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CITY OF LONDON

City of London Corporation – City Fund

Planning Report to the Audit and Risk Management Committee

31 March 2014

the Distinctive audit

16 January 2014

Contents

I am delighted to present this planning report for the 2013/14 audit of the City Fund of the City of London Corporation. The report sets out our audit approach and the more significant areas where we will focus our attention this year.

(Heather Bygrave, Audit Partner)

The big picture

The Big Picture

Key developments in your business

- City Fund net revenue expenditure was expected at 31 December 2013 to be £3.5m under budget for the year ending 31 March 2014
- The City's analysis of the local government spending review 2013 suggests a reduction in core funding of 15.8% between 2014/15 and 2015/16. A programme of service based reviews is in progress to address the future spending gap created by the settlement
- A decision was taken to bring the City's procurement partnership to an earlier close with the aim of full internalisation of the service by 31 March 2014
- A contract for services for infrastructure systems, maintenance and support, service desk, desktop training, disaster recovery provision, and applications support and development was awarded and commenced from 1 September 2013.
- The Corporation propose to complete the transfer of certain properties from private and voluntary funds to the City Fund during the financial year. This is expected to be funded from revenue reserves.
- Oracle R12 upgrade scheduled. Whilst this is not expected to impact directly on our work in 2013/14, preparations are likely to be a draw on officers' time during the current year accounts and audit process.

Key measures from the FY14 Budget (original)

Gross expenditure - £308m

Amount to be met by government grants and taxpayers - £111m

General Fund and Earmarked revenue reserves at 1 April 2013 - £176m

Contribution to General Fund - £6m (before revenue contribution to finance planned transfer of properties to the City Fund)

Estimated materiality

Overall - £4.8m

Housing Revenue Account - £2.5m

Key developments in financial reporting requirements

- Changes to Code requirements in respect of the classification, recognition, measurement and disclosure of post-employment benefits
- New guidance on the accounting entries required from the localisation of business rates
- Clarification regarding the frequency of revaluations for properties which amends previous guidance to permit valuations to be carried out on a rolling basis only if revaluation of the class of assets is completed within a short period and provided that revaluations are kept up to date.
- Other smaller changes to presentation and disclosure matters in the financial statements.

Key developments in our audit response

- No changes to the overall scope of the audit
- Valuation of investment properties identified as an area of audit risk in view of the judgement involved in estimating the value of the portfolio
- Recognition of grant income identified as an audit risk taking account of the risk of fraud in revenue recognition presumed in auditing standards and in view of the judgements involved in recognition of grant income
- The transfer of assets from other funds will require compliance with relevant statutory requirements, including the value at which transferred and appropriate presentation and disclosure in the financial statements
- Risk of management override of controls, as presumed by auditing standards.

Our audit quality promise

Our audit quality promise
Our new quality standard

To ensure that best practice behaviours are embedded within our audit we will establish our Audit Quality Promise, a written document created through discussion with you, which focuses on our audit quality commitments to all stakeholders. It will include:

Our vision for the audit:

- A vision of how the audit will evolve in line with your business
- Covers scope, extended assurance, data analytics roadmap, insight plan and team

Feedback on prior year audit and actions agreed to achieve continuous improvement

- This will be based upon an annual debrief with the finance team.

Communication strategy for all key stakeholders

- Includes details of meeting frequency, meeting attendees and content

Commitments from both sides as to how we will work together at all levels:

- Members
- Senior management
- Finance team

Summary of agreed detailed insight plan

- Areas include sector and industry issues, systems and processes, technical and regulatory updates, analytics and KPIs, audit risk areas and governance & controls

Appendix

- Forward looking calendar of relevant Deloitte events and publications

We have had initial discussions with Caroline Al-Beyerty and her team and will develop and finalise a draft once the new Chamberlain is in post.

Changes in you Statement of Accounts

Changes in your Statement of Accounts
New reporting requirements

We welcome this opportunity to set out for the Audit and Risk Management Committee a summary of the latest developments in financial reporting which will impact this year end.

Change in Code of Practice on Local Authority Accounting requirements	Impact on the City Fund
Post-employment benefits – changes have been made to Code requirements in respect of the classification, recognition, measurement and disclosure requirements introduced as a result of amendments to the relevant accounting standard.	This is relevant to the City Fund and will require a number of changes to the calculation and presentation of entries. There is no impact on the City Fund balance as a result of the changes.
Accounting for business rates retention – the Code provides guidance on the accounting requirements arising from the localisation of business rates in England from 1 April 2013.	This is relevant to the City Fund and is discussed further in the next section.
Dedicated Schools Grant (DSG) – the most current disclosures for DSG are provided in accordance with statutory reporting requirements.	This is not a significant disclosure for the City in view of the low level of this grant. Nevertheless, minor changes will be needed to the format of the note to bring into line with the latest guidance.
Presentation of Financial Statements – The Code makes amendments to the format of the Comprehensive Income and Expenditure Statement resulting from amendments to the related accounting standard. This is in respect of items that are potentially re-classifiable to Surplus or Deficit on the Provision of Services at a future time. Where authorities have transactions that include amounts that are re-classifiable in the Surplus or Deficit on the Provision of Services, the items listed in Other Comprehensive Income and Expenditure must be grouped into those items that: a) will not be reclassified subsequently to the Surplus or Deficit on the Provision of Services; and b) will be reclassified subsequently to the Surplus or Deficit on the Provision of Services when specific conditions are met.	Management do not anticipate there will be any transactions that are re-classifiable to the Surplus or Deficit on the Provision of Services in the previous or current financial year. Where local authorities do not have such transactions, no change is needed to the format of the Comprehensive Income and Expenditure Statement. However CIPFA recommends in such circumstances that authorities clarify in their summary of significant accounting policies that, where this is the case, they do not have such transactions and have therefore not grouped the items in Other Comprehensive Income and Expenditure into amounts that may be re-classifiable and amounts that are not.
Revaluation of properties - Clarification regarding the frequency of revaluations for Property, Plant and Equipment which amends previous guidance to permit valuations to be carried out on a rolling basis only if revaluation of the class of assets is completed within a short period and provided that revaluations are kept up to date.	This is relevant to the City. We consider this in more detail in the next section.
The Carbon Reduction Commitment (CRC) Energy Efficiency scheme – The Code has been updated for changes in the scheme applicable to 2013/14. In particular, as 2013/14 is the end of the introductory phase, there is no option to carry forward allowances for use in respect of emissions in 2014/15 with any remaining unused allowances at the end of the introductory phase become invalid. Guidance on any allowances purchased prospectively for 2014/15 is pending.	This is applicable to the City Fund, but not expected to have a material impact.
Service Concession Arrangements (PFI and PPP Arrangements) – updates to ensure that its provisions adequately reflect the grantor arrangements, particularly in relation to assets under construction and intangible assets.	This is not relevant to the City Fund.

Scope of work and approach

This section sets out our planned scoping for the audit of the financial statements. We discuss our determined materiality and confirm the level of unadjusted misstatements which we will report to you. We confirm the extent to which reliance will be placed on internal controls and how this decision has been reached.

Scope of work and approach

Areas of responsibility under the Audit Commission's Code of Audit Practice

Responsibilities related to the financial statements

We will conduct our audit in accordance with International Standards on Auditing (UK and Ireland) (ISA (UK and Ireland)) as adopted by the UK Auditing Practices Board (APB) and the Audit Commission's Code of Audit Practice. The City will prepare its accounts under the Code of Local Authority Accounting. There are no significant changes in respect of the scope of our work in relation to this area of responsibility. We are also required to report on the regularity of income and expenditure.

We are required to consider the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identify any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work. We will also review reports from relevant regulatory bodies and any related action plans developed by the City.

Whole of Government Accounts (WGA) are commercial-style accounts covering all the public sector and include some 1,700 separate bodies. Auditors appointed by the Audit Commission have a statutory duty under the Code of Audit Practice to review and report on the City's whole of government accounts return. Our report is issued to the National Audit Office (NAO) for the purposes of their audit of the Whole of Government Accounts.

Responsibilities related to the City Fund's use of resources

We are required to satisfy ourselves that the City has made proper arrangements for securing financial resilience and economy, efficiency and effectiveness in the City Fund's use of resources.

Our conclusion is given in respect of two criteria:

- Whether the organisation has proper arrangements in place for securing financial resilience; and
- Whether the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

In discharging this responsibility, we take into account our work on the Annual Governance Statement and the work of regulators.

We then provide a conclusion on these arrangements (our "Value for Money Conclusion") as part of our audit report.

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Scope of work and approach

Approach to controls testing

As set out in "Briefing on audit matters" circulated to you in July 2011, a copy of which can be made available, our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I").

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Liaison with internal audit

The audit team, consistent with previous years, will leverage off of the work performed by internal audit wherever possible to allow efficiencies and limit a duplication of work. We will first update our assessment of the organisational status, scope of function, objectivity, technical competence and due professional care of the internal audit function. We will refer to the internal audit's self-assessment and peer review assessment in carrying out this work. Over the course of the audit, we will review the findings of internal audit and where internal audit identifies specific material deficiencies in the control environment, we will consider adjusting our testing so that the audit risk is covered by our work.

For those areas where a significant risk has been identified, no reliance will be placed on the work of internal audit and we will perform all work ourselves.

Materiality and error reporting threshold

For the 2013/14 financial statements, we have estimated materiality based on net cost of services for the year and estimated reserves position.

We have set a lower materiality for the Housing Revenue Account based on that Account's reserves position

We will report to the Audit and Risk Management Committee on all unadjusted misstatements greater than the reporting threshold shown below and other adjustments that are qualitatively material.

Estimated materiality and error reporting thresholds

Overall

Materiality - £4.8m
Error reporting threshold - £240k

Housing Revenue Account

Materiality - £2.5m
Error reporting threshold - £125k

Significant audit risks

This section sets out our comments regarding the significant audit risks identified. We explain the nature of the risk itself, how these risks will be addressed by our audit work and any related presentational and/ or disclosure matters within the financial statements.

Risk assessment is at the heart of our integrated audit approach as it is only with proper identification of the most significant audit risks, that we are able to provide the highest quality assurance in the most efficient and effective manner.

1. Grant income recognition

Evaluating whether recognition is consistent with grant terms and conditions can involve significant judgement.

Nature of risk

We have identified a key audit risk in revenue recognition from grants from fraud or error. This is due to the fact that where grants have conditions attached revenue should only be recognised when such conditions have been met. In the prior year grant income amounted to £177m.

The key judgement areas and our planned audit challenge

We will examine guidance given to staff on the accounting for grants and associated operating instructions and other arrangements. We will determine whether our work can be further focused on the basis of this.

We will also carry out extended testing to check that recognition of income properly reflects the grant scheme rules.

2. Valuation of investment properties

The valuation of the City's investment property assets is inherently judgemental.

Nature of risk

The City has a substantial portfolio of investment properties which are subject to annual revaluation (£794m at 31 March 2013). Some of the properties require the application of specialist valuation assumptions. The current and recent economic volatility has affected property values, generally, and the City has recorded significant gains and losses over the last 3 years.

The City intends to have an independent valuation carried out for the purposes of the 31 March 2014 financial statements.

The key judgement areas and our planned audit challenge

We will evaluate the arrangements in place around the property valuation as part of the interim audit. This includes arrangements over the engagement and instruction of the valuer and the provision of data to the valuer.

We will use our valuation specialists, Deloitte Real Estate to review and challenge the appropriateness of the assumptions used in the year-end valuation of the City Fund properties.

3. Transfer of properties to the City Fund

This is a significant, unusual transaction

Nature of risk

The Resource Allocation Sub Committee previously allocated £110m of City Fund's cash reserves to property in order to secure a better rate of financial return. The Corporation propose to execute the remainder of this plan through the transfer of properties from City's Cash and Bridge House Estates with value of £104m (excluding stamp duty).

The transaction will require the compliance with relevant statutory requirements on the City Fund and transferors and appropriate governance arrangements.

The transaction will have a significant impact on the current year financial statements and will require appropriate disclosure in the financial statements and explanation in the Explanatory Foreword.

The key judgement areas and our planned audit challenge

We will review relevant documentation to confirm our understanding of the business rationale for the transaction and evaluate and conclude on the Corporation's arrangements for securing compliance with relevant statutory requirements applying to the City Fund and the transferors.

An area of particular focus will be the value at which the properties are transferred. We understand external valuers have been engaged to provide advice. In view of the size of the transaction, we will utilise internal valuation specialists from Deloitte Real Estate, to assist us in our review of the work of the valuer and challenge key assumptions in the valuation.

We will perform a focused review of the disclosures around this transaction and test and conclude on whether these meet relevant disclosure requirements, including those relevant to related party transactions and overall challenge whether there is sufficient and appropriate disclosure to give and true and fair view. We would be pleased to review proposed drafting in advance of the preparation of the Statement of Accounts, where this is available early.

4. Management override of controls

We will focus on the testing of journals, significant accounting estimates, and any unusual transactions in the year.

Nature of risk

International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.

The key judgement areas and our planned audit challenge

Our work will focus on:

- the testing of journals, using our proprietary software "Spotlight" to analyse the journal data as a basis for focusing our testing on higher risk journals;
- any significant accounting estimates in addition to the estimates discussed above in respect of provisioning for provider claims; and
- any unusual transactions, including those with related parties.

Other accounting judgements and issues

Other accounting judgments and issues which have not currently been identified as significant audit risks are as follows

The Crossrail commitment

- The notes to the financial statements have since 2008/9 disclosed a commitment made by the City to contribute £200 million towards the cost of Crossrail.
- During our audit of the 2008/9 financial statements we discussed with officers their assessment of the accounting treatment for this item. We concurred with officers that the agreement with the Government, contained within an exchange of letters between the Corporation and the Secretary of State, is an "executory contract" (contracts under which both parties are still to perform to an equal degree the actions promised by and required of them under the contract). As such it falls outside the scope of International Accounting Standard 37 Provisions, Contingent Liabilities and Contingent Assets (unless onerous).
- As a result, in past financial statements, whilst the transaction has been disclosed as a commitment, a liability has not yet been recognised on the balance sheet pending performance of the undertakings made by the Secretary of State, which include completion of certain works in relation to Crossrail stations.
- Based on the expected timetable for completion of the scheme, we are not anticipating any change to the position for the 2013/14 accounts, but will review with officers during our interim and final audit visits.

Valuation of properties

- The Code has been updated to provide clarification on the frequency of revaluation of property, plant and equipment.
- The Code requires that items within a class of property, plant and equipment are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, the Code allows valuations to be carried out on a rolling basis, but only if revaluation of the class of assets is completed within a short period and provided that revaluations are kept up to date (e.g. by the use of indices).
- No further guidance is provided as to how a 'short period' should be interpreted for these purposes although, given the drafting of the Standard, it is presumably less than a financial year. The general approach of IFRS, however, is to require simultaneous valuations so as to avoid the reporting of amounts that are a mixture of costs and values as at different dates. Accordingly, it is commonly interpreted amongst corporate reporters as requiring: for all such valuations to take place in the same accounting period; and for the acceptable length of the period to take into account how stable fair values are, so that greater volatility requires a shorter period over which to perform valuations.
- The area of concern for the City Fund relates to the "Other land and buildings" class where revaluations have in the past been carried out on a rolling basis. Assets in other classes have either in the past been revalued on an annual basis or are carried at historical cost. The value of "Other land and buildings" at 31 March 2013 was £374m.
- Officers have indicated that given the volume and diversity of assets in "Other land and buildings", it is probable that a range of indices may have to be used. They have advised that this will have manpower and timing implications and consider that the response should be proportional to the potential benefit to be derived by the readers of the financial statements. The requirements and approach will be discussed in more detail with the City and developing views on sector practice will also be taken into account.

Other accounting judgements and issues (continued)

Other accounting judgments and issues which have not currently been identified as significant audit risks are as follows

City of London pension scheme

- We understand that members have requested officers to consider proposals for the City Fund’s share of the City of London pension scheme to be reflected within the City Fund’s financial statements.
- We are considering with officers how the objective might best be achieved.

Localisation of business rates

- The Government introduced a business rates retention scheme from 1 April 2013. The intention behind the scheme is to provide a direct link between business rates growth and the amount of money councils have to spend on local people and local services.
- The scheme involves a system of tariffs and top-up payments to and from government to even out situations where business rates are not in proportion to current spending. The government has indicated that the levels of tariff and top-up payments will increase proportionately in line with the Retail Price Index. Relativities will not be reviewed until the system is reset. The government has said that this will not occur before 2020 at the earliest. This will provide councils with the certainty they need to plan and budget. In addition, safety net payments will be available if a council’s business rates income falls by a certain amount. This will provide support if, for example, a major local employer closes. This safety net will be funded by a levy paid by those councils whose business rates revenue increases by a disproportionate amount compared to their needs. The levy is designed to ensure that the more councils grow their business rates, the more they benefit
- The introduction of the scheme will require the City to make new or changed accounting entries. We have not identified as a significant audit risk, however, as CIPFA have issued detailed guidance on the accounting implications for the localisation of business rates, including example entries, to assist with implementation.
- The accounting and estimation processes for appeals against rateable values require the exercise of judgement, but the impact on the Corporation would be below the audit materiality threshold due to a safety net which limits the City’s losses to approximately £1.1m a year.

Value for money conclusion

Value for money conclusion

Our work will focus on the establishment of key governance arrangements during the first year of operation

Scope

Under the Code of Audit Practice 2010 we are required to include in our audit report a conclusion on whether the City of London Corporation has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources in respect of the City Fund - this conclusion is known as "the VFM conclusion".

Specified criteria for auditors' VFM conclusion	Focus of the criteria for 2014
The organisation has proper arrangements in place for securing financial resilience.	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Approach to our work

We draw sources of assurance relating to our VFM responsibilities from:

- the audited body's system of internal control as reported on in its Annual Governance Statement;
- the results of the work of the Commission, other inspectorates and review agencies to the extent that the results come to our attention and have an impact on our responsibilities;
- any work mandated by the Commission – of which there was none in 2014; and
- any other locally determined risk-based VFM work that auditors consider necessary to discharge their responsibilities.

Risk assessment

Our preliminary assessment is that there were no risks in relation to our VFM responsibilities which require local work to be carried out and we have therefore not identified any risks or additional local studies in our audit plan.

We will carry out our detailed risk assessment from April to take account of the latest refresh of the Medium Term Financial Strategy, as well as the outturn financial and performance information for 2013/14. The risk assessment involves consideration of common risk factors for local and police authorities identified by the Audit Commission, concluding on whether they represent actual risks for the purpose of our VFM conclusion on the City Fund. We will undertake this work through review of relevant documentation, including committee papers and discussion with officers. We will also consider whether there are other risks which might be specific to the City Fund. We will do this principally through our consideration of what has been reported in the Annual Governance Statement, matters reported by regulators and other matters which have come to our attention from our work carried out in relation to our other Code responsibilities.

Our insight plan

Our insight plan

We have summarised below some of the ways we will provide the City with insight during 2014

- Sharing knowledge of sector developments.
- We have attached at Appendix 6 a summary of our research into the state of local public services

- Share with officers emerging issues

- Feedback comments from our VFM conclusion work

- Early discussion of Code changes, their expected impact on the City Fund and proposed response
- Early review of draft financial statements or draft financial statements

- Benchmarking of pension and estate valuation assumptions used
- Risk based journal analysis covering period end postings utilising our proprietary “Spotlight” software

- “Faster close” to the accounts workshop run 2013

Responsibility statement

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to establish our respective responsibilities in relation to the financial statement audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope and timing of our audit
- Key regulatory and corporate governance updates, relevant to you on request.

What we don't report

- As you will be aware, our audit is not designed to identify all matters that may be relevant to the Court of Common Council.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

- This report should be read alongside the supplementary "Briefing on audit matters" circulated to you in July 2011, a copy of which can be made available.
- Our Audit Quality Promise and Insight Plan will provide the details of additional procedures we have agreed with you we will perform alongside the audit of the financial statements.
- We will update you if there are any significant changes to the audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP
Chartered Accountants

St Albans
16 January 2014

This report has been prepared for the Court of Common Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

Appendices

Appendix 1: Prior year disclosure misstatements

We remind you of prior year disclosure misstatements

Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. The table below highlights those areas of disclosure that we considered required consideration by the committee in the prior year in relation to disclosures omitted in the prior year financial statements.

Disclosure	Summary of disclosure requirement
Date of last revaluation	Date of last revaluation of property, plant and equipment
Financial assets	Analysis of financial assets that are individually determined to be impaired as at the reporting date, including the factors that the authority considers in determining that they are impaired.
Revaluation losses	Separate disclosure of reversal of revaluation losses and revaluation losses in the Property, Plant and Equipment note
Debtor impairment account	A reconciliation of changes in that debtor impairment account during the period, for each class of financial asset

Appendix 2: Independence and fees

We confirm we are independent of the City of London Corporation

As part of our obligations under International Standards on Auditing (UK & Ireland), the Listing Rules and the Companies Act, we are required to report to you on the matters listed below:

Independence confirmation	We confirm we are independent of the City of London Corporation and will reconfirm our independence and objectivity to the Audit and Risk Management Committee for the year ending 31 March 2014 in our final report to the Audit and Risk Management Committee.
Fees	Details of the non-audit services fees proposed for the period have been presented separately below.
Non-audit services	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the Corporation's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Appendix 2: Independence and fees (continued)

We summarise our relationships with the Corporation and explain our assessment of threats to auditor independence and safeguards

As part of our obligations under International Standards on Auditing (UK & Ireland) and the APB's Ethical Standards we are required to report to you on all relationships (including the provision of non-audit services) between us and the audited entity:

Relationship/Service provided	Threats to auditor independence	Safeguards in place
Advice provided by Deloitte Real Estate in relation to lease advisory work.	Potential threats in relation to self-review and self-interest. The additional services do not represent material aspects of what we would consider in our audit work. We note that the properties account for only a small part of the City Fund property portfolio and in the case of the Tottenham Court Road estate, sit within City's Cash which is outside the scope of our audit. Management remain responsible for agreeing the rent level. Non audit fees agreed for 2013/14 are in aggregate less than the audit fee. Pre-approval for the level of non-audit fees has been obtained from the Audit Commission.	Non audit work is carried out by partners and staff who have no involvement in the audit and are drawn from different service line and office from the audit team.
Preparation of an independent research paper on the impact of the proposed financial transaction tax on the City of London. The work is for the International Regulatory Strategy Group which is jointly funded by the City of London Corporation and another party. The contract is with the City of London Corporation	The additional services do not represent material aspects of what we would consider in our audit work. In particular we note that the service is provided to City's Cash and therefore does not form part of the City Fund accounts which is the subject of our appointment. Non audit fees agreed for 2013/14 are in aggregate less than the audit fee. Pre-approval for the level of non-audit fees has been obtained from the Audit Commission.	Non audit work is carried out by partners and staff who have no involvement in the audit and are drawn from different service line and office from the audit team.

Appendix 2: Independence and fees (continued)

We summarise earned or proposed audit and non-audit fees for the year

The professional fees earned or proposed by Deloitte in the period from 1 April 2013 to 31 March 2014 are as follows:

	Current year £000	Prior year £000
Audit of the City Fund	*113	104
Audit related assurance services		
Certification of grants and returns on behalf of the Audit Commission	22	24
Other non-audit services		
Lease advisory services	20	49
Total fees	155	177
Audit of the City of London pension scheme	21	21

*The fee includes an amount of £8,657 which is additional to the current Audit Commission scale fee. This reflects the loss of synergies previously available from our role as auditor of the private and voluntary funds of the Corporation. The amount is subject to approval by the Audit Commission. In addition, the return made to the Government in relation to pooled business rates no longer requires certification and a deduction has been made by the Audit Commission from the scale rate in respect of this. The Audit Commission is currently consulting on whether a compensating adjustment will be made to the audit scale rate as our work on the Collection Fund drew on the work carried out for certification purposes.

In addition to the above, the professional fees earned or proposed by Deloitte for services in the period from 1 April 2013 to 31 March 2014 in respect of other funds of the Corporation and other entities controlled by the Corporation are estimated as follows:

	£
Tax advisory services	
Research paper on financial transaction tax	18
Other non-audit services not covered above	
Lease advisory services	15
Total non-audit services excluding City Fund	**33**

Appendix 3: Fraud: responsibilities and representations

We summarise our respective responsibilities regarding fraud

Characteristics

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

Responsibilities

Your responsibilities	Our responsibilities
• The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations	• We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement. • As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error. • As set out in Section 2 above we have identified the risk of fraud in revenue recognition and management override of controls as a key audit risk for your organisation.

Appendix 3: Fraud: responsibilities and representations (continued)

We will make inquiries and obtain representations regarding fraud

We will make the following inquiries regarding fraud:

Management	Internal Audit	Those charged with governance
Management's assessment of the risk that the financial statements may be materially misstated due to fraud including the nature, extent and frequency of such assessments Management's process for identifying and responding to the risks of fraud in the entity Management's communication to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity Management's communication, if any, to employees regarding its views on business practices and ethical behaviour Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity	Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud	How those charged with governance exercise oversight of managements processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity

We will request the following to be stated in the representation letter signed on behalf of the Corporation:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- [We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and] that affects the entity or group and involves:

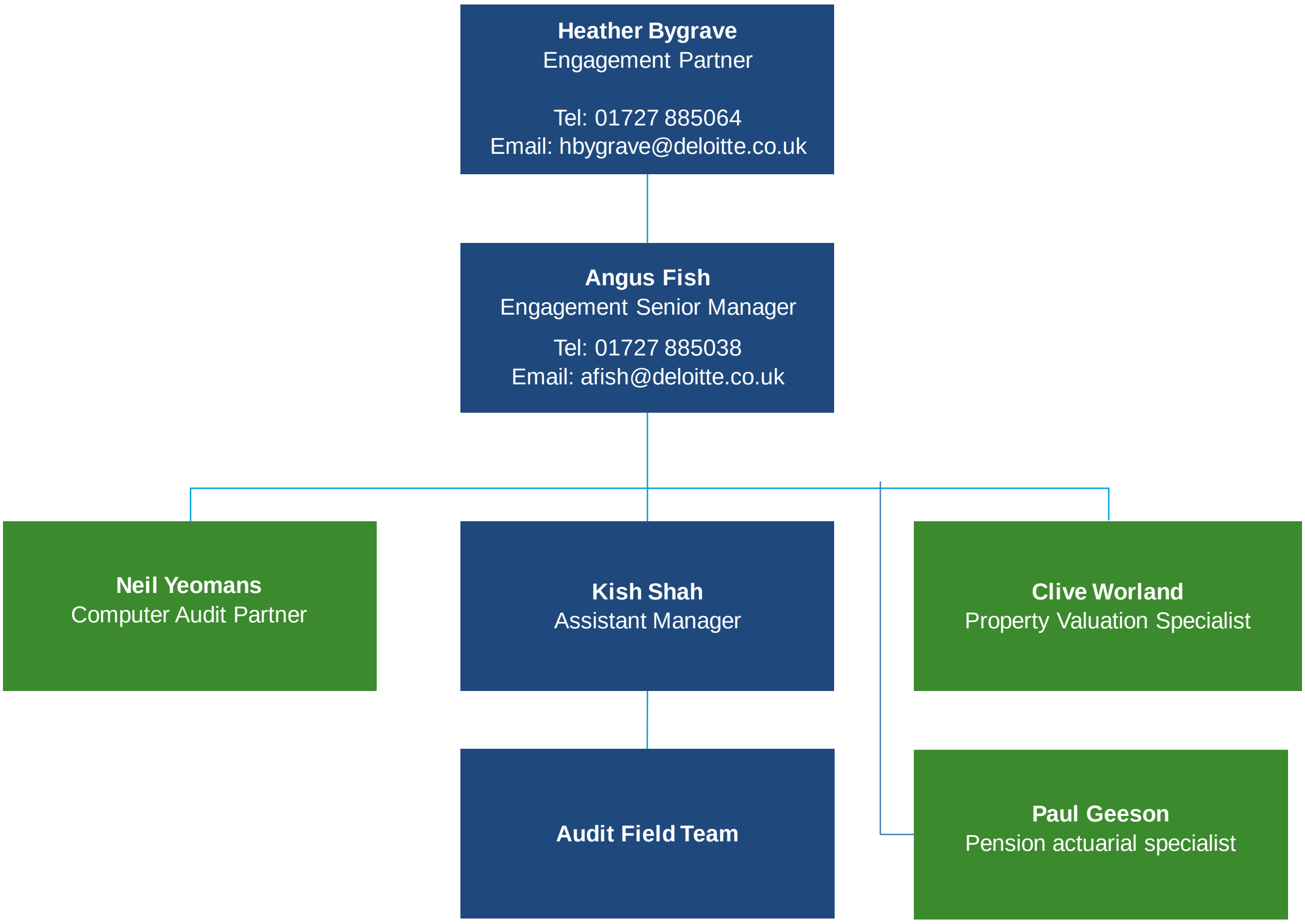
  (i) management;

  (ii) employees who have significant roles in internal control; or

  (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Appendix 4: Your audit team

We set out key members of your audit team



Appendix 5: Timetable

We summarise the timing of the key phases of the audit

Set out below is the approximate expected timing of our reporting and communication with you.

Planning	Interim audit	Year end work	Reporting	Post reporting
Planning meetings to • confirm our risk assessment and management response; and • agree on key judgemental accounting issues Agree audit plan	Update discussions of key audit and business risks and testing of controls to mitigate significant audit risks Review of relevant internal audit work Update understanding of systems, controls and developments in the business Performance of work in support of value for money conclusion	Performance of substantive testing Finalisation of work in support of value for money conclusion Review of annual accounts Audit issues meeting Work to support assurance statement on WGA return.	Final Audit and Risk Management Committee meeting Issuance of • audit report and opinion • value for money conclusion • limited assurance opinion on the WGA return	Audit feedback meeting Presentation of letter of recommendation on control improvements (if applicable) Issue of annual audit letter and presentation to the Audit and Risk Management Committee
Jan 2014	Feb-Mar 2014	June–July 2014	July-Sep 2014	Sep-Oct 2014

Ongoing communication and feedback

Our interim work will be carried out in the two weeks commencing 24 February 2014.

Our final audit visit will commence on 9 June 2014 and run through to completion of the fieldwork expected at the end of July 2014. We will issue our opinion as soon as possible thereafter.

The work to support our limited assurance report on the WGA return will take place in August 2014 and we expect to issue our assurance report in September 2014.

We expect to issue our annual audit letter in September 2014.

Appendix 6: State of local public services

We summarise the outcome of our research which provides further context for our audit

During the spring and summer of 2013, Deloitte conducted detailed research to answer a simple question: what is the state of the UK state? As part of the research, we commissioned IPSOS MORI to capture the attitudes of people that run local public services. The results provide a snapshot of local services during a period of profound change.

We have summarised the key messages in relation to local public services below.

Overall

Overall chief executives told us that they feel their organisations are coping well and responding effectively to the challenging circumstances.

They also said that while the depth and speed of change has been difficult for staff, morale is holding up, although future cuts create understandable concerns.

Link between local economies and local services has moved up the agenda

Combined with cuts, the recession has put the health of local economies high on the agenda. Weak economic growth and unemployment has increased pressure on the local public sector as demand for spending has increased. This concern was a clear theme, particularly at a time when cuts are reducing capacity to provide. One police respondent reported that while crime was down overall, shoplifting for food has increased.

Local public service executives fear the impact of welfare reforms

Our research suggests that public service leaders are particularly concerned about the fallout from welfare reform. Some wondered if central government has assessed whether savings on welfare spending will be counterbalanced by increased demand on local services. This was particularly a concern for directors in children's services where interviewees described rises in child protection cases. Many expressed concerns that cuts will affect their ability to invest in preventative services.

The people in our local public services are focused on opportunities – not just challenges

Our research showed that local public service executives see the current climate as an opportunity to refocus their services on residents' needs and outcomes, as well as to use creativity rather than resources to solve problems. One police respondent told us that in the past, additional finance would have been used to deliver change – but now, the force explores service redesign. On balance, interviewees felt that the opportunities of the coming five years outweigh the challenges

The game has changed – so have leadership priorities

When interview responses were collated, a striking trend emerged: organisational leaders are focused on their people and how they can be empowered to rise to their organisation's challenges. Public value is a notably important issue; a number of executives mentioned values – such as caring, fair and trusted – as being central to the public service ethos. At a time of public sector headcount reductions, interviewees spoke of the importance of attracting staff with the right skills.

A new public services landscape has brought a new set of risks

A number of interviewees told us about the advantages of public sector partnerships in delivering joined-up services, transferring knowledge and generating savings. Most thought that partnerships with the private and third sectors were also beneficial. They thought that cross-sector working brought specific benefits, including exposure to new ideas and new delivery models, efficiency and quality from private sector and local knowledge and niche services from the third sector. But many also recognised that commissioning and partnerships outside the public sector brought new, critical risks that needed to be managed.