



City of London Corporation (City
Fund)

Annual Audit Letter to the
Members of the Court of Common
Council on the 2008/9 Audit

Issued 22 December 2009

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Executive summary

This letter reports our conclusions from our audit of the City Fund of the City of London Corporation (“the City” or the “Corporation”) for financial year 2008/9. The City Fund is the part of the Corporation which carries out the functions of a local authority, port health authority and police authority within the City of London. The letter’s main messages are:

City Fund financial statements	We issued an unqualified opinion on the City’s 2008/9 accounts on 28 August, in advance of the statutory deadline of 30 September.
City’s local government pension scheme annual report	We issued an unqualified opinion on information in the City’s 2008/9 pension scheme although this was after the statutory deadline of 1 December for the publication of the report. This was the first year that publication was a statutory requirement and formal guidance from the Department of Communities and local Government was delayed. This in turn contributed to delays in finalising the report and consequently our opinion was issued shortly after the 1 December deadline for publication of the report.
Value for money conclusion	We issued an unqualified conclusion on the City’s arrangements for securing value for money during 2008/9.
Use of resources assessment – local authority	Based on our individual judgements, the Audit Commission has assessed that the City was performing well in its use of resources.
Use of resources assessment – police	Based on our individual judgements, the Audit Commission has assessed that the City of London Police is performing well in its use of resources.

There are no individually significant recommendations which we wish to bring to Members attention here. We do, however, refer Members to the separate report we issued on the findings from our use of resources work and recommend you consider and monitor an action plan to address the various process improvements we recommended in that report.

1. Introduction

The purpose of this letter

The purpose of this Annual Audit Letter (“Letter”) is to summarise the key issues arising from the work that we have carried out during the year.

We have addressed this Letter to the members of the Court of Common Council of the City of London Corporation as it is the responsibility of the members to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Corporation in meeting its responsibilities.

Although this Letter is addressed to the members, it is also intended to communicate the significant issues we have identified, in an accessible style, to key external stakeholders, including members of the public. The Letter will be published on the Audit Commission website at www.audit-commission.gov.uk and should also be posted on the City’s website.

Responsibilities of the Appointed Auditor and the City and scope of our work

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from www.audit-commission.gov.uk.

We have been appointed as the Corporation’s independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England, including local authorities. As your appointed auditor, we are responsible for planning and carrying out an audit that meets the requirements of the Audit Commission’s Code of Audit Practice (the Code). Under the Code, we review and reports on:

- the City Fund accounts;
- the City’s local government pension scheme annual report; and
- whether the City has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion) in respect of its local authority functions.

In addition, we are also asked to assess the City’s use of its resources in respect of its police and local authority functions. The Audit Commission use our judgements to score the City on its use of resources. This in turn forms part of the Audit Commission’s Comprehensive Area Assessment performance framework.

It is the responsibility of the City to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the City is fulfilling these responsibilities.

2. Audit of accounts and pension scheme annual report

Key issues arising from the audit of the accounts

We reported separately to the Audit Sub Committee in July 2009 on the issues arising from our 2008/9 audit and have issued an audit report, providing an unqualified opinion on your accounts and a conclusion on your value for money arrangements to say that these arrangements are adequate. We issued this report on 28 August 2009 which was over a month earlier than the 30 September statutory deadline.

We note that, whilst we issued our opinion on the financial statements in August, our audit certificate, which confirms the closure of the audit, was delayed as a result of a mismatch between the statutory timetable for the pension scheme annual report (which now forms part of our work under the Code of Audit Practice) and the statutory timetable for the City's accounts.

Key issues arising the pension scheme annual report

Although an early draft of the report was made available to us, 2008/09 was the first year that the publication of the annual report was a statutory requirement and some delays in finalising the report arose whilst awaiting formal guidance from the Department for Communities and Local Government. A number of recommendations to improve the structure of the document were also made by ourselves. As a result, we were not able to issue our opinion until shortly after the statutory deadline for the publication of the report. We recommend officers look at the process for compiling the annual report for future years with the aim of producing them to the same timetable as the main accounts. This would further demonstrate best practice in your year end closing processes.

3. Audit of use of resources and value for money conclusion

Scope of our work

We are required to issue a conclusion on whether we are satisfied that the City has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources in respect of its local authority functions. This is known as the value for money conclusion.

We are also required to assess how well the Corporation manages and uses its financial resources by providing scored judgements on the City's arrangements in three specific areas. This is known as the Use of Resources Assessment. The Audit Commission derives a Use of Resources score from our judgements which forms a component of the Comprehensive Area Assessment (CAA), the new performance assessment framework which was published on 9 December 2009.

The assessment this year defines use of resources in a broader way than previously, embracing the use of natural, physical and human resources. It also places new emphasis on commissioning services for local people and achieving value for money. It is therefore not directly comparable to last year's assessment.

Value for money conclusion

We issued an unqualified value for money conclusion for the 2008/9 financial year. This conclusion drew on the evidence we gathered for the use of resources assessment.

Use of resources assessment process

We assessed the City's arrangements for each of the following three themes:

- managing finances - focusing on sound and strategic financial management;
- governing the business - focusing on strategic commissioning and good governance; and
- managing resources - focusing on the effective management of natural resources, assets and people.

We reach judgements on these themes by considering specified key lines of enquiry (KLOE) within the three themes. Each KLOE and theme was scored on a scale of one to four, with four being the best and one representing areas within the assessment category where a local authority did not meet the minimum expected standard.

We were asked to provide separate assessments covering the conduct of the City's local authority and police functions. In practice, as a number of the functions involve common processes, certain related assessments were made in common.

3. Audit of use of resources and value for money conclusion (continued)

A detailed report explaining our assessment and highlighting areas for improvement will be issued shortly to the City.

Key findings arising from the use of resources assessment

For the purposes of the CAA, we have assessed the City's arrangements for use of resources in these three areas as follows.

Element	Assessment – local authority functions	Assessment – police functions
Managing finances	3 (out of 4)	3 (out of 4)
Governing the business	3 (out of 4)	3 (out of 4)
Managing resources	3 (out of 4)	3 (out of 4)
Overall assessment by the Audit Commission	3 (out of 4)	3 (out of 4)

Note 1 is low; 4 is high

This methodology for this year's assessment focused more on outcomes than previous assessments and the City was able to demonstrate across the different themes that it was performing well in this respect.

As anticipated in our letter last year, the current economic environment has created significant challenges for the City which it is meeting in a measured way through a programme of savings which are efficiency based. These are supported by detailed budget reviews and applied over the medium term. They are assisted by its substantial financial resources which it is using to absorb temporary losses of income to enable it to maintain expenditure in priority areas. The current savings programme builds on a track record of savings achieved over the last few years and is informed by a variety of management costs, performance data and benchmarking information. As a result of the actions taken, the City expects to move towards financial balance over the period covered by its Medium Term Financial Strategy.

3. Audit of use of resources and value for money conclusion (continued)

Although outcomes have been strong, some aspects of the City's arrangements are less formal or less well developed which the City believes reflects its unique position. Nevertheless, we believe there are appropriate improvements which should be made to some processes and have made recommendations for this in a separate report. We have also noted several improvement initiatives and the City should give priority to tracking and reporting the outcomes and achievements from these to be able to demonstrate even more effective use of its resources.

4. Looking forward

We have also started discussions with officers concerning their work on the opening balance sheet which the City is currently preparing as part of the preparation of its first full set of accounts under International Financial Reporting Standards (“IFRS”) in 2011. This is a significant task for the City which requires substantial input from a number of officers across the Corporation, not just from central finance team, as well as the attention of members of the Audit and Risk Management Sub Committee. Based on information provided to us by the City as part of a data collection exercise to support the Audit Commission in carrying out a national study on IFRS implementation, we would judge that the City is currently well placed to make a successful transition to IFRS in 2011.

The Audit Commission has now issued its guidance to auditors on the approach to this year’s Use of Resources assessment. Key changes are that:

- The City’s score for its use of natural resources will not be updated as part of this year’s assessment – instead last year’s score will be carried forward and will form part of the City’s overall score for this year.
- We are asked to score the City’s performance on workforce matters for the first time.
- There will be a lighter touch this year to the areas where the City scored at least Level 3 in the last assessment.

5. Responsibility statement

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out, in accordance with that statement.

This report should be read in conjunction with the “Briefing on audit matters” circulated to you in March 2009 and sets out those audit matters of governance interest which came to our attention during the audit. Our audit was not designed to identify all matters that may be relevant to Members and this report is not necessarily a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made.

This report has been prepared for the Members of the City of London Corporation, 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.

Deloitte LLP

Chartered Accountants

St Albans

22 December 2009

Appendix 1: Analysis of professional fees

The professional fees earned by Deloitte in the period 1 April 2008 to 31 March 2009 in respect of the City Fund of the City of London Corporation are as follows:

	Actual 2009 £'000	Audit Plan 2009 £'000
Accounts	133	133
Pension scheme	38	38
Police work	25	25
Use of resources and value for money conclusion	64	64
Total audit fees	260	260
Whole of Government Accounts	3	3
Grants – estimate	54	35
Total other fees arising from our appointment as auditor	57	38
Total non-audit fees	-	-
Total	317	298

In addition, we carry out the audit of certain private and voluntary funds of the City of London Corporation. The fee for that work in the same period was £140,000.

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