# The Audit Findings Report (ISA 260) for City of London Corporation – City Fund

**Year ended 31 March 2024**

September 2024

Private and Confidential

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23 September 2024

Dear Audit and Risk Management Committee Members

## Audit Findings Report for City of London Corporation – City Fund for the year ended 31 March 2024

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process and confirmation of auditor independence, as required by International Standard on Auditing (UK) 260. Its contents will be discussed with the Audit and Risk Management Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

We encourage you to read our transparency report which sets out how the firm complies with the requirements of the Audit Firm Governance Code and the steps we have taken to drive audit quality by reference to the Audit Quality Framework. The report includes information on the firm's processes and practices for quality control, for ensuring independence and objectivity, for partner remuneration, our governance, our international network arrangements and our core values, amongst other things. This report is available at transparency-report-2023.pdf (grantthornton.co.uk).

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Sophia Brown

Key Audit Partner
For Grant Thornton UK LLP

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

# 1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of City of London Corporation – City Fund ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2024 for the attention of 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 its 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 consistent with the financial statements and with our knowledge obtained during the audit, or otherwise whether this information appears to be materially misstated.

Our audit work was completed in a hybrid manner during March-September, as planned. Our findings are summarised on pages 9-19 of this report. We have identified several adjustments to the financial statements that have resulted in the adjustment to the Council's Comprehensive Income and Expenditure Statement, detailed in Appendix D. We have identified several disclosure amendments; these are detailed in Appendix D and have no impact on the level of the Council's useable reserves.

We have also raised recommendations for management as a result of our audit work – these are set out at Appendix B. Our follow up of recommendations from the prior year's audit are detailed at Appendix C.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion. This view is subject to the satisfactory conclusion of outstanding matters as detailed on page 6.

We have concluded that the other information to be published with the financial statements, including the AGS, Narrative Report and Pension Fund Financial Statements, is consistent with our knowledge of your organisation and with the financial statements we have audited.

Upon the conclusion of this audit, your finance team will have successfully completed four financial audits within the past 11 months. This includes the 2020-21 audit in November 2023, the 2021-22 audit in December 2023, and the 2022-23 audit in February 2024. Notably, three of these audit periods will be completed under our audit firm and within a period of 10 months. Over the last two years, management took active key steps to ensure they can support the delivery of the audits, through investment in interim staff members, filling staff vacancies with experienced personnel and continued engagement with our audit engagement team. This is evident from the production of working papers, supporting evidence, responses to audit queries and the reduction in number of misstatements identified in the accounts submitted for audit.

We would like to express our gratitude to the finance team for their collaborative efforts and strategic allocation of resources, which have been instrumental in addressing the audit backlogs in the City Fund which many local authorities across the country are currently battling with.

Key finance officers of the City Fund have demonstrated exceptional engagement with the external audit team throughout this period. This has directly contributed to the successful and timely delivery of the 2023-24 audit.

Our anticipated audit report for the 2023-24 financial statements 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 Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report in more detail on the Council'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 Council's arrangements under the following specified criteria:

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

Our work on the Authority's value for money (VFM) arrangements is not yet complete but before issuing our audit report we will write to the Chamberlain to confirm that we have completed sufficient work to be assured that there will be no impact on our opinion from the VFM work to be completed for 2023-24. We will report in our full commentary on the Authority's arrangements in our Auditor's Annual Report (AAR) at the November 2024 Audit and Risk Management Committee meeting.

## 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 have completed the majority of work under the Code but cannot formally conclude the audit and issue the audit closure certificate for the year ended 31 March 2024 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our VFM work and the work necessary in relation to the Whole of Government Accounts (WGA) for the year ended 31 March 2024 – we await guidance from the National Audit Office on 2023-24 WGA procedures. Please also refer to page 19 of the report for further detail.

## Significant matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

# 1. Headlines

## Outstanding matters

We await information requested from management and counterparty in the following areas to enable us to complete our work:

- Response to queries raised with your actuary expert on IFRIC14 assessment in accounting for the pension liability;
- response to 1 query on updated Movement In Reserves Statement; and
- response to 1 query on updated Cash Flow Statement.

The following areas of our work are going through the review stage:

- Investments;
- NNDR Appeals provision;
- Senior officer remuneration and termination benefits;
- HRA notes;
- Hot review responses;
- Minimum Revenue Provision; and
- Capital expenditure and financing.

Our work is also subject to the conclusion of the following matters:

- receipt of IAS 19 assurance letter from Pension Fund auditor in relation to your pension liability;
- receipt of management representation letter;
- review of the final set of financial statements;
- review of audit work by senior audit engagement team members and quality reviewer; and
- review of subsequent events.

# 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 will be 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; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have altered our audit plan, as communicated to you on 13 May 2024, to reflect a change made to materiality. This change only impacts the specific materiality set on senior officer remuneration and termination benefits, and is summarised overleaf.

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved (page 6), we anticipate issuing an unqualified audit opinion, as detailed in Appendix G.

### Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff of the Corporation. The finance team has consistently collaborated with external auditors over the past 12 months, with minimal breaks, to ensure the completion of the City Fund's audits. Our engagement with your finance team has been hybrid in nature, involving both in-person meetings as requested and regular team meetings to ensure continuous progress.

# 2. Financial statements

### Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan on 13 May 2024. We have revised the materiality for specific transactions, balances or disclosures of senior officer remuneration and termination benefits due to our understanding of a growing public interest and sensitivity associated with the transactions, resulting in a review of the appropriateness of figure.

We set out in this table our determination of materiality for City of London Corporation – City Fund.

| | Planning amount £ | Final amount £ | Qualitative factors considered |
|---|---|---|---|
| Materiality for the financial statements | 11,957,000 | 11,957,000 | We have determined the financial statement materiality based on a proportion of the prior year gross expenditure of City Fund, which has remained at approximately 1.95%. On receipt of the draft financial statements, the current year gross expenditure of the City Fund remained consistent to prior year and no other factors were identified which would impact our planning materiality figure. As such, our materiality remained unchanged. |
| Performance materiality | 8,370,000 | 8,370,000 | Our performance materiality is based on a percentage of the materiality for the financial statements listed above. The threshold has remained constant, at 70% of headline materiality, to that applied in prior year. |
| Trivial matters | 598,000 | 598,000 | This balance is set at 5% of materiality for the financial statements. |
| Materiality for specific transactions, balances or disclosures senior officer remuneration and termination benefits | 100,000 | 20,000 | We have identified senior officer remuneration and termination benefits as disclosures where we will apply a lower materiality level, as they are considered sensitive disclosures. We revised the materiality level for senior officer remuneration and termination benefits to a lower amount to reflect our view of the growing public interest in such remunerations and benefits. |

# 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 Audit Plan | Commentary |
|---|---|
| Management over-ride of controls | Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. City Fund faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how it reports performance.<br><br>We have therefore identified management override of controls, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.<br><br>As part of our audit work, we have completed the following:<br>• Evaluated the design and implementation effectiveness of management controls over journals.<br>• Analysed the journals listing using data analytics tools and determined the criteria for selecting high risk unusual journals.<br>• Identified and tested journals we considered unusual and to have the greatest risk of material misstatement. We tested those identified journals made during the year and at year end for appropriateness and corroboration to supporting evidence.<br>• Gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness.<br>• Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.<br><br>From the work performed, one control deficiency issue was identified in the previous year, which on follow up remained not addressed for 2023-24. The control deficiency in relation to the approval of journals lines below £100,000 is set out in detail in Appendix C. We have factored this control deficiency into our risk analysis and selection of journals. This specific additional test is over and above our standard journal procedures and was performed to address the risk identified.<br><br>Further, our IT audit identified that there were no established formal processes for managing self-assigned access to ensure that all access requests are properly documented and approved. We factored this in our review of unusual and risky journals based on journal posters.<br><br>There were no issues identified from these additional procedures to bring to your attention.<br><br>Our audit work on management override of controls is complete. We have not identified any material issues in respect of this risk. |

# 2. Financial statements – significant risks

| Risks identified in Audit Plan | Commentary |
|---|---|
| Risk of fraud and error in revenue recognition (rebutted for all streams) | Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.<br>Having considered the risk factors set out in ISA(UK) 240 and the nature of the revenue streams at City Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:<br>• There is little incentive to manipulate revenue recognition;<br>• Opportunities to manipulate revenue recognition are very limited; and<br>• The culture and ethical frameworks of local authorities, including that of City Fund, meaning that all forms of fraud are seen as unacceptable.<br>As part of our audit work, we have completed the following:<br>• Selected a sample of revenue items from each material revenue stream and tested to supporting information and subsequent receipt of income to gain assurance over accuracy, occurrence and completeness.<br>• Tested a sample of receipts and invoices raised post year end to ensure they have been included in the correct financial year.<br>• Documented our understanding of the revenue business process and identified relevant controls.<br>Our work on revenue recognition is complete. We have not identified any material issues in respect of this risk. |
| Valuation of council dwellings (CY £243.1m) | City Fund measures its dwellings at current value, determined using the basis of existing use value for social housing and is re-valued on a cyclical approach using the Beacon methodology. Key assumptions are made by the valuer in applying this method of valuation. City Fund has appointed an external valuer to carry out this work.<br>As part of our audit work, we have completed the following:<br>• Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to your valuation experts, and the scope of their work.<br>• Evaluated the competence, capabilities and objectivity of the valuation expert engaged by you.<br>• Discussed with, and wrote to, the valuation expert to confirm the basis on which the valuation was carried out.<br>• 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.<br>• Tested, on a sample basis, a number of assets back to market data for council dwellings and other properties in that area.<br>• Reviewed, on a sample basis, a number of assets the appropriateness of the Beacon applied as well as undertaking existence testing of a sample of assets.<br>• Challenged the information and assumptions used by your valuation expert to assess completeness and consistency with our understanding.<br>Our work on valuation of council dwellings is complete. We have not identified any material issues in respect of this risk. |

# 2. Financial statements – significant risks

| Risks identified in Audit Plan | Commentary |
|---|---|
| Valuation of land and buildings (CY £589.6m) | City Fund re-values its land and buildings on a rolling five-yearly basis. City Fund applies valuation techniques such as the depreciated replacement cost (DRC) for the valuation of its other land and buildings. In applying this method, key assumptions are made by the valuer to arrive to a value of a modern asset equivalent (MEA), meeting the capacity and location requirements of the services being provided by the replaced asset. City Fund has appointed an external valuer to carry out this work.<br><br>As part of our audit work, we have completed the following:<br><br>• Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to your valuation experts, and the scope of their work.<br>• Evaluated the competence, capabilities and objectivity of the valuation expert engaged by you.<br>• Discussed with, and wrote to, your valuation expert to confirm the basis on which the valuation was carried out.<br>• 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.<br>• Challenged the information and assumptions used by your valuer to assess completeness and consistency with our understanding.<br>• Recalculated the valuations, testing key inputs including BCIS rates, floor areas, obsolescence and other assumptions used in both Depreciated Replacement Cost and Existing Use Valuations. We also considered the appropriateness of each method applied to determine the assets valuation.<br>• Tested revaluations made during the year to see if they have been input correctly to the City Fund's asset register.<br>• Confirmed via site inspections the asset details corroborated with those in the valuation report.<br>• Confirmed the material accuracy of the carrying value, from the current value, of assets not revalued at 31 March 2024 through an indexation exercise using market data.<br><br>Our work on valuation of other land and buildings is complete. We identified errors in the fixed asset register resulting in adjusted and unadjusted misstatements reported as set out in Appendix D. These were not individually or in aggregate material. |

# 2. Financial statements – significant risks

| Risks identified in Audit Plan | Commentary |
|---|---|
| Valuation of investment property (CY £1,489.8m) | City Fund measures and re-values its investment properties at fair value (its highest and best use) annually. The investment method is used in valuing most of the investment properties of City Fund. This method determines the property's value by estimating the potential income (market rents) and estimated yield. A small change in the inputs can have a significant impact on the estimated value of the property. City Fund has appointed an external valuer to carry out this work.<br>We undertook the following procedures:<br>• Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work.<br>• Evaluated the competence, capabilities and objectivity of the valuation expert.<br>• Discussed with and wrote to the relevant valuer to confirm the basis on which the valuation was carried out.<br>• Engaged our own valuation 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.<br>• Challenged the information and assumptions used by your valuer to assess completeness and consistency with our understanding.<br>• 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.<br>• Tested revaluations made during the year to see if they have been input correctly to the City Fund's asset register.<br>• Assessed the value of a sample of assets in relation to market rates for comparable properties.<br>Our work on investment property valuation is complete. As a result, management made an adjustment in relation to an investment property asset valuation that was erroneously treated in the fixed asset register resulting to an overstatement of the balance at 31 March 2024. This is set out in Appendix D. |

# 2. Financial statements – significant risks

| Risks identified in Audit Plan | Commentary |
|---|---|
| Valuation of pension fund net liability (CY £875.6m) | City Fund's pension fund net liability, as reflected in its balance sheet as net defined benefit liability, represents a significant estimate in the financial statements.<br><br>The estimation of the pension fund net liability depends on a number of complex adjustments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages and mortality rates. A small change in the inputs can have a significant impact on the estimated pension fund liability. The pension fund valuation is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.<br><br>City Fund's pension liability consists of City Fund's share of the City of London Corporation's net pension liability, the unfunded City of London Police pension scheme and Judge's pension scheme.<br><br>City Fund has appointed a consulting firm of actuaries to complete the valuation of the net pension liability as at 31 March 2024.<br><br>As part of our audit work, we have completed the following:<br><br>• 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 evaluated the design of the associated controls.<br>• Evaluated the instructions issued by management to their management expert (actuary) for this estimate and the scope of the actuary's work.<br>• 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.<br>• Assessed the accuracy and completeness of the information provided by the City Fund to the actuary to estimate the liability.<br>• 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.<br>• 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.<br><br>Our work on the valuation of pension fund net liability is substantially complete. We await the auditors of the City of London Corporation Pension Fund to issue us a letter in response to our questions over controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the Pension Fund and the fund assets valuation in the Pension Fund financial statements. We further await responses from your actuary expert in relation to IFRC14 assessment. At the time of writing, we have nothing to report to you from our work on this risk and we will provide a verbal update on this point at the Audit and Risk Management Committee. |

# 2. Financial statements – other risks

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

| Risks identified in Audit Plan | Commentary |
|---|---|
| Fraud in expenditure recognition (rebutted) | 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).<br><br>Having considered the risk factors relevant to the City Fund and the relevant expenditure streams, we determined that no separate risks relating to expenditure recognition is necessary, as the same rebuttal factors listed above relating to revenue recognition apply. We considered that the risk relating to expenditure recognition would relate manual accruals of expenditure and the potential volume at year end increasing the risk of error in expenditure recognition.<br><br>As part of our audit work, we have completed the following:<br>• Inspected a sample of transactions incurred around the year end to confirm whether they had been included in the correct accounting period.<br>• Inspected a sample of accruals made at year end for expenditure but not yet invoiced to assess whether the estimation of the accrual was consistent with the value billed after the year.<br>• Tested manual journals as part of our work explained in page 9 in relation to work on management override of controls.<br><br>Our work on expenditure recognition is complete. We have not identified any material issues in respect of this risk. |

# 2. Financial statements – key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

| Significant judgement or estimate | Summary of management's approach | Audit comments | Assessment |
|---|---|---|---|
| Impairment allowances for expected credit losses and doubtful debts (Note 20):<br>Non-Collection Fund - £9.9m<br>Collection Fund - £15.3m | The City of London Corporation City Fund has recognised a £25.2m (£22.0m in 2022-23) impairment allowance for expected credit losses and doubtful debts for 2023-24 against a total debtor balance of £167.0m (representing approximately 15% of outstanding debts). This is made up of £9.9m for trade debtors and £15.3m for Collection Fund related debtors.<br>Provision for expected credit losses are determined on a service-line basis. Management, for the relevant service line, is provided with a standardised template which has been used for a number of years at City Fund and recently adjusted to reflect changes in the accounting standards, in particular IFRS 9 provision for expected credit losses. This is the same format for each of the service lines, allowing for there to be consistency in the approach applied across the Fund whilst also putting the administrative and estimation process in the hands of the people who understand the outstanding debts best. Guidance on the relevant accounting standards e.g. IFRS 9 / CIPFA is provided in the template. There are then instructions detailing that explanations are required from the relevant service line manager for significant fluctuations in income, debt levels and provision balances compared with the prior-year. An assessment of expected credit loss is also required for the debtors under each service line. Explanations are provided by management for any difference between the bad debt provision and the expected credit loss. These returns are then compiled together to determine the City Fund's total provision. | We have carried out the following procedures on the impairment allowances for expected credit losses and doubtful debts:<br>• Obtained a breakdown of the Authority's provision for expected credit losses and allowance for doubtful debts.<br>• Tested the appropriateness of the accounting estimate by reperforming calculations, gaining an understanding of, and assessing the reasonableness of, the underlying assumptions, and corroborating any changes in policy from the prior year to relevant supporting evidence.<br>• Tested the adequacy of impairment allowances for expected credit losses provision for consistency with IFRS 9, as interpreted by the CIPFA Code.<br>Our work on the impairment allowances for expected credit losses and doubtful debts provision is complete.<br>We are satisfied that management's estimate is reasonable. | Light purple |

**Assessment**

- Red We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Amber We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# 2. Financial statements – information technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas. For further detail of the IT audit scope and findings please see separate 'IT Audit Findings' report.

| | | | ITGC control area rating | | | |
|---|---|---|---|---|---|---|
| **IT application** | **Level of assessment performed** | **Overall ITGC rating** | **Security management** | **Technology acquisition, development and maintenance** | **Technology infrastructure** | **Additional procedures carried out to address risks arising from our findings** |
| Oracle EBS | Detailed ITGC assessment (design effectiveness only) | ● | ● | ● | ● | Our IT audit team identified that there was insufficient formal process in managing Oracle self-assigned roles. The audit team carried out additional procedures to consider high risk or unusual journals. This work was incorporated within our journals testing covered on page 9 of this report in relation to the significant risk over management override of control. No issues were reported. |
| iTrent | ITGC assessment (design and implementation effectiveness only) | ● | ● | ● | ● | No deficiencies identified and improvement recommendations. Our work did not involve a detailed assessment of the system, and this is due to no risks identified in respect to iTrent system following the conclusion of our risk assessment procedures. |

**Assessment**

- ● **Red** Significant deficiencies identified in IT controls relevant to the audit of financial statements
- ● Amber Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- ● Green IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ● Grey Not in scope for testing

# 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. |
| Audit evidence and explanations | All information and explanations requested from management was provided. |
| Confirmation requests from third parties | We requested from management permission to send a confirmation requests to relevant Investments 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. We have included the details of issues identified in Appendix D. No material issues or omissions identified. |

# 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 Council 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.<br><br>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:<br>• 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.<br>• 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.<br><br>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:<br>• the nature of the Authority and the environment in which it operates;<br>• the Authority's financial reporting framework;<br>• the Authority's system of internal control for identifying events or conditions relevant to going concern; and<br>• management's going concern assessment.<br><br>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:<br>• a material uncertainty related to going concern has not been identified; and<br>• 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, 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.<br>We have not identified any inconsistencies. We intend to issue an unmodified opinion in this respect. |
| Matters on which we report by exception | We are required to report on a number of matters by exception in a number of areas:<br>• 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;<br>• if we have applied any of our statutory powers or duties; or<br>• where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness.<br>We have nothing to report on these matters. |
| 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.<br>As the Authority exceeds the HMT specified group reporting threshold of £2 billion (£2.6bn excluding Property, Plant and Equipment), we are required to examine and report on the consistency of the WGA consolidation pack with the Authority's audited financial statements.<br>This work is not yet complete and will commence on completion of the financial statements audit and on receipt of instructions by the National Audit Office (NAO). We will report any material issues to you in a subsequent Audit and Risk Management Committee meeting. |
| Certification of the closure of the audit | We intend to delay the certification of the closure of the 2023-24 audit of the City Fund. We will be able to certify the closure of the current year audit once we have resolved/completed the 2022-23 and 2023-24 WGA procedures as explained above.<br>The City Fund did not meet the submission deadline for the 2022-23 WGA return and the system is now closed. We were therefore unable to complete the specified procedures on the 2022-23 WGA consolidation pack. We have communicated with the NAO on this matter and cannot certify the 2022-23 audit closure until we obtain final confirmation that no further work is required for City Fund's 2022-23 WGA work. |

# 3. Value for Money arrangements (VFM)

## Approach to Value for Money work for 2023-24

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.

Our work on the Authority's value for money (VFM) arrangements is not yet complete but before issuing our audit report we will write to the Chamberlain to confirm that we have completed sufficient work to be assured that there will be no impact on our opinion from the VFM work to be completed for 2023-24.

### 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.

# 4. Independence and ethics considerations

### 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. The following non-audit service was identified, which we are required to make you aware, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

| Service | Fees £ | Threats identified | Safeguards |
|---|---|---|---|
| **Audit related** | | | |
| Housing Benefit Assurance Process | £75,000* | Self-interest | This work has not started but we were appointed to the Authority's HBAP for the 2020-21, 2021-22 and 2022-23 financial years. We have been unable to start this work as the 2019-20 certification remains outstanding with your predecessor auditor. 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 2023-24 financial statements. |

*Work has not started or taken place in-year. The planned fees may change, subject to additional work required to be performed and any unforeseen technical issues that may arise during the audit period.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix E.

### 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 Grant Thornton International Transparency report 2023.

# 4. Independence and ethics considerations

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers and network firms).

In this context, as part of our assessment of our independence we note the following matters:

| Matter | Conclusion |
|---|---|
| Relationships with Grant Thornton | We are not aware of any relationships between Grant Thornton and the City of London Corporation that may reasonably be thought to bear on our integrity, independence and objectivity. |
| Relationships and Investments held by individuals | We have not identified any potential issues in respect of personal relationships with the City of London Corporation or investments in the City of London Corporation held by individuals. |
| Employment of Grant Thornton staff | We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the City of London Corporation as a director or in a senior management role covering financial, accounting or control related areas. |
| Business relationships | We have not identified any business relationships between Grant Thornton and the City of London Corporation. |
| Contingent fees in relation to non-audit services | No contingent fee arrangements are in place for non-audit services provided. |
| Gifts and hospitality | We have not identified any gifts or hospitality provided to, or received from, a member of the City of London Corporation's board, senior management or staff that would exceed the threshold set in the Ethical Standard. |

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements.

# Appendices

# A. Communication of audit matters to those charged with governance

| Our communication plan | Audit Plan | Audit Findings |
|---|---|---|
| Respective responsibilities of auditor and management/those charged with governance | • | |
| Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks | • | |
| Confirmation of independence and objectivity | • | • |
| A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence | • | • |
| Significant findings from the audit | | • |
| Significant matters and issue arising during the audit and written representations that have been sought | | • |
| Significant difficulties encountered during the audit | | • |
| Significant deficiencies in internal control identified during the audit | | • |
| Significant matters arising in connection with related parties | | • |
| Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements | | • |
| Non-compliance with laws and regulations | | • |
| Unadjusted misstatements and material disclosure omissions | | • |
| Expected modifications to the auditor's report, or emphasis of matter | | • |

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

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

### Respective responsibilities

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

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

### Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

# B. Action plan – audit of financial statements

We identified 3 recommendations for the Authority as a result of issues identified during the course of our audit. This is in addition to 10 recommendations raised in our 2022-23 Audit Findings Report. The matters reported here are limited to those deficiencies that we 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 | **Classification between Trade Creditors and Goods Received Not Invoiced**<br>During our testing of accruals, we identified two instances where management recognised accruals at 31 March 2024 while the invoices related to these transactions were received a month earlier. As such, these items should have been recognised as trade creditors at 31 March 2024.<br>This misclassification does not impact the bottom line of short-term creditors, but between disclosure lines in Note 21. This error is a result of invoices which were received but not processed and matched to the relevant purchase orders in a timely manner.<br>Risk – Incorrect classification between trade creditors and Goods Received Not Invoiced (GRNI) or vice versa impacts the accuracy of the financial statements. In addition, it can distort financial ratios such as the current ratio and the quick ratio, potentially misleading the readers of the accounts of the Council's liquidity position. | We recommend that management regularly reviews the outstanding invoices to be validated on the system, particularly at year end, to ensure correct classification of creditors.<br>Management response<br>Management accept the recommendation and will provide a verbal update on this point at the Audit and Risk Management Committee. |
| Medium | **Lack of formal accounting policy for grant payables (revenue expenditure funded from capital under statute (REFCUS)) based on the date of disbursement following approval**<br>As part of our work performed on REFCUS we inspected a drawdown application for the Museum of London's relocation funding, received in March 2023 but recognised in financial year 2023-24 based on the date of approval and disbursement. While the CIPFA Code does not mandate this, it aligns with the principles, to recognise grant payables when the City Fund has a present obligation to transfer economic benefits, and an outflow of resources is probable to settle the obligation.<br>Risk – Without a formal policy, there is risk of inconsistency in the recognition and measurement of grant payables, potentially leading to inaccurate financial reporting and non-compliance with the CIPFA Code principles. | We recommend that City Fund develops and documents a formal accounting policy addressing the recognition of grant payables based on the date of approval/disbursement. This policy should be designed to align with the principles and requirements outlined in the CIPFA Code. The policy should provide clear guidance on the criteria for recognising grant payables, the timing of recognition, and the treatment of any conditions.<br>Management response<br>Management accept the recommendation and will provide a verbal update on this point at the Audit and Risk Management Committee. |

**Controls**

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

# B. Action plan – audit of financial statements

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| Low | **Non--adherence to apportionment set out in the valuation report**<br>We performed detailed mathematical testing on other land and building valuation movements for a sample of assets to ensure accuracy. From testing performed it was noted per the fixed asset register the Information Centre asset was apportioned between land and buildings per the valuation report, as recommended by the City Fund expert valuer. Correct apportionment between land and building aspects is best practice and discrepancies can lead to lack of alignment between the valuation report and asset apportionment in the fixed asset register.<br>Risk – The implication of this non-compliance with apportionment guidelines in the valuation report may result in inaccurate asset values being assigned to cost centres or subjective codes where assets/cost have been categorised as a building instead of land and is incorrectly depreciated in the accounting records, potentially leading to misstated financial information and non-compliance with the CIFPFA Code and RICS guidance. | We recommend that management ensures that the apportionment of asset values aligns with the guidelines and recommendations provided in the valuation report. This may involve a review of the existing apportionment of assets within the fixed asset register, to ensure all assets reflect the valuation report's recommendations.<br>Management response<br>Management accept the recommendation and will provide a verbal update on this point at the Audit and Risk Management Committee. |

**Controls**

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

# C. Follow up of prior year recommendations

We identified the following issues in the audit of the City Fund's 2022-23 financial statements, which resulted in 10 recommendations being reported in our 2022-23 Audit Findings Report (AFR). We have followed up on the implementation of our recommendations and noted that management has not acted on all recommendations, with 7 of the issues also identified during the 2023-24 audit. We note that due to the late signing of the prior year's audit, the recommendations were reported to management in February 2024, just one month before the end of the 2023-24 financial year , allowing little time for management to implement all prior year recommendations.

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| X | **Management of the fixed asset register**<br>Several misstatements were identified whilst carrying out detailed testing of PPE and investment property revaluations. The primary cause of the misstatements identified in our revaluations work, arose due to clerical errors made by the capital accountants when recording the revaluations into the fixed asset register (FAR).<br>We recommended that management implement more robust controls through a formalised process of reconciling the FAR and the valuation reports. | **Auditor comments**<br>Similar issues were identified during the 2023-24 audit. We recommend the measures outlined in our 2022-23 AFR be implemented.<br>**Management response**<br>Management will provide a verbal update on progress made at the Audit and Risk Management Committee |
| X | **Terms of engagement with external valuers not best practice and RICS compliant**<br>Our valuation expert performed a review of the valuation reports prepared by your experts and this review resulted in a control deficiency identified in the fact that the City Fund did not ensure that terms of engagement and summary valuation report were prepared in line with RICS standards. This did not result in concerns around the valuation approach and our work but is an observation our valuation expert raised around best practise and compliance with RICS standards. | **Auditor comments**<br>Similar issues were identified during the 2023-24 audit. We recommend the measures outlined in our 2022-23 AFR be implemented.<br>**Management response**<br>Management will provide a verbal update on progress made at the Audit and Risk Management Committee |
| X | **Community Infrastructure Levy (CIL) income recognition**<br>Management did not account for CIL income in line with the CIPFA Code para 2.2.2.8, which requires income to be recognised where CIL is received without outstanding condition This is recognised at the commencement date of the chargeable development in the CIES.<br>Management incorrectly recognised the income at the point in which it is billed, invoiced or the cash is received.<br>We recommended that management develop a robust process to recognise CIL income appropriately. Ensure there is an up-to-date standard operating procedure to in line with prescribed accounting treatment per the Code. | **Auditor comments**<br>We have not identified similar issues during the 2023-24 audit. However, we recommend the measures outlined in our 2022-23 AFR be implemented.<br>**Management response**<br>Management will provide a verbal update on progress made at the Audit and Risk Management Committee |

**Assessment**

✓ Action completed

X Not yet addressed

# C. Follow up of prior year recommendations

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| X | Debtors/Creditors between the City of London Corporation's funds<br>We identified instances of cash received in suspense accounts and not cleared down promptly, resulting to debtor balances overstated.<br>We recommended that management routinely review suspense codes across the whole organisation, with particular emphasis around year-end and ensure it cleared down to ensure cash balances are reported accurately. | Auditor comments<br>We have not identified similar issues during the 2023-24 audit. However, we recommend the measures outlined in our 2022-23 AFR be implemented.<br>Management response<br>Management will provide a verbal update on progress made at the Audit and Risk Management Committee |
| X | Related Parties disclosure note preparation process and declaration of interest checks<br>Several variances in the balances disclosed under Note 35 (Related Parties) were identified and declarations of interest were not completed by all members.<br>We recommended that management incorporates a review control over the working paper used to prepare the Related Parties note to ensure that the disclosures in the draft accounts are accurate and complete. Management should also seek to carry out checks of Companies House, on a regular basis for all members, to ensure that all interests are known to the Corporation. | Auditor comments<br>Similar issues were identified during the 2023-24 audit. We recommend the measures outlined in our 2022-23 AFR be implemented.<br>Management response<br>Management will provide a verbal update on progress made at the Audit and Risk Management Committee |
| X | Assessment of historical grants received in advance<br>In testing grants received in advance, we identified several grants, primarily s106 agreements, that were still recognised in the financial statements despite being a number of years old. Several of these were greater than 10 years old. The CIPFA Code requires that once conditions have been met for a grant, be it capital or revenue, then the Authority must recognise the grant immediately in the CIES. Commonly with s106 agreements, there are several conditions which are met at different stages over the course of the development build. As such, these grants are often initially held on the balance sheet as a grant received in advance, with income then drawn down as and when conditions are met, usually matching the capital expenditure incurred. The issue with this approach is that often a balance may remain on the balance sheet, even after the agreement expires with no expectation to pay back the amount.<br>We recommended that management performed regularly review of all significant grants received in advance. | Auditor comments<br>Similar issues were identified during the 2023-24 audit. We recommend the measures outlined in our 2022-23 AFR be implemented.<br>Management response<br>Management will provide a verbal update on progress made at the Audit and Risk Management Committee |

**Assessment**

✓ Action completed

X Not yet addressed

# C. Follow up of prior year recommendations

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| X | **Accounting treatment regarding revenue expenditure funded from capital under statute (REFCUS)**<br>In testing additions and REFCUS, we identified a deficiency relating to the process in which management identify and record REFCUS.<br>We recommended that management develops a robust process to recognise REFCUS appropriately, including ensuring that the nature of the capital spend is clearly known to the capital accountants recording the expenditure, and carrying out a review process, at least on an annual basis, to ensure that the PPE population does not include any REFCUS. | **Auditor comments**<br>Similar issues were identified during the 2023-24 audit. We recommend the measures outlined in our 2022-23 AFR be implemented.<br>**Management response**<br>Management will provide a verbal update on progress made at the Audit and Risk Management Committee. |
| X | **Accounting treatment regarding internal recharges**<br>Several transactions were identified which pertained to internal recharges between City Fund departments. The transactions all related to the shared usage, for which journals were raised to charge each department's usage of the offices to their respective cost centres. These were no removed in the ledger, though no impact results from this treatment as income and expenditure nets each other. | **Auditor comments**<br>We have not identified similar issues during the 2023-24 audit. However, we recommend the measures outlined in our 2022-23 AFR be implemented.<br>**Management response**<br>Management will provide a verbal update on progress made at the Audit and Risk Management Committee |
| X | **Journal authorisation**<br>We noted that 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. This is not required where individual lines are <£100k.<br>We recommended that a clearer audit trail is maintained to demonstrate the Journal review process and that this is embedded into finance's working arrangements. | **Auditor comments**<br>Similar issues were identified during the 2023-24 audit. We recommend the measures outlined in our 2022-23 AFR be implemented.<br>**Management response**<br>Management will provide a verbal update on progress made at the Audit and Risk Management Committee |
| X | **Unsigned employee contracts**<br>We identified that several contracts were unsigned by employees.<br>We recommended that the Authority ensure that employee contracts are signed and maintained as part of the internal control environment. | **Auditor comments**<br>Similar issues were identified during the 2023-24 audit. We recommend the measures outlined in our 2022-23 AFR be implemented.<br>**Management response**<br>Management will provide a verbal update on progress made at the Audit and Risk Management Committee |

**Assessment**

✓ Action completed

X Not yet addressed

# D. Audit adjustments – adjusted misstatements

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 2024.

| Detail | Comprehensive Income and Expenditure Statement £m | Statement of Financial Position £m | Impact on total net expenditure £m |
|---|---|---|---|
| **Overstatement of value of the Exhibition Halls asset**<br>The revaluation, as at 31 March 2024, of the Exhibition Halls asset in the Barbican Estate was duplicated in the fixed asset register (FAR). The error was a result of the asset being incorrectly categorised as an investment property on the FAR, and therefore was not identified resulting in a clerical error of double-counting. As such, there was an overstatement to Investment properties of £2.65m. | Dr Financing and Investment income and expenditure 2.65m<br>Cr Revaluation reserve 0.06m | Cr Investment property 2.65m<br>Dr Other land & building 0.06m | Dr 2.71m |
| **Overstatement of value of the Barbican Library and New Spitalfields Market asset**<br>The revaluation, as at 31 March 2024, of the Barbican Library and the New Spitalfields Market asset were duplicated in the FAR. The error occurred as the asset within the FAR is split across multiple asset IDs and the valuation uplift was not applied across all assets. As such, there was an overstatement to other land and buildings of £3.45m. | Dr Revaluation reserve 3.45m | Cr Other land & building 3.45m | Dr 3.45m |
| **Incorrect accounting for revaluation movement of Guildhall**<br>The revaluation movement, as at 31 March 2024, of the Guildhall asset was incorrectly charged to the CIES. The asset had remaining revaluation reserves, meaning any revaluations movement should be charged to the asset's revaluation reserve and not to the CIES. As such, there was an overstatement of the revaluation reserve of £1.14m. | Cr Deficit on revaluation of PPE 1.14m<br>Dr Revaluation reserve 1.14m | No impact | No impact |
| **Overstatement of MDX-Petticoat Sq Ex-Commercial (ref 12391) and Middlesex St Affordable Housing 20 F (ref 12078) assets**<br>The MDX-Petticoat Sq Ex-Commercial (ref 12391) and Middlesex St Affordable Housing 20 F (ref 12078) assets were a double-counted in the fixed asset register, and correspondingly the ledger. These assets were part of Middlesex Street Estate, but also on two different asset codes, at a valuation of £2,906,585. As such, there was an overstatement of £2,906,585 to the council dwellings balance which management acknowledge was a clerical error. | Dr Deficit on the Revaluation of PPE 2.16m<br>Dr Revaluation reserve<br>£0.74m | Cr Council dwellings 2.90m | Dr 2.90m |
| Total Impact | **Dr £8.94m** | **Cr £8.94m** | **Cr £8.94m** |

# D. Audit adjustments – unadjusted misstatements

### Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2023-24 audit which have not been made within the final set of financial statements. The Audit and Risk Management Committee is required to approve management's proposed treatment of all items recorded within the table below.

| Detail | Comprehensive Income and Expenditure Statement £m | Balance Sheet £m | Impact on total net expenditure £m | Reason for not adjusting |
|---|---|---|---|---|
| **Understatement of debtor balance**<br>We identified an extrapolated error of £0.916m in our testing of debtors. This related two items being under-accrued, and the overstatement of another item, resulting in a net understatement of the debtor balance of £0.196m. | Cr Dr Fees, charges and other income 0.91m | Dr Debtors 0.91m | Cr 0.916m | Immaterial extrapolation |
| **Indexation of assets not revalued**<br>Based on our indexation exercise of assets not revalued, using market data, we are of the view that the land and buildings asset class is £4.640m understated. | Cr Deficit on the revaluation of PPE 4.64m | Dr PPE 4.64m | Cr 4.64m | Immaterial estimation difference |
| Overall impact | Cr £5.55m | Dr £5.55m | Cr £5.55m | |

# D. Audit adjustments – unadjusted misstatements

## Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which were not made within the final set of 2023-24 financial statements. These non-adjusted misstatements in relation to prior year did not impact our planned procedures for the period ended 31 March 2024.

| Detail | Comprehensive Income and Expenditure Statement £m | Balance Sheet £m | Impact on total net expenditure £m | Reason for not adjusting |
|---|---|---|---|---|
| **Misclassification between long-term debtors and investment properties**<br>There is a misclassification of £1.125m between these two balance sheet lines. This arose due to the accounting treatment adopted by management for a lease premium associated with one of the investment properties. | Nil | Dr Long-term debtors 1.13m<br>Cr Investment properties 1.13m | Nil | Immaterial classification error |
| **Under-accrual of expenditure and income**<br>There are several transactions between the City Fund and Barbican Exhibitions Ltd, both income and expenditure, which have been under-accrued. The total factual misstatement is £2.219m. | Dr Expenditure 2.22m<br>Cr Fees, charges and other income 2.22m | Dr Short-term debtors 2.22m<br>Cr Short-term creditors 2.22m | Nil | Immaterial |
| **Fees, charges and other income over-accrual**<br>We identified an extrapolated error of £1.814m in our testing of fees, charges and other income. This related to an overstatement to income as a result of over-accruing. | Dr Fees, charges and other income 1.81m | Cr Short-term debtors 1.81m | Dr 1.81m | Immaterial extrapolation |
| **Internal recharges**<br>We identified several internal recharges relating to Walbrook Wharf which had not been reversed out of the financial statements, effectively overstating both income and expenditure. | Dr Fees, charges and other income 1.06m<br>Cr Expenditure 1.06m | Nil | Nil | Immaterial |

# D. Audit adjustments – unadjusted misstatements

### Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which were not made within the final set of 2023-24 financial statements. These non-adjusted misstatements in relation to prior year did not impact our planned procedures for the period ended 31 March 2024.

| Detail | Comprehensive Income and Expenditure Statement £m | Balance Sheet £m | Impact on total net expenditure £m | Reason for not adjusting |
|---|---|---|---|---|
| Overstatement to land asset valuations<br>Based on the measurements tested for two land assets, we identified an overstatement of land area, which extrapolated to an overstatement to the land and buildings asset class of £1.471m. | Dr Surplus on the revaluation of PPE 1.47m | Cr PPE 1.47m | Dr 1.47m | Immaterial classification error |
| Indexation of assets not revalued<br>Based on our indexation exercise of assets not revalued, using market data, we are of the view that the land and buildings asset class is £3.828m understated. | Cr Surplus on the revaluation of PPE 3.83m | Dr PPE 3.83m | Cr 3.83m | Immaterial |
| Additions/REFCUS treatment<br>We identified capital expenditure of £3.096m (extrapolated) on an academy owned by City Cash which had been capitalised by City Fund, rather than being recognised as revenue expenditure funded by capital under statute (REFCUS). | Dr REFCUS 3.10m | Cr PPE 3.10m | Dr 3.10m | Immaterial extrapolation |
| Overall impact | Dr £2.55m | Cr £2.55m | Dr £2.55m | |

# D. Audit adjustments – misclassification and disclosure

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the 2023-24 audit which have been made in the final set of financial statements.

| Area of the accounts | Auditor recommendation | Adjusted? |
|---|---|---|
| **Property, Plant and Equipment (PPE) (Note 13)** | We identified a variance of £1.2m between the trial balance and the fixed asset register for both other land and buildings (OLB), and vehicles, plant and equipment (VPE). There overall impact on the PPE note is £nil and error amounts to misclassification, resulting in OLB being overstated by £1.2m and VPE being understated by £1.2m. | No – Immaterial misclassification error |
| **Capital disclosures (Note 13)** | During our review of the Capital Commitments disclosure in Note 13, we noted that the capital commitments note did not include the comparative figures for prior year. The disclosure should include the restated figure of £543m for prior year. | Yes |
| **Capital disclosures (Note 13)** | During or review of the Capital Commitments disclosure note 13, auditors noted that the disclosure was understated by £26m, as the draft accounts only included capital commitments above £1m totalled £461m for six projects. The correct disclosure for all capital commitments should be £487m. | Yes |
| **Financial instruments (Note 18)** | During our review of the financial instruments' disclosure (Note 18), we noted that the carrying value and the fair value for short-term and long-term investments were the same. Our experience is that the carrying amount and fair value of investments may differ, particularly for long-term investments as they are subjected to market changes, and other factors such as time value of money. We recommend that management includes a disclosure to explain their assessment and judgement that the fair value and carrying amount of investments is the same at the reporting date. | Yes |
| **Related parties (Note 35)** | Auditor identified several variances in the balances disclosed under Note 35 (Related Parties). Management explained that these were a result of clerical errors and agreed to adjust the disclosures accordingly. | Yes |
| **Related Parties (Note 35)** | Our review of the related parties note identified the following matters:<br>• Not all declaration of interests were obtained by management for Members.<br>• In addition, management included a disclosure in the Critical Judgements section of the accounts covering the Corporation's close relationship with the Museum of London. However, we do not deem this relation to meet IAS 24 requirements of being a related party. Further, the inclusion of this relationship within the Critical Judgements disclosure does not meet the requirements of IAS 1. Per IAS 1 a critical judgement reflects where management has identified two possible potential accounting treatments and judgement made to select one accounting treatment over the other has a material impact on the financial statements. | No – Management considers the relationship key and opted to disclose it. |

# D. Audit adjustments – misclassification and disclosure

### Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the 2023-24 audit which have been made in the final set of financial statements.

| Area of the accounts | Auditor recommendation | Adjusted? |
|---|---|---|
| **Investment Properties (Note 17)** | We identified that note 17 Investment properties fair value disclosures required per Code were omitted. This disclosure is required to provide the fair value hierarchy of the City Fund portfolio. Management agreed to make the changes. | Yes |
| **HRA notes** | We identified immaterial variances when reconciling property stocks in HRA stock listing to your valuation expert report. These was noted as a result of a disposal and buyback erroneously treated. | Yes |
| **Senior officers (Note 9)** | We identified the following updates in this note:<br>• Per the statutory requirements any officers paid more than £150k are required to be disclosed in this note. An instance was identified where an officer was not included. Management agreed to make the update to meet the statutory guidance.<br>• Several clerical and input errors within the note were identified and amended by management. | Yes |

# E. Fees and non-audit services

We confirm below our proposed final fees charged for the audit.

| Audit fees | Proposed fee |
|---|---|
| Audit fee per the contractual agreement | £340,000 |
| ISA 315* | £12,000 |
| ISA 240* | £8,000 |
| Additional work completed** | £11,350 |
| WGA procedures – the Authority is above the threshold for 2023-24 and requires detailed WGA procedures, we are required to undertake this additional work as required by the NAO. | TBC |
| **Total audit fees (excluding VAT)** | **£371,350** |

*Based on the audit plan issued to you on 13 May 2024, we anticipated performing additional work for the City Fund in relation to the recent developments in audit standards, which were not accounted for in the contract value. These changes introduced new responsibilities for the audit team, which are chargeable to you. The details of these developments are provided in Appendix F on page 37, explaining the impact of the changes on our work.

**We have completed extra work related to journals due to control deficiency points identified by our IT audit team following their assessment of IT general controls implemented for Oracle EBS. These additional tasks required specific procedures that were not initially planned, including a review of certain account codes affected by the insufficient formal process in managing Oracle self-assigning roles. Furthermore, we conducted additional procedures over identified off-ledger transactions made by City Fund in the preparation of the 2023-24 financial statements.

As a result of these additional adjustments, the final proposed fee amounts to £371,350, not including WGA procedures.

# F. Auditing developments

### Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

| Area of change | Impact of changes |
|---|---|
| Risk assessment | The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of:<br>• the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures<br>• the identification and extent of work effort needed for indirect and direct controls in the system of internal control<br>• the controls for which design and implementation needs to be assess and how that impacts sampling<br>• the considerations for using automated tools and techniques. |
| Direction, supervision and review of the engagement | Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures. |
| Professional scepticism | The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to:<br>• increased emphasis on the exercise of professional judgement and professional scepticism<br>• an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence<br>• increased guidance on management and auditor bias<br>• additional focus on the authenticity of information used as audit evidence<br>• a focus on response to inquiries that appear implausible |
| Definition of engagement team | The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor.<br>• Consideration is also being given to the potential impacts on confidentiality and independence. |
| Fraud | The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to:<br>• clarification of the requirements relating to understanding fraud risk factors<br>• additional communications with management or those charged with governance |
| Documentation | The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed. |

# G. Draft audit opinion

**We anticipate to issue the Authority with an unmodified audit report.**

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