has taken this into account and is set out in Appendix D.

We also have from the audit have taken learnings of how we can work better with management going forward, modify our approach to sampling/setting materiality and the investment of time to detail our understanding of the key areas of complexity in your accounts will be of significant help in future audits.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters;

- receipt of management representation letter
- review of the final set of financial statements.
- completion of the 2020/21 financial statements audit by your predecessor auditor and our review of their audit file.
- consideration of any post balance sheet events that arise prior to the sign off date.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Authority's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Authority's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have completed our VFM work, which was reported to management on the 13th March 2023., in our Interim Annual auditor's report. This was an interim report due to the fact it cannot be finalised until the prior year's value for money opinion is issued and our own financial statements opinion work is complete. We will reissue this report if any significant matters come to our attention that would require this to be updated, if not this previous report will be finalised when we come to conclude on our Value for Money work.

Our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We are satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As a firm we have remained committed to the timely reporting of our Value for Money work, even in instances when the financial statement reporting has been delayed.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of matters set out on page 4.

Significant Matters

As has been noted the timeframe we had anticipated the prior year audit being concluded has been significantly delayed. In addition, our audit work on 2021-22 has taken almost double the time we had anticipated. Due to this there have been significant cost overruns on the audit, and we have set out the key factors regarding this on pages 7 onwards.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Audit and Risk management Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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 for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Authority's business and is risk based, and in particular included:

- An evaluation of the Authority's internal controls environment, including its IT systems and controls;
- An evaluation of the Authority based on a measure of materiality considering each as a percentage of the Authority's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. We determined financial statement materiality based on a proportion of the gross expenditure of the City Fund for the financial year.
- Materiality as was communicated in our audit plan and was set at £7.69m. For the City Fund This was based on 1.5% of your gross expenditure for the year.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Risk management Committee meeting on 06/11/2023.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. The Authority's finance team as noted previously has faced unique challenges with three financial years being worked on simultaneously across two audit firms combined with this being a first-year audit with us as the auditor. We thank management for their continued support and patience in what we appreciate has been a challenging situation to work in. We have worked with management in a hybrid way, coming into offices when requested and typically coming in at least once a week as a full team. We have also used remote arrangements to with remote accessing financial systems, video calling, physical verification of assets, verifying the completeness and accuracy of information provided remotely produced by the entity.

We also **appreciate the efforts the finance team have made to strengthening and expanding the resources available as we work through the backlog of audits at the Authority.**

2. Financial Statements – Significant matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Conclusion
Backlog of audits and the prior year audit remaining open significantly longer than anticipated.	We had anticipated that the prior year audit would be completed by the end of the 2022 calendar year, as of October 2023 the audit has not been completed for 2020-21 and this has an impact on our audit work in the following areas: • We are unable to review the accounts opening balances to confirm they agree to the finalised prior year closing balances. • We are unable to complete our final review of the prior year audit file and the findings in their final report. • Any audit findings identified in the current year then have to be considered by management in relation to the prior year and discussed with the other auditors for their view. This process becomes time consuming for management and has impacted the pace of the audit. • We are unable to sign the current years accounts whilst the prior year's remains ongoing, and this obstacle has an impact on us being able to set clear deadlines that we are working to close the audit to. The extended timeframe of the audit also brings more matters into scope in relation to subsequent events which we are required to consider until the audit sign off date.	We note this issue impacts a number of local authorities and there are also capacity challenges in the sector to deal with the issue. As a firm we remain committed to working with local authorities to ensure audits are complete and the backlog is worked through. However, we note this issue has impacted our ability to conclude this year's audit at the pace we would expect.
During the audit there have been national issues raised in relation to Reinforced Autoclaved Aerated Concrete (RAAC) and its use in the public sector setting. We have had to consider the impact this could have on the Authority's accounts.	Based on our review of the matter we can see the Authority has followed Government advice in checking them for the presence for RAAC. In doing so the following has taken place: • The Authority has created an RAAC tracker to log issues and if the material is identified a risk assessment is undertaken, with there being 2,200 properties over the whole corporation. • As of October 2023, the inspections have revealed no immediate concerns around the assets. With no assets having to have suspended use. • There have been no associated liabilities identified in association with this matter, that would require providing for.	From this assessment we note the following: • There has been no closure of assets as a result of this issue. • No significant issues have been identified that would require the changing of useful lives of assets. • There have been no identified remedial action of potential legal provisions identified as a result of this matter. Therefore, at the current date we are satisfied no adjustments are required to the asset valuations or provisions in the Financial statements. We have noted with management that updates on this issue should be made in the narrative report and in the financial statements within post balance sheet events.
Equal pay liability – following recent issues at other local Authority's in relation to significant liabilities associated with equal pay liabilities coming out of recent court cases we were required to consider the impact of this in the Local Authority's accounts.	From our discussion with management no liabilities in relation to this matter have been identified. From our revie we are satisfied that this issue does not impact the Authority.	From our work no significant issues identified.

2. Financial Statements – Significant matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Conclusion
Challenges in the audit during November 2022 – March 2023.	As noted in the audit papers set out to the Audit and Risk Management Committee in March 2023 and September 2023 there have been significant delays to the audit versus what had been budgeted. These correlated around the below themes. • There were significant challenges in the City Fund adapting to the Grant Thornton requirements in particular around sample evidence. This issue was compounded with their being a high volume of samples in the first-year audit. In both the March and September progress reports we set out samples that were outstanding. Typically, our expected response time for large samples is 2 weeks and for smaller samples a week. During the audit the response time was significantly slower than this and some samples took several months to complete. This resulted from the impact of delayed responses, in which evidence was provided that did not meet the requirements, we had set out leading to a large amount of back and forth that took up a significant amount of time. • There having been a relatively high level of staff turnover within the finance team around/during this visit. Due to the City Fund being a fairly unique and complex Local Authority, it does understandably take staff time to bed into role, and this created challenges in the pace of the audit's delivery. It also meant that the audit team had to review multiple versions of working papers, explain the same point to multiple staff due to staff turnover and this created inefficiencies in the audit process. • Delays in receiving responses to our audit planning enquires which were completed in September 2023, and the delay in this prevents us finalising our risk assessment and planning stage of the audit. • The quality of transaction listings provided by management were challenging to work with. This was due to reconciliation issues and the fact they were not produced in a "clean" format with a large number of reversal entries. Such entries significantly increase our sample size. Another issue was in relation to reconciliation issues with their being material differences in the original listing provided for expenditure and the trial balance. • The finance team from November to January had limited capacity due to having multiple audits of the other Funds ongoing and key gaps members of the finance team. We therefore did not get the level of traction we would expect until February. We then ran into issues in March when the team was booked to the audit due to the finance team having competing pressures in preparing for the financial year end. The above issues have had a significant impact on the time spent on the audit as we had anticipated the audit would be completed in the above time period, however, there was still a significant amount of work required on the 2021-22 audit from July. **We would like to highlight in what have been difficult circumstances the Authority have brought in additional resource to support with the backlog, with a number of interims in post. We note this has helped us resolve audit queries but given the staff were new and did not prepare the 21-22 accounts it did take time for this benefit to be realised.** **As a team we have also taken learnings in how we can work more effectively with management and adapt our audit approach in the second-year audit and are happy to report that progress has markedly improved on the 2022-23 audit.**	We note in relation to the issues noted management have taken appropriate action to resolve the issues. However, we do note with a number of interim staff in post that there are risks the issues noted could remerge in the future.

2. Financial Statements – Significant matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Conclusion
Lease premia In our technical review of the accounts and other audit procedures we identified there was a significant balance in the Authority's accounts within Investment properties and Rents Received in advance relating to the accounting for payments received for lease premia. This is quite an unusual accounting matter and due to that there is not direct specific CIPFA or IFRS guidance on the specifics of it. In relation to this matter the Authority received payments for assets for up to one hundred years. This meant the Authority treated the element of this payment that relates to the building as a disposal to a third party and the other aspect of the payment as an operating lease, with the other entries shown as rent received in advance and recongised as income in future years and the associated asset as an Investment property. From our review of Investment properties disclosures in the accounts and the supporting FAR listing we came to understand that there were approximately £176.9m of adjustments, increasing the balance of Investment properties in the accounts relating to lease premiums. There was also an associated Deferred Income liability of £225.9m in the financial statements, representing cash received from the lease premium less the income recognised since the receipt of the cash. Although we noted this position had been unchanged since 2014/15, we are required to make our own assessment of key matters such as this. Upon our review of the Code , IAS17 and IAS 40 along with the CIPFA practitioners guide indicated this approach may not be correct. We therefore challenged management in March on the approach being undertaken.	Initially following this challenge, the Authority appeared to be minded to change the accounts based on the CIPFA practitioners' guidance, with the Council preparing the 2022-23 accounts on this basis. However, management considered the matter further and in greater detail and noted the following aspects of the situation differed to the Practitioners guidance: • The length of the lease. • The componentisation of the leases. The Authority determined that guidance outlined in EY's International GAAP 2023 publication was more applicable to the situation, which supported the Authority's original accounting treatment. Following our own review and having consulted with our Technical team on the matter we are satisfied that the CIPFA Code does not contradict this guidance and it is the most appropriate guidance to apply to this matter. We note this matter was made more challenging due to the gap in time between the original accounting decision being made in 2014/15 and staff turnover in that period which meant the Authority did not retain a detailed rationale behind this complex treatment. We recommend that documents provided to us are retained and the basis for the treatment is clearly set out in the financial statements as has now been done in the 2021/22 financial statements. Having agreed the principle of the accounting we undertook testing of the balances in the accounts. From this testing we did identify the Authority had incorrectly applied this to two key items. This resulted in an increase to the Investment property valuations by £47m. The impact of this is to increase the Authority's asset base but due to statutory accounting does not impact the General Fund. The complexity of this issue and the varying responses on the matter has led to increased time spent on the audit and input in particular from senior members of our technical team. With the matter being worked on for several months, from February to August 2023.	Management have updated the accounts to explain the accounting of this matter. Management have also updated the errors we identified regarding the application of this matter, resulting in a £47m adjustment to the Investment property balance.

2. Financial Statements – Significant matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Conclusion
Museum of London In our technical review of the financial statements, we identified that the Authority's relationship with the Museum of London required a more detailed consideration setting out how it was being accounted for. Due to this being a complex arrangement in which the Authority appoints half of the board and the GLA the other half we requested management to provide a detailed paper on their assessment of the relationship and if it requires group accounting.	Following this challenge, we identified that the explanation provided by management was not sufficiently detailed, with the predecessor auditor having reported similarly in their previous audit reports. From our discussions we noted the accounting for this arrangement could have Group accounting implications, which given the Museum of London has total assets of £64.1m makes this a Critical Judgement in accounting terms. Management then sought to prepare a detailed paper to support the position. On review of this paper, we identified enhancements were required on several areas, with the key area being the consideration of IPSAS 36 and its interpretation of what counts as "quantifiable ownership". Following this challenge management conducted a thorough review of the relationship and produced a detailed paper considering the key considerations of this and have updated the Critical Judgements within the financial statements, accordingly, setting out clearly why the City of London does not have a quantifiable ownership of the museum. We note that given the impact of this assessment we would have expected detailed papers to support this historic critical judgement. We note this may have been impacted by staff turnover at the Authority over time.	From our review we are satisfied with management accounting treatment of this matter and the updated disclosure. However, we note that for key judgements such as this management should ensure detailed consideration of the relevant standards is undertaken and that this is saved in shared files available to the finance team so that the basis for these judgements is not impacted by staff turnover.

2. Financial Statements - Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
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. The 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 the City Fund, which was one of the most significant assessed risks of material misstatement.**	We undertook the following procedures: - evaluated the design effectiveness of management controls over journals - analysed the journals listing and determined the criteria for selecting high risk unusual journals - identified and tested journals we considered to have the greatest risk of material misstatement or from our data analytics Journals that were identified to be unusual. We then tested these Journals for appropriateness and corroboration - gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Improper revenue recognition	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. In the Audit Plan, we reported that having considered the risk factors set out in ISA240 and the nature of the Authority, we had 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. • The culture and ethical frameworks of local Authority's, mean that all forms of fraud are seen as unacceptable. There have been no changes to our assessment as reported in the Audit Plan.
Improper Expenditure recognition	In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). Based on our risk assessment we do not consider there to be a significant risk of fraud or management manipulation of such balances. We did identify the completeness of other expenditure as an Other risk but given its value and the nature of the stream we did not determine this to be a significant risk in our audit strategy. There have been no changes to our assessment as reported in the Audit Plan.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Investment Property The City Fund measures its investment properties at its highest and best use and is re-valued each year-end, the overall portfolio is **significant sitting at 1.595 billion** in the draft accounts. Valuations of properties have a number of inputs used in their calculations, that are complex and also subject to market volatility. Therefore, at Local Authority's with Investment properties 4-5X over materiality we typically view this as a significant risk, due to this volatility. **The City Fund has a much higher value** of such assets sitting at nearly 200 times our materiality level. This I**nvestment property portfolio is therefore significantly higher than the majority of Local Authority's in the sector.**	We undertook the following procedures: • Evaluated 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 expert. • Discussed with and wrote to the relevant valuer to confirm the basis on which the valuation was carried out. • Engaged 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. • Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. • Recalculated the valuations, testing key inputs including yields applied, rental information used, and all other key assumptions applied in the valuers' calculations behind the asset's valuation. • Test revaluations made during the year to see if they have been input correctly to the City Fund's asset register. • Assess the value of a sample of assets in relation to market rates for comparable properties. In our technical review of the accounts and in our testing, we identified that the Authority had a number of complex Lease premiums which related to upfront payments with the land element being treated as Deferred Income and released each year. This was a complex audit issue that required significant audit attention and the details of this can be on page 9 of this report. Although we agreed with management's original accounting position following the process noted above, we did identify an instance in which it had been incorrectly applied. **This resulted in a material £47m increase in the Investment properties valuation and a corresponding entry to Revaluation Movements** which **hits the Financing and Investment Income and expenditure line in the CIES.**

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Council Dwellings Dwellings (£251m): The 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. Across the Property Plant and equipment balance the City Fund uses 3 valuers along with internal valuers in the process. This reflects the size of the asset portfolio at the Fund.	We undertook the following procedures: • Evaluated 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 expert. • Discussed with and wrote to the relevant valuer to confirm the basis on which the valuation was carried out. • Engaged our own valuer expert to provide commentary on: the instruction process in comparison to requirements from CIPFA/IFRS/RICS; and the guidance regarding the valuation of council dwellings and social housing. • Reviewed and tested a number of assets back to market data for properties in that area. • Reviewed a sample of assets to test the appropriateness of the Beacon applied as well as undertaking existence testing of a sample of assets. • Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. Two assets that were double counted in the Fixed Asset Register and the Financial statements. With an aggregated closing balance of £2.2m, opening balance of £2.3m and closing Revaluation Reserve of £1.6m, we are content that this is immaterial. No other issues were identified in our testing procedures.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings The 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 (OLB) (£596.3m): The City Fund re-values its land and buildings on a rolling five-yearly basis. The City Fund has appointed three external valuers, as well as the City Corporation's City Surveyor's Department to carry out the valuations for 2021/22.	We undertook the following procedures: • Evaluated 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 expert. • Discussed with and wrote to the relevant valuer to confirm the basis on which the valuation was carried out. • Engaged our own valuer expert to provide commentary on: the instruction process in comparison to requirements from CIPFA/IFRS/RICS (Royal Institute of Chartered Surveyors) ; and the valuation methodology and approach, resulting assumptions adopted and any other relevant points. • Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. • Recalculated the valuations, testing key inputs including BCIS rates, floor areas, obsolescence rates and other key assumptions used in both Depreciated Replacement cost and Existing Use Valuations. We also considered the appropriateness of the basis of each method for determining the assets valuation. • Tested revaluations made during the year to see if they have been input correctly to the City Fund's asset register. • Confirmed via site inspections the asset details corroborated with those in the valuation report. In our work reconciling the valuation report to the Gerald Eve Valuation report to the Fixed asset register we identified that there was an inaccurate apportionment of the Criminal Court between City Cash and City Fund. This represents an unadjusted misstatement of £2.44m. No further misstatements were identified. We identified disclosures within the key estimates required enhancement to meet IAS 1:22 requirements regarding Other Land and buildings. In addition, the work undertaken was significantly increased versus audits on other local Authority's where the portfolio is significantly smaller for OLB in particular in proportion to their materiality. This is also reflected in the number of valuers the Authority uses, the use of additional and specialised experts we consider good practise, however, the use of more experts then did require a greater level of audit review of each experts' different methodologies, approaches and reports by both ourself and our valuation experts. We also identified following our experts review of the valuation reports that there was a control deficiency in the fact the City Surveyor did not prepare a terms of engagement and summary valuation report in line with RICS standards. This did not result in concerns around the valuation approach but is an observation our valuation expert raised around best practise and compliance with RICS standards.

2. Financial Statements - Significant risks

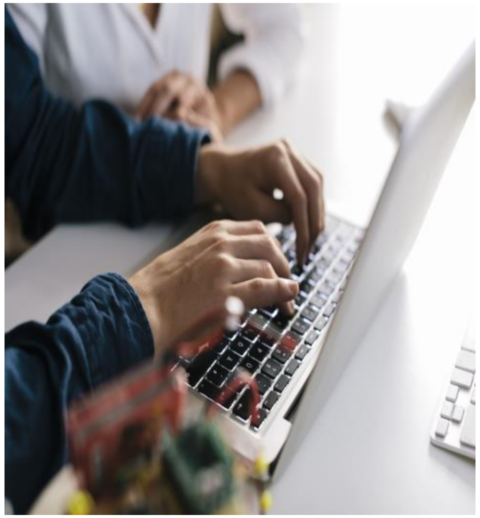
Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability The pension fund net liability, as reflected in the City Fund's balance sheet as pensions liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£1,672.6m) and the sensitivity of the estimate to changes in key assumptions. The City Fund's pension liability consists of the City Fund's share of the City of London Corporation's net pension liability, the unfunded City Police pension scheme and the Judge's Pension Scheme. We therefore identified valuation of the 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. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering Authority's and employers. We do not consider this to be a significant risk as this is easily verifiable.	We undertook the following procedures: • Gained an understanding of the processes and controls put in place by management to ensure that the City Fund's pension fund net liability is not materially misstated and evaluate the design of the associated controls. • Evaluated the instructions issued by management to their management expert (actuary) for this estimate and the scope of the actuary's work. • Assessed the competence, capabilities and objectivity of the actuary who carried out the City Fund's pension fund valuation and the actuary who undertook the valuation of the unfunded Police Pension Liability. • Assessed the accuracy and completeness of the information provided by the City Fund to the actuary to estimate the liability. • Tested 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. • Undertook 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. The Authority is a member of the City of London Pension Scheme. The latest triennial valuation for the LGPS has recently been published. This valuation, which is at 31 March 2022, provides updated information for the net pension liability on the Authority's balance sheet, particularly in respect of membership data and demographic assumptions. As a result, we requested that management obtain a revised report from their actuary, detailing what impact this updated information had on its net pension liability disclosures at 31 March 2022. This revised report showed that the impact was material and so management have adjusted the financial statements accordingly. As a result, the Authority's share of the pension fund's assets has increased by £3.6m and its share of the pension fund's liabilities has decreased by £34.3m. Our work has not identified any issues in respect of these adjustments. The impact of this adjustment is to reduce the net deficit by £38m which following this triennial valuation now sites at 386.8m for the City of London Pension Scheme, prior to this review it sat at £424.8m. Additional audit work has been required in respect of this issue, resulting in an increase to the audit fee, which is reflected nationally. This included obtaining assurance in respect of updated membership data, considering the reasonableness of revised assumptions and estimates and checking the accuracy of management's adjustments to the financial statements.

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Risk Management Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Authority, including specific representations in respect of the Authority’s assessment of whether the national concerns around RAAC are material to the Local Authority and that there is no impact regarding potential liabilities associated with the equal pay tribunal that would impact the Authority which is included in the Audit and Risk Management Committee papers.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send a confirmation requests to relevant Investments and Borrowings held with third parties. This permission was granted, and the requests were sent out with all requests having been received.
Accounting practices	We have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements. However, we did identify enhancements and adjustments required to the Critical Judgement notes and Key estimates note. In particular enhancements regarding disclosures that related to the Authority's relationship with the Museum of London and accounting treatment of it and the Lease premium issue.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provide. However as mentioned previously we did identify challenges particularly at the start of the audit in: • Obtaining supporting evidence for samples that met our quality requirements. This resulted in items having to have evidence reviewed several times for a large number of samples with time spent on both sides clarifying what is appropriate audit evidence. • Challenges around the pace we received responses at the start of the audit. • Issues around staff turnover that in some instances lead to sunk time explaining our audit requirements to team members who then left, time for new staff to familiarise themselves with a highly complex/unique local Authority and loss of organisational knowledge in that process. We note the team once they have settled into their new posts have dealt with audit queries in a detailed and prompt manner and we thank the finance team for putting these arrangements in place during a challenging period, particularly given there are 3 financial years with open audits on them.

2. Financial Statements - other communication requirements

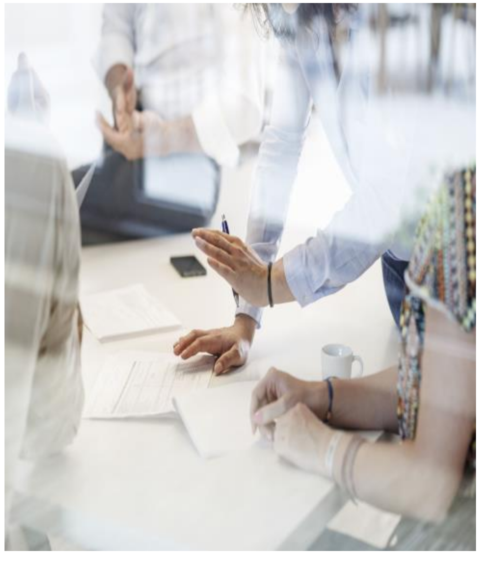
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Authority recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Authority's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Authority meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Authority and the environment in which it operates • the Authority's financial reporting framework • the Authority's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. **No inconsistencies have been identified.**
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness. **We have nothing to report on these matters**



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. We expect to complete our work on the Whole of Government Accounts prior to the completion of our audit work so that we are able to certify the audit at the date we sign the audit opinion. The Authority falls over the HMT Treasury of having assets >£2 billion (excluding Property plant and equipment)- sitting at 2.847 billion. Therefore we are required to undertake more comprehensive procedures around the Whole of Government accounts process as set out by the NAO, following the completion of our audit work.
Certification of the closure of the audit	We intend to certify the closure of the 2021/22 audit of the City Fund, as detailed in Appendix E.

3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

3. VFM - our procedures and conclusions

We have completed our VFM work, and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report.

As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any risks of significant weakness. We are satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

4. Independence and ethics

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 confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of 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.

Details of fees charged are detailed in Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit, we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. We are required to make you aware of all non-audit work undertaken by the firm that has taken place during the course of the audit. This therefore does not just relate to work that took place in the 2021-22 audit but from the date we were appointed to the date we complete the audit.

Service	Fees £	Threats identified	Safeguards
Audit related			
Grant audits including Housing Benefit Grant claim	Work has not started or taken place in year	Self-Interest	This work has not started but we have been appointed to this work from 2021-22 financial year. We, however, have been unable to start this work as the previous year's certifications remain outstanding. Therefore, to date we have not undertaken or charged any fees for this work and do not expect to before we complete our audit work on the 2021-22 financial statements.
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.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 10 recommendations for the Authority as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
● Medium	**Journal authorisation** - As was identified by your predecessor auditor there are weaknesses around the internal control process regarding managements review of Journals. As part of our testing, we identified this issue has not been resolved. From our work on Journals, we identified this issue has not been resolved. We note for all Journals with individual lines >£100k the system retrospectively identifies these Journals, and it is shared with the approver automatically via email for their approval. However, we have not been able to obtain documentation to confirm the implementation of this control where the approver has confirmed authorisation of the journal lines.	We recommend that a clearer audit trail is maintained to demonstrate the Journal review process and that this is embedded into finance's working arrangements. **Management response** The issue identified by the auditors pertains to the review and documentation of Journals by Approvers. While the reports are being circulated, obtaining documented proof of their review has been a challenge. This is recognised as a business issue, and efforts are underway to enhance communication with Approvers, provide targeted training, implement regular follow-ups, and secure management support to reinforce compliance with audit requirements. Progress will be continually monitored and reported to ensure resolution of this matter.
● Medium	**Capital records**-Records to support capital commitments and capital spend. Management in identifying capital additions and capital commitments has relied on utilising purchase orders in some instances. This is not considered best practice as to make these judgements accurately the below considerations are required: • Capital commitments- the sum that the Authority is contractually committed to. This cannot be determined by relying on purchase orders. • Capital additions that the work has taken place prior to the year end. The above has led to us identifying misstatements in 5 of the capital additions items we tested that led to an overstatement of Creditors and PPE Additions of £3.33m. We also identified in our testing of capital commitments an item where the PO did not reflect a genuine contractual commitment with the value of £17,787. The following risks emerge from this internal control weakness: • The risk of a lack of oversight regarding the timing/completion of capital work if finance are not monitoring capital additions/budgets against the date the service was provided and instead using PO's. • A potential inaccurate picture of what elements of the capital budget have been committed to which could reduce how flexibly management are able to change aspects of their capital programme.	We recommend management put in place a more rigorous process for capturing information related to capital spend. This should include ensuring capital additions are not recongised until the capital works have taken place. In addition, a detailed register of capital commitments should be maintained, and versions saved to support the year-end financial position. This register should also identify the value within that the Authority is contractually committed to. **Management response** The scale of capital investment at the City of London has increased significantly in recent years, and coupled with a high turnover and associated knowledge loss of staff has highlighted that existing processes are in need of significant transformation to meet current financial management and reporting requirements. A key component of this will be regularising the oversight and frequency with which capital spend is monitored. Management has therefore undertaken a comprehensive review of our capital processes and is currently implementing a series of recommendations arising. This includes implementing a more robust monitoring and oversight regime to review capital spend by project. This will help in addressing this identified weakness as project managers and finance colleagues work closer together. Additionally, the work to disclose Capital Commitments will be subject to a revision, requiring that an initial schedule of commitments is sought from Project managers, and that the returns are reconciled and validated against centrally held procurement records.

Controls

- ● High – Significant effect on financial statements
- ● Medium – Limited Effect on financial statements
- ● Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
● **Medium** – ***downgraded due to improvements from July-September to reflect points having been partially addressed ***	**Quality of working papers and audit evidence provided- capacity of finance team to support audit** This issue would have been rated as high; however, we note management have made significant improvements during the audit, following the appointment of new finance staff and their time to bed into the organisaiton. However, as this issue was identified in the first part of our fieldwork visit and their area number of interim staff in post, we consider it appropriate to raise this recommendation. During the audit the below issues occurred: • During our first planned audit visit that had been agreed with the finance team there were times they were unable to accommodate our work. This was due to the finance team having to prioritise the audits of the City Cash and Bridge House Estates. This was in part due to staff vacancies during this period of the audit and due to the knock-on impact of the delayed 2020/21 audit. Although improvements were made in February the team then struggled to provide responses in March when there were competing pressures of the year end closedown procedures as well the loss of key staff include the Assistant Director and the Chief Accountant. • For sample items the pace we received evidence and the fact the evidence in a large number of instances did not meet our quality requirements created a significant amount of time spent going back and forth on this area. • Management providing uncleansed listings which were not of the best quality to enable us to pick appropriate sample sizes. • Reconciliation issues between key working papers/listings and the financial statements. • Staff working papers to support notes to the financial statements not matching the accounts. • Delays in receipt of planning enquiry responses –we note this has not been received for 2022-23, although management have confirmed the responses will be the same as for 2021-22. This delays the pace we can closedown our planning procedures and finalise our audit risk assessment for the audit. The 2021-22 responses were presented at the September 2023 Audit and Risk Management Committee. The above has impacted the pace we have completed the audit in. And played a significant role in us spending nearly double the time we had budgeted to spend on the audit per the days set out in the contract we agreed for the audit.	We note management have made a number of improvements during the course of the audit. With the Authority having: • Filled vacant finance positions with team members of a good quality and appropriate experience. • Increased the team with interim staff to support us looking to work through the audit backlog. • Improved the quality of working papers, transaction listings and improved the process in the way audit evidence is provided to us. However, we note the Authority has a number of interim post holders so there is a risk of a reduction in retained knowledge in the next calendar year. We also note once the audit backlog is no longer such a pressing factor that management should look to agree schedules that avoid staff working across multiple audits at the same time where possible. We also note that there have been continued challenges obtaining sample evidence for payroll related items. **Management response** Acknowledging the challenges faced during the audit, significant improvements have been made, including filling vacant positions and enhancing processes. Efforts are ongoing to stabilise staffing, clear the audit backlog, optimise schedules, and streamline payroll-related evidence collection as much as possible. Management remains committed to addressing these concerns, reviewing ways to improve the year end process through: training; better working papers with procedural notes – ensuring a smooth transition between interim and permanent staff; review areas which can be completed during the year, releasing pressure at year end; overall ensuring a more efficient audit process in the future.

Controls

- ● High – Significant effect on financial statements
- ● Medium – Limited Effect on financial statements
- ● Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	**Maintaining log of Key judgements impacting the financial statements** As noted previously in the report there has been a relatively high level of staff turnover in the Authority's finance team with a number of interim having been put in post, that are new to what is a complex Authority. The Authority also has a number of complex highly technical judgments in its financial statements including: • Treatment of prepayments received for Lease premiums. • A number of Pension schemes the Authority has the liability for. • The accounting treatment for the City of London Museum. During the audit we had delays in receiving responses regarding key information for each of these areas which are all historical and not new to this financial year. Although it is not uncommon for additional challenge on such areas in a first-year audit, in some instances papers to support the position had to be entirely rewritten and reinvestigated by the new finance team. This clearly takes time and meant that we reviewed a number of papers providing feedback where more information was required, which added to the length of the audit period. It is now our view that management have strong papers and a detailed understanding of each of these matters in their consideration. But note if a clearer detailed record of such judgements was held this would of reduced the time spent on both sides resolving these issues. We do also appreciate as new auditors we may have asked different questions being fresh to reviewing these items, but in a complex Authority we note having a clearer trail for complex accounting judgements is considered best practice. This will help improve the disclosures in the financial statements and the pace audit issues are resolved.	We recommend for key areas of judgement management maintain and regularly update their assessment of key judgements that are significant to the financial statements. And do not rely on key personal remaining in post with these assessment papers saved in shared finance folders. **Management response** As part of our organisational drive for improvement, we have implemented robust measures to store all working papers, not just significant accounting judgements. All documents are now systematically maintained on shared platforms and a designated mailbox has been set up to serve as a recipient for key communications, ensuring comprehensive record-keeping. Procedure notes are being worked through and management will ensure these are regularly updated inline with current practices.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	**Timeliness of revocation of user access in Oracle EBS** For a sampled leaver in Oracle EBS, it was identified that their access to the system was revoked six days after their termination date. Additional procedures verified that the user had not accessed the system since their termination date. **Risk** Where system access for leavers is not disabled in a timely manner, there is a risk that former employees will continue to have access and can process erroneous or unauthorised access transactions. There is also a risk that these accounts may be misused by current system users to circumvent internal controls.	It is recommended that for all leavers, logical access to Oracle EBS is disabled on their leave date. Where this is not possible, access should be disabled no later than the next working day. This will help prevent unauthorised access to the network, applications and underlying data. **Management response** The Oracle Team currently receive a weekly leavers list from HR - the leavers on the HR report have to be compared to a list of Oracle users, in order to identify which leavers have an Oracle user account that requires action. This list is actioned on the same day as it is received - leavers' responsibilities are removed to prevent them from using Oracle until their user account can be closed, during which time only their Worklist remains accessible which shows notifications such as approvals for Requisitions/POs, unmatched Aps and AP Invoice Price Variances. If we are made aware (by other means) that a person is due to leave in the future, we place a future end date on their responsibilities. The closing of the user account itself necessarily takes longer as there are a number of steps, starting with the employee account, that have to be made before the user account can be closed. The processing of a daily HR leavers list would be quite onerous and the removal of responsibilities largely mitigates the risk until the user account can be closed. The City Corporation is undergoing procurement of a new ERP system and we will look to ensure this recommendation is reviewed in light of the risk raised.
Medium	**Material Input errors in the Balance Sheet** Within the draft accounts the Grants received in advance liability was overstated by £30m. This meant the Balance sheet did not Cast by a material amount in the draft Accounts. This issue was caused by management manually typing in the figures to the published draft accounts, without sufficient levels of checks on the totals. **Risk** Having such a heavily manual input system of a significant amount of financial data in the accounts creates a risk of errors within the financial statements.	Management should look to reduce the level of manual input involved in producing the finalised accounts, or ensure there are sufficient checks in place to avoid such issues in particular in relation to the figures in the main statements to the accounts. **Management response** We have already introduced a consistency checker into the accounts preparation process to minimise manual input errors. This initial step has proven effective in identifying discrepancies and ensuring accurate financial reporting. Moving forward, we are committed to making further enhancements in our accounts preparation procedures. We will explore methods to reduce the reliance on manual input, implementing additional checks and validations to prevent similar issues from arising in the future. Our goal is to enhance the accuracy and reliability of our financial statements, mitigating the risk associated with manual data entry.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	**Management of generic database administrator accounts.** Whilst the passwords for privileged generic accounts for both the Oracle EBS application and supporting Oracle database are held in a KeePass password manager, we were unable to verify whether access to the password manager is restricted to the DBA team as it is held in a shared network drive. **Risk** Without effective restriction of access to the passwords for privileged generic accounts, the misuse of such accounts could result in financial data being changed or deleted without authorisation, impacting on its completeness and accuracy	Management should implement suitable controls to restrict access to the KeePass password manager. This could be through limiting access (i.e. a specific network folder or SharePoint site) to the KeePass password manager to only authorised members of the DBA team. **Management response** The password database is itself password protected so regardless of where it lives on the network only persons who know the password (the current 3 dbas) have the ability to open it. The password database has now been moved to the DBA SharePoint site.
Low	**Historical records to support bank recs and reconciliation issues** During our cash and cash equivalents testing we identified the following control deficiencies: • There is an unexplained £438 petty bank cash reconciliation issue. • There were two balances relating to rent deposits of £148,228 and £250 for uncleared direct debit reconciling items that could not be verified. Management indicated that these are historic balances which they were unable to provide supporting evidence for. • The Central bank account does not reconcile by £139,876 an increase from the prior year of £12k. Management have identified that £90k 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 £49k could not be fully explained by management. **Risk** We note bank reconciliations are a key control for financial governance in order to, ensure the accuracy of the cash and cash equivalent figures. We note the issues above largely relate to old historical issues, and this is why we have badged this as a low risk. However, the above issues do create the risk of the misappropriation of assets.	We recommend all reconciling items are investigated and fully understood on a monthly basis. With management ensuring appropriate action is taken on historical balances. **Management response** While these discrepancies largely stem from older, unresolved matters, we acknowledge the importance of ensuring accurate historical records to maintain financial governance. Our team is actively working to understand and rectify these historical balances. Additionally, we are implementing measures to strengthen our reconciliation processes, including enhanced documentation and verification procedures.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
● Low	**Reclassification of assets** We identified that there were reclassifications of leaseholders taking place that had not been input into the Terrarius (fixed asset register system). This raises the risk that in future years, this reclassification may not be performed, or some assets may be inappropriately reclassified. The risk is constantly being transferred to the team responsible for preparing the financial statements, whereas an adjustment to the Terrarius system and recoding in the ledger could resolve this,.	We recommend management avoid making manual adjustments to the financial systems used to capture information. With all adjustments posted onto the Fixed asset register and other relevant finance systems. **Management response** Management has noted that the Terrarius system is excessively cumbersome, requiring officers to maintain secondary records and calculations to support the consolidation of year end accounting entries. For FY22/23, management has onboarded interim Capital accounting expertise, in order to decommission the Terrarius system, and create a bespoke Excel-based solution that will consolidate all accounting records, valuations, disposals and capital expenditure allocations within a single workbook. There will be a clear reconciliation from primary records to published accounts disclosures and a reconciliation between these records and the trial balance. In the longer term, management will be exploring options to purchase and implement FAR solutions that maintain these functionalities, but for which continued support is available through the annual subscription fees.
● Low	Engagement Letter and valuation report of Valuers Our valuation expert identified that for both Cushman and Wakefield and Savills that the valuers had not complied with RICS standards in issuing a Terms of Engagement. With only the appointment framework dating back to 2017 being available. A similar point was raised around the City Surveyor valuations which also did not fully comply with RICS guidance around Terms of engagement and the issuance of a valuation certificate in the final valuation report. Although we note this is unlikely to impact the overall valuation process, a lack of formal terms does create risks around responsibilities and establishing clear expectations and roles if disputes were to arise.	We recommend management ensure each valuation expert are fully complying with RICS requirement and in particular confirm Terms of engagement for each valuation undertaken. **Management response** The appointment of external valuers is based on a open market procurement exercise, with awards typically for 3 – 5 years. A key part of any contract award is clarification of the scope of work to be undertaken, as typically set out in an engagement letter. The current contract is due for renewal and management will ensure that in addition to best value and proper expertise, a letter of engagement is supplied at the start of each year to provide clarification for the scope and schedule of properties to be valued for that year.

Controls

- ● High – Significant effect on financial statements
- ● Medium – Limited Effect on financial statements
- ● Low – Best practice

B. Follow up of prior year recommendations

Your predecessor auditor identified the following issues in the 20/21 financial statements. Those we consider most significant that were not addressed were noted in the previous slides. We have noted the overall progress against these recommendations on this slide.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	Management had unexplained reconciling items in the bank reconciliations.	As noted previously we identified this issue remained in the 2021/22 Financial statements.
X	Related parties note did not fully comply with the IAS 24 requirements.	Similar issues were identified in our work and have been noted in detail in the disclosure misstatements section of this report.
X	Declarations of interest were not completed by all members and a number that were complete were not signed or inaccurate.	Our work did not identify any inaccuracies of the declarations but did also identify issues around the completion of these declarations.
✓	A number of contracts were unsigned by employees.	We did not identify any issues in relation to this in our audit work.
X	Issues around the quality of working papers to support exit packages.	Although no adjustments were identified from our work we did identify similar issues regarding the quality of working papers in this area.
X	A lack of formal reconciliation between the HRA valuations and the Fixed Asset register.	Although we were able to perform this reconciliation fairly easily, we did identify assets that were double counted in this process which highlights weaknesses in this overall process.

Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments

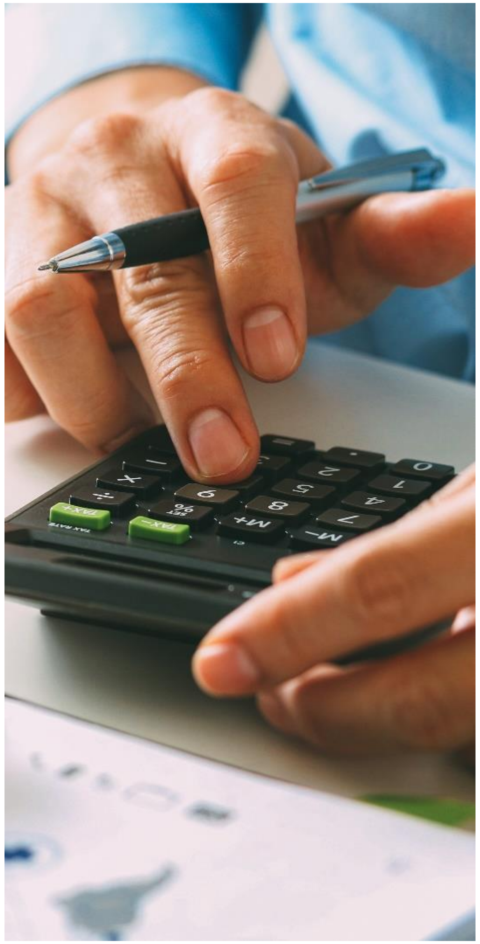
We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	Comprehensive Income and Expenditure Statement £m	Statement of Financial Position £m	Impact on total net expenditure £m
Human error inputting Grants Received in Advance figure It was identified that the Balance sheet was misstated with Grants Received in Advance having a typo and being misstated by £30m. As management input each figure manually this did not lead to an error in the totals but meant the Balance Sheet did not cast by £30m –we have noted in our action plan that management should ensure statements cast particularly for the main statements.	Nil	DR - 30m Rents received in advance – as noted nil net impact on the overall position. **Nil overall impact**	Nil
Updated triennial valuation adjustment – see significant matters for details behind adjustment	**CR Remeasurements of the Pensions Liability- £37.8m**	**DR Pension Liability £37.8m**	**£37.8m Unusable Reserves**
Short term debtors and Short-term Creditors overstated – this was due coding errors when an error relating to a PO was incorrectly adjusted to the wrong Balance sheet code.	Nil	DR Short term Creditors £2m CR Short term Debtors £2m	Nil
Lease Premium Adjustment – see significant matters for details behind adjustment	**CR Financing and Investment income and expenditure - £47m**	**DR Investment Property £47m**	**£47m Unusable Reserves**
Reclassification between short term creditors and Grants Received in Advance- this was following our technical review and challenge around the CODE requirements to show Grants received in Advance for revenue and capital in separate lines within the Balance Sheet	Nil	DR Short term Creditors £131.9m CR Grants Received in Advance £131.9m	Nil
Overall impact	**CR £84.8m**	**DR £84.8m**	**£84.8m- Unusable reserves**

C. Audit Adjustments



Impact of unadjusted misstatements

Detail	Type of Error	Comprehensive Income and Expenditure Statement £m	Statement of Financial Position £m	Impact on total net expenditure £m
Two HRA Beacons were double counted in the Fixed Asset Register causing Property Plant and Equipment to be overstated by £2.2m.	Factual	DR £2.2m Revaluation Reserve	CR Property Plant and equipment £2.2m	2.2m
Inaccurate apportionment of the Central Criminal Court asset between City Cash and City Fund. The Central Criminal Court had been apportioned as 22.05% to City Cash and 77.95% to City Fund. The records held by the Estates team, however, indicate that it should be apportioned as 19.6% to City Cash and 80.4% to City Fund. This led to the Authority's accounts being understated by £2.44m.	Factual	CR Revaluation Reserve 2.44m	DR Property Plant and Equipment £2.44m	2.44m
We identified an extrapolated error relating to work that had not taken place in year by third parties having been charged to capital expenditure and the spend being shown as creditors.	Projected	Nil	DR Creditors 3.33m CR PPE AUC 3.33m	Nil
Misstatement in the classification between Investment properties and Investment properties – issue relating to lease premiums	Factual	Nil	DR Long Term Debtors 1.48m CR investment properties 1.48m	Nil
During our testing of post year end receipts, we identified the Authority had understated income of £411k. We note this may be indicate of further misstatements in this area but from our work we are satisfied there is no material risk of understatement within income.	Factual	CR Income 0.41m	DR Debtors £0.41m	Nil
We identified errors in our testing of expenditure and creditors that indicated a £216k understatement of expenditure relating to overstated prepayments and a £222k overstatement of expenditure again relating to Creditors. Both errors are below are triviality levels and net of to 6k. So we have not reported the overall impact in this table.	Projected	Significantly below triviality	Significantly below triviality	Significantly below triviality
Overall impact		**£0.65m**	**£0.65m**	**£0.65m**

C. Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission (draft account numbering)	Auditor recommendations	Adjusted?
MIRS	The MIRS due to changes elsewhere in the accounts had material increases to the unusable reserves of £84.8m. In addition, the statutory adjustments figure in the MIRS increased to reflect changes relating to the Lease premium issue of £47m. In addition, other notes related to the Reserves were updated to reflect these changes.	Yes
Cash Flow Statement	There have been material changes to the Cash flow statement to the net surplus/deficit line and the non-cash movements line. This is to reflect the changes resulting from the adjustments noted above.	Yes
Cash Flow Statement	We identified that the Cash flow statement was misstated by £2.7m between the operating and financial activities line. This was due to the fact the debtors balance had not been adjusted as required by the Code to reflect the impact of deferred capital receipts.	No
Accounting Policies – Critical Judgements	In our review of the draft accounts, it was identified that there was information disclosed but it did not meet the IAS 1 requirements of a critical judgements. Per IAS 1 a critical judgement reflects where management have identified two potential accounting treatments are possible and the judgement has a material impact on the financial statements. The aspects noted in the draft accounts did not comply with these requirements. Management have updated this note and added further disclosures setting out a critical judgement regarding the Museum of London's accounting arrangements. We note this updated disclosure fully meets the requirements set out in IAS 1 and we deem them to be robust and detailed on this matter.	Yes
Accounting Policies – Key Estimates	In relation to Key estimates IAS 1:22 sets out that the requirements of this disclosure are for estimates which have a sensitivity that makes their valuation to have a risk of materially changing in the next 12 months. In addition, there is a requirement to perform a sensitivity analysis regarding the balance. We identified following discussion with management that the original disclosure identified some estimates that were not key estimates and that sufficient detail on others had not been applied. We have identified that this disclosure has now been enhanced, however, in our view the disclosure around the pension liability should also include details about the Unfunded Police Pension liability. Management do not consider this as applicable due to the fact this is fully funded by the Home office, but given the balance is highly material in the Authority's accounts and a volatile estimate year on year, we do consider this to be a key estimate.	No- although we note the updated disclosure is significantly enhanced.

C. Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission (draft account numbering)	Auditor recommendations	Adjusted?
Expenditure Funding Analysis	We identified that there were discrepancies between the Authority's outturn report and this note. The Authority have therefore identified an additional line is required to meet the requirements of the note.	Yes
Critical judgements	Upon review and challenge in the audit process the Authority reassessed its critical policies and identified that the matters disclosed did not meet the IAS 1 requirements of being Critical judgments.	Yes
Key Estimate disclosures	Per our review of the Authority's key accounting polices we identified that the Authority has not fully complied with IAS 1.22 requirements regarding its disclosures regarding Property valuations, in the following areas: • The standard requires further detail regarding the inputs involved in the estimate. • A sensitivity analysis of the estimate is required to be provided in the note. The Authority also updated the note to remove items that did not meet the IAS 1.22 definitions of being key estimates upon further review.	No
Senior officers Note 9	We identified the following updates in this note: • Per the statutory requirements any officer paid more than £150k are required to be added to this note. Management were of the view that due to the job title this should not be updated, but this did not comply with the statutory guidance. This has now been updated. • We identified clerical and input errors within the note causing a number of minor discrepancies.	Yes
Property Plant and equipment note 13	The following updates were required for this note: • Update of the infrastructure assets as set out in the CIPFA bulletin regarding this matter. • Management updated the PPE note to better reflect the Fixed asset register part way through the audit procedures causing immaterial changes within the note. • We identified discrepancies in the asset lives disclosed in the accounts and that applied within our testing. • Capital commitments only included items >£1m and to ensure this note was materially misstated, management reviewed PO's to identify further capital commitments to restate the note.	Yes

C. Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission (draft account numbering)	Auditor recommendations	Adjusted?
Investment Properties – note 17	Investment properties note required updates to reflect the updates identified in relation to lease premiums. Further to this the client have updated the narrative setting out details regarding lease premiums and their impact on the valuation of the overall balance.	Yes
Pension Schemes note 23	The pension schemes note relating to the LGPS scheme required updating due to the triennial pension review. This note was fairly stated in the draft accounts but due to more up to date information becoming available during the course of the audit management updated the figures to reflect the material changes in the net pension liability, gross liability and gross asset’s valuation.	Yes
Related Parties	In our review of the related parties note we identified the following matters: • Not all declaration of interests had been obtained by management for members. • In addition, we do not per IAS 24 requirements deem the Authority to have a significant influence on the Museum of London. The reasons for this are disclosed in the Critical judgments of the accounts. We note management looks to add this disclosure due to their close relationship with the museum and we do not consider this inappropriate or significantly misleading as the arrangement is disclosed elsewhere. However, technically we do not consider this relationship to meet IAS 24 requirements of being a related party.	No
HRA notes	Within the notes for the Housing Revenue Account the following notes required updating: • HRA main statements we identified discrepancies between the note and the clients' working papers. However, the note could be tied back to the closing Trial Balance. • Note 4- We identified immaterial balances within the note could not be reconciled to from the client working papers. The same issue was identified in relation to note 5. • Note 7 of the HRA accounts incorrectly disclosed information regarding Investment properties, however the client noted following challenge that there are no HRA investment properties.	Yes

D. Fees

We confirm below our proposed final fees charged for the audit. These have been discussed with management.

Audit fees	Fee per Contract	Proposed Final fee	Fee agreed with management
Authority Audit (fee excludes Pension Fund fee)	£340,000	£531,000	£492,805

The next slide sets out details behind the additional fee.

As was highlighted in our Progress updates taken to the March and September Audit and Risk Management Committee's the audit has progressed at the pace we had expected/budgeted for in the contract. In the contract singed on the 1st November 2022 we had assumed the following:

- The audit would take place for the 2021/22 year between November 2022-February 2023.
- The prior year audit would be signed during that period of time – as we are unable to conclude a number of areas until this is concluded.

The above was not the case and we had a large team work on the audit November 2022-March 2023 and July to mid-October 2023. A number of factors set out in the significant matters slide have contributed to this and our set out in detail there. As a summary the key factors related to a number of complex accounting arrangements at the City Fund, challenges in the first phase of working in relation to staff turnover, quality of working papers and the quality of evidence provided to our sample requests.

The audit contract sets out the rate per grade to be charged for overruns and since July we have identified that 265 extra days have been worked on the audit. Per the audit contract this would indicate a higher fee overrun than noted above. However due to the following factors we proposed to reduce the fee by a discount of 25%:

- The impact of the changed audit approach which resulted in huge samples- a process we have already refined for 22/23.
- The improved finance process by COL which have already had a positive impact on 22/23
- The fact that some of the time on the lease premia involved reflection by GT on its original stance.

Following further negotiation with management we have agreed to increase the fee discount to 40%.

We would like to highlight that in the second visit the interim staff put in place have responded well to our queries, particular given they are new to a complex Authority. And management have done a robust job in improving the overall audit process in what has been challenging circumstances.

Due to that along with learnings we have made in the first-year audit we do not expect there to be overruns in the 2022-23 audit. As a firm we remain committed to supporting the Authority in dealing with the audit backlog and working through this as quickly as possible. We will continue working with management to deal with the backlog as promptly as possible.

D. Fees

	Audit Fee
Fee Per Contract	**£340,000**
Additional work that was required not considered in Audit contract	
City of London Museum technical accounting treatment	£13,600
Lease premia technical accounting issue	£43,300
Issues relating to the complexity of the City Fund accounts and additional work required to complete our technical review to deal with these complexities. As well as the large sample sizes created by the Authority's high Balance sheet versus overall gross expenditure.	£50,300
As noted, there were challenges around the following issues: • Staff turnover • Time taken to respond to GT sample requests and the quality of the evidence provided. • The Authority having vacancies and being unable to provide the level of support we would expect to complete the audit work from October 2022- March 2023. • Impact of having prior year audit still unsigned on work.	£147,475
Discount applied to reflect the following: **• The impact of the changed audit approach which resulted in huge samples- a process we have already refined for 22/23.** **• The improved finance process by COL which have already had a positive impact on 22/23** **• The fact that some of the time on the lease premia involved reflection by GT on its original stance.**	**£101,870**
Total fee increase	**£152,805**
Total Audit fee	**£492,805**

Appendix E - Audit opinion

Our anticipated audit report opinion will be unmodified