Report to the Audit and Risk Management Committee

CITY OF LONDON CORPORATION
CITY FUND

Audit Completion Report: Year ended 31 March 2019

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CONTENTS

WELCOME
Introduction

Contents

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 2019, 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 our audit of the financial statements and use of resources comprising: 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 will issue a final Audit Completion Report once any outstanding work has been completed. We look forward to discussing these matters with you at the Audit and Risk Management Committee meeting 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.

This report contains matters which should properly be considered by the Corporation as a whole. We expect that the Audit and Risk Management Committee will refer such matters to the Court of Common Council, together with any recommendations, as it considers appropriate.

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.

Leigh Lloyd-Thomas
10 July 2019

Leigh Lloyd-Thomas
Engagement lead

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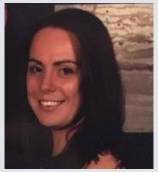

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and use of resources. 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. For more information on our respective responsibilities please see the appendices.

Contents

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 and use of resources of the Corporation's City Fund for the year ended 31 March 2019.

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.

Overview

Our audit work is substantially complete and subject to the successful resolution of outstanding matters, we anticipate issuing our opinion on the financial statements and use of resources for the year ended 31 March 2019 in line with the agreed timetable. However this requires us to find no issues with any of the remaining work. If any issues are found these will present a risk to the timetable as it currently stands.

Outstanding matters are listed in the appendices.

There were no significant changes to the planned audit approach and no additional significant audit risks have been identified.

No restrictions were placed on our work.

Audit report

We anticipate issuing an unmodified audit opinion on the financial statements and use of resources.

As in previous years, we are unable to sign the audit certificate until we have completed our work on the Whole of Government accounts return. This is due to be submitted by 13 September.

THE NUMBERS
Executive summary

Contents

Final overall materiality

Final materiality was determined based on a benchmark of 1% of income generating assets using the combined values of long term assets, managed investments and cash resources as a suitable value for materiality.

This was revised upwards from £32 million reported in the audit plan to £32.7 million based on the draft financial statements.

Specific materiality

Specific materiality for the Comprehensive Income and Expenditure Account was based on 1.5% of gross expenditure. We consider that a misstatement at a lower level through revenue expenditure would be material where this may impact on setting future council tax or HRA rent levels.

This was revised upwards from £6.3 million reported in the audit plan to £7.2 million, mainly as a result of the accounting treatment for the NDR Strategic Investment Fund which the Corporation hosts.

Material misstatements

The Strategic Investment Fund included in the London NDR pooling arrangement was amended from a net recognition basis (where the Corporation acted as an agent for this revenue) to a gross basis (acting as principal), increasing income by £59.6 million and expenditure by £46.8 million.

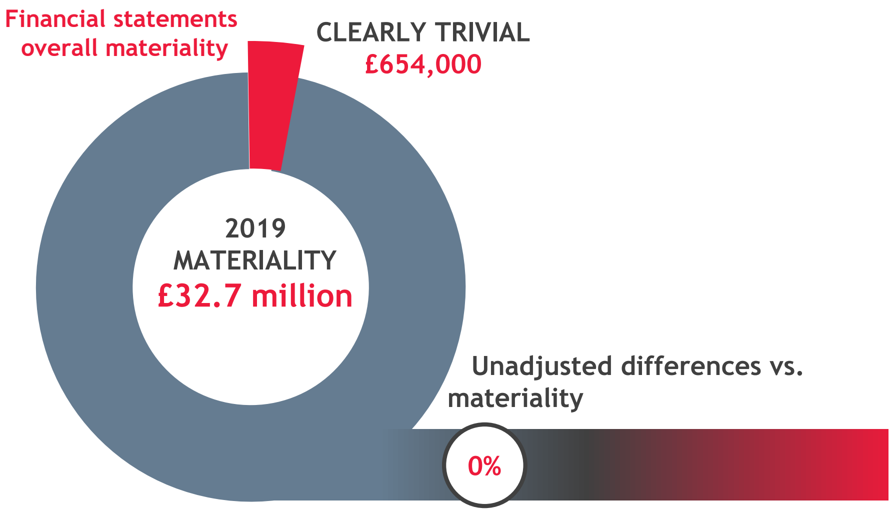
The financial statements were also amended to eliminate internal recharges between Committees of £11.5 million.

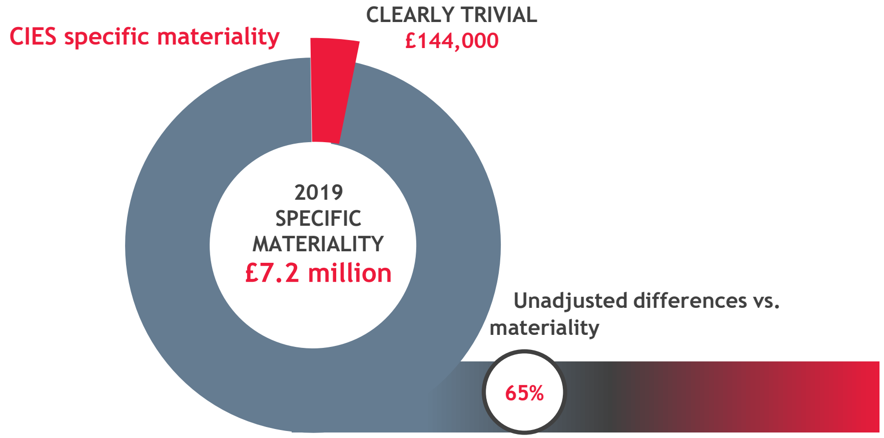
This has increased the surplus on provision of services by £12.8 million to £53.3 million.

Unadjusted audit differences

We identified current year audit adjustments that, if posted, would decrease the surplus on the provision of services by £191,000.

The underlying surplus for the year, adjusting for current year and brought forward errors impacting on the CIES, would reduce the 2018/19 reported surplus by £4.7 million to £35.8 million.





Financial reporting

- We have not identified any non-compliance with accounting policies or the CIPFA Code.
- No significant accounting policy changes have been identified impacting the current year. IFRS 9 financial instruments and IFRS 15 revenue from contracts with customers has not had a material impact.
- Going concern disclosures are deemed sufficient
- The Narrative Report and other information included in the Statement of Accounts with the financial statements is consistent with the financial statements and our knowledge acquired in the course of the audit.
- The Annual Governance Statement is not inconsistent or misleading with other information we are aware of.
- We will complete our review of the Whole of Government Accounts Data Collection Tool (DCT) after we have completed our audit of the financial statements. We plan to issue our opinion on the consistency of the DCT return with the audited financial statements before the National Audit Office's deadline of 13 September 2019.

Other matters that require discussion or confirmation

- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation.

Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Corporation in accordance with the Financial Reporting Council's Ethical Standard.

AUDIT RISKS OVERVIEW

Contents

As identified in our Audit Plan dated 28 February 2019 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant management estimates or judgement	Use of experts required	Error identified	Significant control findings	Discussion points / Letter of representation
Management override of controls	Significant	No	No	No	No	No
Revenue recognition	Significant	No	No	Our work is still ongoing in this area		
Property, plant & equipment and Investment property valuations	Significant	Yes	Yes	Our work is still ongoing in this area		
Pension liability valuation	Significant	Yes	Yes	Yes, to be adjusted [1]	No	Impact of McCloud liability to be provided by actuary and financial statements corrected
Classification and measurement of financial instruments (IFRS 9)	Normal	No	No	No	No	No
Accounting for leases	Normal	No	No	Our work is still ongoing in this area		

Areas requiring your attention

[1]Amendment arises as a result of the Government being refused leave to appeal and therefore this issue needs to be considered by an Employment Tribunal. This confirms the constructive obligation arising from the decision of the High Court in January 2019.

AUDIT RISKS OVERVIEW 2

Audit Risk	Risk Rating	Significant management estimates or judgement	Use of experts required	Error identified	Significant control findings	Discussion points / Letter of representation
Revenue from Contracts with Customers (IFRS 15)	Normal	No	No	Our work is still ongoing in this area		
Non-collection allowances for receivables and arrears	Normal	No	No	Our work is still ongoing in this area		
Related party transactions disclosure	Normal	No	No	Yes, adjusted	No	No
Pension contributions	Normal	Yes	Yes	No	No	No
NNDR Appeals provision	Normal	Yes	Yes	No	No	No
NNDR Pooling arrangements	Normal	Yes	Yes	Our work is still ongoing in this area		

Areas requiring your attention

Contents

MANAGEMENT OVERRIDE OF CONTROLS

ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud.

Significant risk	■
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.

Under auditing standards there is a presumed significant risk of management override of the system of internal controls.

Work performed

We carried out the following planned audit procedures:

- Reviewed and verified large and unusual journal entries made in the year, agreeing the journals to supporting documentation. We determined key risk characteristics to filter the population of journals. We used our IT team to assist with the journal extraction;
- Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.

Results

Our audit work on journals and estimates did not identify any issues.

We have not found any indication of management bias in accounting estimates. Our views on significant management estimates are set out in this report.

We have identified no significant or unusual transactions to date which we consider to be indicative of fraud in relation to management override of controls.

REVENUE RECOGNITION

Contents

Under auditing standards there is a presumption that income recognition presents a fraud risk.

Significant risk	■
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

Under auditing standards there is a presumption that there is a risk of fraud in revenue recognition. For the City Fund, we consider there to be a significant risk in respect of the existence (recognition) of revenue and capital grants that are subject to performance conditions before these may be recognised as revenue in the Comprehensive Income and Expenditure statement (CIES).

Work performed

We carried out the following planned audit procedures in response to the fraudulent revenue recognition risk:

- Tested a sample of grants included in income to documentation from grant paying bodies and check whether recognition criteria have been met.

We also tested for errors in revenue recognition:

- Tested a sample of fees and charges from material income streams and cut off testing to ensure income is recognised in the correct period; and
- Tested a sample of property rental income amounts and agreed to lease or rent agreements.

Results

Testing to date has not identified any issues.

Our work is still ongoing and we will provide an update to the Committee upon completion of this work.

PPE AND INVESTMENT PROPERTY

There is a risk over the valuation of land, buildings, dwellings and investment properties where valuations are based on significant assumptions.

Significant risk	■
Normal risk	
Significant management judgement	
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

Land, buildings and dwellings are reported at fair value / carrying value. Operational assets are valued at current value and surplus assets, assets held for sale and investment properties at fair value at the balance sheet date. The Corporation applies an annual revaluation process for investment properties and higher value operational assets to provide assurance that carrying values are not materially misstated; with the remainder of the non material value assets being revalued every five years. The Corporation has appointed three different valuers for City Fund for investment property and other operational land and buildings. Internal valuers also carry out some valuations.

Due to the significant value of the land, buildings, dwellings and investment properties and the high degree of estimation uncertainty, there is a risk over the valuation of these assets where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year-end.

Work performed

We carried out the following planned audit procedures:

- Reviewed the instructions provided to the valuers and reviewed the valuers' skills and expertise in order to determine if we can rely on the management expert;
- Confirmed that the basis of valuation for assets valued in year is appropriate based on their usage;
- Reviewed the accuracy and completeness of asset information provided to the valuers such as rental agreements and land plot / building sizes;
- Reviewed assumptions used by the valuers and movements against relevant indices for similar classes of assets and followed up valuation movements that appear unusual; and
- Discussed with our Real Estate Team the reasonableness of assumptions on benchmark and yields range for investment properties.

Results

Our review of instructions to the valuer including the valuer's skills and expertise did not identify any issues. We also confirmed basis of valuation for assets valued in year is appropriate and in line with Code.

Our work on the accuracy and completeness of asset information used as the basis of valuation is still on going and we will update the Committee upon completion of this work.

The results of our review of the assumptions and estimates used by the valuers for classes of assets is reported on the following pages.

PPE AND INVESTMENT PROPERTY 2

Significant estimate - Dwellings

Contents

Dwellings (£309.9 million)

< lower valuation > Higher valuation

Dwelling are held either within the General Fund or the HRA. HRA Dwellings are valued at open market value and adjusted to 30% of this valuation to reflect the discounted social rents charged to tenants. The adjustment reflects information provided by DCLG in 2016 for regional (London) differences between market rents and social rents. Other dwellings not within the HRA do not have this adjustment applied

Dwellings decreased in value by £22.4 million (-6.89%) in 2018/19. Dwellings were subject to valuation based on allocation of properties into relevant Beacons (for similar types of properties) and valued by reference to recent sales data for similar properties. Our benchmark report for house prices suggests an overall reduction in value for London properties of 1.9%. The City Surveyor has provided City of London price data suggesting an overall market reduction for house sales of 5.9% based on the Nationwide Index London Regional House Sales.

The commentary provided in relation to the HRA dwellings valuation provides details of the sales data used. Where possible, the City Surveyor has used other sales on City Fund Estates to support the valuations. Where there haven't been equivalent sales in the year, the City Surveyor has used other similar properties in the area or other City of London Estates.

Our work is still ongoing to verify the data for sales of equivalent dwellings and we will provide an update to the Committee upon completion of this work.

We note that the useful economic lives (UEL) of dwellings has been set at 125 years based on the usual term for leases granted. This is significantly longer than the UELs used by other local authorities where the main structure of a dwelling tends to range from 60 to 80 years.

The City Surveyor has stated that this is due to the robust structure and ongoing repairs, maintenance and cyclical replacement works programmes in place for these properties.

We consider this to be at the optimistic end for UELs but this would not result in a material difference in the annual depreciation charge had a UEL of 80 year been applied.

PPE AND INVESTMENT PROPERTY 3

Significant estimate – Other land and buildings

Contents

Other land and buildings (£499.4 million)

< lower valuation | > Higher valuation

Land and buildings have been valued using an appropriate basis of valuation (such as existing use, depreciated replacement cost or market value) depending on the nature of the asset.

Other land and buildings increased in value by £28.8 million (+6.11%) in 2018/19.

For depreciated replacement cost valuations, our benchmark report for rebuild costs from the national BCIS Tender Price Index suggests an increase in value for depreciated replacement cost (DRC) valuations of +3.6%, although this is subject to a higher degree of volatility and estimation from regional costs and other factors.

Our work is still ongoing to review the rebuild cost indices applied and we will provide an update to the Committee upon completion of this work.

PPE AND INVESTMENT PROPERTY 4

Significant estimate – Investment property

Contents

Investment property (£1,586.2 million)

< lower valuation | > Higher valuation

Investment properties are valued by reference to highest and best use market value.

Investment properties increased in value by £32.9 million (+2.16%) in 2018/19.

Our benchmark report for City office space suggests an increase in value of 2.3% (MSCI capital index) and +1.1% for City / Mid Town retail space.

To support the valuations, we agreed a sample of rental amounts used in the valuation to the lease or rent agreements and reviewed the data for a sample of properties where the movement in value appeared unusual compared to the general index movement.

Our work is still ongoing to review the explanations for movements outside of our general index expectations and we will provide an update to the Committee upon completion of this work.

PENSION LIABILITY VALUATION

There is a risk the membership data and cash flows used by the actuary in the roll-forward valuation may not be correct, or the valuation uses inappropriate assumptions to value the liability.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	■
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Note: The teachers pension scheme is accounted for on a defined contribution basis as employers are unable to identify their own share of the assets and liabilities.

Risk description

The City Fund net pension liability comprises 51% of the Corporation's overall net liability and includes its share of the market value of assets held in the pension fund and the estimated future liability to pay pensions. An actuarial estimate of the liability is calculated by an independent firm of actuaries. The estimate is based on the roll forward of membership data from the 2016 triennial valuation exercise, updated at 31 March 2019 for factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.

The City Fund also reports the pension liability for the City Police pension scheme, based on a roll forward of the membership data from the 2017 valuation exercise.

There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.

Work performed

We carried out the following planned audit procedures:

- Assessed the qualifications and competence of the actuary;
- Reviewed the controls for providing accurate membership data to the actuary;
- Checked whether any significant changes in membership data have been communicated to the actuary;
- Reviewed the disclosures in City Fund relating to the basis of apportioning the net pension liability; and
- Reviewed the reasonableness of the assumptions used in the calculation against other actuaries and other observable data.

Results

We have agreed the disclosures to the information provided by the actuary and identified no issues.

Our review of the controls to ensure data provided to the actuary for the roll forward valuation at 31 March 2019 is complete and accurate did not identify any issues. We have identified differences in the cash flow information sent to the actuary as at month 10 plus two months estimates to the actual final figures for the year. We did not consider these to be significant differences.

Management confirmed there has been no significant changes in the membership data.

The allocation of the Corporation's share of LGPS assets and liabilities as 51% to City Fund, 47% City's Cash and 2% Bridge House Estates is reasonable based on the proportion of payroll costs for each Fund.

PENSION LIABILITY VALUATION 2

Significant estimate – LGPS pension liabilities

Contents

City fund pension liabilities (£805 million)

< lower valuation > Higher valuation

The City Fund's share of the LGPS pension liability has increased from £761.7 million to £804.8 million and it's share of the scheme assets increased from £459.3 million to £494.4 million. The net deficit increased by £8.2 million to £310.4 million. The increased liability includes £36.9 million arising from changes to financial assumptions including annual salaries increases of 3.9% (previously 3.8%), annual pension increases of 2.4% (previously 2.3%), and a change in the rate of discounting scheme liabilities to 2.4% (previously 2.55%). It also includes a gain on demographic assumptions of £21.3 million arising from reduced mortality assumptions of approximately 0.6 years as increases in life expectancy have stalled in recent years.

We have compared the key financial and demographic assumptions used to an acceptable range provided by a consulting actuary commissioned for local public auditors by the NAO.

	Actual used	Acceptable range	Comments
Financials:			
- RPI increase	3.4%	3.40 - 3.45%	Reasonable
- CPI increase	2.4%	2.40 - 2.45%	Reasonable
- Salary increase	3.9%	3.10 – 4.35%	Reasonable (CPI +0% to 2020 and then CPI +1.5%)
- Pension increase	2.4%	2.40 - 2.45%	Reasonable
- Discount rate	2.4%	2.35- 2.45%	Reasonable
Commutation:	50%	50%	Reasonable
Mortality:			
- Male current	24.5 years	22.4 - 25.0	Reasonable
- Female current	26.1 years	25.0 - 26.6	Reasonable
- Male retired	23.2 years	20.6 - 23.4	Reasonable
- Female retired	24.6 years	23.2 - 24.8	Reasonable
Mortality gains	CMI 2018 (+1.25% improvement rate)		Reasonable

We consider that the assumptions and methodology used by the actuary are appropriate, and will result in an estimate of the net pension liability which falls within a reasonable range.

We note that the consulting actuary has stated that the assumptions used by Barnett Waddingham do tend to produce slightly lower LGPS liabilities calculations than the other actuaries, and the relative strength of assumptions compared to the average used by others could result in a liability being at 98.2% based on average of the assumptions used by all actuaries.

PENSION LIABILITY VALUATION 3

Significant estimate – Police pension liabilities

Contents

Police pension liabilities (£986 million)

< lower valuation | > Higher valuation

The police pension liability has increased from £955.9 million to £985.8 million. The increased liability includes £45.7 million arising from changes to financial assumptions including annual salaries increases of 3.9% (previously 3.8%), annual pension increases of 2.4% (previously 2.3%), and a change in the rate of discounting scheme liabilities to 2.4% (previously 2.55%). It also includes a gain on demographic assumptions of £24.9 million arising from reduced mortality assumptions of approximately 0.6 years as increases in life expectancy have stalled in recent years.

We have compared the key financial and demographic assumptions used to an acceptable range provided by a consulting actuary commissioned for local public auditors by the NAO.

	Actual used	Acceptable range	Comments
Financials:			
- RPI increase	3.4%	3.40 - 3.45%	Reasonable
- CPI increase	2.4%	2.40 - 2.45%	Reasonable
- Salary increase	3.9%	3.90 – 4.65%	Reasonable (CPI +0% to 2020 and then CPI +1.5% to 2.2%)
- Pension increase	2.4%	2.40 - 2.45%	Reasonable
- Discount rate	2.4%	2.35- 2.45%	Reasonable
Commutation:	50%	50 - 60%	Reasonable (60% 1987 old scheme, 60% 2006 new scheme, 60% 2015 scheme)
Mortality:			
- Male current	22.5 years	22.4 - 25.0	Reasonable
- Female current	25.0 years	25.0 - 26.6	Reasonable
- Male retired	21.1 years	20.6 - 23.4	Reasonable
- Female retired	23.5 years	23.2 - 24.8	Reasonable
Mortality gains	CMI 2018 (+1.25% improvement rate)		Reasonable

We consider that the assumptions and methodology used by the actuary are appropriate, and will result in an estimate of the pension liability which falls within a reasonable range.

We note that the consulting actuary has stated that the assumptions used by Barnett Waddingham do tend to produce slightly lower police pension liabilities calculations than the other actuaries, and the relative strength of assumptions compared to the average used by others could result in a liability being at 98.6% based on average of the assumptions used by all actuaries.

PENSION LIABILITY VALUATION 4

Significant estimate – McCloud impact

Contents

McCloud age discrimination

Following the ruling on age discrimination in the McCloud case, where members approaching retirement age received protected benefits moving to the career average relevant earnings scheme from the final salary scheme but employees more than 10 years from retirement did not received this underpin of benefits, Government will have to remedy the discrimination in the LGPS and police pension schemes.

For the LGPS, the Government Actuary Department has undertaken an LGPS-wide impact assessment and a worse case scenario suggests that the liability could increase by up to 3.2% for active members where the remedy would be for all staff to receive the underpin, and using a model with an average member age of 46 and salaries increasing at +1.5% above CPI.

For the police pension scheme, the Government Actuary Department has undertaken a review for a number of police pension schemes and a worse case scenario suggests that the liability could increase by up to 5.4% of the total liability where the remedy would be for all police to receive the underpin, and using a model with an average member age of 41 and salaries increasing at +2.0% above CPI.

The Corporation has requested an updated valuation of the LGPS whole fund liability (for disclosure in the pension fund accounts), along with the impact on the Corporation's accounts as a scheme employer, to take account of the impact of this ruling. It has also requested an update valuation of the police pension liabilities.

These updated valuations have not yet been provided by the actuary.

We will review the actuary's assumptions and calculation of the best estimate of potential additional costs and scheme liabilities arising from the McCloud judgement once the actuary's reports are received.

We will provide an update to the Committee upon completion of this work.

FINANCIAL INSTRUMENTS

Contents

There is a risk that financial instruments are not classified and measured in accordance with the new financial reporting standard IFRS 9.

Significant risk	
Normal risk	■
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	■
Significant Control Findings	
Letter of Representation point	

Risk description

IFRS 9 financial instruments has been implemented for 2018/19 and requires all relevant financial instrument assets (principally investments and loans provided to others) and liabilities (principally borrowing) to be categorised under new criteria based on their business model and contractual cash flows that will determine their classification and basis of valuation.

CIPFA has published guidance to assist with the required review and any restatement required where the classification needs to be amended. City Fund will need to undertake a review of all relevant assets and liabilities to determine the appropriate classification in the financial statements.

Work performed

We carried out the following planned audit procedures:

- Reviewed the work performed by the Corporation, to assess the new classification of financial instruments in accordance with the guidance; and
- Reviewed the disclosures required relating to the adoption of the new accounting standard.

Results

City Fund has reclassified its financial assets at 1 April 2018:

- £471.5 million held as loans and receivables, including fixed term deposits, call account and notice accounts, have been classified at held at amortised cost (31 March 2019 £383.9 million);
- Financial assets held as available for sale £214.5 million, comprising money market funds, are classified have been classified as fair value through profit and loss (31 March 2019 £304.6 million); and
- The unquoted equity instrument of £0.2 million for the investment in Municipal Bonds Agency plc has been designated as fair value through other comprehensive income (disposed of by 31 March 2019).

We have reviewed the classification of these financial assets agree with the classification determined by management.

We have reviewed the disclosures relating to financial instruments and consider that they are appropriate subject to a minor amendment which is being made to the revised accounts.

ACCOUNTING FOR LEASES

Contents

There is a risk leases may not be correctly accounted for.

Significant risk
Normal risk
Significant management judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant Control Findings
Letter of Representation point

Risk description

City Fund has a significant number of leases where it is a lessor and has received lease premiums in recent years. The premiums and rents are apportioned between the land element, which will ordinarily be an operating lease recognised as revenue, and the building element which is likely to be a finance lease and recorded as a capital disposal. The element of the premium relating to the land is treated as deferred income and released to revenue over the term of the lease.

There is also likely to be complex calculations relating to the recognition of rental income, rent free calculations, lease extension/ lease premiums, dilapidations and the relevant disclosures

Work performed

We carried out the following planned audit procedures:

- We tested a sample of lease and rent income, obtained the relevant agreements, calculated the expected income and agreed this to the accounts, including any amounts of deferred income, rent free calculations, lease extension/ lease premiums, dilapidations and the relevant disclosures; and
- Checked the disclosures to ensure that these are in line with the relevant accounting standard.

Results

City Fund has not entered into any new lease premium arrangements this year.

Our testing of lease and rent income on commercial / investment properties found no issues.

The disclosures remain consistent with the prior year.

REVENUE FROM CONTRACTS

There is a risk that revenue from contracts with customers is not measured in accordance with the new financial reporting standard IFRS 15.

- Significant risk
- Normal risk
- Significant management judgement
- Use of experts
- Unadjusted error
- Adjusted error
- Additional disclosure required
- Significant Control Findings
- Letter of Representation point

Risk description

IFRS 15 revenue from contracts with customers has been implemented for 2018/19 and requires all relevant revenue streams to be reviewed under a new '5-step model' to determine the appropriate point at which revenue can be recognised. CIPFA has published guidance to assist with the required review including what revenue falls within IFRS 15 or IPSAS 23 revenue from non-exchange transactions, and the process for determining the correct recognition points and amounts for revenue.

City Fund will need to undertake a review of all relevant revenue streams to determine the appropriate recognition date and amounts in the financial statements.

Work performed

We carried out the following planned audit procedures:

- Reviewed the work performed by the City Fund, to assess the impact of the new '5-step model' on revenue streams for the City Fund; and
- Reviewed the disclosures required relating to the adoption of the new accounting standard.

Results

Management's review found that there are no revenue streams where the revenue recognition point would change under the new financial reporting standard.

We reviewed the work performed by management and we found no revenue streams where we believe IFRS 15 would require restatement or change to the required accounting for revenue.

We reviewed the disclosures made in the accounts and consider that these comply with the new accounting standard.

NON-COLLECTION ALLOWANCES

There is a risk over the valuation of the allowance for the non-collection of arrears and debt.

- Significant risk
- Normal risk
- Significant management judgement
- Use of experts
- Unadjusted error
- Adjusted error
- Additional disclosure required
- Significant Control Findings
- Letter of Representation point

Risk description

The City Fund recognises an allowance for the non-collection of receivables primarily in respect of council tax, NDR, housing benefit overpayments, housing rents and parking charges. Management assesses each type of receivable separately in determining how much to allow for non-collection.

There is a risk over the valuation of this allowance if incorrect assumptions or source data are used, or an inappropriate methodology is applied. The implementation of IFRS 9 financial instruments has also changed the basis for estimating losses for non-collection of receivables and debt from an incurred loss model to an expected credit loss model that takes in account assumptions about the future credit losses.

However, this includes only receivables and debt deemed to be financial instruments and excludes receivables under statute such as council tax, NDR and parking charges that CIPFA has stated will continue to be accounted for on an incurred loss model.

Work performed

We carried out the following planned audit procedures:

- Reviewed the provision model for significant income streams and receivables and debt balances to assess whether it appropriately reflects historical collection rates by age of debt or arrears;
- Checked that information has been accurately extracted from systems to support the modelling of collection rates by age; and
- Confirmed that City Fund has applied an expected credit loss model for receivables classified as financial instruments.

Results

Work on this area is still ongoing and we will provide an update to the Committee upon completion of this work.

RELATED PARTY TRANSACTIONS

Contents

There is a risk that related party disclosures are not complete and accurate.

Significant risk	
Normal risk	■
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	■
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud. Our audit approach includes the consideration of related party transactions throughout the audit including making enquiries of management and the Audit and Risk Management Committee.

There is a risk that related party disclosures are not complete, accurate or properly disclosed.

Work performed

We carried out the following planned audit procedures:

- Reviewed management processes and controls to identify and disclose related party transactions;
- Reviewed relevant information concerning any such identified transactions;
- Discussed with management and reviewed members' and management declarations to ensure that there are no potential related party transactions which have not been disclosed; and
- Undertook Companies House searches for potential undisclosed interests.

Results

Six minor issues found with the related parties disclosure and these have been amended in the revised accounts. It was noted that the Corporation includes directors in common within the note but these are not considered to be a related party as per IAS 24.

PENSION CONTRIBUTIONS

There is a risk that the Corporation or other admitted and scheduled employers may not be calculating contributions correctly or paying over the full amount due to the pension fund.

Significant risk	
Normal risk	■
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

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.

There is a risk that the Corporation or other admitted and scheduled employers may not be calculating contributions correctly or paying over the full amount due to the pension fund.

Work performed

We carried out the following planned audit procedures:

- Tested amount payable by employers / receivable by the pension fund for normal contributions including checking to employer payroll records;
- Confirmed that income is recognised in the correct accounting period where the employer is making payments in the following month;
- Tested pension strain contributions due from employers;
- Agreed total contributions payable by the Corporation (as employer) to the amounts received in the pension fund; and
- Reviewed contributions income in accordance with the Actuary's Rates and Adjustments Certificate, including specified increased rates to cover the minimum contributions to be paid as set out in the Certificate.

Results

Our testing has not identified any issues with the calculation of normal contributions payable by the Corporation. We identified in the prior year that pension strain costs payable for unreduced pension benefits for early retirement of employees was accounted for on a cash basis. Management has confirmed that this is now accounted for on an accrual basis when the capital cost is due.

NDR APPEALS PROVISION

There is a risk in relation to the estimation of the provision due to potential incomplete data and assumptions used in calculating the likely success rate of appeals.

- Significant risk
- Normal risk
- Significant management judgement
- Use of experts
- Unadjusted error
- Adjusted error
- Additional disclosure required
- Significant Control Findings
- Letter of Representation point

Risk description

City Fund as a billing authority is required to estimate the value of potential refund of business rates arising from rate appeals, including backdated appeals. The Valuation Office Agency (VOA) provides information regarding the appeals currently being assessed and settled.

Management use this information to calculate a success rate for specific business types for settled appeals, and applies an appropriate rate to each type of business appeal still outstanding at year end

Work performed

We carried out the following planned audit procedures:

- Reviewed of the accuracy of the appeals data to confirm that it is complete based on the VOA list, and that settled appeals are removed; and
- Reviewed of the assumptions used in the preparation of the estimate including the historic success rates to confirm if the rates applied are appropriate.

Results

Our audit work found that the methodology for calculation of the appeals provision was satisfactory and was based on accurate information provided by the VOA.

Our review of the reasonableness of assumptions used to estimate the likely success of appeals and expected refunds is noted on the following page.

NDR APPEALS PROVISION 2

Significant estimate – Rateable value appeals provision to refund business rates

Contents

NDR appeals provision 2010 rating list (£39.7 million collection fund and £24.1 million City Fund share)

< lower valuation | > Higher valuation

Management has applied appeal success rates to different types of appeals on the 2010 rating list based on the amounts repaid on appeal in recent years. This takes into account both the success of a rateable value reduction appeal and for the number of years the appeal is backdated.

Success rates for the 2010 valuations range from 0.0% for appeals with where the has been an omission in the list to 55% for appeals where the property should be shown as one or more difference assessments.

These assumptions are reasonable based on historic settlements and refunds for the 2010 rating list appeals for estimating the provision for the future refunds from successful appeal.

NDR appeals provision 2017 rating list (£73.1 million collection fund and £48.1 million City Fund share)

< lower valuation | > Higher valuation

The basis of appealing business rates and rateable values changed with the introduction of the 2017 rating list and now has a three stage process: Check – Challenge – Appeal. Government provided an analysis last year of the total national loss of business rates from appeals over the period of the 2010 rating list and reported that the total loss was 4.7%. Given the nature of backdating appeals to the first year of a new rating list, this results in higher refunds and losses towards the end of the period of the rating list compared to the initial years where fewer years are subject to backdating. In the absence of better information, local authorities were advised to make an appeals provision each year of 4.7% of NDR billed.

We have found that the number of appeals nationally under the 2017 rating list is significantly lower than in the early years of the 2010 rating list and it may be that many more rateable value adjustments are now processed through the Check – Challenge – Appeal process through revision to the list by the VAO. There are still no settled appeals for the 2017 rating list for the Corporation and management has continued to apply the suggested 4.7% of billed amounts each year in the absence of better information.

We consider that this is an acceptable basis given the lack of settled appeals on which to base an estimate. However, some commentators have expressed a view that after two years with many fewer appeals, that the application of the total losses under the 2010 rating list may have overstated the expected appeals losses under the 2017 rating list.

Overall we consider that the approach taken to the calculation of NDR provision is reasonable, although may tend towards potentially overstating the amount of business rate income that may be appealed.

NDR POOLING

There is a risk that the arrangements put in place for the London-wide NDR Pooling and Strategic Investment Fund are not appropriately disclosed.

Significant risk	
Normal risk	■
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	■
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

City Fund acts as host (as an agent) for the London-wide NDR Pool and is responsible for calculating how much of the total NDR raised in London should be retained by each authority and how much is due to the GLA. City Fund is also responsible for the Strategic Investment Fund which pays out a part of the fund surplus to various projects within London. There is a risk that the amounts to be paid to other bodies or retained by each billing authority may be incorrect due to the complexity of the aggregation of the 33 NDR submissions across London.

There is a risk that the presentation and disclosure of the Strategic Investment Fund in the City Fund financial statements may not appropriately reflect the arrangement where it is not clear whether it acts as a principal or agent for these amounts.

Work performed

We carried out the following planned audit procedures:

- Reviewed the arrangements for calculating the appropriate share of retained NDR surplus for each London billing authority and what assurances and controls are put in place to confirm that the information provided by each is complete and accurate; and
- Reviewed the appropriate presentation for the retained Strategic Investment Fund monies, where City Fund act as host and GLA provide cash management, to reflect the nature of the arrangement either as principal or agent.

Results

Due to the complexity of the model used to calculate the NDR pooling figures across the 33 billing authorities and the distributions to each member of the pool, we have requested that the BDO modelling team undertake a review of this model to provide assurance that the calculations and formula are operating as intended.

This review is on progress and we will provide an update to the Committee upon completion of this work.

From discussions with management and review of the accounting considerations for the Strategic investment Fund, management has amended its accounting treatment from recognising this as an agent, where it recorded both the income and grants paid to approved projects in the balance sheet, to being the principal for this income and expenditure. This is on the basis that the Corporation has overall control over the awarding of grant funding and monitoring this expenditure. This has resulted in an amendment to the financial statements to recognise additional income of £59.6 million and expenditure of £46.8 million in the CIES. The excess of funds not yet awarded is held in an earmarked reserve.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

Contents

Fraud

Whilst the directors 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. Our audit procedures did not identify any fraud. We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Plan on 12 March 2019.

Laws and regulations

We have made enquiries of management regarding compliance with laws and regulations and reviewed correspondence with the relevant authorities.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

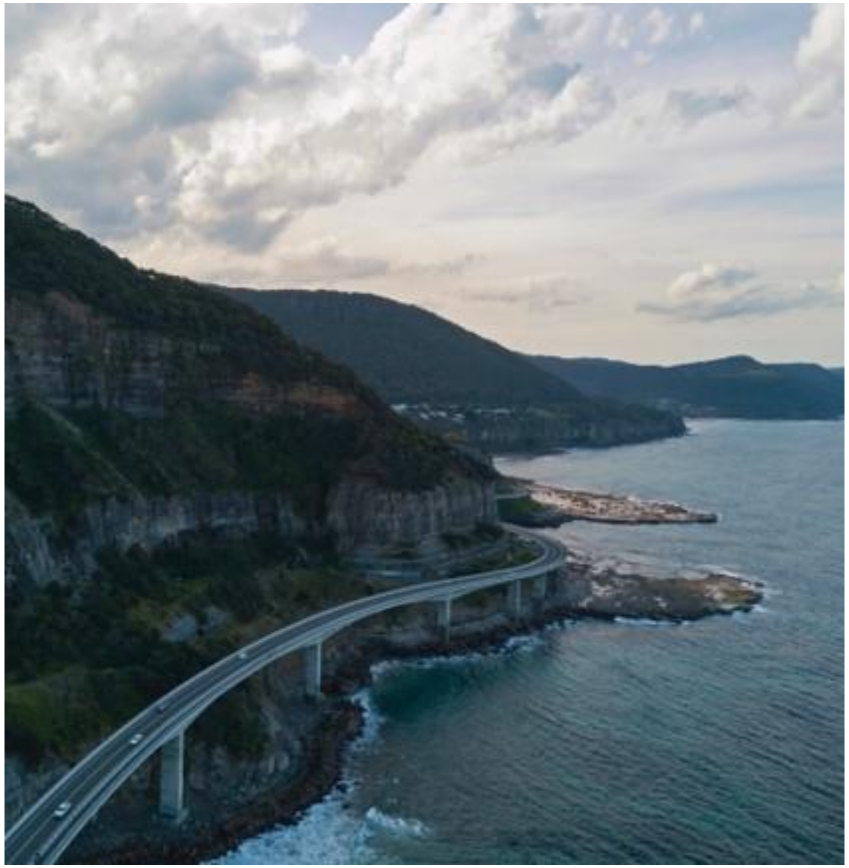
Internal audit

We reviewed the audit work of the Corporation's internal audit function to assist our risk scoping at the planning stage.

UNADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

Contents



We are required to bring to your attention unadjusted differences and we request that you correct them.

There is one unadjusted audit difference in the current year identified by our audit work which would decrease the surplus on the provision of services (and the City Fund balance) and decrease net assets by £0.190 million if adjusted.

You consider the differences to be immaterial in the context of the financial statements as a whole.

The underlying surplus for the year, adjusting for current year and brought forward errors impacting on the CIES, would reduce the 2018/19 reported surplus by £4.7 million to £35.8 million.

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

		Income and expenditure		Statement of Financial Position	
Unadjusted audit differences	NET DR/(CR) £m	DR £m	(CR) £m	DR £m	(CR) £m
Surplus on the provision of services before unadjusted audit differences	(40.500)				
1: Impact of brought forward unadjusted errors – expenditure overstated in 2017/18					
DR Expenditure	3.310	3.310			
CR General fund reserve					(3.310)
2: Impact of brought forward unadjusted errors - NDR appeals overstated					
DR NNDR appeals provision costs	1.160	1.160			
CR NNDR appeals provision					(1.160)
Impact on brought forward errors on current year surplus on the provision of services	4.470				
3: Balancing item in NDR Income					
DR Business Rates Premium income	0.190	0.190			
CR Receipts in advance					(0.190)
Total current year unadjusted audit differences	0.190				
Total unadjusted audit differences	4.660				
Surplus on the provision of services if above errors adjusted	(35.840)				

UNADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

We are required to bring to your attention other financial reporting matters that the Audit and Risk Management Committee is required to consider.

We have no matters to bring to your attention

ADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

Contents

There are 2 audit differences identified by our audit work to date that were adjusted by management.

This increased draft surplus on the provision of services and increased net assets by £12.8.

There was no impact on the general fund balance.

The grossing up of recharges does not impact on the surplus n the provision of services.

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Statement of Financial Position	
Adjusted audit differences	NET DR/(CR) £m	DR £m	(CR) £m	DR £m	(CR) £m
Surplus on the provision of services before adjustments	(40.5)				
1: Change in SIP from net to gross accounting					
DR Expenditure		46.8			
DR Earmarked reserve				12.8	
CR Income			(59.6)		
2: Adjustment for recharges incorrectly accounted for					
DR Income		11.5			
CR Expenditure			(11.5)		
Total adjusted audit differences	(12.8)				
Adjusted surplus on the provision of services	(53.3)			12.8	

ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

Contents

We are required to bring to your attention other financial reporting matters that the Audit and Risk Management Committee is required to consider.

The following adjusted disclosure matters were noted:

- A number of minor narrative amendments have been made to the disclosures within the accounts, however these are not considered to be significant.

REPORTING ON OTHER INFORMATION

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

Matter	Comment
We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	We are satisfied that the other information in the Narrative Report is consistent with the financial statements and our knowledge
We are required to report by exception if the Annual Governance Statement is inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Corporation's review of effectiveness and our knowledge of the Corporation.	We have no matters to report in relation to the consistency of the Annual Governance Statement with the financial statements and our knowledge.

WHOLE OF GOVERNMENT ACCOUNTS

Matter	Comment
For Whole of Government Accounts (WGA) component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure we are required to perform tests with regard to the Data Collection Tool (DCT) return prepared by the Corporation for use by the Ministry for Housing, Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level. This work requires checking the consistency of the DCT return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.	Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 28 June 2019. The Corporation did not meet this deadline. We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of the Corporation’s financial statements. We are planning to issue our opinion on the consistency of the DCT return with the audited financial statements before the National Audit Office’s 13 September 2019 deadline.

AUDIT RISKS OVERVIEW

Contents

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money) and report to you on an 'except for' basis. This is based on the following reporting criterion:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

There are three sub criteria that we consider as part of our overall risk assessment:

- Sustainable resource deployment
- Informed decision making
- Working with partners and other third parties.

As identified in our Audit Plan we assessed the following matters as being the most significant risks regarding use of resources.

Audit Risk	Criterion	Risk Rating	Issues identified that impact on conclusion
Police financial management	Sustainable resource deployment	Significant	Work is still ongoing
Sustainable finances	Sustainable resource deployment	Normal	Work is still ongoing

Areas requiring your attention

POLICE FINANCIAL MANAGEMENT

Contents

There is a need for City Police to develop an MTFS with significant savings to ensure that it can continue to deliver the level of policing required in the City.

Significant risk	■
Normal risk	
Sustainable resource deployment	■
Informed decision making	
Working with partners and other third parties	
Significant control findings	

Risk description

City of London Police has been under financial pressure for a number of years with a recurrent underlying budget deficit between £4 million to £5 million a year. In 2017/18 it initially reported a surplus of £3.5 million that was later found to be cost slippage and not a surplus. Issues with budget monitoring have been identified in 2018/19 and at Month 9 forecast an overspend of £2.3 million. This included £5.8 million increase in pay costs compared to the original budget as a result of the budget significantly underestimating the costs of employing the planned workforce numbers, combined with spend on overtime and 'agency' resourcing. The increase has been largely masked until recently by an erroneous double inclusion of £4.5 million National & International City Grant in income as well as funding when loading the 2018/19 budget onto the system.

Work performed

We carried out the following planned audit procedures:

- Reviewed the assumptions used in the Medium Term Financial Strategy and assess the reasonableness of the cost pressures, the amount of Government grant reductions applied and increases in the business premium;
- Reviewed the delivery of the budgeted savings in 2018/19, plans to reduce costs from 2019/20, and updated strategies and transformation programmes to close the budget gap after 2019/20;
- Reviewed work undertaken by the Her Majesty's Inspectorate of Constabulary; and
- Reviewed work undertaken by internal audit relating to the financial management.

Results

City Police have reported a breakeven position for 2018/19 against an expected deficit budget. This has been achieved by the use of tactical mitigations, additional business rates premium income being allocated and the use of reserves to balance the budget. A balanced budget has been set for 2019/20 that has been achieved by increasing the City Business Premium and receiving additional Home Office Grant. For 2020/21 there is currently a £6.5 million budget gap to be addressed through a refreshed MTFS.

HMIC has carried out a PEEL review for 2018/19 and have stated that "the extent to which the force operates efficiently and sustainably is good." HMIC have also stated that further work is "needed to address the budget gap over the rest of the medium-term financial plan".

We have a meeting arranged with the Police Chief Finance Officer to discuss the MTFS and plans to close the funding gap. We will provide an update to the Committee upon completion of this work.

SUSTAINABLE FINANCES

The Corporation will need to deliver planned savings to maintain financial sustainability in the medium term and there is a risk that these savings may not be delivered.

Significant risk	
Normal risk	■
Sustainable resource deployment	
Informed decision making	■
Working with partners and other third parties	
Significant control findings	

Risk description

The City Fund has not been subject to the same level of financial pressures compared to other authorities. However, at Month 9 there is a forecast overspend of £2.5 million mainly relating to the deficit on the Police budget. For 2019/20 City Fund is budgeting a £20 million surplus and this is being seen as a holding year. From 2020/21 the financial pressures are expected to increase and currently the City Fund is expecting to budget for a deficit position.

In response to this the Corporation is planning to undertake a fundamental review of income and expenditure to inform its future planning.

Work performed

We carried out the following planned audit procedures:

- Reviewed the assumptions used in the Medium Term Financial Strategy and assess the reasonableness of the cost pressures, the level of Government grant reductions applied and increases in business rates and council tax;
- Reviewed the delivery of the budgeted savings in 2018/19 and the plans to reduce costs from 2019/20; and
- Reviewed the strategies and any transformation programmes to close any budget gap after 2020/21.

Results

City Fund has achieved an surplus on the provision of services this year of £53.3 million, before funding £47.6 million capital expenditure from revenue reserves. As noted in the previous section police have achieved a breakeven position.

City Fund are in the process of starting a fundamental review to address the budget gap from 2020/21 onwards and the first paper is due to go to the Resources and Policy committee at the end of July. At the time of drafting this report this has not yet been published.

The finances of the City Fund remain healthy and management has revisited its strategy to fund a significant element of the capital programme from revenue balances, and to fund this from borrowing over the medium term, to maintain these healthy levels of reserves and balances.

SIGNIFICANT DEFICIENCIES

Contents

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 Management 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 do not have any such deficiencies to report to you at this time, although our audit work is still ongoing.

FOLLOW UP OF PRIOR YEAR DEFICIENCIES

Contents

Area	Issue and impact	Original recommendation	Progress	Management response
NNDR Appeals provision 2017 valuation	The provision on the 2017 valuation appeals received to date has been made at 100% due to the Authority not having any settled claims on the 2017 valuation.	The Corporation should review any settlement data available to ensure that the provision is based on expected settlements rather than a worse-case scenario.	In 2018/19, the provision for 2017 rating list is based on 4.7% of loss income and a management estimate. Going forward to 2019/20, the Corporation will be using Inform, a specialist in business rate retention scheme, to calculate its provision for appeal.	This area will continue to be reviewed utilising the latest information available and external support via Inform to validated the City Corporation's approach to the 2017 appeals provision calculation.
City Police financial planning	Internal audit and the Chamberlain's Department have identified weaknesses in the Budget setting and monitoring process in relation to City of London Police.	Management should ensure that it carries out the proposed review of the Police MTFS and budget setting and monitoring process as soon as possible so that a confirmed position is available to enable plans to be drawn up to assist the force in moving forward on a solid financial footing.	From our discussions with the Chamberlains department staff at City of London police budget monitoring and financial management has improved compared to the prior year. A balanced budget has been set for 2019/20 and City Police have started to refresh their MTFS to address the budget gaps in 2020/21 onwards.	The City Corporation and City of London Police are working closely together to address the financial challenges outlined in the MTFS and build on the improvements made in financial management.

OVERVIEW

Opinion on financial statements

We anticipate issuing an unmodified opinion on the financial statements.

There are no matters that we wish to draw attention to by way of ‘emphasis of matter’.

Conclusion on use of resources

We are proposing to issue an unqualified use of resources conclusion.

Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting or the Corporation of London and City Fund’s ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

There are no material uncertainties in relation to going concern disclosed in the financial statements of which we are aware that we need to draw attention to in our report.

Other information

We have not identified any material misstatements that would need to be referred to in our report.

Annual Governance Statement

We have no matters to report in relation to the Annual Governance Statement as it is not inconsistent or misleading with other information we are aware of.

Audit certificate

We will issue the Audit certificate on completion of our work on the WGA return by the deadline of 13 September.

INDEPENDENCE

Contents

Under ISAs (UK) and the FRC's Ethical Standard we are required, as auditors, to confirm our 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 partners 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 2019.

Details of services, other than audit, provided by us to the Corporation during the period and up to the date of this report are set out in the appendices and were provided in our Audit Plan. We understand that the provision of these services was approved by the Audit and Risk Management Committee in advance in accordance with the Corporations 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 relationships or threats that may reasonably be thought to bear on our objectivity and independence.

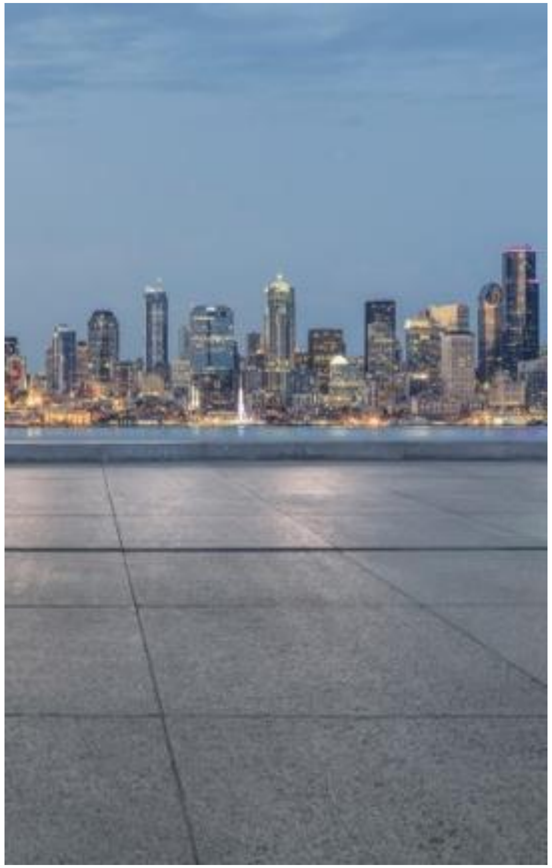
We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Corporation .

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

FEES

Contents

Fees summary		2018/19 Actual £	2018/19 Planned £	2017/18 Actual £
Audit fee				
• Code audit fee		TBC	80,000	106,275
Fees for reporting on government grants:				
• Housing benefits subsidy claim		Work not started	10,000	15,918
• Pooling of housing capital receipts return		Work not started	3,000	2,340
• Teachers' pensions return		Work not started	3,000	4,500
Total fees		**TBC**		**129,033**



Additional audit costs have been incurred in relation to the Corporation hosting the London Business Rates Pool and due to the City Fund becoming a Major Local Audit under the Local Audit and Accountability Act 2014. Additional fees will be discussed with the Chamberlains Department and we will report back once finalised.

Additional costs will be incurred in relation to the Housing Benefit Subsidy Claim for 2018/19 as a result of the errors found in 2017/18 and DWP mandated audit approach to complete additional testing on these areas in the current year.

APPENDICES CONTENTS

RESPONSIBILITIES AND REPORTING

Responsibilities and reporting

Contents

Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your financial statements. We report our opinion on the financial statements to the members of the Corporation.

We read and consider the ‘other information’ contained in the Statement of Accounts such as the Narrative Report. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

We report where we consider that the Corporation has not put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We review the Whole of Government Accounts Data Collection Tool provided to HM Treasury and express an opinion on whether it is consistent with the audited financial statements.

What we don’t report

Our audit is not designed to identify all matters that may be relevant to the Audit and Risk Management Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

Contents

	Issue	Comments
1	Significant difficulties encountered during the audit.	No exceptions to note.
2	Written representations which we seek.	We enclose a copy of our draft representation letter.
3	Any fraud or suspected fraud issues.	No exceptions to note.
4	Any suspected non-compliance with laws or regulations.	No exceptions to note.
5	Significant matters in connection with related parties.	No exceptions to note.

COMMUNICATION AND REPORTS ISSUED

Contents

Those Charged with Governance (TCWG)

References in this report to those charged with governance are to the Corporation as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit and Risk Management Committee.

Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Communication	Date (to be) communicated	To whom
Audit Plan	12 March 2019	Audit and Risk Management Committee
Initial Audit Completion Report	16 July 2019	Audit and Risk Management Committee
Final Audit Completion Report	(31 July 2019)	Audit and Risk Management Committee
Annual Audit Letter	(31 August 2019)	Audit and Risk Management Committee

OUTSTANDING MATTERS

Contents

We have substantially completed our audit work in respect of the financial statements and use of resources for the year ended 31 March 2019.

The following matters are outstanding at the date of this report and could impact our audit opinion. We will update you on their current status at the Audit and Risk Management Committee meeting at which this report is considered:

1. Clearance of outstanding issues on the audit queries tracker currently with management. The key items on the tracker are:

- Completion of PPE and Investment Property valuation testing
- Completion of review of NNDR pool model
- Updated pensions disclosures
- Completion of cash flow review
- Receipt and review of a small number of samples relating to Income and Expenditure, Debtors and Creditors testing
- Receipt of revised draft accounts

2. Manager, Partner and Quality Control review, and clearance of review points
3. Final review and approval by you of the Statement of Accounts
4. Technical clearance
5. Subsequent events review
6. Management letter of representation to be approved and signed

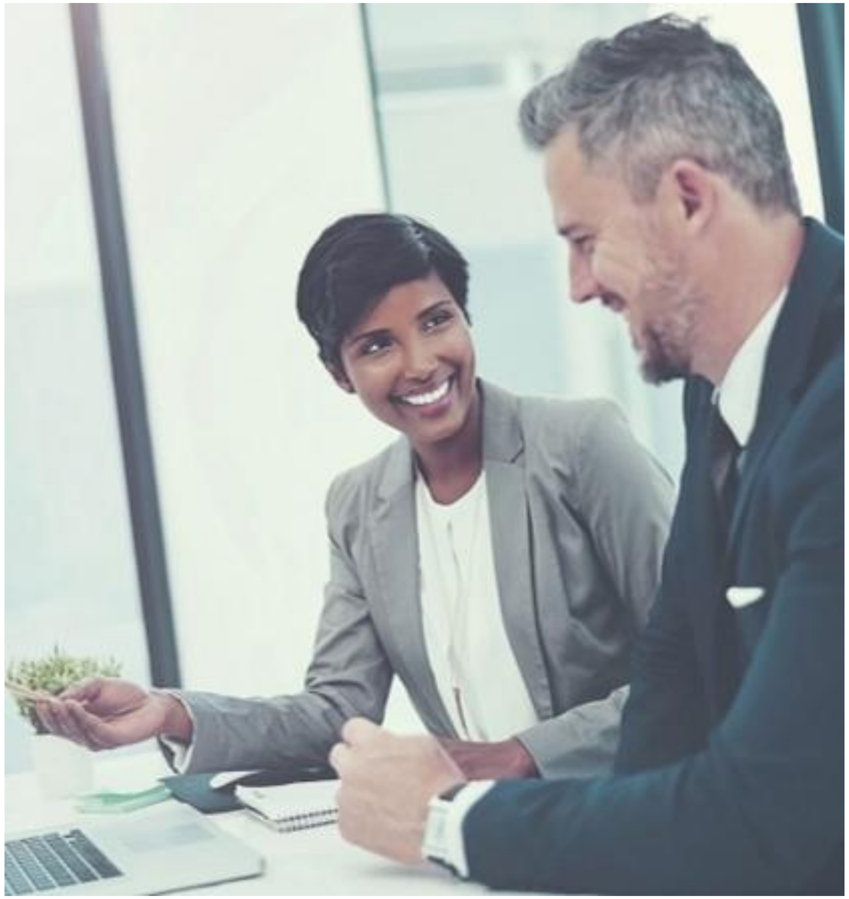
AUDIT REPORT

To follow

Contents

AUDIT QUALITY

Contents



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 a 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 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

Letter of representation

[Client name and Letter headed paper]

BDO LLP
55 Baker Street
London
WIU 7EU

Dear Sirs

Financial statements of Corporation of London - City Fund for the year ended 31 March 2019

We confirm that the following representations given to you in connection with your audit of the Corporation's City Fund financial statements for the year ended 31 March 2019 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 in particular that the financial statements give a true and fair view of the financial position of the City Fund as of 31 March 2019 and of its income and expenditure and cash flows for the year then ended 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).

We have fulfilled our responsibilities on behalf of the Corporation, in respect of the City Fund, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Corporations 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 of the Corporation, in relation to the City Fund, have been made available to you for the purpose of your audit and all the transactions undertaken by the City Fund have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of management and other meetings have been made available to you.

Going concern

We have made an assessment of the Corporation and the City Fund's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the **Corporation** is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the Corporation and the City Fund's ability to continue as a going concern.

Laws and regulations

In relation to those laws and regulations which provide the legal framework within which the City 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.

Post balance sheet events

There have been no events since the balance sheet date which either require 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.

Fraud and error

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 generally accepted accounting principles 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 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 employees, former employees, analysts, regulators or any other party.

Misstatements

We attach a schedule showing uncorrected misstatements that you have identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

Related party transactions

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.

Other than as disclosed in note 34 to the financial statements, there were no loans, transactions or arrangements between the Corporation and Corporation's members or their connected persons at any time in the year which were required to be disclosed.

Carrying value and classification of assets and liabilities

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the financial statements.

Accounting estimates

a) Pension fund assumptions

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) and Police pension scheme liabilities, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

- Rate of inflation (CPI): 2.4%
- Rate of increase in salaries: 3.9%
- Rate of increase in pensions: 2.4%
- Rate of discounting scheme liabilities: 2.4%
- Commutation take up option: LPGS 50% / Police 50%

We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

b) Valuation of housing stock, other land and buildings and investment properties

We are satisfied that the useful economic lives of the housing stock and other land and buildings, and their constituent components, used in the valuation of the housing stock and other land and buildings, and the calculation of the depreciation charge for the year, are reasonable.

We confirm that the valuations applied to dwellings and other land and buildings revalued in the year, as provided by the valuer and accounted for in the financial statements, are reasonable and consistent with our knowledge of the business and current market prices.

We are satisfied that investment properties have been appropriately assessed as Level 2 or Level 3 on the fair value hierarchy for valuation purposes and valued at fair value, based on highest and best use.

c) Allowance for non-collection of receivables

We are satisfied that the impairment allowances for non-domestic rates, housing rent and sundry debt arrears are reasonable, based on collection rate data.

d) Non domestic rates appeals provision

We are satisfied that the provision recognised for non-domestic rates appeals is materially correct, and the calculation of historical appeals are consistent with those advised to me by the Valuation Office Agency. We confirm that the successful rates applied to outstanding appeals as at 31 March 2019 are consistent with our knowledge of the business.

Litigation and claims

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the requirements of accounting standards

Confirmation

We confirm that the above representations are made on the basis of enquiries of 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 so 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 and member has taken all the steps that they ought to have taken as a member of the Corporation in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Peter Kane

Chamberlain of London

[date]

FOR MORE INFORMATION:

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