CITY OF LONDON PENSION FUND

AUDIT COMPLETION REPORT

For the year ended 31 March 2017
Issued 20 July 2017

BDO

CONTENTS

SUMMARY

AUDIT SCOPE AND OBJECTIVES	
Audit status	We have substantially completed our audit procedures in accordance with the planned scope and our objectives have been achieved, subject to resolution of matters set out in the outstanding matters section below.
Audit risks	Following a review of assumptions used by the actuary for the valuation of the present value liability to pay future pensions, where the discount rate applied was above our expectations, we changed the risk from normal risk to significant risk. 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 materiality is £9.6 million for the net asset statement and £1.6 million for the fund account. We have increased our materiality from £8 million to £9.6 million for the net asset statement as a result of the significant increase in valuation of investment asset year end.
Changes to audit approach	There were no significant changes to our planned audit approach nor were any restrictions placed on our audit.

KEY AUDIT AND ACCOUNTING MATTERS	
Material misstatements	Our audit identified no material misstatements. Management has made a number of presentational corrections and amendments to disclosures as a result of the audit.
Unadjusted audit differences	There are two unadjusted audit differences identified by our audit that relate to the presentation of working capital balances for amounts due to or from the Corporation that have been included in cash balance. This has no impact on the fund account surplus for the year.
Control environment	Our audit identified no significant deficiencies in internal controls. However, we noted that the pension administration system upgrade was not formally documented and properly approved prior to implementation to the live environment.

SUMMARY

AUDIT OPINION	
Financial statements	Subject to the successful resolution of outstanding matters set out on page 5, which are largely procedural, we anticipate issuing an unmodified opinion on the financial statements for the year ended 31 March 2017.
Pension fund annual report	Our review of the separate pension fund annual report is in progress and we will provide an oral update on the findings to the Audit and Risk Management Committee.

OTHER MATTERS FOR THE ATTENTION OF THE AUDIT AND RISK MANAGEMENT COMMITTEE	
Audit independence	Our observations on our audit independence and objectivity and related matters are set out in Appendix IV.

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

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 for the year ended 31 March 2017, and anticipate issuing an unmodified opinion on the financial statements.

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:

1 Completion of testing of journals

2 Review of the audit file by the engagement lead

3 Review of the amended financial statements

4 Subsequent events review

5 Final review and approval by you of the financial statements, including the management representation letter attached in Appendix VI

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT RISKS

We assessed the following matters as significant audit risks. We have amended the risk from normal risk to significant risk in respect of the assumptions supporting the valuation of the pension liabilities. 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
1	Management override of controls	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 response to this risk include: • testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements • reviewing accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud • obtaining an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.	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 found no bias in accounting estimates. See page 8 for our findings regarding the reasonableness of significant management estimates. No unusual or transactions outside of the normal course of business were identified.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
2	Pension liability assumptions	An actuarial estimate of the pension fund liability to pay future pensions is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on 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 that the membership data and cash flows provided to the actuary as at 31 March may not be correct, or the valuation uses inappropriate assumptions to value the liability. *(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)*	We have reviewed the controls in place to ensure that the data provided from the fund to the actuary is complete and accurate. We reviewed the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data. We have 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 actuaries (provided by PwC consulting actuaries) to assess the reasonableness of the assumptions and impact on the calculation of the present value of estimated future pension payments. We also checked whether the actuary had applied assumptions in accordance with the range provided to PwC.	We did not identify any issues regarding the accuracy and completeness of data provided by the fund to the actuary. It was noted that the actuary (Barnett Waddingham) had used a higher discount rate for the estimated future cash flows and a higher inflation rate(that drives salary and pensions increases) than other actuaries. Additional work allowed us to conclude that the overall net impact of these assumptions did not produce an unreasonable valuation range. See page 8 for further details. The disclosures in the financial statements did not agree to the information provided by the actuary for the 2018/19 Museum of London contribution rate at 15.7% (draft notes recorded 15.6%). This has been corrected by management. Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations is noted in the following page.

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES

Pension liability assumptions

ESTIMATE

The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows

HOW RISK WAS ADDRESSED BY OUR AUDIT

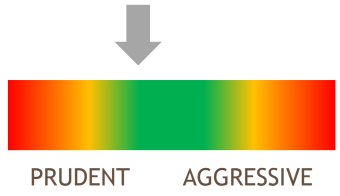
The actuary has used the following assumptions to value to future pension liability:

	Actual used	Actuary range	PwC assessment of actuary range to market expectations
RPI increase	3.6%	3.5-3.6%	Top of expected range (as no deduction for inflation risk premium)
CPI increase	2.6%	2.6-2.7%	Top of expected range (derived from RPI above)
Salary increase	4.1%	--	Top of expected range (derived from RPI above)
Pension increase	2.6%	2.6-2.7%	Top of expected range (derived from RPI above)
Discount rate	2.7%	2.7-2.8%	Above expectations (does not reflect full shape of the underlying 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
- Male retired	23.8 years	21.4-24.4	Reasonable
- Female retired	25.2 years	24.2-26.0	Reasonable
Commutation	50%	50%	Reasonable

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.

AUDIT CONCLUSION



KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES	
Pension liability assumptions	
ESTIMATE	**HOW RISK WAS ADDRESSED BY OUR AUDIT**
Continued	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%. **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.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
3	Contributions receivable (normal, pension strain and augmented)	Employers are required to deduct amounts from employee pay based on tiered pay rates and to make employer contributions in accordance with rates agreed with the actuary, including current funding and past service deficit funding. Augmented contributions may also be required for the award of enhanced discretionary pensions and pension strain for early or ill health retirements. There is a risk that employers may not be calculating contributions correctly or paying over the full amount due to the pension fund.	We have performed an examination, on a test basis, of evidence relevant to the amounts of normal contributions receivable to the fund including checking to employer payroll records, where relevant. We have reviewed contributions receivable and ensure that income is recognised in the correct accounting. We have carried out audit procedures to review contributions income in accordance with the Actuary's Rates and Adjustments Certificate.	Our testing has not identified any issues with the timings of contributions receivable to the fund or the accuracy of the amounts paid by the employer or employee.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
4	Fair value of private equity and infrastructure investments	The investment portfolio includes unquoted infrastructure and private equity holdings of approximately £48 million (at 31 March 2016) valued by the General Partner or fund manager using valuations obtained from the underlying partnerships ventures. In some cases, the valuations of the underlying ventures are provided at dates that are not coterminous with the pension fund's year end and need to be updated to reflect cash transactions (additional contributions or distributions received) since the latest available valuations. There is a risk that investments are not appropriately valued in the underlying ventures or may not be appropriately adjusted to include additional contributions or distributions at the year end.	We have obtained direct confirmation of investment valuations from the General Partner or fund managers including copies of the audited financial statements of the partnership(and member allocations) from the fund Where the financial statement date supporting the valuation is not conterminous with the pension fund's year end, we have confirmed that appropriate adjustments have been made to the valuations in respect of additional contributions and distributions with the funds. We have obtained independent assurance reports over the controls operated by both the fund managers and custodian for valuations and existence of underlying investments in the funds.	Our testing has not identified any issues with the valuation of investments at year end or the effectiveness of controls operated by fund managers for valuations and existence of underlying investments in the funds.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
5	Fair value of investments (pooled investments)	The fair value of pooled investment vehicles is provided by individual fund managers and reported on a monthly basis. There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements.	We have obtained direct confirmation of investment valuations from the fund managers and agreed published fund manager valuations, where available, to readily available observable data (such as Bloomberg). We have obtained independent assurance reports over the controls operated by both the fund managers and custodian for valuations and existence of underlying investments in the funds. We have reviewed the Custodian's performance monitoring reports and followed up valuations (provided by the Fund Manager and used to as the valuation in the financial statements) that appear unusual when compared to the Custodian's independent performance monitoring report.	We noted that a £5 million sale of investment in Pyrford funds was incorrectly disclosed in the investment notes as a cash change rather than a disposal. This has been corrected and had no impact on the overall carrying value of investment assets. We noted a difference of £363,000 between the fund manager's year end valuation and the custodian valuation in respect of Carnegie funds. We confirmed the quoted value of the Carnegie funds on Bloomberg with only a trivial difference between the quoted market value and fund managers valuation. Difference between the fund manager's valuation and the custodian's valuation was due to exchange rate used. Exchange rate used by the fund manager was consistent with the rate used by the pension fund in the translation of other funds denominated in foreign currency. No other issues were noted regarding the valuation of investments at year end or the effectiveness of controls operated by fund managers for valuations and existence of underlying investments in the funds.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
6	Investment management expenses	Management expenses represent the fee for the service provided by and any performance related fees in relation to the fund manager. Fund managers do not ordinarily provide information on any 'hidden' fees included in investing contributions. These fees are deducted when the investment is made by the fund manager and hence is included in the change in market value of investments. CIPFA has issued guidance on obtaining and separately presenting these additional charges in the fund accounts. While not mandatory to report these costs separately, there is a clear expectation that LGPS fund accounts do observe this guidance. CIPFA intends to make this a mandatory disclosure requirement from 2017/18. We consider there to be a risk in the presentation of investment management expenses in the fund accounts where these 'hidden' fees are not identified and separately reported.	We discussed with management the process put in place during the year to obtain the necessary information from the fund managers to comply with the investment management expense disclosure as recommended by CIPFA. We reviewed the accounts to ensure that investment management expenses have been disclosed in accordance with CIPFA's guidance For a sample of investment management expense we agreed amount to year end confirmations received from the fund managers by the pension fund.	We noted that investment management fees have not been disclosed in line with CIPFA's guidance. We noted that management took the necessary steps in ensuring the right information is obtained from the fund managers to comply with the requirement. There was however difficulties in obtaining such information in full and consistently particularly from US based fund managers who are naturally less cognisant of developments in fee transparency for UK based investors, and specifically to the LGPS. We recommend that management continue to liaise with fund managers as soon as possible to encourage them to implement the necessary steps in order for them to provide relevant management expense information for the 2017/18 accounts.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
7	Remuneration of key management personnel disclosure	The 2016/17 CIPFA Code requires that amounts incurred by the pension fund for the provision of key management personnel services that are provided by a separate but related entity shall be disclosed. Key management personnel include senior management employed by the Corporation. It is expected that a percentage of their remuneration will be required to be disclosed to reflect the cost charged to the pension fund through the management fee charged by the Corporation. We consider there to be a risk in the presentation of key management personnel services are provided by a separate management entity (the Corporation).	We have reviewed the basis for apportioning costs between the pension fund and Corporation and ensure that costs relating to the provision of key management personnel services are accurately disclosed.	We noted that the management fee for the costs incurred by the Corporation in providing staff and general running costs support to the pension fund did not include any allowance for the time spent by senior management of the Corporation. Therefore, no disclosure has been included in the pension fund financial statements for key management personnel remuneration. We recommend that the Corporation estimate the amount of time spent by senior management on governance and other duties in respect of the pension fund and include this in the recharge allocation management fee to the pension fund.
8	Related party transactions	We consider if the disclosures in the financial statements concerning related party transactions are complete, accurate and in line with the requirements of the accounting standards.	We reviewed the Financial investment Board declarations to ensure there are no potential related party transactions which have not been disclosed. We also performed a company house search to ensure that there no undeclared related parties by the board members.	We noted that the Corporation was not included as a related party in the pension fund. Management has since included this information in the related party transactions note including the contributions received and administrative fees

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
9	Fair value hierarchy disclosures	The IFRS 13 scope exclusion for fair value investment disclosures for pension funds has been removed and fair value measurement disclosures apply in full for 2016/17. This will require enhanced disclosures around the fair value hierarchy of investments, and in particular any disclosed as 'level 3.' These types of valuations are subject to a significant level of assumption and estimation and valuations may not be based on observable market data. There is a risk that the pension fund may not be able to obtain the information needed in order to make the required IFRS 13 fair value investment disclosures in the financial statements.	We reviewed the fair value hierarchy disclosures and checked that investment valuations have been correctly classified as a level 1, 2 or 3 in accordance with guidance issued by PRAG/Investment Association: Practical Guidance on Investment Disclosures 2016. For level 3 valuations, we confirmed that appropriate disclosure had been included in the financial statements.	Our review found that the Pooled Investment Vehicles had been categorised as level 1 valuations (derived from unadjusted quoted prices in active markets for identical assets or liabilities) but should correctly be included as level 2 (where quoted market prices are not available or the market is not considered to be active). This is because the fund manager valuation of units is indicative of the underlying net asset value of the funds but is not considered to be an active market since these are not on an exchange traded funds platform. Management has since categorised these as level 2 valuations and restated prior year comparatives accordingly. This has no impact on the carrying value of the investments.
10	Benefits payable	Benefits payable may not be correct based on accrued benefits of members or may not be in calculated in accordance with the scheme regulations. Payment to wrong or non-existent members will result in loss of assets and risk of reputational damage.	For members leaving the scheme and deferring their pension and members becoming entitled to receive pension during the year, we checked a sample of calculations of pension entitlement to ensure benefits entitlements are accurate We have checked a sample of pensioners in receipt of pensions to underlying records to confirm the existence of the member. We have checked and confirmed that no inflationary uplift required in 16/17 as CPIX index for 12 months to September 2015 was negative as per HM Treasury.	Our testing of pension benefits payable did not identify any issues.

KEY AUDIT AND ACCOUNTING MATTERS

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
11	Presentation of amounts due to and from the Corporation	The Corporation owed £110,000 to the pension fund at year-end in respect of contributions due for pension strain costs for early retirements. This was paid after year-end but has been included in cash as a reconciling item. This should properly be included in debtors for amounts receivable from the Corporation rather than cash balances. The Corporation paid costs of £281, 000 on behalf of the pension fund that was repaid to the Corporation after year-end. This has been included in cash as a reconciling item but should properly be included in creditors for amounts payable to the Corporation. This has no impact on the fund account surplus for the year or the overall net assets.
12	Pension liability disclosure	The net asset of the fund increased to £966.2 million compared to the £963.5 million estimated by the actuary in February. The estimated net asset of £963.5 million was used in the net liability disclosure instead of the actual £966.2 million.
13	Membership records	We noted that a report showing details of members was not produced at the time the membership numbers reported in the accounts were obtained from the pension system. We recommend a report listing members that support membership numbers reported in the financial statements is obtained at the same time the membership numbers are obtained from the pension system to ensure there is sufficient audit trail supporting the membership numbers.
14	Financial statements presentation and disclosures	We have suggested a number of changes to the financial statements, in addition to amendments noted earlier in our report, including: • amending the layout so that the primary statements appear before the accounting policies and the actuary's valuation report • updates to accounting policies • disclosure regarding the impact of changes to assumptions for the pension liability • categorisation of financial instruments disclosures Management has agreed to make these amendments

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

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 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 did not identify and significant deficiencies in internal controls during the audit.

However, we identified during our review of the pension system upgrade that there was no formal documentation of test results during system upgrade or system programme changes prior to implementation to live environment. There is a risk that errors may occur in the live environment without proper testing which may adversely affect the completeness and accuracy of key information and data.

APPENDICES

APPENDIX I: AUDIT DIFFERENCES

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

ADJUSTED AUDIT DIFFERENCES

Our audit has not identified any material misstatements.

Management has made a number of presentational corrections and amendments to disclosures as a result of the audit.

UNADJUSTED AUDIT DIFFERENCES

There are two unadjusted audit differences identified by our audit that relate to the presentation of working capital balances for amounts due to or from the Corporation that have been included in cash balance. This has no impact on the fund account surplus for the year.

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

		FUND ACCOUNT		NET ASSET STATEMENT	
		DR	CR	DR	CR
	£ million	£ million	£ million	£ million	£ million
Net assets	966.2				
DR Debtors				0.1	
CR Creditors					(0.3)
DR Cash				0.2	
Amounts paid by the Corporation on behalf of the pension fund to be shown as creditor £0.3 million and amounts due from the Corporation for pension strain on early retirements £0.1million to be shown as debtors, reclassified from cash balances					
TOTAL UNADJUSTED AUDIT DIFFERENCES	-	-	-	0.3	(0.3)
Fund Account increase for the year if adjustments accounted for	966.2				

UNADJUSTED DISCLOSURE MATTERS
The net asset of the fund increased to £966.2 million compared to the £963.5 million estimated by the actuary in February. The estimated net asset of £963.5 million was used in the net liability disclosure instead of the actual £966.2 million.

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
FINANCIAL STATEMENTS					
Investment management expenses	We discussed with management the process put in place during the year to obtain the necessary information from the fund managers to comply with the investment management expense disclosure as recommended by CIPFA. We reviewed the accounts to ensure that investment management expenses have been disclosed in accordance with CIPFA's recommendation We noted that investment management fees have not been disclosed in line with CIPFA's recommendations. We noted that management took the necessary steps in ensuring the right information is obtained from the fund managers to comply with the requirement. There was however difficulties in obtaining such information in full and consistently, particularly from US based fund managers who are naturally less cognisant of developments in fee transparency for UK based investors, and specifically to the LGPS sector.	We recommend that management continue to liaise with fund managers as soon as possible to encourage them to implement the necessary steps in order for them to provide relevant management expense information for the 2017/18 accounts.	The Scheme Advisory Board has released a voluntary code of transparency with a supporting template to reflect CIPFAs fee disclosure breakdown. We will be writing to all managers in Autumn 2017 in support of the template and ask them to sign up to the code (at least one manager has signed up to the code already of their own accord) We will also use business as usual face-to-face meetings throughout the year to endorse the code and outline disclosure requirements ahead of time. In Jan/Feb 2018 we will write formerly to all managers requesting they reconcile all fees in line with the CIPFA disclosure requirements for the financial year 2017/18 within the first couple of weeks in April 2018. Where	Group Accountant - Pensions & Treasury / Corporate Treasurer	On-going

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
FINANCIAL STATEMENTS					
			this is unavailable in a timely manner(Private equity), estimates will have to be used		
Senior management time	We noted that the management fee for the costs incurred by the Corporation in providing staff and general running costs support to the pension fund did not include any allowance for the time spent by senior management of the Corporation.	We recommend that the Corporation estimate the amount of time spent by senior management on governance and other duties in respect of the pension fund and include this in the recharge allocation management fee to the pension fund.	A review of key officer (Chamberlain & Deputy-Chamberlain) time attributable to the Pension Fund will take place. Should a re-allocation of salary costs be deemed necessary, expense recharges will be processed accordingly?	Deputy Chamberlain	October 2017

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
Membership records	We noted that a report showing details of members was not produced at the time the membership numbers reported in the accounts were obtained from the pension system.	We recommend a report listing members that support membership numbers reported in the financial statements is obtained at the same time the membership numbers are obtained from the pension system to ensure there is sufficient audit trail supporting the membership numbers.	A full extract of members will be run at same time as membership numbers.	Pensions Manager	End of year
INFORMATION TECHNOLOGY CONTROL ENVIRONMENT					
System change control	We identified during our review of the pension system upgrade that there was no formal documentation of test results during system upgrade or system programme changes prior to implementation to live environment. There is a risk that errors may occur in the live environment without proper testing which may adversely affect the completeness and accuracy of key information and data.	We recommend that management ensure that all tests are formally documented with results clearly detailed. All test results must be formally approved by designated key members of staff before any implementation to the live environment can occur.	A testing matrix will be kept documenting results in test environment in advance of system updates into live service.	Pensions Manager	Prior to live system updates

APPENDIX III: MATERIALITY

MATERIALITY - FINAL AND PLANNING

	FINAL	PLANNING
Pension fund overall materiality	£9.6 million	£8 million
Fund account specific materiality	£1.6 million	£1.6 million
Clearly trivial threshold	£193,000	£32,000

Planning materiality for the pension fund financial statements was based on 1% of prior year net assets. Specific materiality was set of 5% of prior year contributions for the fund account. These were updated for actual amounts reported in the draft financial statements.

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 – 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 Council.

APPENDIX V: FEES SCHEDULE

	2016/17 FINAL PROPOSED £	2016/17 PLANNED £	2015/16 FINAL £	EXPLANATION FOR VARIANCES
Code audit fee	21,000	21,000	21,000	
TOTAL AUDIT	**21,000**	21,000	21,000	
Fees for other non-audit services	-	-	-	
TOTAL ASSURANCE SERVICES	**21,000**	**21,000**	21,000	

APPENDIX VI: DRAFT REPRESENTATION LETTER

TO BE TYPED ON CLIENT HEADED NOTEPAPER
BDO LLP
55 Baker Street
London
WIU 7EU

[DATE]

Dear Sirs

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

We confirm that the following representations given to you in connection with your audit of the pension fund's financial statements for the year ended 31 March 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 transactions of the scheme and the amount and disposition at the end of the year of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and for making accurate representations to you.

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

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

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

APPENDIX VI: DRAFT REPRESENTATION LETTER

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

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

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

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

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

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

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

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

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

The following key assumptions have been used to calculate the actuarial present value of future pension benefits disclosed in the financial statements:

- RPI increase 3.6%
- CPI increase 2.6%
- Salary increase 4.1%
- Pension increase 2.6%
- Discount rate 2.7%
- Mortality: retiring in 20 years - male 25.2 years and female 26.7 years / retiring today - male 23.8 years and female 25.2 years
- Commutation take up 50%

We consider these assumptions to be appropriate for the purposes of estimating the pension liability in accordance with the Code and IAS 19.

APPENDIX VI: DRAFT REPRESENTATION LETTER

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

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

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that 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

Chamberlain

[date]

Ian David Luder

Chairman

Signed on behalf of the Audit and Risk Management Committee

[date]

FOR MORE INFORMATION:

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

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