

## AUDIT COMPLETION REPORT

For the year ended 31 March 2017 Issued 20 July 2017



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# **SUMMARY**

AUDIT SCOPE AND OBJECT	AUDIT SCOPE AND OBJECTIVES			
Audit status  We have substantially completed our audit procedures, in respect of the risk areas, in accordance with the planned scope and our object to resolution of matters set out in the outstanding matters section below.				
Audit risks update	Following a review of assumptions used by the actuary for the valuation of the present value liability to pay future pensions we changed the risk from normal risk to significant risk.  We also changed land, buildings, dwellings and investment property valuations from a normal risk to a significant risk due to volatility and uncertainty over market prices in the year.  No other significant audit risks were identified during the course of our audit procedures subsequent to our audit plan to you dated 18 April 2017.			
Materiality	Our final City Fund overall financial statement materiality is £23 million. Specific lower materiality of £5.8 million has been applied in respect of income and expenditure transactions that impact on revenue resources to reduce the risk of material misstatements.  These have been updated from our audit plan to reflect final amounts in the financial statements.			
Changes to audit approach	There were no significant changes to our planned audit approach nor were any restrictions placed on our audit.			

KEY AUDIT AND ACCOUNT	KEY AUDIT AND ACCOUNTING MATTERS			
Material misstatements Testing completed to date has identified no material misstatements.				
Unadjusted audit differences	Testing completed to date has identified three unadjusted audit differences in respect of unrecorded pension scheme assets and overstatement of debtors and creditors due to incorrect accounting of receipts in advance. These do not have an impact on the reported deficit on the provision of services within the comprehensive income and expenditure statement but would reduce the pension liability disclosed on the balance and pension reserve by £1.4 million and reduce debtors and creditors by £6.3 million if corrected.			
Control environment	Our audit identified no significant deficiencies in internal controls.			

# **SUMMARY**

KEY MATTERS FROM OUR AUDIT OF USE OF RESOURCES		
Sustainable finances (Police)	Our audit work is currently in progress.  The external value for money review is due to be completed therefore we will need to have regard to the results of this review as there are overlaps with our work on financial sustainability.	
Sustainable finances (City Fund)	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.	

AUDIT OPINION	
Financial statements	Subject to the successful resolution of outstanding matters set out on page 5, we anticipate issuing an unmodified opinion on the financial statements for the year ended 31 March 2017.
Use of resources	Subject to the successful resolution of outstanding matters set out on page 5, we anticipate issuing an unmodified opinion on the use of resources for the year ended 31 March 2017.

OTHER MATTERS FOR THE ATTENTION OF THE AUDIT AND RISK MANAGEMENT COMMITTEE			
Whole of Government Accounts  We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of the City Fund financial statements.  will issue our opinion on the consistency of the DCT return with the audited financial statements before the 29 September 2017 statutory deadle			
Audit independence Our observations on our audit independence and objectivity and related matters are set out in Appendix IV.			
Audit certificate	We will issue our audit certificate after we have completed our work on the City Fund financial statements, pension fund financial statements, use of resources and whole of government accounts.		

## **INTRODUCTION**

### PURPOSE AND USE OF THIS REPORT

We present our audit completion report to the Audit and Risk Management Committee, which details the key findings 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.

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 use of resources. As the purpose of the audit is for us to express an opinion on the 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.

This report has been prepared solely for the use of the Audit and Risk Management Committee. 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 and throughout the period.

### **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 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.

More details can be found in our latest Transparency Report at www.bdo.co.uk.

## **OUTSTANDING MATTERS**

We have substantially completed our audit work in respect of the risk areas identified for the year ended 31 March 2017, and anticipate issuing unmodified opinions on the financial statements and use of resources.

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

Clearance of outstanding issues on the audit queries tracker currently with management, including:

- Differences in investment property valuation amounts recording in the asset register compared to the JLL final valuation report.
- Confirmation of the amount of maternity pay City Police employees are entitled to in order to determine if the amount actually paid is accurate.
- 2 Review of findings from the external value for money review for City Police
- 3 Partner and Technical review of the financial statements
- 4 Subsequent events review
- Final review and approval by you of the financial statements, including the management representation letter attached in Appendix VI

### **AUDIT RISKS**

We assessed the following matters as significant audit risks. We have amended the risk from normal risk to significant risk since we issued the audit plan on 18 April 2017 in respect of the assumptions supporting the valuation of the pension liabilities and for valuations of land, buildings, dwellings and investment property valuations. Below we set out how these risks have been addressed and the outcomes of our procedures.

**Key:** ■ Significant risk ■ Normal risk

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
	Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.  By its nature, there are no controls in place to mitigate the risk of management override.		Our audit work in relation to journals is in progress. Work to date has not identified any significant issues. We will update the Audit and Risk Management Committee with the results of our testing.  We have not found any indication of management bias in accounting estimates. Our views on significant management estimates are included below.  No unusual or transactions outside of the normal course of business were identified.

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
2	Revenue recognition	Under auditing Standards there is a presumption that income recognition presents a fraud risk. For local authorities, the risks can be identified as affecting the existence of income.	We 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.	We have not identified any issues as part of our grant income testing.
		In particular, we consider there to be a significant risk in respect of the existence (recognition) of revenue and capital grants that are subject to performance and / or conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES). We also consider there to be a significant risk in relation to the existence of fees and charges and investment rental income recorded in the CIES with a particular focus on year-end cut off.	We tested a sample of fees and charges to ensure income has been recorded in the correct period and that all income that has been recorded should have been recorded.	Our testing of fees and charges income is substantially complete and we have not identified any significant issues to date.

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
3	Land, buildings, dwellings and investment property valuations	Management use external valuation data to assess whether there has been a material change in the value of classes of assets. Investment properties are revalued annually according to market conditions at	We reviewed the instructions provided to the valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert.	From our review of the instructions provided to the valuer and assessment of the expertise of the valuer, we are satisfied that we can rely on this work.
	year-end. Higher value operational properties (other land and buildings and dwellings) are revalued annually to provide assurance that carrying values are materially stated, with the remainder of non-material value assets revalued periodically (minimum of every five years). Operational asset valuations are undertaken by both external and internal valuers.  We consider there to be a risk over the valuation of land buildings, dwellings and investment properties where valuations are based on market assumptions or where updated valuations have not be provided for a class of assets at the year-end.	properties (other land and buildings and dwellings) are revalued annually to provide assurance that carrying values are materially stated, with the remainder of non-material value assets revalued periodically (minimum of every five years).	We confirm that the basis of valuation for assets valued in year is appropriate based on their usage. We confirm that an instant build modern equivalent asset basis has been used for assets valued at depreciated replacement cost.	We have selected a sample of PPE assets and investment properties and we are in the process of reviewing the basis of the valuation for each asset and tracking the related transactions through the accounts.
		We reviewed the movements in valuations with other relevant market indices to assess the reasonableness of the valuations.	Our review of the reasonableness of valuation assumptions applied is noted on the following page.	
		(This has been increased from a normal risk to a significant risk due to volatility and uncertainty over market prices in the year)		

SIGNIFICANT ACCOUNTING ESTIMATES				
and investment property valuations				
HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT CONCLUSION			
We reviewed the movements in valuations with other relevant market indices to assess the reasonableness of the valuations.	ТВС			
Our audit testing is in this area is in progress.				
	HOW RISK WAS ADDRESSED BY OUR AUDIT  We reviewed the movements in valuations with other relevant market indices to assess the reasonableness of the valuations.			

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
4	LGPS pension and police pension liability assumptions	The LGPS pension liability comprises the City Fund's share of the market value of assets held in the City of London Pension Fund and the estimated future liability to pay pensions. The unfunded police pension liability includes the future liability to pay police pensions. An actuarial estimate of the pension funds' liabilities is calculated by an independent firm of actuaries with specialist knowledge and experience.  The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.  There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.	We reviewed the controls in place to ensure that the data provided from the fund to the actuary is complete and accurate.  We reviewed the basis of apportioning the pension costs and net liability of the Corporation to the City Fund.  We compared the disclosures in the financial statements to the information provided by the actuary.  We compared the assumptions used by the scheme actuary with assumptions used by other local government and police actuaries (provided by PwC consulting actuaries) to assess the reasonableness of the assumptions	AUDIT FINDINGS AND CONCLUSION  We did not identify any issues regarding the accuracy and completeness of data provided by the fund to the actuary.  TBC  TBC  Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations is noted in the following page.
		(This has been increased from a normal risk to a significant following a review of assumptions used by the actuary for the valuation of the present value liability to pay future pensions)	and impact on the calculation of the present value of estimated future pension payments. We also checked whether the actuary had applied assumptions in accordance with the range provided to PwC.	

#### SIGNIFICANT ACCOUNTING ESTIMATES Pension liability assumptions **ESTIMATE** HOW RISK WAS ADDRESSED BY OUR AUDIT **AUDIT CONCLUSION** The key assumptions The actuary has used the following assumptions to value to future pension liability: include estimating future Actual LGPS: Actuary expected cash flows to pay used range PwC assessment of actuary range to market expectations pensions including RPI increase 3.6% 3.5-3.6% Top of expected range (as no deduction for inflation risk premium) inflation, salary increases 2.6-2.7% Top of expected range (derived from RPI above) CPI increase 2.6% and mortality of members; Top of expected range (derived from RPI above) and the discount rate to Salary increase 4.1% calculate the present Pension increase 2.6% 2.6-2.7% Top of expected range (derived from RPI above) value of these cash 2.7-2.8% Discount rate 2.7% Above expectations (does not reflect full shape of the underlying **PRUDENT AGGRESSIVE** outflows yield curve or timing of the benefit payment) Mortality - LGPS: - Male current 25.2 years 23.5-26.6 Reasonable - Female current 26.7 years 26.5-28.3 Reasonable Police: 23.8 years 21.4-24.4 - Male retired Reasonable - Female retired 25.2 years 24.2-26.0 Reasonable Commutation 50% 50% Reasonable Mortality - Police: - Male current 23.1 years 23.5-26.6 Reasonable - although local actual used is below expected range - Female current 25.5 years 26.5-28.3 Reasonable - although local actual used is below expected range **PRUDENT** AGGRESSIVE - Male retired 21.7 years 21.4-24.4 Reasonable - Female retired 24.0 years 24.2-26.0 Reasonable - although local actual used is below expected range

### SIGNIFICANT ACCOUNTING ESTIMATES

### Pension liability assumptions

### ESTIMATE

### HOW RISK WAS ADDRESSED BY OUR AUDIT

### Continued

### PwC concluded:

The discount rates proposed at all durations fall outside of the top end of our expected ranges at 31 March 2017. Individually, we might view these assumptions to be optimistic, and auditors may wish to consider whether a lower discount rate (for example a reduction of 0.1%) would lead to materially different accounting entries for their employers. Auditors may be able to gain comfort that the assumptions in aggregate (i.e. considering all the financial and demographic assumptions together) will result in liability figures that are not materially misstated at 31 March 2017, albeit the chosen assumptions will be disclosed in the pensions note and thus subject to external scrutiny.

In response, we commissioned a separate review from an independent actuary (Broadstones) to review the strength of the assumptions applied and the potential impact on the calculation of the liability.

### Discount rates

This review concluded that, while the discount rate range applied was high, the approach to obtain a single point from the yield curve is an acceptable method.

A benchmarking exercise found that a rate up to 2.80% approached the 95th percentile (normal range 2.55% - 2.75%), and that the rate applied for this pension fund at 2.70% was above average but within a normal range. An increase of 0.1% in the discount rate would decrease the liabilities by 2%.

#### Inflation rates

A review of the RPI inflation assumptions concluded that the rate applied was high, and followed the same methodology as the discount rate curve methodology in not adjusting for an inflation risk premium.

A benchmarking exercise found that a rate up to 3.60% approached the 95th percentile (normal range 3.28% - 3.48%), and that the rate applied for this pension fund at 3.60% was above a normal range.

An increase of 0.1% in the inflation rate would increase the liabilities by 2%.

HOW RISK WAS ADDRESSED BY OUR AUDIT	
Overall impact of assumptions	
PwC concluded that overall Barnett Waddingham liabilities calculations tended to be generally 'strong' (i.e. placing a higher value on the liabilities) and that in combination the higher discount rate and higher inflation assumptions may result in an acceptable valuation.	
The Broadstones review concurred with this view and stated that reducing both the discount rate and inflation assumptions would bring these into line with general expectations, but would not lead to materially different liability calculation.	
Conclusion	
The impact of the higher discount rate and inflation rates tend to counteract each other and the overall liability calculation is reasonable.	
Police mortality assumptions	
We have requested additional information in respect of the mortality data used for the police pension scheme to confirm whether the mortality assumptions used reflect historic data for the City of London police.	
	Overall impact of assumptions  PwC concluded that overall Barnett Waddingham liabilities calculations tended to be generally 'strong' (i.e. placing a higher value on the liabilities) and that in combination the higher discount rate and higher inflation assumptions may result in an acceptable valuation.  The Broadstones review concurred with this view and stated that reducing both the discount rate and inflation assumptions would bring these into line with general expectations, but would not lead to materially different liability calculation.  Conclusion  The impact of the higher discount rate and inflation rates tend to counteract each other and the overall liability calculation is reasonable.  Police mortality assumptions  We have requested additional information in respect of the mortality data used for the police pension scheme to

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
5	Crossrail commitment	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 confirmed these conditions have been met and £200 million was paid on 28 March 2017. There is a risk around the appropriate date for recognition of the liability to pay amounts based on the crystallisation events in the agreement, and appropriate disclosures in the financial statements.	We reviewed the progress of the Crossrail works against the agreement commitments required to crystallise the payment and reviewed the accounting treatment and disclosures in the financial statements.	Crossrail was required to achieve four milestones in order for the City Fund to release its contribution of £200 million to the project. We reviewed Crossrail completion certificates and found that all four milestones had been achieved by 22 March 2017 thereby supporting the £200 million payment made by the City Fund on 28 March 2017.  We have not identified any issues with the accounting treatment but we have suggested that enhanced disclosures are made in the financial statements to describe the nature of this transaction as it is a material amount.  Management has confirmed that disclosure will be added to the revised version of the financial statements.

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
6	Corporation recharges	The Corporation recharges significant amounts of expenditure between the City Fund and City's Cash for costs such as building maintenance & insurance, support & central service employees' remuneration, surveyors and services relating to economic development.  In the prior year we discussed the apportionment rates used for each of the recharges and noted that some of the underlying evidence to support the calculation of the rates had not been reviewed for a number of years.  We consider there to be a risk in respect of the basis of the recharging as it may be outdated resulting in an inappropriate level of or incomplete recharging between the funds.	We assessed whether the rates used for recharging are based on the most appropriate information to support the service cost.  We undertook a review of the recharges between funds to ensure that they are accurate and have been charged to the correct fund.	Corporation recharges between the City Fund and City's Cash amounts to £26.7 million net expenditure in the City Fund financial statements.  We have assessed the rates used for different types recharges that make up this balance:  Building administration: these costs relate to the maintenance and operation of buildings e.g security and facilities. The City Surveyor provides recent floor plans and costs are apportioned based on office space occupied by each Fund  I.T service: these costs are apportioned based on the number of full time equivalent employees within the department or service being recharged  Insurance: these costs are apportioned based on which department owns the asset. Each asset has a unique identifier in order to determine which department it belongs to  Central support services: these costs are apportioned based on the actual time worked on each Fund. This information is derived from individual timesheets maintained throughout the year.  Rates used for recharging have been based on appropriate information to support the service cost and recharges have been accurately charged to the City Fund.

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
7	Lease premiums	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.  The apportionment between the land and building elements is a complex accounting estimate and there is a risk that the value of the spilt applied may not be appropriate.	Management has confirmed that the City Fund did not receive any lease premiums during 2016/17 and no lease premiums have been accounted for in the financial statements.	No lease premiums were received during 2016/17 or accounted for in the financial statements. This is in line with understanding of the activities of the City Fund during the year.
8	Consideration of related party transactions	We need to consider if the disclosures in the financial statements concerning related party transactions are complete and accurate, and in line with the requirements of the accounting standards.  There is a risk that related party transactions disclosures are omitted from the financial statements, or do not accurately reflect the underlying related party transaction.	We reviewed the related party transactions identification procedures in place and reviewed relevant information concerning any such identified transactions. We also carried out Companies House searches for undisclosed interests.  We discussed with management and reviewed member's and Senior Management declarations to ensure there are no potential related party transactions which have not been disclosed.	<ul> <li>We have carried out a Companies House search and reviewed member and senior officer declarations have not identified any undisclosed related party transactions.</li> <li>Our testing did identify the following disclosure issues:</li> <li>Museum of London paid the City Fund £1.4 million in rent and loan payments in 2016/17 rather than £7.4 million disclosed in note 42</li> <li>City Fund paid Kent County Council £7.8 million for procurement of goods and services in 2016/17 rather than £7.4 million disclosed in note 42.</li> <li>Management has confirmed that the disclosure will be amended in the revised version of the financial statements.</li> </ul>

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
9 Changes in presentation of financial state		Checklist to ensure that all of the required presentational changes have been correctly reflected within the financial statements.  We confirm that the analysis by service in the CIES is consistent with the internal reporting within the City Fund.  We reviewed the restatement of the comparative 2015/16 information to ensure that this is presented consistently with the current year basis.	As a result of the restating the 2015/16 CIES management identified £400,000 of recharges that had been incorrectly accounted for on a gross income and expenditure basis in the prior year financial statements. These have been correctly eliminated in the restated 2015/16 comparative CIES disclosed in the 2016/17 financial statements.  Our audit work is still in progress in respect of checking the consistency of statutory adjustments recorded in the EFA to elsewhere in the financial statements.  The financial statements includes an analysis of income by its nature (i.e fees & charges, grant income, interest and investment income, business rate income etc), in note 5. However, there is not an analysis of how this income is split between committees as required by the CIPFA Code. We recommend that this analysis is disclosed in the financial statements.

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND	CONCLUSION	
10	Non-domestic rates appeals provision	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	We agreed the underlying appeals information to the VAO reports of outstanding appeals.  As at 31 March 2017 million from £45 milding to the increased 2016/17 (5,101 in 20 2015/16) because the recent 2010 valuation the underlying appears of outstanding appears.  We agreed the accuracy of the information used to calculate the success rate from settled appeals.		provisions increased to £80.1 lion. This has significantly increased number of appeals received in 16/17 compared to 1,838 in e deadline to appeal the most n was 31 March 2017. We agreed als information to the VAO reports als.	
		used in calculating the likely success rate of appeals.		_		
SIG	NIFICANT ACCOUNTING	ESTIMATES				
EST	IMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT			AUDIT CONCLUSION	
	Management applied different success rates to different types of appeals based on the amounts repaid on appeal on recent years against the amount appealed. 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 range from 0.1% for appeals with multiple assessments to 4.4% for appeals where there have been material changes in circumstances. Higher success rates have been used for properties that have been demolished or no longer exit (49.5%) and properties that are now domestic or exempt from rating (100%).  This is a reasonable basis for estimating the provision for the future refunds from successful appeals.			PRUDENT AGGRESSIVE		

AUDIT AREA RISK DESCRIPTION HO		RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
collection of in respect of provisions for non-collect of NDR arrears, private residential rent arrears (current tenants) and arrears in relation to the Barbican Centre.			We reviewed the provision model for significant income streams and debtor balances to assess whether it appropriately reflects historical collection rates by age of debt or arrears.	This work is in progress.  No significant issues have been identified to date.
		In the prior year we reported that collection rates used had been based on either CIPFA guidelines or Corporation 'standard' percentages that we did not consider to be up-to-date for a significant proportion of these arrears.  There is a risk that the provisions may not accurately reflect collection rates based on age or debt recovery rates.		
SIG	NIFICANT ACCOUNTING	ESTIMATES		
EST	IMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT		AUDIT CONCLUSION
Estimate of future write- off for uncollectable debt  This work is in progress.		This work is in progress.		ТВС

### OTHER ISSUES

We comment below on other issues identified in the course of our audit, of which we believe you should be aware:

	AUDIT AREA	AUDIT FINDINGS
12	Receipts in advance	Our audit testing identified that £5.8 million of 2017/18 rents in respect of investment properties, HRA properties, Barbican Estate and Spitalfields Market had been invoiced in 2016/17 but classified as both a debtor and a receipt in advance in the 2016/17 financial statements submitted for audit. As the rents relate to 2017/18 and the cash had not been received by 31 March 2017 none of the invoiced rents should have been recorded in the 2016/17 financial statements.  Our audit testing also identified £0.5 million of new homes bonus grant relating to 2017/18 had been classified as a debtor and receipt in advance but the cash had not been received by 31 March 2017. As the grant relates to 2017/18 and the cash had not been received by 31 March 2017 the grant should not have been recorded in the financial statements.
		These have been recorded as uncorrected differences in appendix I.
13	Share of LGPS assets	The actuary has estimated the value of the fund assets for 31/3/17 based on a February date. The final City of London Pension Fund net assets statement shows assets £2.7 million higher than used by the actuary when allocating assets across the funds. The City Fund's share (51%) would increase the value of scheme assets and reduce the overall net pension deficit by £1.4 million if corrected.  This is included as an uncorrected difference in appendix I.
14	Presentation and disclosures	<ul> <li>To date, our audit testing in respect of accounts disclosures has identified the following:</li> <li>Remuneration of senior employees: Table 1 Remuneration in bands - Officers within the Market department have been misclassified as 'wholly charged to the City Fund,' and officers within the Central Criminal Court have been incorrectly omitted from the disclosure</li> <li>Exit packages disclosure - two Senior Officers who have received compensation for loss of office per the senior officer remuneration disclosure have been incorrectly excluded from the exit package disclosure</li> <li>Management has confirmed these will be corrected in the revised version of the financial statements.</li> </ul>

# **OTHER REPORTING MATTERS**

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

	MATTER	COMMENT
14	The draft financial statements, within the Statement of Accounts, was prepared and provided to us for audit on 12 June 2017.  As part of our planning for the audit, we prepared a detailed document request which outlined the information we would require to complete the audit.	We have no matters to report.
15	We are required to review the draft Annual Governance Statement and be satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Councils review of effectiveness and our knowledge of the Council.	Our work in respect of the Annual Governance Report is in progress.  We have not identified any significant issues to date.
16	We are required to read all the financial and non-financial information in the Narrative Report to the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.	Our work in respect of the Narrative Report is in progress.  We have not identified any significant issues to date.

## **CONTROL ENVIRONMENT**

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

As the purpose of the audit is for us to express an opinion on the City Fund'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 note that the Corporation's internal audit function has issued a number of observations and recommendations on the City Fund's control environment during 2016/17. We have not repeated these recommendations in this report unless we consider them to highlight significant deficiencies in control which we are required to report to you.

We are not aware of any significant deficiencies in the City Fund's internal controls in 2016/17.

## WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

### MATTER COMMENT

For Whole of Government Accounts (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.

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 07 July 2017. The Authority is in the process of completing the DCT and is due to submitted on 13 July 2017.

We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of the City Fund financial statements.

We will issue our opinion on the consistency of the DCT return with the audited financial statements before the 29 September 2017 statutory deadline.

## **USE OF RESOURCES**

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 2016/17 audit plan issued in 18 April 2017. 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.

**Key:** ■ Significant risk ■ Normal risk

# **USE OF RESOURCES**

RISK AREA		RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
18	(City Police)	City Police's net expenditure for 2016/17 was forecast to be £6.8 million higher than budget, and net expenditure for 2017/18 is budgeted to increase by a further £5.7 million. Overspends relate mainly to increased costs in respect of the Action Fraud Service I.T project, additional employer pension contributions to tackle the pension fund deficit as well as a reduction in the core police settlement grant. In order to balance the budget to 31 March 2018, City Fund will provide additional resources to fund specific costs and the remaining will be met by police reserves. It is expected that the police ring-fenced reserves will be fully utilised by 31 March 2018. The update to the Medium Term Financial Strategy (MTFS) to 2019/20 has forecast deficits of £5.6 million in 2018/19 and £3.8 million in 2019/20. We have undertaken a review the Medium Term Financial Strategy and assess the reasonableness of the assumptions used for cost pressures and the amount of grant reductions applied.  We have reviewed the delivery of the budgeted savings in 2016/17 and review the strategies, identified by the external value for money review, to close the budget gap in the medium term.  An external value for money review has been commissioned with a view to addressing financial pressures in the coming years.	Our audit work is currently in progress.  We will need to review the findings of the external value for money review that is due to be completed to inform our final conclusions.  However, Identifying the required level of savings in the medium term will be a challenge and is likely to require difficult decisions around service provision and increases in business rate premium.

# **USE OF RESOURCES**

RISK	AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION	
19	(City Fund)	The City Fund's MTFS forecast a surplus position of £7.2 million in 2016/17 and £10.7 million in 2017/18. This position is healthier than originally planned as the RSG settlement was higher than anticipated and the City has benefitted from an increase in business rates, arising from growth in business occupation, which under the Government scheme can be retained.  In 2018/19 the City Fund is forecast to breakeven and then move into a deficit position from 2019/20 due to costs for the Museum of London relocation project. Funding options for the Museum project are currently being considered.  The MTFS is based on key income and expenditure assumptions as well as significant savings/ income generation proposals within service budgets. 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.	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.	



## **APPENDIX I: AUDIT DIFFERENCES**

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

### **ADJUSTED AUDIT DIFFERENCES**

To date, our audit has not identified any material misstatements.

### **UNADJUSTED AUDIT DIFFERENCES**

There are three unadjusted audit differences identified by our audit work which if corrected would not impact on deficit on the provision of services. You consider these identified misstatements to be immaterial in the context of the financial statements taken as a whole. We concur with this judgement however we also request that you correct them even though not material.

# **APPENDIX I: AUDIT DIFFERENCES**

		INCOME AND EXPENDITURE		BALANC	E SHEET
		DR	CR	DR	CR
	£'000	£'000	£'000	£'000	£'000
Deficit on the provision of services before adjustments	146,200				
DR Long-term liabilities - pension liability				1,400	
CR Pension reserve					1,400
(1) Impact of increased scheme assets (City Fund share)					
DR Receipts in advance - rents				5,800	
CR Debtors - rental income					5,800
(2) Reversal of rents received in advance					
DR Receipts in advance - new homes bonus grant				500	
CR Debtors - grant income					500
(3) Reversal of grants received in advance					
TOTAL UNADJUSTED AUDIT DIFFERENCES	0			7,700	7,700
Deficit on provision of services if adjustments accounted for	146,200				

## **APPENDIX II: RECOMMENDATIONS AND ACTION PLAN**

**Key:** ■ Significant deficiency in internal control ■ Other deficiency in internal control ■ Other observations

AREA		OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING				
FINAN	FINANCIAL STATEMENTS									
	entation of the cial ments	The financial statements includes an analysis of income by its nature (i.e fees & charges, grant income, interest and investment income, business rate income etc), in note 5. However, there is not an analysis of how this income is split between committees as required by the CIPFA Code.	We recommend that this analysis is disclosed in the financial statements.	The decision to include or exclude this note will be reviewed prior to 2017/18 closedown as part of the wider agenda on streamlining and de-cluttering local authority financial statements.	Philip Gregory	September 2017				

### APPENDIX III: MATERIALITY

MATERIALITY - FINAL AND PLANNING						
	FINAL	PLANNING				
City Fund overall materiality	23,000,000	27,000,000				
Specific materiality for other financial statement areas: - Impact on revenue resources through the	5,800,000	5,500,000				
Comprehensive income and expenditure statement (CIES) and Movement in reserves statement (MiRS)	3,000,000	3,300,000				
Clearly trivial threshold:						
- Overall materiality	460,000	500,000				
- Specific materiality	116,000	100,000				

Planning materiality for the City Fund overall materiality was based on 1% of the prior year aggregate balance of property, plant and equipment and investment properties. This is because the City Fund has custody of significant public assets through its ownership of property assets and investments that are used to generate income to support the local authority services provided by the Corporation. These capital and investment balances form the largest part of the balance sheet. We consider that the balance sheet is of primary interest to the reader of the financial statements (Members of the City of London Corporation) and therefore we use the total value of property, plant and equipment, investment properties and investments as a suitable value for materiality.

Specific materiality was set using a lower level of materiality at 1.5% of prior year gross expenditure to income and expenditure transactions in the Comprehensive income and expenditure statement (CIES) and Movement in reserves statement (MiRS) that impact on revenue resources to reduce the risk of material misstatements. While the balance sheet is of primary interest to the reader of the financial statements, 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.

We had no reason to revise our final materiality percentage levels. We have, however, applied these levels to balances and transactions as at 31 March 2017 reported in the draft financial statements which has resulted in a change to the materiality amounts.

## **APPENDIX IV: INDEPENDENCE**

We confirm that the firm complies with the Financial Reporting Council's Ethical Standards for Auditors 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 lead and audit staff is not impaired. These policies include engagement lead and manager rotation, for which rotation is required after 5 years and 10 years respectively.

INDEPENDENCE - ENGAGEMENT TEAM ROTATION				
Senior team members	Number of years involved			
LEIGH LLOYD-THOMAS - Audit engagement lead	2			
KERRY BARNES - Audit manager	2			

We are not aware of any financial, business, employment or personal relationships between the audit team, BDO and the Corporation and we have not identified any potential threats to our independence as auditors.

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

# **APPENDIX V: FEES SCHEDULE**

	2016/17 FINAL PROPOSED	2016/17 PLANNED	2015/16 FINAL	
	£	£	£	EXPLANATION FOR VARIANCES
Code audit fee	86,383	86,383	86,383	As per PSAA scale fee
Housing benefits subsidy claim	11,205	11,205	11,396	As per PSAA scale fee
TOTAL AUDIT AND CERTIFICATION FEES	97,588	97,588	97,779	
Reporting on government grants:				
Pooling of Housing Capital Receipts return	2,340	2,340	2,340	
Teachers' Pension (local education authority)	4,500	4,500	4,500	
• Teachers' Pension (Centre for Young Musicians (City's Cash))	4,500	4,500	4,500	
Fees for other non-audit services	Nil	Nil	Nil	
NON-AUDIT ASSURANCE SERVICES	11,340	11,340	11,340	
TOTAL ASSURANCE SERVICES	108,928	108,928	109,119	

## APPENDIX VI: DRAFT REPRESENTATION LETTER

### TO BE TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP 55 Baker Street London WIU 7EU

[XX] August/September 2017

Dear Sirs

### Financial statements of City of London Corporation City Fund for the year ended 31 March 2017

We confirm that the following representations given to you in connection with your audit of the City Fund's financial statements (the 'financial statements') for the year ended 31 March 2017 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Corporation.

The Chamberlain has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and Statement of responsibilities of auditors and of audited bodies: local government issued by Public Sector Audit Appointments (PSAA), and in particular that the financial statements give a true and fair view of the financial position of the City Fund as of 31 March 2017 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) and for making accurate representations to you.

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

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

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

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.

### APPENDIX VI: DRAFT REPRESENTATION LETTER

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

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

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

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

We attach a schedule showing accounting adjustments that you have proposed, which we acknowledge that you request we correct, together with the reasons why we have not recorded these proposed adjustments in the financial statements. 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.

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

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

### a) Pension fund assumptions

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) and Police pensions 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): 2.6%

Rate of increase in salaries: 4.1%

Rate of increase in pensions: 2.6%

Rate of discounting scheme liabilities: 2.7%

• LGPS commutation take up option: 50%

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

## APPENDIX VI: DRAFT REPRESENTATION LETTER

### 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 council 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 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 2017 are consistent with our knowledge of the business.

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

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

Yours faithfully

Dr Peter Kane

[Chairman]

Chamberlain of London

Chairman of the Audit and Risk Management Committee

### FOR MORE INFORMATION:

### LEIGH LLOYD-THOMAS

Engagement lead

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## **KERRY BARNES**Manager

T: +44 (0)20 7893 3837 E: kerry.l.barnes@bdo.co.uk The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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