

City of London
Corporation (City Fund)

Annual Audit Letter to the
Members of the Court of
Common Council on the
2010 Audit

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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 2009/10. The City Fund is the part of the Corporation which carries out its functions as a local authority, port health authority and police authority. The letter's main messages are:

City Fund financial statements	We issued an unqualified opinion on the City's 2009/10 accounts on 18 August; once again this was well in advance of the statutory deadline of 30 September and reflects positively on the finance team's approach to the year end process.
City's local government pension scheme annual report	We issued an unqualified opinion on information in the City's 2009/10 pension scheme annual report ahead of the statutory deadline of 1 December 2010 for the publication of this report.
Value for money conclusion	We issued an unqualified conclusion on the City's arrangements for securing value for money during 2009/10.
Whole of Government Accounts consolidation return	We provided an unqualified statement of assurance to the National Audit Office on the consolidation return for the purposes of their audit of the Whole of Government Accounts. We reported certain additional matters in relation to the late submission of the pack and classification errors in the pack.
Grants	We undertake work on grant claims and other returns on behalf of the Audit Commission and provide certificates to grant funders on compliance with aspects of the terms on which funds have been claimed. We will provide a separate, detailed letter to the City in early 2011 on the outcome of this work, but at this point there are no matters which we consider need to be brought to your attention.
Looking forward	This is a challenging period for local government. The outcome of the recent Comprehensive Spending Review will add to existing local pressures caused by reductions in income from other sources, in particular from the City Fund's portfolio of investments. We have provided an overview of how we will approach our work on the City's response to these challenges in 2011 based on revised guidance from the Audit Commission. This is currently a dynamic environment for local government. We have highlighted two developments which are particularly pertinent to our audit responsibilities, being the abolition of the Audit Commission and the impact of this on future audit arrangements; and the transition to financial reporting under International Financial Reporting Standards from 2010/11. The City's reorganisation of strategic finance services will also add further challenge during a time of significant change.

There are no individually significant recommendations which we wish to bring to Members attention here.

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.

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 report 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 earlier years we have also been 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 was known as the Use of Resources Assessment and formed a component of the Comprehensive Area Assessment (CAA), a performance assessment framework devised and operated by the Audit Commission. In 2010, we commenced, but did not conclude and report on this work, as a result of the abolition of the Comprehensive Area Assessment before our Use of Resources assessment work was due to be reported.

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.

As an additional responsibility to those set out in the Code, we also undertake grant certification work on behalf of the Audit Commission.

2. Financial reporting

Key issues arising from the audit of the accounts

We reported separately to the Audit and Risk Management Sub Committee in July 2010 on the issues arising from our audit and have issued an audit report providing an unqualified opinion on your 2009/10 accounts and a conclusion on your value for money arrangements to say that these arrangements are adequate. We issued this report on 18 August 2010 which was over a month earlier than the 30 September statutory deadline.

There were no uncorrected misstatements or disclosure deficiencies which were above the significance threshold for reporting to Members.

We explained in our report to the Audit and Risk Management Sub Committee how we had focused our work on key areas of estimation in relation to commercial property valuations, the police pension liability and bad debt provision levels. We reported our conclusion in each of these areas that the officers had made reasonable judgements. We also explained how we had focused on grant income recognition; the accounting for two specific property transactions; and the impact on the accounts of changes in local government accounting requirements in relation to local taxation. We proposed an adjustment in relation to how a charge arising in relation to one of the property transactions had been shown within the Income and Expenditure Account which was agreed and incorporated into the final version of the accounts. We concluded satisfactorily on these matters.

Key issues arising from the audit of the pension scheme accounts within the pension scheme annual report

We reported separately to the Audit and Risk Management Sub Committee in July 2010 on the issues arising from our 2009/10 audit. We also issued an unqualified opinion on the pension scheme accounts within the pension scheme annual report.

Whole of Government Accounts

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 2010 to review and report on the whole of government accounts return. Our report is used by the National Audit Office ("NAO") for the purposes of their audit of the Whole of Government Accounts.

We issued an unqualified report on the consistency of the City's consolidation return with the statutory accounts and the policies governing the preparation of the return. We also reported, however, that although the overall return was correct in total there were a number of classification errors in the original version of the return which were above the significance threshold set by the NAO for reporting of £1 million. These were corrected in the final version of the return. We noted in our report that these errors could have been identified by officers had a more complete check been performed on the version of the consolidation pack submitted to us for audit. We also reported that the return had been submitted to us for review on 4 October 2010, which was after the deadline of 1 October 2010 for auditors to report on the return to the NAO.

We recommend that officers review the timetable for production of the return and arrangements for review of the draft return prior to its submission to us for audit. This is particularly important as there is increasing priority being given by the Treasury and the NAO to the quality and timeliness of the consolidation pack.

3. Value for money conclusion

The 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.

Value for money conclusion

We issued an unqualified value for money conclusion for the 2009/10 financial year. This conclusion drew on the evidence we gathered for the use of resources assessment as well as from the work of other regulators, consideration of the City's Annual Governance Statement and other work performed by us.

There were no areas of specific risk on which we reported to Members.

Audit recommendations

Last year we reported from our use of resources assessment work that, although outcomes had been strong, some aspects of the City's financial management and governance arrangements were less formal or less well developed than at other authorities which were performing well. The City believes this reflects its unique position. We reported, nevertheless, that we believed there were appropriate improvements which should be made to some processes. Officers presented an action plan in response to the recommendations made in our separate report. As a result of the timing of agreement of the action plan, its implementation was in progress at the time we carried out our assessment work this year. We recommend the Audit and Risk Management Sub Committee consider a report on the implementation of the action plan in early 2011.

Data quality

We reported separately to the City on the outcome of our review of arrangements for ensuring the quality of the data which it uses to monitor and measure the Council's progress and testing of a sample of performance indicators. There are no significant matters arising which we consider need to be brought to your attention here.

4. Grants

Under Section 28 of the Audit Commission Act 1998, the Commission is responsible for making arrangements for certifying claims and returns in respect of grants or subsidies made or paid by Central Government or a Public Authority to a Local Authority. The Commission, rather than its appointed auditors, has the responsibility for making certification arrangements. The appointed auditor carries out work on individual claims as an agent of the Commission under certification arrangements made by the Commission which comprise certification instructions which the auditor must follow.

Our programme was in progress at the time of writing. We will issue a separate Annual Audit Letter in respect of the grants programme in early 2011, following the completion of the programme. At this point there are no matters which we consider need to be brought to your attention.

5. Looking forward

This is a challenging period for local government. The outcome of the recent Comprehensive Spending Review will add to existing local pressures caused by reductions in income from other sources, in particular from the City Fund's portfolio of investments. We have commented in this section on the changes which have been made to the scope of our work in 2011 to respond to this changed environment.

This is a dynamic environment for local government because of new obligations being placed on local authorities and possible changes to their responsibilities and powers in some areas. These significant tasks also coincide with the City's reorganisation of strategic finance activities. This challenging change will require careful management and control to ensure the additional pressures arising from the current economic climate do not compromise the effectiveness of stewardship of the City's finances.

We have highlighted below the developments which are particularly pertinent to our audit responsibilities in this section.

Value for money ("VFM") conclusion work in 2011

The Audit Commission has advised that, in 2011, the auditors' statutory VFM conclusion will be based on the following two criteria specified by the Commission which together focus on how the City is responding to these challenges:

Specified criteria for auditors' VFM conclusion	Focus of the criteria for 2011
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.

We will discuss with officers the detailed approach to the work as part of our detailed 2010/11 audit planning.

Preparations for the implementation of International Financial Reporting Standards from 2010/11

In 2010/11, the City will need to prepare its accounts for the first time under International Financial Reporting Standards ("IFRS"). The City set up a multidisciplinary team to oversee the transition to IFRS and reported on its restated opening balance sheet under IFRS at 1 April 2009 to the Audit and Risk Management Sub Committee in June 2010. The City has set itself a timetable for restating its 2009/10 financial statements, with full comparative information, by the end of February. The City will need to adhere to this timetable if it is to continue its record of early reporting for 2010/11. A key challenge to any entity in making a successful transition to IFRS is to ensure that it identifies all differences between existing accounting rules and IFRS which result in material change to the statement of accounts. A key area of focus for us will be on examining the audit trail supporting this completeness check.

5. Looking forward (continued)

Abolition of the Audit Commission

On 13 August 2010, the Secretary of State for Communities and Local Government announced the proposed abolition of the Audit Commission. The proposed abolition will be from March 2012 and the Audit Commission has confirmed that there is no immediate change to your audit arrangements. New audit arrangements are likely to apply from the start of the 2012/13 financial year. Both we and the Audit Commission will keep you informed of further developments.

6. 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 in 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 2008 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 the City and this report is not necessarily a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for the City, 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

30 November 2010

Appendix 1: Analysis of professional fees

The professional fees earned by Deloitte in respect of the period 1 April 2009 to 31 March 2010 are as follows:

	2010 £'000	2009 £'000
Fees payable in respect of our work under the Code of Audit Practice in respect of the City Fund	214	225
Fees payable in respect of our work under the Code of Audit Practice in respect of the Local Government Pension Scheme	36	38
Fees payable in respect of the certification of grants	50	61
Total fees payable in respect of our role as Appointed Auditor	300	324

Note: The fees payable in respect of our work under the Code of Audit Practice are included at the amount in our original fee letter. Our work on the certification of grants is ongoing and the amount shown above is an estimate only.

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 (year to 31 March 2009 - £138,000).

Deloitte completed the merger of its practice with Drivers Jonas during 2009/10. The merged Drivers Jonas Deloitte ('DJD') business became effective from 15 March 2010. In the year ending 31 March 2010, total non audit fees billed amounted to £268,600 comprising lease advisory work including rent reviews, lease renewals and letting of vacant space, investment advice, advice in relation to City of London Police, valuation advice, planning advice, neighbourly matters advice and strategic consulting advice. A protocol has been put in place following discussion with senior officers to enable consideration and pre-approval of any non audit engagements, including reference to the Audit and Risk Management Sub Committee.

Deloitte LLP

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