



# CITY OF LONDON PENSION FUND

## AUDIT COMPLETION REPORT

Audit for the year ended 31 March 2018

10 July 2018

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# WELCOME

We have pleasure in presenting our Audit Completion Report to the Audit and Risk Management Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2018, specific audit findings and areas requiring further discussion and/or the attention of the Audit and Risk Management Committee. At the completion stage of the audit it is essential that we engage with the Audit and Risk Management Committee on the results of audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit and Risk Management Committee meeting on 17 July 2018, and to receiving your input.

In the meantime, if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

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 primarily for the purpose of expressing our opinion on the financial statements and use of resources. This report has been prepared solely for the use of the Audit and Risk Management Committee and those charged with governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person.

We would also like to take this opportunity to thank the management and staff of the Corporation for the co-operation and assistance provided during the audit.

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# OVERVIEW

This summary provides an overview of the audit matters that we believe are important to the Audit and Risk Management Committee in reviewing the results of the audit of the financial statements.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

## AUDIT SCOPE AND OBJECTIVES

Audit status	We have <b>substantially</b> completed our audit procedures in accordance with the planned scope and our objectives have been achieved.
Audit risks update	No additional significant audit risks were identified during the course of our audit procedures subsequent to our Audit Plan to you dated 12 February 2018.
Materiality	Our final materiality is £9.88million for the net asset statement and £1.95 million for the fund account. We have increased our materiality from £9.67 million to £9.88 million for the net asset statement as a result of the increase in valuation of investment asset at year end.
Changes to audit approach	There were no significant changes to our planned audit approach nor were any restrictions placed on our audit.

## KEY AUDIT AND ACCOUNTING MATTERS

Material misstatements	Our audit identified no material misstatements.
Unadjusted audit differences	<p>There are two unadjusted audit differences identified by our audit that would increase the value of private equity fund valuations by £0.495 million following revised valuations received from Warburg and New Mountain fund managers after the initial valuations provided based on the December 2017 valuations.</p> <p>We also found that pension strain costs income from employers for unreduced pension benefits for early retirement employees are accounted for on a cash basis where we believe that the full actuarial cost of this benefit should be accounted for in full by the pension fund with a corresponding debtor for the deferred payments profile. Our work to date has identified potential understatement of income of £0.1 million.</p>
Control environment	Our audit identified no significant deficiencies in internal control.

# OVERVIEW

## AUDIT OPINION

Financial statements	We propose issuing an unmodified opinion on the financial statements for the year ended 31 March 2018.
Pension fund annual report	Our review of the separate pension fund annual report is in progress and we will provide an oral update on the findings to the Audit and Risk Management Committee.

## OTHER MATTERS FOR THE ATTENTION OF THE AUDIT COMMITTEE

Audit independence	Our observations on our audit independence and objectivity and related matters are set out in Appendix III.
Management letter of representation	The draft management letter of representation, to be approved and signed, is set out in Appendix V.

# OUTSTANDING MATTERS

The following matters are outstanding at the date of issuing our Audit Completion Report. We will update you on their status at the Audit Committee meeting at which this report is considered:

- 1 Quality assurance review of the audit file by the engagement lead

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- 2 Review of the final financial statements

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- 3 Subsequent events review

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- 4 Management letter of representation, as attached in Appendix V to be approved and signed

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# KEY AUDIT AND ACCOUNTING MATTERS

## AUDIT RISKS

We assessed the following matters as audit risks, as identified in our earlier Audit Plan to the Audit and Risk Management Committee. We have set out below how these risks have been addressed and the outcomes of our procedures.

Key: ■ Significant risk ■ Normal risk ■ Other key issues

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
1	<b>Management override of controls</b>	Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual. By its nature, there are no controls in place to mitigate the risk of management override.	We have: <ul style="list-style-type: none"> <li>Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements</li> <li>Reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud</li> <li>Tested a sample of significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.</li> </ul>	Our work on the appropriateness of journals including adjustments made in preparation of the financial statements did not identify any issues.  We have found no bias in accounting estimates.  No unusual transactions outside of the normal course of business were identified.

## KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
<p>2</p> <p><b>Pension liability assumptions</b></p>	<p>An actuarial estimate of the pension fund liability to pay future pensions is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on a roll-forward of data from the 2016 triennial valuation, updated where necessary, and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability at 31 March 2018.</p> <p>There is a risk that the membership data and cash flows provided to the actuary as at 31 March may not be correct, or the valuation uses inappropriate assumptions to value the liability.</p>	<p>We compared the assumptions used by the scheme actuary with assumptions used by other local government actuaries (provided by PwC consulting actuaries) to assess the reasonableness of the assumptions and impact on the calculation of the present value of estimated future pension payments.</p> <p>We checked that the disclosures in the financial statements were consistent with the information provided by the actuary.</p> <p>We reviewed the data provided to the actuary to ensure that it is complete and accurate.</p>	<p>We are satisfied that the assumptions used to calculate the present value of future pension obligations are reasonable. Further information on the assumptions used is included in the following page.</p> <p>The disclosures in the financial statements agreed to the actuary's report except for 2018/19 Museum of London contribution rate that should have been reported as 15.7% (draft recorded 15.6%). We also identified that the discount rate disclosed in the financial assumptions note in the financial statements was 2.6% instead of £2.55% per the actuary's IAS19 report. Management has agreed to correct these disclosure errors.</p> <p>We have obtained assurance over the membership data, data provided at the last triennial valuation and the cash flows used by the actuary to update liabilities and share of assets for the year.</p>



# KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES																																																			
Pension liability assumptions																																																			
ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT		AUDIT CONCLUSION																																																
<p>The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows</p>	<p>The actuary has used the following assumptions at 31 March 2018 to value to future pension liability. We have compared the assumptions used to an acceptable range and those used across the local government actuaries.</p> <p>The PwC consulting actuary review of the relative strength of the main assumptions on the liability assumptions suggests that Barnett Waddingham tends to place a higher value on the liability than other actuaries where standard assumptions are applied and that the overall assumptions are reasonable.</p>		<p>&lt; Lower Higher &gt;</p>																																																
		<table border="1"> <thead> <tr> <th></th> <th>Actual used</th> <th>Acceptable range</th> <th>Comments</th> </tr> </thead> <tbody> <tr> <td>RPI increase</td> <td>3.3%</td> <td>3.30-3.35%</td> <td>Reasonable</td> </tr> <tr> <td>CPI increase</td> <td>2.3%</td> <td>2.30-2.35%</td> <td>Reasonable</td> </tr> <tr> <td>Salary increase</td> <td>3.8%</td> <td>CPI +1.5% to 2.2%</td> <td>(based on 2016 valuation) Reasonable in context of CPI / RPI</td> </tr> <tr> <td>Pension increase</td> <td>2.3%</td> <td>2.30-2.35%</td> <td>Reasonable</td> </tr> <tr> <td>Discount rate</td> <td>2.55%</td> <td>2.50-2.60%</td> <td>Reasonable</td> </tr> <tr> <td>Mortality - LGPS:</td> <td></td> <td></td> <td></td> </tr> <tr> <td>- Male current</td> <td>25.3 years</td> <td>23.7-26.8</td> <td>Reasonable</td> </tr> <tr> <td>- Female current</td> <td>26.7 years</td> <td>26.6-28.4</td> <td>Reasonable</td> </tr> <tr> <td>- Male retired</td> <td>23.9 years</td> <td>21.5-24.5</td> <td>Reasonable</td> </tr> <tr> <td>- Female retired</td> <td>25.2 years</td> <td>24.3-26.10</td> <td>Reasonable</td> </tr> <tr> <td>Commutation</td> <td>50%</td> <td>50%</td> <td>Reasonable</td> </tr> </tbody> </table>			Actual used	Acceptable range	Comments	RPI increase	3.3%	3.30-3.35%	Reasonable	CPI increase	2.3%	2.30-2.35%	Reasonable	Salary increase	3.8%	CPI +1.5% to 2.2%	(based on 2016 valuation) Reasonable in context of CPI / RPI	Pension increase	2.3%	2.30-2.35%	Reasonable	Discount rate	2.55%	2.50-2.60%	Reasonable	Mortality - LGPS:				- Male current	25.3 years	23.7-26.8	Reasonable	- Female current	26.7 years	26.6-28.4	Reasonable	- Male retired	23.9 years	21.5-24.5	Reasonable	- Female retired	25.2 years	24.3-26.10	Reasonable	Commutation	50%	50%	Reasonable
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## KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
<p>3 Fair value of investments (infrastructure and private equity)</p>	<p>The investment portfolio includes unquoted infrastructure and private equity holdings valued by the General Partner or fund manager using valuations obtained from the underlying partnerships and investments.</p> <p>Valuations are provided at dates that are not coterminous with the pension fund's year end and need to be updated to reflect cash transactions (additional contributions or distributions received) up to 31 March.</p> <p>There is a risk that investments valuations may not be appropriately adjusted to include additional contributions or distributions at the year end.</p>	<p>We have obtained direct confirmation of investment valuations from the General Partner or fund managers including copies of the audited financial statements of the partnership (and member allocations) from the fund. Where applicable we have recomputed the pension fund's share of the audited net asset value of the partnerships financial statements and agreed to year-end market values confirmation obtained directly from the fund managers to ascertain the reasonableness of the year end confirmations. Where the financial statement date supporting the valuation is not conterminous with the pension fund's year-end, we have confirmed that appropriate adjustments have been made to the valuations in respect of additional contributions and distributions with the funds.</p> <p>We have obtained independent assurance reports over the controls operated by the material fund managers and custodian for valuations and existence of underlying investments in the funds.</p>	<p>We agreed all valuations to fund manager reports except for two funds that would increase the value of private equity fund valuations by £0.495 million following revised valuations received from Warburg (£0.215 million) and New Mountain (£0.280 million) fund managers after the initial valuations provided based on the December 2017 valuations.</p> <p>This has not been corrected by management.</p> <p>No other issues were noted regarding the valuation of investments at year-end or the effectiveness of controls operated by fund managers for valuations and existence of underlying investments in the funds.</p>

## KEY AUDIT AND ACCOUNTING MATTERS

4	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
	Fair value of investments (pooled investments)	<p>The fair value of other funds (pooled investments held through Unit trust) is provided by individual fund managers, reviewed by the fund's Custodian and reported on a monthly basis.</p> <p>There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements.</p>	<p>We have obtained direct confirmation of investment valuations from the fund managers and agreed published fund manager valuations, where available, to readily available observable data (such as Bloomberg). We have obtained independent assurance reports over the controls operated by both the fund managers and custodian for valuations and existence of underlying investments in the funds.</p> <p>We have reviewed the Custodian's performance monitoring reports and followed up valuations provided by the Fund Manager that appear unusual when compared to the Custodian's independent performance monitoring report.</p>	<p>We agreed all valuations to fund manager reports. However, we noted that the valuation of the Carnegie fund manager differed to that provided by the custodian valuation due to differences used for the exchange rate. The Carnegie valuation had applied a £:\$ exchange rate of 1.41 whereas the custodian had used 1.40 resulting in the custodian reporting a higher valuation by £0.234 million. The pension fund has used the valuation provided by the custodian.</p> <p>We confirmed the quoted value of the Carnegie funds at year-end on Bloomberg with only a trivial difference between the quoted market value and custodian's valuation.</p> <p>No other issues were noted regarding the valuation of investments at year-end or the effectiveness of controls operated by fund managers for valuations and existence of investments.</p>

## KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
5 Contributions receivable (normal and additional contributions for pension strain)	<p>Employers are required to deduct amounts from employee pay based on tiered pay rates and to make employer contributions in accordance with rates agreed with the actuary. Additional contributions are also required against pension strain for early retirements with unreduced pensions.</p> <p>There is a risk that employers may not be calculating contributions correctly or paying over the full amount due to the pension fund.</p>	<p>We have performed an examination, on a test basis, of evidence relevant to the amounts of normal contributions receivable to the fund including checking to employer payroll records, where relevant.</p> <p>We have reviewed contributions receivable and ensure that income is recognised in the correct accounting year.</p>	<p>Our testing has not identified any issues with the calculation of normal contributions receivable from employers or employees.</p> <p>However, we found that pension strain costs income from employers for unreduced pension benefits for early retirement employees are accounted for on a cash basis where we believe that the full actuarial cost of this benefit should be accounted for in full by the pension fund with a corresponding debtor for the deferred payments profile. Our work to date has identified potential understatement of income of £0.1 million.</p> <p>Our testing has not identified any issues with the timings of contributions receivable to the fund.</p>
6 Membership disclosure	<p>Membership information including the number of current contributors, deferred beneficiaries and pensioners by employer is required to be disclosed.</p> <p>There is a risk that the membership database may not be accurate and up to date to support this disclosure.</p>	<p>We have tested a sample of membership data per the pension system (Altair) and agreed to supporting documentations to confirm the accuracy, existence, and completeness of membership numbers recorded in the financial statements.</p>	<p>Our testing did not identify any issues with membership data.</p>

## KEY AUDIT AND ACCOUNTING MATTERS

7	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
	Investment management expenses	<p>Local Government Pension Fund Accounts are required to disclose investment management expenses.</p> <p>Management expenses included in the pension fund accounts represents the fee for the service provided by and any performance related fees in relation to the fund manager. However, fund managers do not ordinarily provide information on these fees included in investing contributions. These fees are deducted when the investment is made by the fund manager and hence is included in the change in market value of investments.</p> <p>CIPFA has issued guidance on obtaining and separately presenting these additional charges in the fund accounts. This disclosure is a mandatory requirement for the 2017/18 financial statements.</p> <p>Management instructed fund managers to provide this information in the previous year. While most were able to provide this information, management will work with the remaining fund managers to provide this information in the current year.</p> <p>We consider there to be a risk in the presentation of investment management expenses in the fund accounts where these 'hidden' fees are not identified and separately reported.</p>	<p>We discussed with management whether fund managers provided the required information on other fees and the adjustments made to show these costs of fund manager expenses gross in the fund account.</p> <p>We reviewed the accounts to ensure that investment management expenses have been disclosed in accordance with CIPFA's guidance.</p> <p>For a sample of investment management expense we agreed amount to year-end confirmations received from the fund managers by the pension fund. We also recalculated the investment management fees to ensure that it is in line the fund managers' mandate.</p>	<p>Management was able to obtain details of total costs to comply with the CIPFA disclosure requirement. Seven of the ten pooled investment managers have signed up to the LGPS scheme advisory board's fee template for next year which is designed to ensure compliance with the code.</p> <p>Investment management expenses have been disclosed in accordance with CIPFA guidance.</p> <p>Our testing did not identify any issues with accuracy and existence of investment management expenses.</p>

## KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
8 Consideration of related party transactions	We consider if the disclosures in the financial statements concerning related party transactions are complete, accurate and in line with the requirements of the accounting standards.	<p>We reviewed the Financial investment Board declarations to ensure there are no potential related party transactions which have not been disclosed. We performed a company house search to ensure that there are no undeclared related parties by the board members.</p> <p>We reviewed the basis for apportioning costs between the pension fund and the Corporation and ensured that costs relating to the provision of key management personnel services are accurately disclosed.</p>	<p>Our testing has not identified any issues with the disclosure of related parties and related parties transactions.</p> <p>Our testing did not identify any issues regarding the basis of apportioning cost between the pension fund and the Corporation relating to the provision of key management personnel services and the associated disclosure.</p>
9 Benefits payable	<p>Benefits payable may not be correct based on accrued benefits of members or may not be in calculated in accordance with the scheme regulations.</p> <p>Payment to wrong or non-existent members will result in loss of assets and risk of reputational damage.</p>	<p>For members leaving the scheme and deferring their pension and members becoming entitled to receive pension during the year, we checked a sample of calculations of pension entitlement to ensure benefits entitlements are accurate.</p> <p>We have checked a sample of pensioners in receipt of pensions to underlying records to confirm the existence of the member.</p>	<p>We did not identify any issues regarding the accuracy and existence of pension benefits.</p> <p>Our test did not identify any issues regarding the existence of pensioners.</p>

## KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA		AUDIT FINDINGS
10	Membership records	We noted that the funds did not keep evidence from the pension system when membership data was submitted to the actuary for the triennial valuation. We recommend that screenshots or printouts from the system with time stamp be kept as audit trail.
11	Financial statements presentation and disclosures	We have suggested a number of changes to the financial statements, in addition to amendments noted earlier in our report, including £13.7m investment in emerging markets disclosed as investment in developed markets in the price risk sub-note under the sensitivity analysis note

### MATTERS REQUIRING ADDITIONAL CONSIDERATION

We comment below on other matters requiring additional consideration:

12	Fraud	<p>Whilst the Chamberlain and members have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud.</p> <p>Our audit procedures did not identify any fraud.</p> <p>We will seek confirmation from those charged with governance on whether you are aware of any known, suspected, or alleged frauds that we should be made aware of.</p>
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## OTHER REPORTING MATTERS

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

MATTER	COMMENT
Pension fund annual report	<p>We are required to review the pension fund annual report and report on the consistency of the pension fund financial statements within the annual report with the pension fund financial statements in the statement of accounts.</p> <p>Our review of the separate pension fund annual report is in progress and we will provide an oral update on the findings to the Audit and Risk Management Committee</p>



# CONTROL ENVIRONMENT

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Audit and Risk Committee.

As the purpose of the audit is for us to express an opinion on the Corporation's financial statements and use of resources, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

We note that the Corporation internal audit function has issued a number of observations and recommendations on the Corporation control environment during 2017/18. We have not repeated these recommendations in this report unless we consider them to highlight significant deficiencies in control which we are required to report to you.

We are not aware of any significant deficiencies in the Corporation's internal controls for the pension fund in 2017/18.

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# APPENDICES

# APPENDIX I: AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Audit and Risk Committee is required to consider. This includes audit differences that have been corrected by management; and those that remain uncorrected along with the effect that they have individually, and in aggregate, on the financial statements.

## ADJUSTED AUDIT DIFFERENCES

Our audit has not identified any material misstatements.

## UNADJUSTED AUDIT DIFFERENCES

There are two unadjusted audit differences identified by our audit that would increase the value of private equity fund valuations by £0.495 million following revised valuations received from Warburg and New Mountain fund managers after the initial valuations provided based on the December 2017 valuations.

We also found that pension strain costs income from employers for unreduced pension benefits for early retirement employees are accounted for on a cash basis where we believe that the full actuarial cost of this benefit should be accounted for in full by the pension fund with a corresponding debtor for the deferred payments profile. Our work to date has identified potential understatement of income of £0.1 million.

You consider these identified misstatements to be immaterial in the context of the financial statements taken as a whole. We concur with this judgement.

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## APPENDIX II: MATERIALITY

MATERIALITY - FINAL AND PLANNING		
	FINAL	PLANNING
Pension fund overall materiality	£9,880,000	£9,667,000
Fund account specific materiality	£1,950,000	£1,620,000
Clearly trivial threshold	£198,000	£193,000

Planning materiality for the pension fund financial statements was based on 1% of prior year net assets. Specific materiality was set of 5% of prior year contributions for the fund account.

We revised our materiality to reflect the actual amounts reported in the draft accounts.

## APPENDIX III: INDEPENDENCE

Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement leads are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity, or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2018.

Details of services, other than audit, provided by us to the Corporation during the period and up to the date of this report were provided in our Audit Plan. We understand that the provision of these services was approved by the Audit and Risk Committee in advance in accordance with the Corporation's policy on this matter.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Plan.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Pension Fund.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

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## APPENDIX IV: FEES SCHEDULE

	2017/18 FINAL £	2017/18 PLANNED £	2016//17 FINAL £	EXPLANATION FOR VARIANCES
Code audit fee	£21,000	£21,000	£21,000	N/A
TOTAL ASSURANCE SERVICES	£21,000	£21,000	£21,000	

# APPENDIX V: DRAFT LETTER OF REPRESENTATION

## TO BE TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP  
55 Baker Street  
London  
W1U 7EU

05 May 2018

Dear Sirs

### Financial statements of City of London Corporation Pension Fund for the year ended 31 March 2018

We confirm that the following representations given to you in connection with your audit of the pension fund's financial statements for the year ended 31 March 2018 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Corporation.

The Chamberlain has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and Statement of responsibilities of auditors and of audited bodies: local government issued by Public Sector Audit Appointments (PSAA), and in particular that the financial statements give a true and fair view of the financial transactions of the scheme and the amount and disposition at the end of the year of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and for making accurate representations to you.

We have fulfilled our responsibilities on behalf of the Corporation, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the pension fund's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Corporation have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and other meetings have been made available to you.

In relation to those laws and regulations which provide the legal framework within which the pension fund's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

There have been no events since the balance sheet date which either requires changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

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We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with international financial reporting standards and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving members of the Corporation, management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by members of the Corporation, employees, former employees, analysts, regulators or any other party.

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

We have no plans or intentions that may materially affect the carrying value and where relevant, the fair value measurement, or classification of assets or liabilities reflected in the financial statements.

The value at which investment assets are recorded in the net assets statement is the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuations, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the scheme. Any significant changes in those values since the year end date have been disclosed to you.

None of the assets of the scheme has been assigned, pledged or mortgaged.

We consider the following assumptions applied to calculate the actuarial present value of future pension benefits disclosed in the financial statements to be appropriate: RPI increase 3.3%, CPI increase 2.3%, Salary increase 3.8%, Pension increase 2.3%, Discount rate 2.55%, Mortality: retiring in 20 years - male 23.9 years and female 25.2 years / retiring today - male 25.3 years and female 26.7 years, and Commutation take up 50%.

We confirm that the above representations are made on the basis of enquiries of councillors, management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that as far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each member has taken all the steps that they ought to have taken as a member in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Dr Peter Kane  
Chamberlain

[Date]

Ian David Luder  
Chairman  
Signed on behalf of the Audit and Risk Management Committee

[Date]



## APPENDIX VI: AUDIT QUALITY

### **BDO is totally committed to audit quality**

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing all necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as a member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at [www.bdo.co.uk](http://www.bdo.co.uk)

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FOR MORE INFORMATION:

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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