City of London Corporation – City Fund

Final Report to the Audit and Risk Management Committee on the audit for the year ended 31 March 2014

Updated paper

3 September 2014

Contents

"I am delighted to present our final report on the findings from our 2013/14 external audit."

Heather Bygrave, Engagement Lead Partner

This report updates the version presented to the meeting of the Audit and Risk Management Committee on 22 July 2014. There are no significant changes to the conclusions reported then.

A reminder of our audit plan:

- Materiality: £4.5m (revised from estimate of £4.8m in our audit planning report).
- Threshold for reporting misstatements: £225k.
- Significant risks over valuation of investment properties, the Project BE property transfer, fraud in recognition of grant income and management override of controls.
- We have taken a fully substantive audit approach.

The big picture

The Big Picture

We have issued an unmodified audit report.

Statement of accounts

- The key judgement areas were in relation to the valuation of properties, the valuation of pension liabilities and the estimation of provisions for business rates appeals.
- We also provide comments on the Crossrail commitment. The position is unchanged from that anticipated in our planning report to the Committee.

Audit work on the financial statements

- Valuation of investment properties - We focused on the key assumptions made, and the reasonableness of the valuations arrived at, by the City's valuers. We concluded satisfactorily on their reasonableness.
- Grant income recognition - We focused on the judgements made by officers in determining the basis of recognition for individual grants. We did not identify any exceptions.
- Transfer of properties from other funds – The Property Investment Board received a report on the rationale for the transaction. Our review of valuation reports concluded that the transaction had been made and recorded at fair value.
- Management override of controls - Auditing standards presume that there is always a risk of management override of controls. We did not identify any areas of concern from our work.
- In response to our audit challenge, officers have made changes to the calculation of the provision for the impact of appeals by business rate payers which has had the effect of increasing the charge to the Collection Fund from £58m to £114m. This has impacted on a number of lines in the financial statements, although the impact on the City Fund balance is limited to £0.1m due to the safety net mechanism and timing of entries. We also identified a misclassification of £0.6m within net current assets and a classification change within the cash and cash equivalents note. These were corrected in the final version of the financial statements.
- There were two uncorrected items: In the disclosure of investments in the pension liability disclosure, instruments have not been segregated by industry type, company size etc. In addition, dwellings were overstated by £350,000 as the valuation process counted an additional property in error. Officers did not adjust for these items as they conclude that they were immaterial.
- We have not identified any material control deficiencies from our work to date. We have included other matters in this version of the report.

Value for money conclusion

- We issued an unmodified value for money conclusion. We provide an explanation of our conclusion on the risk to the financial resilience of the City Fund posed by budget deficits in the later years of the Medium Term Financial Strategy.

Officers have again faced the challenge of finalising the financial statements at the same time as responding to audit queries.

We received the full draft financial statements on 30 June 2014. We have completed our work and our audit report is unmodified.

Matters reported as outstanding in the version of this report distributed to the Committee on 22 July 2014 have been completed without any significant changes to our conclusions.

There were no changes to the primary statements arising from the completion of our work completed after the meeting. An entry was made to reclassify an amount from cash equivalents to cash within the notes to the accounts.

Under the Audit Commission Act 1998, we issue a certificate 'when the audit of the accounts has been concluded'. The audit certificate can be issued as soon as all the work required to meet auditors' responsibilities under sections 2 and 3 of the Code has been completed. One of these is to issue an opinion on the City Fund's Whole of Government Accounts (WGA) return. The deadline for the audited return is 4 October. We have commenced but not completed our work. This matter did not delay issue of our audit report.

Significant audit risks

This section explains the nature of significant risks, how these risks have been addressed by our audit work and our conclusions. We also explain related presentational and disclosure matters within the financial statements.

Valuation of investment properties

The valuations arrived at by the City's valuers were reasonable in material respects.

Nature of risk

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

All properties are valued in accordance with the Royal Institution of Chartered Surveyors Valuation and Appraisal Standards. The portfolio has been valued by four external firms of valuers at 31 March 2014.

A summary of the portfolio is shown below:

At 1 April 2013 £m	Additions £m	Transfers £m	Disposals £m	Revaluations £m	At 31 March 2014 £m
794	167	16	(67)	106	1,016

The key judgement area(s), its impact on the financial statements and our audit challenge

We involve real estate specialists from Deloitte as part of the engagement team to assist us.

Our work included:

- assessing the overall performance of the City Fund investment and strategic property portfolios against published data on overall property market movements, for the period from March 2013 to March 2014 and sought and challenged reasons for over- or under-performance against the wider market for individual properties;
- undertaking a desktop analysis to assess a selection of properties, comparing the key assumptions adopted against publicly available benchmarks and information;
- considering the approach and methodology of the valuers, together with the instructions from the City.

We noted that the process followed in preparation of the valuations appears to be reasonable.

The Investment Property Databank ("IPD") index reports changes in capital values of various property types. Reported movements in Central London in the year to 31 March 2014 are summarised in the table below:

Property Type	Change in Capital Value
Central and Inner London offices	+21%
City offices	+16.2%
Central London standard shops	+6.4%

With like-for-like portfolio movements of 10.5% the City Fund investment property portfolio has increased in value broadly in line with the wider London property market.

We believe the internal and external valuations produced for the City Fund as at 31 March 2014 are a reasonable reflection of their market value. However, going forwards, the City should monitor the valuations of:

- Fleetbank House in the context of market appetite to risk going forward, since in the current market investors are overlooking the future over-rent at lease expiry in 2023 in pricing terms. However, should investment interest in the City decline in future periods, the appetite for such risk may decrease and hence the value could fall; and
- developments in progress (St Alphage House, International House, 100 Cheapside and 12 – 14 New Fetter Lane) are monitored in the coming year, since these valuations are likely to see the greatest degree of value change going forward.

Transfer of properties to the City Fund

We identified this as an audit risk as it is a significant, unusual transaction between different funds under common control.

Nature of risk

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

The transaction required compliance with relevant statutory requirements by the City Fund and transferors and appropriate governance arrangements.

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

The key judgement area(s), its impact on the financial statements and our audit challenge

We reviewed the report to the Property Investment Board to confirm our understanding of the business rationale for the transaction. We also inspected the approvals for the transaction.

An area of particular focus in evaluating the Corporation's arrangements for securing compliance with relevant statutory requirements applying to the City Fund and the transferors was the value at which the properties were transferred. The Corporation engaged external valuers to provide advice. In view of the size of the transaction, we utilised internal valuation specialists from Deloitte Real Estate, to assist us in our review of the work of the valuer and challenge key assumptions in the valuation.

Our work included:

- Reviewing the qualifications and experience of the valuer and the instructions provided to them by the City;
- Challenge of the explanations for exceptional movements in the valuation between the previous year end and the transaction date; and
- A more detailed consideration and challenge of the assumptions used in the valuation of a selection of properties.

There were no concerns arising from our work. The valuation of the properties rose by 12.7% from the valuation at 31 March 2013 (as recorded in the transferors' balance sheets) to the transaction value recorded in December 2013, with full year increase of 13.0%. This was only marginally ahead of the wider investment portfolio and broadly in line with the wider London market.

We performed a focused review of the disclosures around this transaction focusing on the commentary provided in the Explanatory Foreword and the disclosures provided in the related parties note. We concluded that there was sufficient and appropriate disclosure to give a true and fair view.

Grant income recognition

We focused on the judgements made by officers in determining the basis of recognition for individual grants. We did not identify any exceptions from our work.

Nature of risk

The City received grants and contributions totalling £169.1m.

Accounting for grant income can be complex as the timing for recognising income in the accounts will depend on the scheme rules for each grant.   Under the Code, income from grants is recognised as soon as all conditions have been met.

We have retained this as a risk in view of the size of this income stream and some of the complexities around recognition of individual grants.

The significant risk in relation to management override, its impact on the financial statements and our audit challenge

We noted that the Corporate Accountancy Unit had sent out instructions to staff involved in the preparation of the accounts highlighting the accounting requirements for grants.

We also carried out extended testing to check that recognition of income in 2013/14 properly reflects any conditions within the grant offer letter and accompanying documentation.

Our work did not identify any exceptions from our work.

Management override of controls

We did not identify any issues in relation to management bias from our work to date.

Nature of risk

Standards on auditing include a presumption of a risk of management override of key controls which cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to prevent inaccurate or even fraudulent financial reporting.

The significant risk in relation to management override, its impact on the financial statements and our audit challenge

Our audit work is designed to test management override of controls and key estimates.

We have summarised our findings above on the key estimates around grant income recognition, investment property valuation and the value at which properties were transferred to the City Fund.

Other audit work completed to address the significant risk

Specific areas of work are:

Journals

In testing journals, we analysed the whole population of journals to identify those which had features which could be indicators of possible fraud and to focus our testing on these. We have not identified any issues from this work.

Accounting estimates

In addition to the key estimates discussed above, we have tested the basis for other estimates used in the financial statements and have not identified any evidence of management bias from our work to date. We discuss other areas of significant judgement, which we do not consider give rise to a significant risk of material misstatement, in the next section.

Significant transactions

We did not identify any significant transactions outside the normal course of business or transactions where the business rationale was not clear. We discuss the transfer of properties to the City Fund earlier in this report.

Other matters in your financial statements

Other matters in your financial statements

We comment on other key areas of judgement and other matters which do not represent significant audit risks

The Crossrail commitment

- The notes to the financial statements since 2008/9 have disclosed a commitment made by the City to contribute £200 million towards the cost of Crossrail. The wording in the 2014 draft financial statements is as follows:

  "The City of London Corporation has agreed with Government that £200m will be provided from City Fund towards the costs of constructing Crossrail. The payment of this amount is dependent on the achievement of a number of conditions, primarily the completion of certain works in relation to Crossrail stations. Whilst it is now looking quite likely that the conditions will be met, there is still some 2 years to go before the works are due to complete. Therefore a liability has not been recognised in the financial statements pending performance of the conditions but will be recognised when it becomes payable. At this stage it is anticipated that the contribution will be made in 2016. The financing strategy for the contribution is based on the accumulation of annual rental income from specific investment properties and capital receipts from the sale of assets. The City Surveyor is in the process of identifying the most advantageous properties to sell".
- During our audit of the 2008/9 financial statements we discussed with officers their assessment of the accounting treatment for this item. We concurred with officers that the agreement with the Government, contained within an exchange of letters between the Corporation and the Secretary of State, is an "executory contract" (contracts under which both parties are still to perform to an equal degree the actions promised by and required of them under the contract). As such it falls outside the scope of International Accounting Standard 37 Provisions, Contingent Liabilities and Contingent Assets (unless onerous).
- As a result, in past financial statements, whilst the transaction has been disclosed as a commitment, a liability has not yet been recognised on the balance sheet pending performance of the undertakings made by the Secretary of State, which include completion of certain works in relation to Crossrail stations.
- We have reviewed the position of the relevant works at 31 March 2014, all of which were incomplete at that date. We therefore agree there should be no change to the past treatment in the 2013/14 accounts with disclosure only as a significant commitment.

Other matters in your financial statements (continued)

We comment on other key areas of judgement and other matters which do not represent significant audit risks

Valuation of properties

- We noted in our planning report that the Code had been updated to provide clarification on the frequency of revaluation of property, plant and equipment. The Code requires that items within a class of property, plant and equipment are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, the Code allows valuations to be carried out on a rolling basis, but only if revaluation of the class of assets is completed within a short period and provided that revaluations are kept up to date (e.g. by the use of indices).
- The area of concern for the City Fund related to the “Other land and buildings” class where revaluations have in the past been carried out on a rolling basis. Assets in other classes are either revalued on an annual basis or are carried at historical cost. The value of “Other land and buildings” at 31 March 2014 is £383m.
- We agreed with officers that the key concern was whether the design of the programme of valuations caused the carrying amount of operational properties to be consistent with their fair value at that date in material respects. Subsequent clarification was issued by CIPFA which confirmed this view.
- In the light of this, officers revised the design of the valuation programme. As a result £289m or 77% of properties by value at 1 April 2013 were subject to a full or desktop valuation at the balance sheet date. The remaining value of assets in the other land and buildings category not subject to formal valuation at the balance sheet date was £85m. Taking into account the comparatively small value not subject to formal valuation, the comparatively small general price change over the period (approximately 5%) and existing officer processes for bringing forward in the valuation programme any individual properties with unusual factors impacting on their valuation, we concluded that the design of the valuation programme was adequate to meet its objective.

Other matters in your financial statements (continued)

We comment on other key areas of judgement and other matters which do not represent significant audit risks

Pension liabilities

- Previously, the Local Government Pension Scheme has been accounted for by all participating funds and other employers as if it were a defined contribution plan. This means that pension costs were recognised in the Comprehensive Income and Expenditure Statement on the basis of contributions payable in the year and the cost of paying future pensions was not included in the balance sheet.
- The accounting treatment reflected an exemption where an authority is not able to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes as the plan exposes the participating authorities or other entities to actuarial risks associated with the current and former employees of other authorities or entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual authorities/entities participating in the plan.
- Officers reviewed the accounting treatment this year and concluded that contributions payable would form a consistent and reliable basis for apportioning pension costs and liabilities across the different funds participating in the scheme. Management prepared a paper explaining the change in accounting policy and how the accounting would work. The change is consistent with the direction of travel in financial reporting, including a Financial Reporting Review Panel case in October 2013 which concluded that the schedule of contributions is as a minimum funding requirement to be accounted for in accordance with IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'.
- The pension liability remains an area requiring significant judgment by officers in consultation with the actuary. We did not identify this as an area of significant audit risk this year as we concluded the pension accounting was of less significance to a user of the accounts as statutory mitigation entries mean that the City Fund is charged on the basis of contributions payable. This change has not significantly impacted on our approach or depth of work.
- We found that the assumptions used fell within a reasonable range, but at the prudent end of this range. Last year we concluded they were more centred. The principal area of difference between our benchmark assumption and what had been used in the calculation was in relation to inflation assumptions. We estimate the liability would have been £75 million lower across the local government and police pension schemes if our benchmark assumptions had been used.

Other matters in your financial statements (continued)

We comment on other key areas of judgement and other matters which do not represent significant audit risks

Localisation of business rates

- The Government introduced a business rates retention scheme from 1 April 2013. The intention behind the scheme is to provide a direct link between business rates growth and the amount of money councils have to spend on local people and local services.
- The scheme involves a system of tariffs and top-up payments to and from government to even out situations where business rates are not in proportion to current spending. The introduction of the scheme has required the City to make new or changed accounting entries and to determine separate surpluses for Council Tax, National Non Domestic Business Rates and Business Rates Supplement within the Collection Fund.
- We did not identify this as a significant audit risk, however, as CIPFA issued detailed guidance on the accounting implications for the localisation of business rates, including example entries, to assist with implementation.
- The accounting and estimation processes for appeals against rateable values required the exercise of judgement, but the impact on the Corporation would be below the audit materiality threshold due to a safety net which limits the City's losses.
- Our work identified two adjustments to the logic in the calculation of the provision for appeals. This resulted in an increase in the total provision for all preceptors from £58m to £114m and consequent changes to various balance sheet amounts and entries in the Collection Fund. Under the Regulations, the City Fund's interest in national business rates is limited to 30%. Additionally, the Regulations provide for central government to make safety net payments where the authority's income drops below more than 92.5% of its index linked spending baseline. Whilst the City will not enjoy a share in growth above the baseline, the mechanism sets a limit on the impact of a fall in net business rates income. There is therefore not a material change to the position on the City Fund balance as a result of the change in provision amount with an immediate impact on the reserve balance at 31 March 2014 of only £0.1m.
- The adjustments to the appeals provision were reflected in the final version of the financial statements. This impacted on a number of calculations which the City has to make and a number of lines within the financial statements.

Value for Money conclusion

Value for money conclusion

We identified one risk in relation to financial resilience

Work performed

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

Our conclusion is based on the following two reporting criteria:

- **The organisation has proper arrangements in place for securing financial resilience. The focus of this criterion is on whether the organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.**
- **The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The focus of this criterion is on whether the organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.**

Risk assessment

Our preliminary assessment was that there were no risks in relation to our VFM responsibilities which required additional local work to be carried out and we therefore did not identify any risks or additional local work in our audit plan.

We have subsequently carried out a detailed risk assessment which also takes account of the latest refresh of the Medium Term Financial Strategy, as well as the outturn financial and performance information for 2013/14. The risk assessment has involved consideration of common risk factors identified by the Audit Commission, concluding on whether they represent actual risks for the purpose of our VFM conclusion on the City Fund. We undertook this work through review of relevant documentation, including committee papers and discussion with officers. We also considered whether there were other risks which might be specific to the City Fund. We did this principally through our consideration of what has been reported in the Annual Governance Statement, any concerns reported by regulators and other matters which have come to our attention from our work carried out in relation to our other Code responsibilities.

Conclusion from risk assessment

On the basis of our work, and taking into account additional guidance issued subsequently by the Audit Commission, we identified a risk in relation to the financial sustainability of the City Fund in the medium term in the light of the impact of the Spending Round 2013 and focused our work in this area. In particular, the timing of Government announcements and the scale of reduction in grant funding means that the City needed to agree a medium term financial strategy in February 2014 which included budget deficits for the final two years of the medium term financial strategy for local authority spending and a breach of the City Police reserve policy in early 2016/17.

Risk to financial sustainability in the medium term

In forming our view on this risk we considered the following:

- Following an analysis of the Spending Round 2013, the City forecast in February 2014 a deficit in the later years of the Medium Term Financial Strategy for local authority expenditure. It also forecasts deficits through the period for Police expenditure, to be met in the first two years by drawing on the Police reserve set aside for this purpose. The position reported in the Medium Term Financial Strategy at February 2014 is shown below. We understand that the estimate of the deficit for local authority expenditure in 2017/18 has subsequently risen to £11m (before management action, which we comment on below).

Value for money conclusion (continued)

We expect to issue an unmodified value for money conclusion

(Surplus)/Deficit £m	2014/15	2015/16	2016/17	2017/18
Non Police	(6.8)	0.2	4.7	8.9
Police	4.6	4.7	6.7	NA

- The City has a track record of responding to challenges posed by reductions in government funding and, before that, reductions in key sources of rental and investment income and has added to its reserves in successive years through to 2013. In 2014, revenue reserves were drawn on to finance the reinvestment of funds previously held in deposits into property investments in order to achieve higher returns. Excluding this, the underlying trend has been maintained with a contribution to revenue reserves before revenue contribution to capital of £9m.
- The City has also not needed to make significant changes to forecast surplus/deficit position for the non Police expenditure during the period covered by the preceding period medium term financial strategy in each of the last 3 years.
- The City has also continued its track record of spending within the City Fund revenue budget, recording an underspend of £3.7 million in 2013/14. The City will need to continue to make sure going forwards that it strikes an appropriate balance between prudent budgeting and forecasting which maintain continued financial resilience on the one hand and providing accurate information for decision making purposes on spending plans on the other.

	Unallocated reserve £m	Earmarked reserves £m £m	Total £m £m	Change over year £m £m	Underspend £m
2014	43.4	64.2	107.6	-68.6	3.7
2013	70.9	105.3	176.2	+18.5	6.5
2012	63.7	94.0	157.7	+17.6	13.7
2011	52.9	87.2	140.1	+9.9	4.4
2010	48.5	81.7	130.2	+4.4	7.9

- The police authority received positive feedback in the year from HMIC on its progress in responding to funding cuts.
- The City carried out a programme of service based reviews over the last year, the outcome of which is not yet reflected in the Medium Term Financial Strategy. Savings proposals generated through this process are progressing through member scrutiny, but together with other areas of the ongoing review programme which are in progress, and, for Police expenditure, with the reserve set aside for this purpose, are at the scale required to meet the currently forecast budget deficit. The process to date has included consideration of the risks and impacts of individual savings schemes and initial member challenge. The City has received the same scale of reductions to central government funding as the London Boroughs but the impact has been less marked. As a result, the programme has not required the same level of member choices over priorities.
- Whilst revenue reserves have fallen in 2013/14, the position at 31 March 2014, together with the surplus the City has budgeted to make in the current financial year on local authority expenditure, provides some cover in the event of slippage in the savings programme or unexpected charges or drops in income.

Conclusion

We concluded satisfactorily on this area of risk. We expect to issue an unmodified value for money conclusion.

Responsibility Statement

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit and Risk Management Committee and the Chamberlain and Finance Committee discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report;
- Our internal control observations; and
- Other insights we have identified from our audit.

What we don't report

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

The scope of our work

- Our observations are developed in the context of our audit of the financial statements.
- We described the scope of our work in our audit plan and the supplementary "Briefing on audit matters"

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

Deloitte LLP

Deloitte LLP

Chartered Accountants

St Albans

3 September 2014

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

Appendices

Appendix 1: Fraud: responsibilities and representations

Required representations	We have asked the Corporation to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the entity or group.
Concerns	We have no concerns to report in relation to fraud from the work noted above or our audit procedures.
Audit work performed	In our planning we identified the risk of fraud in management override of controls and fraud in recognition of grant income as key audit risk for your organisation. During course of our audit, we have had discussions with internal audit, management and those charged governance. We discussed knowledge of actual or suspected cases of fraud, the assessment of fraud risk and arrangements for responding to the risk of fraud. There were no material issues raised in relation to fraud and no adjustments were required to our audit plan.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Appendix 2: Independence and fees

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

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.
Fees	Details of the fees charged by Deloitte for the period from 1 April 2013 to 31 March 2014 are summarised on the next page.
Non-audit services	Details of non audit services in the period from 1 April 2013 to the date of this report and provided on the next page. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary. We provided an assessment of the impact of these on our independence and relevant safeguards in our planning report and there were no new engagements in the remainder of the financial year. We obtained pre-approval from the Audit Commission in line with the rules governing this.
Relationships	There are no relationships, including the provision of non-audit services, we have with the City, its members and senior officers and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.

Appendix 2: Independence and fees (continued)

We summarise audit and non audit fees for the year

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

	Current year £000	Prior year £000
Audit of the City Fund	*117	104
Audit related assurance services		
Certification of grants and returns on behalf of the Audit Commission	22	24
Other non-audit services		
Lease advisory services	14	49
Tax advisory services - Research paper on financial transaction tax	18	-
Total fees	171	177
Audit of the City of London pension scheme	21	21

*The fee includes an amount of £8,657 which is additional to the original Audit Commission scale fee. This reflects the loss of synergies previously available from our role as auditor of the private and voluntary funds of the Corporation. The amount has been approved by the Audit Commission subsequent to the issue of our planning report. In addition, the return made to the Government in relation to pooled business rates no longer requires certification and a deduction has been made by the Audit Commission from the scale rate in respect of this. Our work on the Collection Fund drew on the work carried out for certification purposes. The Audit Commission has advised that auditors, where appropriate, should agree compensating adjustment to the audit scale rate locally and seek subsequent approval from the Commission. Our estimate of the additional cost, including the additional work to audit the provision for appeals, is £4,115.

In March 2014 the Audit Commission agreed a rebate to be distributed across local audit bodies. The announcement came following a meeting of the Audit Commission's Board, who met to discuss the strategy for managing any retained earnings prior to its closure at the end of March 2015. The decision was made as part of the Board's role in setting the Commission's strategy and objectives and for determining its budget and the way it carries out its functions. The rebate was set at 13.7 per cent of the 2012/13 annual audit fee. The rebate sent to City of London Corporation was £14,222 in respect of the City Fund and £2,874 in respect of the City Local Government Pension Scheme. These amounts are not reflected in the information above.

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

	£
Other non-audit services not covered above	
Lease advisory services	15
Total non-audit services excluding City Fund	**15**

Internal control and risk management

Summary of observations and recommendations

We have identified risk management and control observations, as detailed below.

Control assertion	Observation	Deloitte recommendation
Reconciliation of bank accounts	We identified one bank account with a balance of £133,000 where officers were unable to support the amount recorded in the general ledger. In response to our request for confirmation of the balance, the bank advised that the account had been closed prior to the year end. Officers are seeking confirmation from the bank that the status is ‘dormant’ rather than ‘closed’.	We recommend that even those bank accounts which are unlikely to have many transactions are reconciled on a regular and frequent basis.

Control assertion	Observation	Deloitte recommendation
Grant claims	We identified one claim which was submitted prior to calculating entitlement and was then subsequently validated.	We recommend entitlement is calculated in advance of submitting a claim to the grantor. More generally, although no errors were identified in the recognition of grant income from sample testing, the City may wish to consider the application of central controls to the accounting for such income given the significant sums involved and the complexity of treatment.

Control assertion	Observation	Deloitte recommendation
National Non-Domestic Rates (NNDR) bad debt provision	The percentages applied to each category of NNDR debt when calculating the bad debt provision have not been reassessed for some years.	Periodically reassess the bases used for calculating the NNDR bad debt provision.

Appendix 3: Draft management representation letter

We set out in draft the representations we request

Deloitte LLP
3 Victoria Square
Victoria Street
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AL1 3TF

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of the City of London Corporation (City Fund) for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements present fairly the financial position of City of London Corporation (City Fund) at 31 March 2014 and of the results of its operations, other comprehensive income and expenditure and its cash flows for the year then ended in accordance with applicable accounting framework and Accounts and Audit Regulations 2010.

We acknowledge our responsibilities for preparing financial statements for the City of London Corporation (City Fund) ("the local authority") which present fairly and for making accurate representations to you. For the avoidance of doubt, references to the local authority should be taken as applying equally to the City of London Pension Scheme and references to the financial statements of the local authority, includes information in those financial statements dealing with the City of London Pension Scheme.

We confirm, to the best of our knowledge and belief, the following representations.

Financial statements

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the applicable financial reporting framework and the Accounts and Audit Regulations 2003 (as amended) which give a true and fair view.

2. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

3. The measurement processes, including related assumptions and models used to determine accounting estimates in the context of the applicable financial reporting framework are appropriate and have been applied consistently.

4. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of IAS24 "Related party disclosures".

5. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.

6. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to liquidate the Corporation or cease trading as we consider we have realistic alternatives to doing so. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Corporation's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.

7. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. The misstatements were as follows: There were two uncorrected items: In the disclosure of investments in the pension liability disclosure, instruments have not been segregated by industry type, company size etc. In addition, dwellings were overstated by £350,000 as the valuation process counted an additional property in error. Officers did not adjust for these items as they conclude that they were immaterial.

Appendix 3: Draft management representation letter (continued)

We set out in draft the representations we request

8. Your testing identified an error where an accrual for expenditure before the year end of £43,000 had been incorrectly omitted from the balance sheet. We confirm our assessment that the accruals balance is not materially misstated in respect of this and any further errors which may be present in this balance.

9. We are not aware of events or changes in circumstances occurring during the period which indicate that the carrying amount of fixed assets may not be recoverable.

10. The Corporation has satisfactory title to all assets.

11. We have reconsidered the remaining useful lives of the fixed assets and confirm that the present rates of depreciation are appropriate to amortise the cost or revalued amount less residual value over the remaining useful lives.

Information provided

12. We have provided you with all relevant information and access.

13. All minutes of member and management meetings during and since the financial year have been made available to you.

14. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.

15. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

16. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

17. We are not aware of any fraud or suspected fraud that affects the entity and involves:
    (i). management;
    (ii). employees who have significant roles in internal control; or
    (iii). others where the fraud could have a material effect on the financial statements.

18. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

19. We are not aware of any instances of non-compliance, or suspected non-compliance, with laws, regulations, and contractual agreements whose effects should be considered when preparing financial statements.

20. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

21. No claims in connection with litigation have been or are expected to be received.

22. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.

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

24. We are not aware of any events or changes in circumstances occurring during the period which indicate that the carrying value of fixed assets may not be recoverable.

Appendix 3: Draft management representation letter (continued)

We set out in draft the representations we request

25. We have evaluated whether the restrictions, terms or conditions on grants have been fulfilled with, and deferred income to the extent that conditions have not been fulfilled.

26. We confirm that:

- all retirement benefits and schemes, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;
- all settlements and curtailments have been identified and properly accounted for;
- all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
- the actuarial assumptions underlying the valuation of the scheme liabilities (including the discount rate used) accord with the City's best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business.
- the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and
- the amounts included in the financial statements derived from the work of the actuary are appropriate.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully