



CITY OF LONDON - CITY FUND

AUDIT FINDINGS REPORT TO DATE

Audit for the year ended 31 March 2016 - Issued to the Audit and Risk Management Committee - 7 July 2016

LEIGH LLOYD-THOMAS
Engagement Lead

T: 0207 893 2616
E: leigh.lloyd-thomas@bdo.co.uk

KERRY BARNES
Audit Manager

T: 0207 893 3837
E: kerry.l.barnes@bdo.co.uk



PURPOSE AND USE OF THIS REPORT

We present our Audit and Risk Management Committee Report which details the key findings to date arising from the audit for the attention of those charged with governance. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two way communication throughout the audit process.

We will issue our final report of findings to the September 2016 Audit and Risk Management Committee.

As auditors we are responsible for performing our audit in accordance with International Standards on Auditing (UK & Ireland) which provide us with a framework which enables us to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of the financial statements.

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 our value for money conclusion. As the purpose of the audit is for us to express an opinion on the financial statements and value for money, 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.

This report has been prepared solely for the use of the Audit and Risk Management Committee and should not be shown to any other person without our express permission in writing. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person.

We would like to thank staff for their co-operation and assistance during the audit to date and throughout the period.



CONTENTS

SUMMARY	6	APPENDICES	
KEY AUDIT AND ACCOUNTING MATTERS	7	I. MATERIALITY	23
OUTSTANDING MATTERS	17	II. INDEPENDENCE	24
CONTROL ENVIRONMENT	18	III. FEES SCHEDULE	26
WHOLE GOVERNMENT ACCOUNTS	19	IV. AUDIT QUALITY	27
USE OF RESOURCES	20		

SUMMARY

AUDIT SCOPE AND OBJECTIVES

- We have completed our audit procedures in accordance with the planned scope and our objectives have been achieved, subject to the completion of work set out within the outstanding matters section of this report.
- There were no significant changes to our planned audit approach nor were any restrictions placed on our work.
- No additional significant audit risks were identified during the course of our audit procedures subsequent to our audit planning report to you dated February 2016
- Our materiality levels have not required reassessment since our audit planning referred to above.

KEY AUDIT AND ACCOUNTING MATTERS

The key matters that have arisen in the course of our audit so far are summarised below:

- £312,462 in relation to rental income has been recorded as 2015/16 income but should have been recorded as 2016/17 income.
- The number of compulsory redundancies within the £0 - £20,000 band should be two rather than three redundancies and the total cost for this band should be amended to £40,000
- The number of compulsory redundancies within the £100,001 - £150,000 should be one rather nil and the total cost for this band should be amended to £279,500.

Management has confirmed that the accounts will be amended to correct the income and that the notes to the accounts will be amended to adjust the analysis of redundancies.

AUDIT OPINION

- Subject to the successful completion of the work set out within the outstanding matters section of this report we anticipate issuing an unqualified opinion on the financial statements for the year ended 31 March 2016
- We have no matters to report in relation to the arrangements in place to secure economy, efficiency and effectiveness to date.

OTHER MATTERS FOR THE ATTENTION OF THE AUDIT AND RISK MANAGEMENT COMMITTEE

- Providing there are no significant amendments required to the unaudited whole of government accounts return submitted for audit by 12 August we will aim to complete our audit work and provide our audit opinion on the return at the same time as issuing our audit opinion on the financial statements.
- Our observations on the quality of the audit and our audit independence and objectivity and related matters are set out in Appendix IV and II below.

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT AUDIT RISKS

We reported our risk assessment, which brought to your attention areas that require additional or special audit consideration and are considered significant audit risks, in the 2015/16 audit planning report dated February 2016. These significant risks have been highlighted in red and findings have been reported in the following table.

We have since undertaken a more detailed assessment of risk following the completion of our review of the authority's internal control environment and draft financial statements, and we have not identified any additional significant risks.

NATURE OF RISK	RELATED CONTROLS / RESPONSE TO RISK	HOW THE RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION AND RECOMMENDATION
MANAGEMENT OVERRIDE OF CONTROLS	<p>Auditing standards presume that a risk of management override of controls is present in all entities.</p> <p>By its nature, there are no controls in place to mitigate the risk of management override</p>	<p>We respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.</p>	<p>Our audit work in relation to journals and estimates is in progress (see below for more detail on estimates).</p> <p>Work to date has not identified any significant issues.</p>
REVENUE RECOGNITION	<p>Auditing standards presume there is a risk of fraud in relation to revenue recognition.</p> <p>In particular, we consider there to be a significant risk in respect of the existence (recognition) and accuracy of the revenue and capital of grants that are subject to performance and / or conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES).</p> <p>(Continued)</p>	<p>We have carried out audit procedures to gain an understanding of the authority's internal control environment for significant income streams, including how this operates to prevent loss of income and ensure that income is recognised in the correct accounting period.</p> <p>We have tested a sample of grants subject to performance and / or conditions to confirm that conditions of the grant have been met before the income is recognised in the CIES.</p>	<p>We have documented our understanding and key controls in respect of the City Fund's internal control environment for significant income streams and no significant weaknesses were identified.</p> <p>Grant income testing is in progress.</p> <p>No significant issues identified to date.</p>

KEY AUDIT AND ACCOUNTING MATTERS

Continued

NATURE OF RISK	RELATED CONTROLS / RESPONSE TO RISK	HOW THE RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION AND RECOMMENDATION
REVENUE RECOGNITION (continued)	We also consider there to be a significant risk in relation to the completeness and existence of fees and charges and property rental income recorded in the CIES.	We have tested a sample of fees and charges and property rental income to ensure income has been recorded in the correct period and that all income that should have been recorded has been recorded.	<p>Fees and charges and property rental income testing is in progress.</p> <p>To date we have identified one error amounting to £312,462 in relation to rental income that has been recorded as 2015/16 income but which should have been recorded as 2016/17 income.</p> <p>Management has confirmed that this will be adjusted in the amended version of the financial statements.</p>

KEY AUDIT AND ACCOUNTING MATTERS

Continued

OTHER AUDIT RISKS AND ACCOUNTING ISSUES

We report below our findings of the work designed to address all other risks identified in our 2015/16 audit planning report and any other relevant audit and accounting issues identified as a result of our audit: ■ **Normal risk** ■ **Other issue**

NATURE OF RISK	WORK PERFORMED AND FINDINGS	CONCLUSION
CROSSRAIL COMMITMENT	<p>The City Fund has committed to contribute £200 million towards the costs of constructing Crossrail. The payment is dependent on achievement of a number of conditions, primarily completion of certain works in relation to Crossrail stations. Management has reported that the commitment conditions are crystallised only upon completion of these works and continue to report this as a commitment rather than a liability in the financial statements. The original project plan had assumed that the required works would be completed by March 2016, but there appears to be slippage with completion forecast in March 2017.</p>	<p>We have reviewed the progress of the Crossrail works against the agreement required to crystallise the payment and are satisfied that this remains a commitment rather than a liability at 31 March 2016.</p> <p>We await confirmation of whether there has been any recent correspondence with TfL regarding progress with the project and forecast dates to complete milestones.</p>
LEASE PREMIUMS	<p>The City Fund is party to a significant number of lease arrangements as lessor. 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.</p> <p>We have met with management and the City Surveyors to discuss the process applied for apportioning the significant lease premiums received in 2015/16 between land and buildings.</p> <p>As part of this meeting, we agreed that management would restate the value of the Bernard Morgan House asset held for sale as at 31 March 2015 (£7.2 million) from assets held for sale to surplus assets as a lease was issued rather than a sale/disposal. The value of the asset would then be revalued to £30.4 million to reflect the lease premium received and then this would be transferred to investment properties within 2015/16.</p>	<p>We are satisfied with the apportionments for these leases and we will track through the accounting of the transactions when working papers are available.</p> <p>The restatement of Bernard Morgan House has been correctly adjusted in the draft accounts.</p>

KEY AUDIT AND ACCOUNTING MATTERS

Continued

NATURE OF RISK	WORK PERFORMED AND FINDINGS	CONCLUSION
CONSIDERATION OF RELATED PARTY TRANSACTIONS	We consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of the accounting standards.	Audit work is in progress and no significant issues have been identified to date.
NARRATIVE REPORTING	<p>The Corporation City Fund will be required to produce a 'Narrative Report' replacing the Explanatory Foreword in the financial statements.</p> <p>We received the report on 30 June 2016 and as we complete remaining audit testing we will ensure the financial information in the report is consistent with the financial statement and the CIPFA Code requirements.</p>	Audit work is in progress.

KEY AUDIT AND ACCOUNTING MATTERS

Continued

ACCOUNTING ESTIMATES

Our views on significant estimates, including any valuations of material assets and liabilities, arrived at the preparation of your financial statements are set out below:

ESTIMATES

INVESTMENT PROPERTY VALUATIONS

The Code has introduced a change in the basis of valuation of investment properties (IFRS 13), from a market value to a 'highest and best use' valuation. There is a possibility that valuations may be significantly different in certain circumstances particularly where an investment property could be developed for use with alternative consents, such as residential conversion, or where a current lease term is coming to an end and the property could be developed to enhance rental amounts.

The Council will instruct JLL to carry out the annual valuation of the City Fund investment property portfolio having regard to the possibility of significant change in valuations under the highest and best use approach.

This is not considered to be a change in accounting policy but a change in estimation technique that should be applied prospectively from 1 April 2015.

Due to the significant carrying value of investment properties and inherent uncertainty that this new valuation basis could introduce, there is a risk that investment properties may not be appropriately valued as at 31 March 2015 and 31 March 2016.

AUDIT FINDINGS AND CONCLUSIONS

Our testing of investment property valuations is in progress.

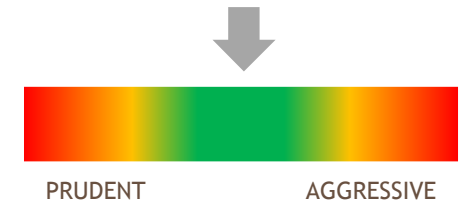
Our meeting with management and JLL in February 2016 suggested that investment property valuations were unlikely to move significantly as a result of IFRS 13 because the majority of properties were already valued at 'highest and best use' and that there were sufficient observable inputs to support the assumptions used in valuing the properties

We are awaiting JLL valuations certificates to confirm the basis of valuation for each individual property as set out above.

In the meantime we have reviewed the overall valuation movement for the City Fund's portfolio of properties and compared the movement to our expectations:

- Whilst the City Fund's capital value of investment properties has increased by £174 million this appears to mainly relate to a general increase in the market (using the IPD capital index for City office space)
- There are several outliers where the market value has increased/decreased significantly and specific reasons have been provided to explain these. For example, new lease granted and lease premium received or rent reviews.

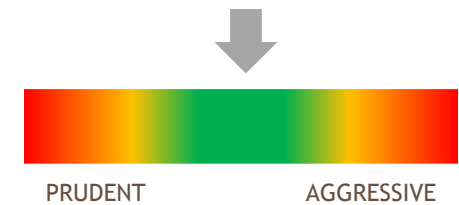
We will test a sample of investment property valuations in detail when we receive valuation certificates for each property.



KEY AUDIT AND ACCOUNTING MATTERS

Continued

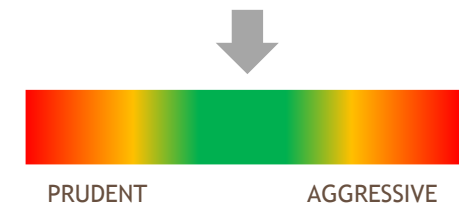
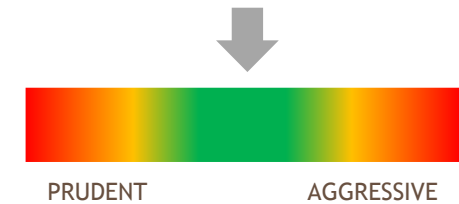
ESTIMATES	AUDIT FINDINGS AND CONCLUSIONS
<p>PROPERTY, PLANT & EQUIPMENT VALUATIONS</p> <p>Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the fair value at the balance sheet date. The fair value for housing dwellings, land and buildings included in PPE is a management estimate based on market values or depreciated replacement cost (DRC).</p> <p>Management use external valuation data to assess whether there has been a material change in the value of classes of assets and periodically (minimum of every five years) employs an external expert (valuer) to undertake a full valuation.</p> <p>The indices available to management to assess valuation changes are produced independently and are based on observable data (asset sales and building contract prices). The valuation expert is independent of management and will use its sector knowledge of local sales to estimate the fair values and remaining useful economic lives of assets.</p> <p>We consider there to be a risk over the valuation of housing dwellings, land and buildings where valuations are based on assumptions or where updated valuations have not been provided for a class of asset at year-end.</p>	<p>We have selected a sample of PPE assets and we are in the process of reviewing the basis of the valuation for each asset and tracking the related transactions through the accounts.</p>



KEY AUDIT AND ACCOUNTING MATTERS

Continued

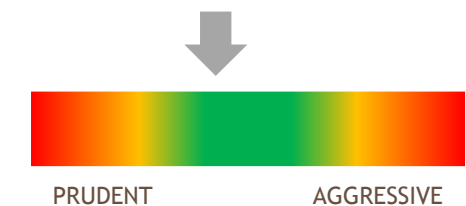
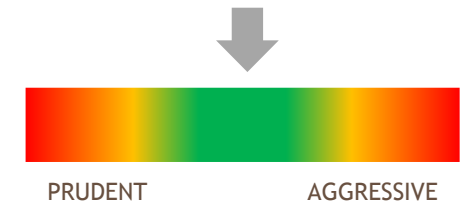
ESTIMATES	AUDIT FINDINGS AND CONCLUSIONS
<p>PENSION LIABILITY ASSUMPTIONS</p> <p>The net pension liability relates to the Police pension fund and City Fund’s share of the City of London Corporation pension fund.</p> <p>Actuarial estimates are calculated by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership data held by the pension fund and have regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p>	<p>This work is in progress and no significant issues have been identified to date.</p>
<p>NON DOMESTIC RATES APPEALS PROVISION</p> <p>Billing authorities are 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. We consider there to be 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.</p> <p>We are aware that some NHS organisations are also appealing their business rate charge and are seeking to obtain charitable status to claim mandatory rate relief.</p>	<p>We have reviewed the current list of appeals provided by the VOA and how this information is used to calculate a success rate for each category of appeal. No issues have been identified.</p> <p>We are in the process of testing the accuracy of the information used to calculate the success rate, for example, settled appeals. No issues have been identified to date.</p> <p>We are not aware of any appeals made by NHS organisations.</p>



KEY AUDIT AND ACCOUNTING MATTERS

Continued

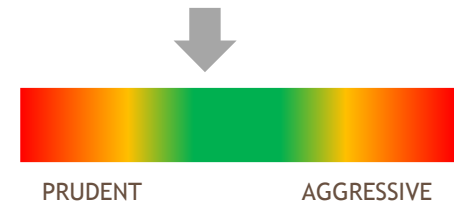
ESTIMATES	AUDIT FINDINGS AND CONCLUSIONS
<p>ALLOWANCE FOR NON-COLLECTION OF RECEIVABLES</p> <p>The City Fund includes a material amount in respect of provision for non-collection of NDR, rents and sundry debt arrears. The provision is based on management assumptions in relation to the collection of the debt. There is a risk that the provisions may not accurately reflect collection rates based on age or debt recovery rates.</p> <p>(continued)</p>	<p>Non-domestic rate arrears and cost provision</p> <p>The City Fund’s share of debts and provision at the 31 March 2016 was £6.8 million and £3.2 million respectively.</p> <p>The majority of the provision has been calculated using the best information available at the year-end, for example, current collection rates.</p> <p>Around £0.410 million of the provision has been calculated using CIPFA guidelines which are not considered to be up-to-date and may not accurately reflect the aging profile or current collection of debt within the City. Management has explained that costs are likely to outweigh the benefits of collating current collection rates for these debts.</p> <p>We are satisfied that the provision is not materially misstated.</p> <p>Rent arrears and cost provision</p> <p>Arrears and provision as at 31 March 2016 were £13.8 million and £1 million respectively.</p> <p>The majority of arrears relate to current tenants and the management surveyor reviews all individual arrears over £15,000 to determine the likely rent to be recovered</p> <p>The provision relating to approximately £2 million of rent arrears (relating to rent attached to Barbican property and HRA), appears to be based on a standard percentage (3-6 mths 25%, 6-12mth 50% and >1year 100%). The standard percentages do not appear to correlate to the aging profile of debt and corresponding collection rates.</p> <p>Given that the total value of debt is immaterial the provision is not materially misstated. However, we would recommend that current assumptions around standard percentages are regularly reviewed to ensure that any potential material misstatements do not arise.</p>



KEY AUDIT AND ACCOUNTING MATTERS

Continued

ESTIMATES	AUDIT FINDINGS AND CONCLUSIONS
<p>ALLOWANCE FOR NON-COLLECTION OF RECEIVABLES</p>	<p>Sundry debt arrears and cost provision</p> <p>Arrears and provision as at 31 March 2016 were £9.4 million and £2.1 million respectively.</p> <p>Barbican centre</p> <ul style="list-style-type: none"> • 3-5 month arrears (£0.443 million) are reviewed on a case-by case basis and provided for based on historical collection of similar debt • All arrears over 6 months (£0.367 million) are fully provided for however this does not appear to be based on current collection history. <p>Police</p> <ul style="list-style-type: none"> • Arrears totalling £1.4 million are calculated using management percentages of 0%, 5%, 25%, 50%, and 100% at <3mths, 3-6mths, 6-12mths, 12-24mths, 24+mths. However, no workings to support these assumptions have been provided. <p>Given that the total value of debt is immaterial the provision is not materially misstated. However, we would recommend that current assumptions around standard percentages are regularly reviewed to ensure that any potential material misstatements do not arise.</p>



KEY AUDIT AND ACCOUNTING MATTERS

Continued

FINANCIAL STATEMENT DISCLOSURES

Our views on the sufficiency and content of your financial statements' disclosures are set out below:

DISCLOSURE AREA

AUDIT FINDINGS AND CONCLUSIONS

EXIT PACKAGES DISCLOSURE

Our testing of the exit package disclosure has identified the following:

- The number of compulsory redundancies within the £0 - £20,000 band should be two rather than three redundancies and the total cost for this band should be amended to £40,000
- The number of compulsory redundancies within the £100,001 - £150,000 should be one rather nil and the total cost for this band should be amended to £279,500.

Management has confirmed that the notes to the accounts will be amended to reflect the findings noted above.

OUTSTANDING MATTERS

We have substantially completed our audit work in respect of the risk areas identified for financial statements for the year ended 31 March 2016, and anticipate issuing an unqualified opinion on the financial statements if no significant issues are identified in the work that remains to be completed.

The following matters are outstanding at the date of this report. We will provide our final report to the Audit and Risk Management Committee in September 2016:

- 1 Completion of work in relation to:
 - Transaction and balances testing outstanding on various sections of the financial statements
 - Analytical procedures on total NDR gross billing debit
 - Review of the annual governance statement
 - The work outstanding in relation to use of resources.

- 2 Review and agreement of the final WGA data collection tool against the final set of financial statements

- 3 Subsequent events review

- 4 Management representation letter to be approved and signed.



CONTROL ENVIRONMENT

Significant deficiencies

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 you.

As the purpose of the audit is for us to express an opinion on the authority's financial statements, 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 have not identified any significant deficiencies in internal control.

WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

MATTER	COMMENT
<p>For Whole of Government Account (WGA) component bodies that are over the prescribed threshold of £350 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 authority for use by the Department of Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level.</p> <p>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.</p>	<p>HM Treasury’s Whole of Government Accounts team issued a newsletter at the end of June to explain the delay in issuing the DCT which was released on Monday 4 July. This means that local authorities’ deadline to submit the unaudited DCT to HM Treasury has been extended to 12 August and similarly our deadline to issue our audit opinion on the DCT has been extended to 21 October 2016.</p> <p>Providing there are no significant amendments required to the unaudited DCT submitted for audit by 12 August we will aim to complete our audit work and provide our audit opinion on the DCT at the same time as issuing our audit opinion on the financial statements.</p>

USE OF RESOURCES

Key informed decisions, deployed resources and sustainable outcomes

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). 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:

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

We reported our risk assessment, which included use of resources significant risks, in the 2015/16 Audit Plan issued in February 2016. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the draft financial statements, and we have not included any additional significant risks.

We report below our findings of the work designed to address these significant risks and any other relevant use of resources work undertaken.

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
<p>FINANCIAL SUSTAINABILITY (POLICE)</p>	<p>The City’s financial forecast, carried out in early 2016 as part of the budget process, indicated that whilst the recently released revenue allocations from the Policing Minister up to 2018/19 were better than expected, City Police is still facing significant challenges in ensuring that it has sustainable finances.</p> <p>The update to the Medium Term Financial Strategy (MTFS) to 2018/19 has forecast current budget gaps for City Police in 2017/18 (£2.9 million) and 2018/19 (£4.8 million) which includes current earmarked reserves being exhausted during 2018. Management is currently reviewing plans to address the resource gaps identified in the MTFS.</p> <p>Identifying the required level of savings from 2016/17 will be a challenge and is likely to require difficult decisions around service provision, potential increases in business rate premium or contributions from the City’s other funds.</p>	<p>Our audit work is currently in progress.</p> <p>HMIC inspectors are due to be completing their review of City Police’s performance in mid-July therefore we will need to have regard to the results of this review as there are overlaps with our work on financial sustainability.</p>

USE OF RESOURCES

Continued

RISK	RISK DETAIL AND WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
FINANCIAL SUSTAINABILITY (CITY FUND)	<p>The City Fund's MTFS is currently forecasting a surplus position over the next four years, including a surplus of £5.9 million in 2016/17 reducing to £1 million by 2019/20. This position is healthier than originally planned as the anticipated RSG settlement was predicted to fall from £12 million in 2015/16 to £nil by 2019/20. However, the recent budget announcement indicates that City Fund should still receive £6 million RSG in 2019/20.</p> <p>The MTFS is based on key income and expenditure assumptions as well as saving/income generation proposals where service budgets include savings of £3.8 million in 2015/16 increasing to £10.8 million in 2018/19. If key assumptions and savings plans have not been based on reliable data or have been overly optimistic the financial position could deteriorate over the medium term.</p>	<p>Our review of the assumptions in the City Fund Medium Term Financial Strategy is currently in progress. No significant issues have been identified to date.</p>

APPENDICES

APPENDIX I: MATERIALITY

MATERIALITY - FINAL AND PLANNING

	FINAL	PLANNING
Materiality	£5,300,000	£5,300,000
Clearly trivial threshold	£100,000	£100,000

Planning materiality for the authority has been based on 1.5% of the prior year gross expenditure. The clearly trivial amount is based on 2% of the materiality level. We had no reason to revise our final materiality level.

APPENDIX II: INDEPENDENCE

INDEPENDENCE - ENGAGEMENT TEAM ROTATION		
SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDED
LEIGH LLOYD-THOMAS - Audit engagement partner	1 st year	31 March 2021
Engagement quality control reviewer	1 st year	31 March 2021
KERRY BARNES - Audit manager	1 st year	31 March 2026

APPENDIX II: INDEPENDENCE

Continued

INDEPENDENCE - THREATS TO INDEPENDENCE AND APPROPRIATE SAFEGUARDS

We have provided non audit services in respect of certain grant claims and returns that do not form part of the Code audit or mandated certification work as directed by Public Sector Audit Appointments Limited. These are recorded on the following page and their fees are not considered significant in relation to the audit fees.

We are not aware of any financial, business, employment or personal relationships between the audit team, BDO and the authority.

We confirm that the firm complies with the FRC's Ethical Standards and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired.

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

APPENDIX III: FEES SCHEDULE

	CURRENT YEAR	THREATS TO INDEPENDENCE ARISING	SAFEGUARDS APPLIED AND WHY THEY ARE EFFECTIVE
	£		
Audit fee	86,383	N/A	
Certification fee (housing benefit subsidy)	11,396	N/A	
TOTAL AUDIT FEE	97,779		
Reporting on government grants (see below table for breakdown)	11,340	The threat to auditor independence from Audit Related Services is clearly insignificant. (ES5:54)	No safeguards required
TOTAL ASSURANCE SERVICES	109,119		

	CURRENT YEAR
	£
Teachers' Pension (local education authority)	4,500
Teachers' Pension (Centre for Young Musicians (City's Cash))	4,500
Pooling of Housing Capital Receipts	2,340
TOTAL AUDIT FEE	11,340

APPENDIX IV: AUDIT QUALITY

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

We seek to make improvements and address weaknesses identified from both external and internal quality reviews. Where issues have been identified an action plan is put in place. These plans may relate to individual assignments, individual offices to be firm-wide and in each instance the outcome of these actions is subject to monitoring and have been the subject of our analysis of root causes. The actions may include, but are not necessarily limited to, one or more of the following:

- The implementation, where appropriate, of relevant training for the engagement team where the issue is team specific;
- The revision and production of additional guidance in connection with the firm's audit approach where we identify that an issue is more wide-spread;
- The development and delivery of firm-wide training;
- Amendments and/or enhancements to stream policies and procedures.





FOR MORE INFORMATION:

LEIGH LLOYD-THOMAS

+44 (0)20 7893 2616
leigh.lloyd-thomas@bdo.co.uk

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO Northern Ireland, a separate partnership, operates under a licence agreement. BDO LLP and BDO Northern Ireland are both separately authorised and regulated by the Financial Conduct Authority to conduct investment business.

Copyright ©2016 BDO LLP. All rights reserved.

www.bdo.co.uk

