Public Document Pack

Finance Committee
APPENDICES PACK

Date: **TUESDAY, 18 SEPTEMBER 2018**

Time: **1.45 pm**

Venue: **COMMITTEE ROOMS - COMMITTEE ROOMS**

Members:
Jeremy Mayhew (Chairman)
Deputy Jamie Ingham Clark (Deputy Chairman)
Randall Anderson
Nicholas Bensted-Smith
Chris Boden
Deputy Roger Chadwick
Dominic Christian
Karina Dostalova
Simon Duckworth
Sophie Anne Fernandes
John Fletcher
Christopher Hayward
Deputy Tom Hoffman
Alderman Robert Howard
Michael Hudson
Deputy Wendy Hyde
Deputy Clare James
Alderman Alastair King
Gregory Lawrence
Tim Levene
Oliver Lodge
Paul Martinelli
Deputy Robert Merrett
Hugh Morris
Alderman Andrew Parmley
Susan Pearson
William Pimlott
Deputy Henry Pollard
Alderman Matthew Richardson
James de Sausmarez
Ian Seaton
Sir Michael Snyder
Deputy James Thomson
James Tumbridge
Deputy Philip Woodhouse
Deputy Catherine McGuinness (Ex-Officio Member)
Andrew McMurtrie (Ex-Officio Member)
Deputy Alastair Moss (Ex-Officio Member)

Enquiries: **John Cater**
tel. no.: 020 7332 1426
john.cater@cityoflondon.gov.uk

Lunch will be served for Members in Guildhall Club at 1pm
NB: Part of this meeting could be the subject of audio video recording

John Barradell
Town Clerk and Chief Executive

AGENDA

11. **2017-18 CITY FUND AND PENSION FUND FINANCIAL STATEMENTS – AUDIT COMPLETION REPORT**
Report of the Chamberlain.

For Information
(Pages 103 - 170)

14. **CITY RE LIMITED - PERFORMANCE MONITORING**
Report of the Chamberlain

For Information
(Pages 171 - 194)

21. **WOODREDON ESTATE PROPERTIES - DISPOSAL OF WOODREDON HOUSE, THE COACH HOUSE, THE LODGE & LAUNDRY COTTAGE**
Report of the City Surveyor.

For Decision
(Pages 195 - 200)

22. **PROVISION FOR BAD DEBT**
Report of the Chamberlain

For Information
(Pages 201 - 202)

CITY OF LONDON CORPORATION
CITY FUND

AUDIT COMPLETION REPORT

Audit for the year ended 31 March 2018

31 July 2018

CONTENTS

WELCOME

We have pleasure in presenting our Audit Completion Report to the Audit and Risk Management Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2018, specific audit findings and areas requiring further discussion and/or the attention of the Audit and Risk Management Committee. At the completion stage of the audit it is essential that we engage with the Audit and Risk Management Committee on the results of audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We discussed these matters with you at the Audit and Risk Management Committee meeting on 17 July 2018.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and use of resources. This report has been prepared solely for the use of the Audit and Risk Management Committee and those charged with governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person.

We would also like to take this opportunity to thank the management and staff of the Corporation for the co-operation and assistance provided during the audit.

OVERVIEW

This summary provides an overview of the audit matters that we believe are important to the Audit and Risk Management Committee in reviewing the results of the audit of the financial statements and use of resources of the Corporation's City Fund for the year ended 31 March 2018. It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

AUDIT SCOPE AND OBJECTIVES	
Audit status	We have completed our audit procedures in accordance with the planned scope and our objectives have been achieved.
Audit risks update	No additional significant audit risks were identified during the course of our audit procedures subsequent to our Audit Plan to you dated 15 February 2018.
Materiality	Our final materiality is £24.4 million with specific materiality for items which impact on the Comprehensive Income and Expenditure statement of £6.3 million. We have increased our materiality from £23.4 million to £24.4 million as a result of an increase in the valuation of assets and increased our specific materiality from £5.8 million to £6.3 million as a result of an increase in gross expenditure.
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.
Unadjusted audit differences	We are required to bring to your attention audit differences that we have identified, but you are not proposing to adjust. These include: • Two errors in the calculation of the provision for NDR appeals including an error in the formula that reduces the provision by £4.1 million and re-categorisation of appeal type for a number of appeals that increases the provision by £1.4 million. The net error is an overstatement of the appeals provision and understatement of the surplus for the year of £2.7 million in the collection fund and the City Fund's share included in the CIES of £0.81 million based on the 30% share of business rates. • We believe that management has been overly prudent in providing for 100% of 2017 rating list appeals and that the provision amount, while not material, may be overstated by a non-trivial amount. We estimate that the potential impact on the Corporation's CIES where the amount provided is beyond a reasonable range could be up to £0.35 million. • Error in the deprecation rate used resulting in £0.16 million overstatement of deprecation cost (and understatement of assets). • Errors found where accrued expenditure for open purchase orders had been recorded as receipted but not invoiced (GRNIs) but where the orders had only been partly fulfilled. Our testing of 14 items with a value of £2.69 million identified 6 items totalling £0.84 million should not have been included as accrued expenditure. We have projected potential additional errors across the total of GRNIs at £2.47 million. If corrected, these errors would increase the surplus on the provision of services for the year by £2.16 million (or £4.63 million including the projected error across all GRNIs). The depreciation error and NDR appeals provision errors would not impact on the General Fund balance this year as these are reversed to other reserves.
Control environment	We identified a significant weakness in internal controls relating to strategic financial management for the City of London Police Force.

OVERVIEW

KEY MATTERS FROM OUR AUDIT OF USE OF RESOURCES	
Sustainable finances (City Police)	City Police has produced an MTFS showing a surplus for 2018/19 and then moving into deficit over the following three years. Our review of the processes around the production of the MTFS and budget monitoring by the police finance team has identified a number of weaknesses including overly optimistic financial estimates and assumptions, incorrect treatment of slippage of projects and high turnover of senior finance staff. We consider that there are deficiencies in the robustness and accuracy of the information being provided by the City Police Finance team to the Corporation of London's Chamberlain's department. The Chamberlain's Department is providing assistant to strengthen financial management arrangements in the City Police Finance team and to provide additional financial resources in the short term to address funding gaps.
Sustainable finances (City Fund)	The City Fund MTFS shows a surplus for 2018/19 but then forecasts a budgeted deficit over the following three years through planned withdrawal from reserves of £103 million to fund the Museum of London and Combined Courts Relocation projects. The City Fund may choose to make use of capital borrowing rather than revenue funding for some of these costs as they crystallise should the need arise. The City Fund currently holds reserves of £122 million. We consider that there are appropriate arrangements in place with regard to sustainable finances for City Fund.
AUDIT OPINION	
Financial statements	We issued an unmodified opinion on the financial statements for the year ended 31 March 2018.
Governance Statement	We have no exceptions to report in relation to the consistency of the Annual Governance Statement with the financial statements or our knowledge.
Use of resources	We issued an unmodified opinion on the arrangements for securing economy, efficiency and effectiveness for the use of resources for the year ended 31 March 2018.
OTHER MATTERS FOR THE ATTENTION OF THE AUDIT COMMITTEE	
Whole of Government Accounts (WGA)	We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of the financial statements. We plan to issue our opinion on the consistency of the DCT return with the audited financial statements before the 31 August 2018 deadline.
Audit independence	Our observations on our audit independence and objectivity and related matters are set out in Appendix IV.
Management letter of representation	The management letter of representation is set out in Appendix VI.

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT RISKS

We assessed the following matters as audit risks, as identified in our Audit Plan to the Audit and Risk Management Committee. We have set out below how these risks have been addressed and the outcomes of our procedures.

Key: ■ Significant risk ■ Normal risk ■ Other key issues

	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.	We have: • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements	Our work testing journal entries has not identified any issues.
			• Reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud	We have found no bias in accounting estimates. We have commented on the reasonableness of significant accounting estimates later in the report.
			• Obtained 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.	We found no significant transactions that were outside the normal course of business or otherwise appear unusual.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
2	**Revenue recognitions**	Under Auditing Standards there is a presumption that income recognition presents a fraud risk. 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 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 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 work testing a sample of grants and performance conditions is complete and no issues have been identified. Our testing confirmed that income has been recorded in the correct period and that income that should have been recorded has been recorded.

KEY AUDIT AND ACCOUNTING MATTERS

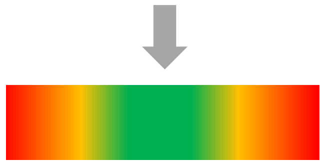
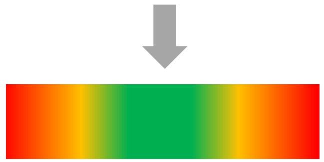
	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
3	**Land, buildings, dwellings and investment property valuations**	Management use external valuation data to assess whether there has been a material change in the value of classes of assets. Investment properties are revalued annually according to market conditions at 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 significant 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. This is a significant risk due to the higher estimation uncertainty arising from the range of assumptions available to value land and property assets.	We reviewed the instructions and the detailed information provided by the City Fund to the valuers and performed procedures to confirm the accuracy and completeness of the information. We confirmed that the basis of valuation for assets valued in year is appropriate based on their usage. We reviewed valuation movements against indices of price movements for similar classes of assets and followed up valuation movements that appear unusual against indices.	From our review of the instructions provided to the valuers and assessment of the expertise of the valuers, we are satisfied that we can rely on this work. Our audit work to agree the accuracy and completeness of information provided to the valuers to support the underlying asset data (such as floor areas and rent agreements) did not identify any issues. Our audit work on valuation basis applied for the use of the asset for a sample of assets did not identify any issues. Overall the valuation movements were in line with our expectations based on indices for similar classes of transactions. Our review of the reasonableness of valuation assumptions applied is noted on the following page.

KEY AUDIT AND ACCOUNTING MATTERS

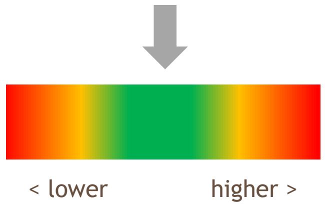
Page 111

SIGNIFICANT ACCOUNTING ESTIMATES

Land, buildings, dwellings and investment property valuations

ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT	IMPACT
Land and buildings are valued by reference to existing use market values Dwellings are valued by reference to open market value less a social housing discount Investment properties are valued by reference to highest and best use market value Some specialist buildings are valued at depreciated replacement cost by reference to building indices	We have benchmarked the valuation movements to land and building price indices for the year produced by Gerald Eve LLP and reviewed the information and assumptions used by the valuers. **Dwellings** Council dwellings decreased in value by £10.9 million (-3.17%) in 2017/18. Dwellings were subject to valuation based on allocation of properties into relevant Beacons (for similar types of properties) and valued by reference to recent sales data for similar properties. Our benchmark report for house prices suggests an overall reduction in value of London properties 0.7% and the City Surveyor has provided City of London price data suggesting an overall market reduction for house sales of 0.45% based on the Nationwide Index London Regional House Sales. The commentary provided in relation to the HRA valuation provides details of the sales data used to support the HRA valuation. Where possible the City Surveyor has used other sales on City Fund Estates to support their valuations. Where there haven't been appropriate sales in the year the City Surveyor have used other similar properties in the area or other City of London Estates. Based on our work, we are satisfied that the valuations of dwellings are reasonable. We note that the useful economic lives (UEL) of council dwellings has been set at 125 years based on the usual term for leases granted and is significantly longer than the UELs used by other local authorities. The Corporation's City Surveyor has stated that this is due to the robust structure and ongoing repairs, maintenance and cyclical replacement works programmes in place for these properties. We are satisfied that the remaining UELs, used to calculate council dwelling depreciation, are reasonable. **Other land and buildings** Other land and buildings increased in value by £34.8 million (+7.98%) in 2017/18. Land and buildings have been valued using an appropriate basis of valuation (such as existing use, depreciated replacement cost or market value) depending on the use of the asset. Our benchmark report for rebuild costs from the national BCIS Tender Price Index suggests an increase in value for depreciated replacement cost (DRC) valuations of +6.7%, although this is subject to a higher degree of volatility and estimation from regional costs and other factors. Based on our work, we are satisfied that the valuations of other land and buildings are reasonable.	 

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES		
Land, buildings, dwellings and investment property valuations		
ESTIMATE	**HOW RISK WAS ADDRESSED BY OUR AUDIT**	**IMPACT**
Land and buildings are valued by reference to existing use market values Dwellings are valued by reference to open market value less a social housing discount Investment properties are valued by reference to highest and best use market value Some specialist buildings are valued at depreciated replacement cost by reference to building indices	**Investment properties** Investment properties increased in value by £69.2 million (+4.79%) in 2017/18. Our benchmark report for City office space suggests an increase in value of 4.0% (MSCI capital index) and +4.3% for City / Mid Town retail space. We agreed a sample of investment properties to rent agreements and reviewed the data for a sample of properties where the movement in value appeared unusual compared to the general index movement. Based on our work to date, we are satisfied that the valuations of investment properties are reasonable. We note that this year, following a change of valuer for investment properties, the basis of valuation disclosure is now a mixture of Level 2 (based on recent sales for similar properties with significant observable inputs) and Level 3 (using modelling techniques) depending on the type of property. All investment properties were classified as Level 2 last year. We noted that in prior year the European Public Real Estate Association (EPRA) suggested that in the majority of cases investments property valuations are likely to be Level 3 valuations due to the extent that unobservable inputs or individual assumptions for each property. **Assets not revalued in year** The majority of land and property assets are subject to annual valuation although some lower value other land and buildings are subject to a rolling five-year, with a desktop review of the assets not revalued undertaken to assess whether, as a class of assets, these should be subject to valuation adjustment if the current value is materially different to their carrying value. No adjustments have been made for these assets not subject to revaluation in year. Based on our review, we are satisfied that classes of assets that have not been revalued are not materially different to their current value.	

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
4	**LGPS pension and police pension liabilities 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 a roll-forward of membership data from the most recent full valuation (2016 for LGPS and 2017 for police), updated where necessary, and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability at 31 March 2018. There is a risk the membership data and cash flows provided to the actuary at 31 March may not be correct, or the valuation uses inappropriate assumptions to value the liability.	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 checked that the disclosure in the financial statements were consistent with the information provided by the actuary. We reviewed the data provided to the actuary to ensure that is complete and accurate.	We are satisfied that the assumptions used to calculate the present value of future pension obligations are reasonable. Further information on the assumptions used is included in the following page. All disclosures were agreed to the actuary's report. We note that the allocation of the overall LGPS net liability is allocated across the Corporation's funds based on the proportion of pensionable payroll for each fund, and City Fund's share is 51% in the current and previous year. We have obtained assurance over the membership data, data provided at the last full valuations and the cash flows used by the actuary to update liabilities and share of assets for the year.

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES

Pension liability assumptions - LGPS

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

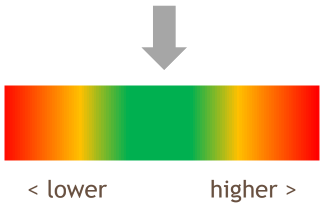
The City Fund's share of the LGPS net pension liability reduced by £2.7 million to £302.2 million in the year. This includes an increase in scheme assets of £11.1 million from interest and gains on investments and an increase in liabilities £8.4 million where current service costs and interest on liabilities exceeds contributions.

We have compared the assumptions used to an acceptable range and those used across the local government actuaries. The PwC consulting actuary review of the relative strength of the main assumptions on the liability assumptions suggests that Barnett Waddingham tends to place a higher value on the LGPS liabilities than other actuaries where standard assumptions are applied and that the overall assumptions are reasonable.

	Actual	Acceptable range	Comment
RPI increase	3.3%	3.30-3.35%	Reasonable
CPI increase	2.3%	2.30-2.35%	Reasonable
Salary increase	3.8%	CPI +1.5% to 2.2%	(based on 2016 valuation) Reasonable in context of CPI / RPI
Pension increase	2.3%	2.30-2.35%	Reasonable
Discount rate	2.55%	2.50-2.60%	Reasonable
Mortality - LGPS:			
- Male current	25.3 years	23.7-26.8	Reasonable
- Female current	26.7 years	26.6-28.4	Reasonable
- Male retired	23.9 years	21.5-24.5	Reasonable
- Female retired	25.2 years	24.3-26.10	Reasonable
Commutation	50%	50%	Reasonable

The assumptions used fall within the reasonable range.

IMPACT



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KEY AUDIT AND ACCOUNTING MATTERS

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SIGNIFICANT ACCOUNTING ESTIMATES

Pension liability assumptions - Police

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 police pension liability increased by £42.9 million to £955.9 million in the year. A full valuation update was undertaken using membership data at 31 March 2017 and, along with other changes in assumptions at 31 March 2018, has resulted in demographic and other experience losses in 2017/18 of £53 million and gains from changes to financial assumptions of £25 million.

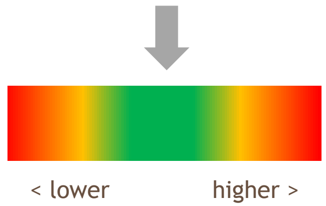
We have compared the assumptions used to an acceptable range and those used across the police actuaries. The PwC consulting actuary review of the relative strength of the main assumptions on the police liability assumptions suggests that Barnett Waddingham tends to place a medium strength value on the liability compared to other actuaries where standard assumptions are applied and that the overall assumptions are reasonable.

	Actual	Acceptable range	Comments
RPI increase	3.3%	3.30-3.35%	Reasonable
CPI increase	2.3%	2.30-2.35%	Reasonable
Salary increase	3.8%	CPI +1.5% to 2.2%	(based on 2016 valuation) Reasonable in context of CPI / RPI
Pension increase	2.3%	2.30-2.35%	Reasonable
Discount rate	2.55%	2.50-2.60%	Reasonable
Mortality - LGPS:			
- Male current	23.2 years	-	As per full valuation mortality assessment
- Female current	25.6 years	-	As per full valuation mortality assessment
- Male retired	21.7 years	-	As per full valuation mortality assessment
- Female retired	24.0 years	-	As per full valuation mortality assessment

Mortality ranges are not provided within the PwC report for police but has stated that the approach taken by the actuary to estimate mortality rates is reasonable

The assumptions used fall within the reasonable range.

IMPACT



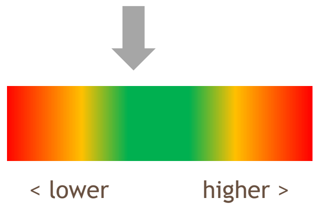
KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
5	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.	We reviewed the process applied for apportioning lease premiums between land (deferred revenue) and buildings (capital disposal) including reviewing the work of external valuer to confirm if this is appropriate. We selected a sample of leases and confirm that the allocations have been accurately calculated.	Our audit work to test a sample lease premium allocations did not identify any issues.
6	Consideration of related party transactions	We 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 relevant information concerning any such identified transactions. We have discussed with management and review member's and Senior Management declarations to ensure there are no potential related party transactions which have not been disclosed.	We found a small number of errors in the disclosure provided for audit and these have been amended in the final accounts.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
7	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 used in calculating the likely success rate of appeals.	We reviewed the accuracy of the appeals data to confirm that it is complete based on the VOA list, and that settled appeals are removed.	Our audit work found that the methodology for calculation of the appeals provision was satisfactory and was based on accurate information provided by the VOA. However, we found two errors in calculations. Firstly, an error in formula used to calculate the provision resulted in an overstatement of the appeals provision by £4.1 million. Secondly, the re-categorisation of appeal type for a number of appeals that increases the provision by £1.4 million. The net error is an overstatement of the appeals provision and understatement of the surplus for the year of £2.7 million in the collection fund and the City Fund's share included in the CIES of £0.81 million based on the 30% share of business rates.
			We reviewed the assumptions used in the preparation of the estimate including the historic success rates to confirm that appeal success rates and amounts expected to be refunded are appropriate.	Our review of the reasonableness of assumptions used to estimate the likely success of appeals and expected refunds is noted on the following page.

KEY AUDIT AND ACCOUNTING MATTERS

ACCOUNTING ESTIMATES		
Provision for NDR appeals		
ESTIMATE	**HOW RISK WAS ADDRESSED BY OUR AUDIT**	**IMPACT**
The key assumption is the future expected rate of successful appeals and amount to be refunded to rate payers	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. **2010 rating list** Success rates for the 2010 valuations range from 0.2% for appeals with multiple assessments to 11% 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 exist (22.3%). These assumptions are reasonable based on historic settlements and refunds for the 2010 rating list appeals for estimating the provision for the future refunds from successful appeal. **2017 rating list** The Corporation has received appeals totalling £1.5 million on the 2017 rating list. As there are no settled appeals for the 2017 rating list for the Corporation, management has applied a success rate of 100% to the appeals received to date due to a lack of reliable data. The Corporation’s share of this provision at 30% is £0.45 million. We are aware that MHCLG has informed local authorities that they may wish to apply a rate at 4.7% of appealed bills based on a national review of data. Our view is that management has been overly prudent in providing for 100% of appeals and that the provision amount, while not material, may be overstated by a non-trivial amount. We estimate that the potential impact on the Corporation’s CIES where the amount provided is beyond a reasonable range could be up to £0.35 million.	

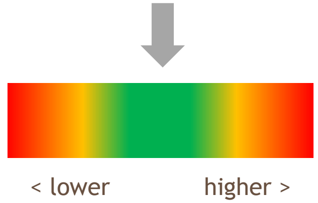
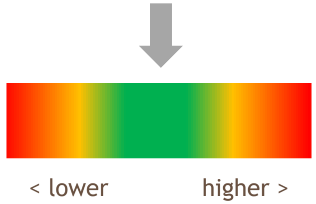
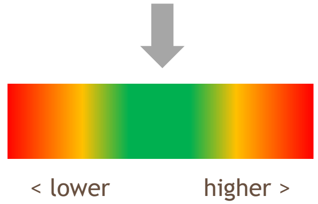
KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
8	Allowances for non-collection of receivables	The City Fund includes a material amount in respect of provisions for non-collection of NDR arrears, private residential rent arrears (current tenants) and arrears in relation to the Barbican Centre and City Police. There is a risk that the provisions may not accurately reflect collection rates based on age or debt recovery rates.	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.	Our audit work to agreed provision rates to aged debt based on collection rates in recent years did not identify any issues.

KEY AUDIT AND ACCOUNTING MATTERS

ACCOUNTING ESTIMATES

Allowances for non-collection of receivables

ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT	IMPACT
The key assumption is the estimate of future write off for uncollectable debt across material debtors	**Non-domestic rate arrears and cost provision** The City Fund's share of debts and provision at the 31 March 2018 was £11 million and £3 million respectively. The majority of the provision has been calculated using the best information available at the year-end, for example, current collection rates. We note that £0.291 million of the provision has been calculated using generic CIPFA guidelines that may not accurately reflect the aging profile or current collection of debt within the City. Management has explained that costs are likely to outweigh the benefits of collating current collection rates for these debts. We are satisfied that the provision for non-collection of NDR arrears assumptions are reasonable. **Rent arrears and cost provision** Arrears and provision as at 31 March 2018 were £11.9 million and £0.7 million respectively. The majority of arrears relate to current tenants and the management surveyor reviews all individual arrears over £15,000 to determine the likely rent to be recovered. We are satisfied that the provision for non-collection of rent arrears assumptions are reasonable. **Sundry debt arrears and cost provision** Arrears and provision as at 31 March 2018 were £28.4 million and £4.9 million respectively. The vast majority of the sundry arrears relate to the Barbican Centre and Police. All significant debts are now reviewed on a case-by-case basis rather than using standard provision percentages that cannot be supported but appropriate audit evidence, as reported by us in the prior year We are satisfied that the provision for non-collection of sundry debt assumptions are reasonable.	  

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
9	Completeness of expenditure	Our testing of the completeness of HRA expenditure identified one invoice which related to a software license for 2018/19 but was incorrectly recorded as expenditure in 2017/18. We have extended our testing of expenditure cut-off to ascertain whether this is an isolate error or indicative of a wider potential misstatement. We did not find any further issues and therefore concluded that this was an isolated incident.
10	Presentation and disclosures	Our initial review of the financial statements noted a number of presentational issues which are due to be amended in the revised set of accounts. In the course of our work we noted: • Multiple errors within the senior office remuneration and banding note • Omissions in the exit packages note (7 employees) • Omissions in the related parties note (2 related parties) • LGPS current service cost incorrectly included in Net cost of service for Spitalfields as this is included as a traded service and should be included below the Net cost of services line • Collection fund disclosure omitted the total rateable value disclosure • Fixed asset register revaluation figure does not agree to the figure in the accounts • Capital commitments disclosure was understated • Finance lease disclosure not updated from the prior year • Additions to intangible assets incorrectly classified as Vehicles, Plant and Equipment.
10	Goods received not invoiced	Our testing of accrued expenditure for open purchase orders that had been recorded as receipted but not invoiced (GRNIs) found a number of instances where the order had only been partly fulfilled but the full amount of the order recorded as expenditure in the year. We extended our testing and found errors for 6 GRNI items totalling £0.84 million (total tested £2.69 million) that should not have been included as accrued expenditure. We have projected potential additional errors across total of GRNIs at £2.47m based on the error rate for the sample tested.

KEY AUDIT AND ACCOUNTING MATTERS

MATTERS REQUIRING ADDITIONAL CONSIDERATION		
We comment below on other matters requiring additional consideration:		
	AUDIT AREA	**AUDIT FINDINGS**
11	Fraud	Whilst management has ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from those charged with governance on whether you are aware of any known, suspected or alleged frauds.

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
1	We are required to report on whether the financial and non-financial information in the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	Our audit identified one inconsistency between the other information in the Statement of Accounts and the financial statements: • Budgeted forecast surplus for police is shown as £0 in the narrative report and £4.2 million in the MTFS. The MTFS figure is the correct one. This issue has been corrected in the revised Statement of Accounts.
2	We are required to report by exception if the Annual Governance Statement is misleading or inconsistent with other information that is forthcoming from the audit.	Our work has not identified any issues.

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 the Audit and Risk Management Committee.

As the purpose of the audit is for us to express an opinion on the Corporation's City Fund financial statements and use of resources, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

We note that the Corporation's internal audit function has issued a number of observations and recommendations on the control environment during 2017/18. 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 have identified one significant weakness in internal controls relating to the budget setting and monitoring process for the City of London Police Force. Further details are provided within the Use of Resources section below.

We have also identified other deficiencies in controls which have been discussed with management and included in the action plan at Appendix II.

WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

	MATTER	COMMENT
1	For Whole of Government Accounts (WGA) component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure we are required to perform tests with regard to the Data Collection Tool (DCT) return prepared by the Corporation for use by 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.	Our review of the Corporation's WGA Data Collection Tool (DCT) is in progress. We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of the Corporation's City Fund financial statements. We will issue our opinion on the consistency of the DCT return with the audited financial statements before the 31 August 2018 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) and report to you on an 'except for' basis. This is based on the following reporting criterion:

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

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

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

AUDIT RISKS

We assessed the following matters as audit risks, as identified in our Audit Plan to the Audit and Risk Management Committee. We have set out below how these risks have been addressed and the outcomes of our work.

Key: ■ Significant risk ■ Normal risk

USE OF RESOURCES

RISK AREA		RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
1	**Financial planning and informed decision making (City Police)**	City Police had forecast an overspend of £1.6 million at Month 6 and at Month 9 reforecast that it was on course to balance the budget. This favourable movement was due to the continued and widespread vacancies across the Force and eleven deleted Police Staff posts in December 2017 which has created significant underspending within pay budgets. The police budget for 2018/19 has been brought into balance, through a combination of efficiency savings, additional government grant in the provisional settlement and drawdown on reserves. This intends to provide time to implement Force transformation plans following the Deloitte Review. This should help to address the forecast budget deficit of £4 to 5 million per annum in subsequent years, when it is anticipated reserves will be exhausted, and pressures arising from increased demand and the changing nature of police services. 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 possible increases in business rate premium. We reviewed the Medium Term Financial Strategy and assess the reasonableness of the assumptions used for cost pressures and the amount of grant reductions applied. We also reviewed the findings of the Internal Audit review of the MTFS process. We also reviewed the delivery of the budgeted savings in 2017/18 and the strategies to close the budget gap in the medium term.	City Police reported an outturn surplus of £3.5 million for 2017/18 and reported that this has been achieved through underspends and savings. We believe that this does not reflect underlying performance since the surplus is a result of slippage on costs that have been carried forward into future years that were funded from additional resources provided from the City Fund budget. Currently this is not reflected in their Budget for 2018/19 and City Police has submitted a balanced budget for 2018/19. We consider that there are deficiencies in the robustness and accuracy of the information being provided by the City Police Finance team to the Corporation of London's Chamberlain's department. As a result of the unbudgeted slippage the breakeven position in 2018/19, which was thought to be providing breathing space for the Force transformation plans to be progressed following the Deloitte review, is no longer available at the level first thought. In addition, the Chamberlain's Department and Internal Audit have raised a number of concerns regarding the development of the Police MTFS and subsequent budget monitoring which we concur with. Late and incomplete budget monitoring returns are regularly provided to the Chamberlain's Department from Police. This may be a result of high levels of staff turnover and lack of continuity at a senior level within the Police finance team due to staff illness and resignation. The Chamberlain's Department have raised concerns about the assumptions used in the Police MTFS and are planning to revisit the MTFS to address these issues and to ensure that the financial position is sustainable over the medium term. We consider that there are deficiencies in the robustness and accuracy of the information being provided by the City Police Finance team to the Corporation of London's Chamberlain's department. However, as the Chamberlain's Department is providing assistant to strengthen financial management arrangements in the City Police Finance team and the Corporation has allocated additional financial support from the City Fund in the short term to address funding gaps, we are content that this does not materially impact on the overall arrangements of the Corporation's City Fund to secure economy, efficiency and effectiveness in its use of resources.

USE OF RESOURCES

RISK AREA		RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
2	Sustainable finances (City Fund)	The City Fund is currently forecasting a better than budget position of £1.5 million in 2017/18 which is mainly due to additional income from positive box office performances at the Barbican. Extra business rates income, combined with an increase in anticipated rents from the fund's investment properties and additional interest on cash balances, has allowed cost pressures to be accommodated and the inclusion of additional funding to meet Member priorities and initiatives, whilst still leaving the fund in surplus for 2017/18 and 2018/19. The fund moves into deficit from 2019/20 onwards due to the inclusion of costs for the Museum of London and the Combined Courts relocation projects. This assumes that the preference will be to utilise City Fund reserves prior to borrowing to fund these projects, though this is subject to the overall funding strategies for the projects, which are yet to be agreed. 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.	We have reviewed the assumptions used in preparing the MTFS for the City Fund and are content that cost pressures and income growth assumptions are reasonable. We note that Internal audit carried out a review of the MFTS in spring 2018 and gave a substantial assurance rating. The City Fund MTFS shows a surplus for 2018/19 but then forecasts a budgeted deficit over the following three years through planned withdrawal from reserves of £103 million to fund the Museum of London and Combined Courts Relocation projects. The City Fund may choose to make use of capital borrowing rather than revenue funding for some of these costs as they crystallise should the need arise. The City Fund currently holds reserves of £122 million. We consider that there are appropriate arrangements in place with regard to sustainable finances for City Fund.

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 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.

UNADJUSTED AUDIT DIFFERENCES

We note below the unadjusted audit differences identified by our audit work which would increase the surplus on the provision of services for the year by £2.16 million (or £4.63 million including the projected error across all GRNIs). The depreciation error and NDR appeals provision errors would not impact on the General Fund balance this year as these are reversed to other reserves.

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.

- Two errors in the calculation of the provision for NDR appeals including an error in the formula that reduces the provision by £4.1 million and re-categorisation of appeal type for a number of appeals that increases the provision by £1.4 million. The net error is an overstatement of the appeals provision and understatement of the surplus for the year of £2.7 million in the collection fund and the City Fund's share included in the CIES of £0.81 million based on the 30% share of business rates.
- We believe that management has been overly prudent in providing for 100% of 2017 rating list appeals and that the provision amount, while not material, may be overstated by a non-trivial amount. We estimate that the potential impact on the Corporation's CIES where the amount provided is beyond a reasonable range could be up to £0.35 million.
- Error in the deprecation rate used resulting in £0.16 million overstatement of deprecation cost (and understatement of assets) and overstatement of the charge to the CIES for the year.
- Errors found where accrued expenditure for open purchase orders had been recorded as receipted but not invoiced (GRNIs) but where the orders had only been partly fulfilled. Our testing of 14 items with a value of £2.69 million identified 6 items totalling £0.84 million should not have been included as accrued expenditure. We have projected potential additional errors across total of GRNIs at £2.47 million.

APPENDIX I: AUDIT DIFFERENCES

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		INCOME AND EXPENDITURE		STATEMEMENT OF FINANCIAL POSITION	
		DR	CR	DR	CR
	£m	£m	£m	£m	£m
Surplus on the provision of services for the year before adjustments	**72.8**				
DR NDR appeals provision				0.8	
CR Taxation and non-specific Grant income	**0.8**		0.8		
Impact of incorrect provision calculation					
DR Property, plant and equipment (deprecation)				0.1	
CR Deprecation charged to Net Cost of service	**0.1**		0.1		
Impact of incorrect deprecation rate being used					
DR NDR appeals provision				0.4	
CR Taxation and non-specific Grant income	**0.4**		0.4		
Impact of excessive NDR appeals provision on 2017 rating list					
DR Payables (Accruals) factual error			0.8		
DR Payables (Accruals) extrapolated error			2.5		
CR Expenditure factual and extrapolated error	**3.3**	3.3			
Impact of extrapolated errors found in Payables Accruals					
TOTAL UNADJUSTED AUDIT DIFFERENCES	**4.6**				
Surplus on the provision of services if adjustments accounted for	**77.4**				

APPENDIX I: AUDIT DIFFERENCES

IMPACT ON GENERAL FUND AND HRA BALANCES	GENERAL FUND BALANCE £000s	HRA BALANCE £000s
Balances before adjustments	122.3	4.5
Adjustments to CIES above	4.6	0
Adjustments via movement in Reserves Statement:		
- Collection Fund Adjustment Account	(1.2)	0
- Capital Financing Reserve	(0.1)	0
BALANCES AFTER ADJUSTMENTS	125.6	4.5

UNADJUSTED DISCLOSURE MATTERS
No remaining uncorrected disclosures.

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

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

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
STATEMENT OF ACCOUNTS AND FINANCIAL STATEMENTS					
NNDR Appeals provision 2017 valuation	The provision on the 2017 valuation appeals received to date has been made at 100% due to the Authority not having any settled claims on the 2017 valuation.	The Corporation should review any settlement data available to ensure that the provision is based on expected settlements rather than a worse-case scenario.	The Check, Challenge, Appeal process for NNDR appeals means appeals received are more likely to be settled than in previous years. This will be kept under review.	Head of Revenues	Mar 2019
USE OF RESOURCES					
City Police financial planning	Internal audit and the Chamberlain's Department have identified weaknesses in the Budget setting and monitoring process in relation to City of London Police	Management should ensure that they carry out the proposed review of the Police MTFS and budget setting and monitoring process as soon as possible so that a confirmed position is available to enable plans to be drawn up to assist the force in moving forward on a solid financial footing.	A review of the MTFS assumptions will be completed in Autumn 2018. The Deputy Chamberlain and Assistant Commissioner have discussed the expected timetable. Budget monitoring will be submitted on time.	Deputy Chamberlain Assistant Commissioner	Dec 2018 Throughout 2018/19

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

We have followed up on the recommendations that we raised in the prior year:

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
Changes in presentation of 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.	This note has been included in the 2017/18 financial statements as we are confident this is Code compliant in conjunction with the expenditure and funding analysis in note 4.	Deputy Director Financial Services	September 2017
Creditors police seized funds	The City fund has recognised £35 million (£3.1 million in 2015/16), of creditors in respect of police seized funds as it is considered that the City Fund has a right to the assets (cash seized), until instructed otherwise by the Court. We identified that there were 104 police seized funds (classified as creditors) balances amounting to £1.6 million relating to pre 1 April 2015 seizures and only three of these account balances had moved in the two years to 31 March 2017. During 2016/17 a further 46 seizures had occurred amounting to £13.1 million, the largest of which, £10.9 million was repaid after 31 March 2017.	We recommend that a review of police funds over two years old is carried out to determine if these funds are still held by the City Fund and/or whether the Police can apply to the Court to release these funds. We also recommend that given the value of the seized funds further details of why the City Fund has the right to the asset should be included in the management's judgements disclosure and further detail of the types of funds held should be disclosed within the creditors note.	This work is in progress and is subject to a further review by Internal Audit. Appropriate text has been included in the 2017/18 financial statements.	Commissioner Deputy Director Financial Services	January 2018 January 2018

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
Barbican journals	Our testing identified the following: • Posting of Barbican entries in to Oracle (main accounting system) seems to be overly complicated with multiple journal entries being created, reversed, recreated, re-reversed repeatedly many on the same day or within a few days of the entry being made. • We identified that income from events is often not posted to revenue codes for several months after the event has closed. • We also noted that the Barbican finance team have limited access to reporting functions on the ENTA & Revel systems, which meant there was difficulty running reports to support our sample testing. We understand that the City are currently tendering for a new ticketing system which should address these issues.	We recommend that the process and timing of Barbican journal entries are reviewed to ensure that unnecessary journal posting are reduced and journals are posted on a timely basis. We also recommend that the reporting functions set up is reviewed for the Barbican finance team to ensure that they have the correct level of access in order to perform required day-to-day activities.	Agreed	Head of Finance Barbican and Deputy Director Financial Services	January 2018

APPENDIX III: MATERIALITY

MATERIALITY - FINAL AND PLANNING

	FINAL	PLANNING
City Fund overall Materiality	24,400,000	23,400,000
Specific materiality for other financial statement areas:		
- Impact on revenue resources through the Comprehensive income and expenditure statement (CIES) and Movement in reserves statement (MiRS)	6,375,000	5,800,000
Clearly trivial threshold:		
- Overall materiality	488,000	468,000
- Specific materiality	127,500	116,000

Materiality for the City Fund overall materiality was based on 1% of the 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 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 2018 reported in the draft financial statements which has resulted in a change to the materiality amounts.

APPENDIX IV: INDEPENDENCE

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

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement leads are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2018.

Details of services, other than audit, provided by us to the Corporation during the period and up to the date of this report were provided in our Audit Plan. These services have been approved by the Chamberlain.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Plan.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence.

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

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

APPENDIX V: FEES SCHEDULE

	2017/18 FINAL £	2017/18 PLANNED £	2016//17 FINAL £	EXPLANATION FOR VARIANCES
Code audit fee	86,383 [(1)]	86,383	86,383	As per PSAA Scale Fee
Fee for reporting on the housing benefits subsidy claim	11,396	11,396	11,205	As per PSAA Scale Fee
TOTAL AUDIT AND CERTIFICATION FEES	97,779	97,779	97,588	
Fees for reporting on other 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	109,119	109,119	108,928	

[(1)] Additional work has been required this year for investment property valuations, police pensions for the triennial valuation data submission, and extended testing where errors were found in the initial testing. We will agree with management the impact on this addition work on the final fees.

APPENDIX VI: DRAFT LETTER OF REPRESENTATION

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

[XX] July 2018

Dear Sirs

Financial statements of City of London Corporation City Fund for the year ended 31 March 2018

We confirm that the following representations given to you in connection with your audit of the Corporation's City Fund financial statements for the year ended 31 March 2018 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 Audited Bodies within Chapter 2 of the Code of Audit Practice published by the National Audit Office in April 2015, and in particular that the financial statements give a true and fair view of the financial position of the Corporation as of 31 March 2018 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Corporation, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Corporation'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 Corporation's 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 Corporation'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.

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

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

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

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

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 pension scheme liabilities, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

- Rate of inflation (CPI): 2.3%
- Rate of increase in salaries: 3.8%
- Rate of increase in pensions: 2.3%
- Rate of discounting scheme liabilities: 2.55%
- 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.

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

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

c) Allowance for non-collection of receivables

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

d) Non domestic rates appeals provision

We are satisfied that the provision recognised for non-domestic rates appeals is materially correct, and the calculation of historical appeals are consistent with those advised to me by the Valuation Office Agency. We confirm that the successful rates applied to outstanding appeals as at 31 March 2018 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 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. The Chamberlain and each member has taken all the steps that they ought to have taken as a director or member 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 of London

APPENDIX VII: DRAFT AUDIT REPORT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE CITY OF LONDON CORPORATION CITY FUND

UNMODIFIED STANDARD FINANCIAL STATEMENTS OPINION AND USE OF RESOURCES CONCLUSION

APPENDIX VIII: 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 welcomes feedback from external bodies and is committed to implementing all necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as a member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

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

FOR MORE INFORMATION:

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CITY OF LONDON PENSION FUND

AUDIT COMPLETION REPORT

Audit for the year ended 31 March 2018

10 July 2018

CONTENTS

WELCOME

We have pleasure in presenting our Audit Completion Report to the Audit and Risk Management Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2018, specific audit findings and areas requiring further discussion and/or the attention of the Audit and Risk Management Committee. At the completion stage of the audit it is essential that we engage with the Audit and Risk Management Committee on the results of audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit and Risk Management Committee meeting on 17 July 2018, and to receiving your input.

In the meantime, if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and use of resources. This report has been prepared solely for the use of the Audit and Risk Management Committee and those charged with governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person.

We would also like to take this opportunity to thank the management and staff of the Corporation for the co-operation and assistance provided during the audit.

OVERVIEW

This summary provides an overview of the audit matters that we believe are important to the Audit and Risk Management Committee in reviewing the results of the audit of the financial statements.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

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.
Audit risks update	No additional significant audit risks were identified during the course of our audit procedures subsequent to our Audit Plan to you dated 12 February 2018.
Materiality	Our final materiality is £9.88million for the net asset statement and £1.95 million for the fund account. We have increased our materiality from £9.67 million to £9.88 million for the net asset statement as a result of the increase in valuation of investment asset at 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.
Unadjusted audit differences	There are two unadjusted audit differences identified by our audit that would increase the value of private equity fund valuations by £0.495 million following revised valuations received from Warburg and New Mountain fund managers after the initial valuations provided based on the December 2017 valuations. We also found that pension strain costs income from employers for unreduced pension benefits for early retirement employees are accounted for on a cash basis where we believe that the full actuarial cost of this benefit should be accounted for in full by the pension fund with a corresponding debtor for the deferred payments profile. Our work to date has identified potential understatement of income of £0.1 million.
Control environment	Our audit identified no significant deficiencies in internal control.

OVERVIEW

AUDIT OPINION	
Financial statements	We propose issuing an unmodified opinion on the financial statements for the year ended 31 March 2018.
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 COMMITTEE	
Audit independence	Our observations on our audit independence and objectivity and related matters are set out in Appendix III.
Management letter of representation	The draft management letter of representation, to be approved and signed, is set out in Appendix V.

OUTSTANDING MATTERS

The following matters are outstanding at the date of issuing our Audit Completion Report. We will update you on their status at the Audit Committee meeting at which this report is considered:

1. Quality assurance review of the audit file by the engagement lead
2. Review of the final financial statements
3. Subsequent events review
4. Management letter of representation, as attached in Appendix V to be approved and signed

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT RISKS

We assessed the following matters as audit risks, as identified in our earlier Audit Plan to the Audit and Risk Management Committee. We have set out below how these risks have been addressed and the outcomes of our procedures.

Key: ■ Significant risk ■ Normal risk ■ Other key issues

	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.	We have: • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements • Reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud • Tested a sample of significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.	Our work on the appropriateness of journals including adjustments made in preparation of the financial statements did not identify any issues. We have found no bias in accounting estimates. No unusual 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 a roll-forward of data from the 2016 triennial valuation, updated where necessary, and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability at 31 March 2018. 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.	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 checked that the disclosures in the financial statements were consistent with the information provided by the actuary. We reviewed the data provided to the actuary to ensure that it is complete and accurate.	We are satisfied that the assumptions used to calculate the present value of future pension obligations are reasonable. Further information on the assumptions used is included in the following page. The disclosures in the financial statements agreed to the actuary's report except for 2018/19 Museum of London contribution rate that should have been reported as 15.7% (draft recorded 15.6%).We also identified that the discount rate disclosed in the financial assumptions note in the financial statements was 2.6% instead of £2.55% per the actuary's IAS19 report. Management has agreed to correct these disclosure errors. We have obtained assurance over the membership data, data provided at the last triennial valuation and the cash flows used by the actuary to update liabilities and share of assets for the year.

KEY AUDIT AND ACCOUNTING MATTERS

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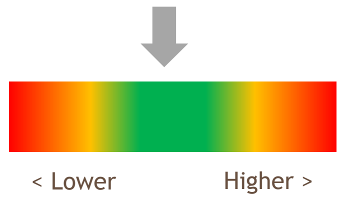
SIGNIFICANT ACCOUNTING ESTIMATES

Pension liability assumptions

ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT CONCLUSION
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	The actuary has used the following assumptions at 31 March 2018 to value to future pension liability. We have compared the assumptions used to an acceptable range and those used across the local government actuaries. The PwC consulting actuary review of the relative strength of the main assumptions on the liability assumptions suggests that Barnett Waddingham tends to place a higher value on the liability than other actuaries where standard assumptions are applied and that the overall assumptions are reasonable.	

	Actual used	Acceptable range	Comments
RPI increase	3.3%	3.30-3.35%	Reasonable
CPI increase	2.3%	2.30-2.35%	Reasonable
Salary increase	3.8%	CPI +1.5% to 2.2%	(based on 2016 valuation) Reasonable in context of CPI / RPI
Pension increase	2.3%	2.30-2.35%	Reasonable
Discount rate	2.55%	2.50-2.60%	Reasonable
Mortality - LGPS:			
- Male current	25.3 years	23.7-26.8	Reasonable
- Female current	26.7 years	26.6-28.4	Reasonable
- Male retired	23.9 years	21.5-24.5	Reasonable
- Female retired	25.2 years	24.3-26.10	Reasonable
Commutation	50%	50%	Reasonable

All of the assumptions used fall within the reasonable range for the actuary as per the PwC report.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
3	Fair value of investments (infrastructure and private equity)	The investment portfolio includes unquoted infrastructure and private equity holdings valued by the General Partner or fund manager using valuations obtained from the underlying partnerships and investments. Valuations 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) up to 31 March. There is a risk that investments valuations 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 applicable we have recomputed the pension fund's share of the audited net asset value of the partnerships financial statements and agreed to year-end market values confirmation obtained directly from the fund managers to ascertain the reasonableness of the year end confirmations. 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 the material fund managers and custodian for valuations and existence of underlying investments in the funds.	We agreed all valuations to fund manager reports except for two funds that would increase the value of private equity fund valuations by £0.495 million following revised valuations received from Warburg (£0.215 million) and New Mountain (£0.280 million) fund managers after the initial valuations provided based on the December 2017 valuations. This has not been corrected by management. 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
4	Fair value of investments (pooled investments)	The fair value of other funds (pooled investments held through Unit trust) is provided by individual fund managers, reviewed by the fund's Custodian 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 that appear unusual when compared to the Custodian's independent performance monitoring report.	We agreed all valuations to fund manager reports. However, we noted that the valuation of the Carnegie fund manager differed to that provided by the custodian valuation due to differences used for the exchange rate. The Carnegie valuation had applied a £:$ exchange rate of 1.41 whereas the custodian had used 1.40 resulting in the custodian reporting a higher valuation by £0.234 million. The pension fund has used the valuation provided by the custodian. We confirmed the quoted value of the Carnegie funds at year-end on Bloomberg with only a trivial difference between the quoted market value and custodian's valuation. 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 investments.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
5	Contributions receivable (normal and additional contributions for pension strain)	Employers are required to deduct amounts from employee pay based on tiered pay rates and to make employer contributions in accordance with rates agreed with the actuary. Additional contributions are also required against pension strain for early retirements with unreduced pensions. 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.	Our testing has not identified any issues with the calculation of normal contributions receivable from employers or employees. However, we found that pension strain costs income from employers for unreduced pension benefits for early retirement employees are accounted for on a cash basis where we believe that the full actuarial cost of this benefit should be accounted for in full by the pension fund with a corresponding debtor for the deferred payments profile. Our work to date has identified potential understatement of income of £0.1 million.
			We have reviewed contributions receivable and ensure that income is recognised in the correct accounting year.	Our testing has not identified any issues with the timings of contributions receivable to the fund.
6	Membership disclosure	Membership information including the number of current contributors, deferred beneficiaries and pensioners by employer is required to be disclosed. There is a risk that the membership database may not be accurate and up to date to support this disclosure.	We have tested a sample of membership data per the pension system (Altair) and agreed to supporting documentations to confirm the accuracy, existence, and completeness of membership numbers recorded in the financial statements.	Our testing did not identify any issues with membership data.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
7	Investment management expenses	Local Government Pension Fund Accounts are required to disclose investment management expenses. Management expenses included in the pension fund accounts represents the fee for the service provided by and any performance related fees in relation to the fund manager. However, fund managers do not ordinarily provide information on these 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. This disclosure is a mandatory requirement for the 2017/18 financial statements. Management instructed fund managers to provide this information in the previous year. While most were able to provide this information, management will work with the remaining fund managers to provide this information in the current year. 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 whether fund managers provided the required information on other fees and the adjustments made to show these costs of fund manager expenses gross in the fund account. 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 also recalculated the investment management fees to ensure that it is in line the fund managers' mandate.	Management was able to obtain details of total costs to comply with the CIPFA disclosure requirement. Seven of the ten pooled investment managers have signed up to the LGPS scheme advisory board's fee template for next year which is designed to ensure compliance with the code. Investment management expenses have been disclosed in accordance with CIPFA guidance. Our testing did not identify any issues with accuracy and existence of investment management expenses.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
8	Consideration of 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 performed a company house search to ensure that there are no undeclared related parties by the board members. We reviewed the basis for apportioning costs between the pension fund and the Corporation and ensured that costs relating to the provision of key management personnel services are accurately disclosed.	Our testing has not identified any issues with the disclosure of related parties and related parties transactions. Our testing did not identify any issues regarding the basis of apportioning cost between the pension fund and the Corporation relating to the provision of key management personnel services and the associated disclosure.
9	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 did not identify any issues regarding the accuracy and existence of pension benefits. Our test did not identify any issues regarding the existence of pensioners.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	AUDIT FINDINGS
10	Membership records	We noted that the funds did not keep evidence from the pension system when membership data was submitted to the actuary for the triennial valuation. We recommend that screenshots or printouts from the system with time stamp be kept as audit trail.
11	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 £13.7m investment in emerging markets disclosed as investment in developed markets in the price risk sub-note under the sensitivity analysis note

MATTERS REQUIRING ADDITIONAL CONSIDERATION

We comment below on other matters requiring additional consideration:

12	Fraud	Whilst the Chamberlain and members have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from those charged with governance on whether you are aware of any known, suspected, or alleged frauds that we should be made aware of.

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
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 the Audit and Risk Committee.

As the purpose of the audit is for us to express an opinion on the Corporation's financial statements and use of resources, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

We note that the Corporation internal audit function has issued a number of observations and recommendations on the Corporation control environment during 2017/18. 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 Corporation's internal controls for the pension fund in 2017/18.

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 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.

UNADJUSTED AUDIT DIFFERENCES

There are two unadjusted audit differences identified by our audit that would increase the value of private equity fund valuations by £0.495 million following revised valuations received from Warburg and New Mountain fund managers after the initial valuations provided based on the December 2017 valuations.

We also found that pension strain costs income from employers for unreduced pension benefits for early retirement employees are accounted for on a cash basis where we believe that the full actuarial cost of this benefit should be accounted for in full by the pension fund with a corresponding debtor for the deferred payments profile. Our work to date has identified potential understatement of income of £0.1 million.

You consider these identified misstatements to be immaterial in the context of the financial statements taken as a whole. We concur with this judgement.

APPENDIX II: MATERIALITY

MATERIALITY - FINAL AND PLANNING

	FINAL	PLANNING
Pension fund overall materiality	£9,880,000	£9,667,000
Fund account specific materiality	£1,950,000	£1,620,000
Clearly trivial threshold	£198,000	£193,000

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.

We revised our materiality to reflect the actual amounts reported in the draft accounts.

APPENDIX III: INDEPENDENCE

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

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement leads are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity, or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2018.

Details of services, other than audit, provided by us to the Corporation during the period and up to the date of this report were provided in our Audit Plan. We understand that the provision of these services was approved by the Audit and Risk Committee in advance in accordance with the Corporation’s policy on this matter.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Plan.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC’s Ethical Standard and are independent of the Pension Fund.

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

APPENDIX IV: FEES SCHEDULE

	2017/18 FINAL £	2017/18 PLANNED £	2016//17 FINAL £	EXPLANATION FOR VARIANCES
Code audit fee	£21,000	£21,000	£21,000	N/A
TOTAL ASSURANCE SERVICES	£21,000	£21,000	£21,000	

APPENDIX V: DRAFT LETTER OF REPRESENTATION

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

05 May 2018

Dear Sirs

Financial statements of City of London Corporation Pension Fund for the year ended 31 March 2018

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 2018 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 Corporation 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.

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.

We consider the following assumptions applied to calculate the actuarial present value of future pension benefits disclosed in the financial statements to be appropriate: RPI increase 3.3%, CPI increase 2.3%, Salary increase 3.8%, Pension increase 2.3%, Discount rate 2.55%, Mortality: retiring in 20 years - male 23.9 years and female 25.2 years / retiring today - male 25.3 years and female 26.7 years, and Commutation take up 50%.

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 as far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each member has taken all the steps that they ought to have taken as a member 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]

APPENDIX VI: AUDIT QUALITY

BDO is totally committed to audit quality

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We have also implemented additional quality control review processes for all listed and public interest audits.

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

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CITY RE LIMITED

Directors' Report and Financial Statements

For the year ended 31 March 2018

CONTENTS

CORPORATE INFORMATION

DIRECTORS:	Mr G A Hollingsworth Mr S A Le Prevost Dr P R Kane Mr J Mayhew
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SECRETARY:	JLT Insurance Management (Guernsey) Limited Mill Court La Charroterie St Peter Port Guernsey GY1 4ET
REGISTERED OFFICE:	Mill Court La Charroterie St Peter Port Guernsey GY1 4ET
AUDITOR:	Moore Stephens Town Mills South La Rue Du Pre St Peter Port Guernsey GY1 1LT

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 March 2018.

INCORPORATION

The Company was incorporated in Guernsey, Channel Islands on 20 December 2010 with registered number 52816. It operates in accordance with the provisions of The Companies (Guernsey) Law, 2008 and The Insurance Business (Bailiwick of Guernsey) Law, 2002 to carry out general insurance business, excluding domestic business.

ACTIVITIES

The principal activity of the Company during the year was to provide re-insurance protection to the RSA Group on the risks associated with material damage and loss of rent for the City of London's property portfolio.

RESULTS

The results for the year are shown on page 8.

DIVIDENDS

During the year the directors proposed and agreed the payment of a dividend in the sum of £161,341 (2017: £140,984)

DIRECTORS

The directors of the Company who held office during the period are detailed on page 3.

DISCLOSURE OF INFORMATION TO AUDITOR

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

AUDITOR

The Auditor, Moore Stephens, has indicated its willingness to continue in office and offers itself for re-appointment at the forthcoming Annual General Meeting.

GOING CONCERN

The directors have, at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Approved by the Board of Directors and signed on behalf of the Board

Director: Director:

Date: 21 June 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Director's Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and Financial Reporting Standard 103 "Insurance Contracts". Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of the affairs of the company and the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CITY RE LIMITED

Opinion

We have audited the financial statements of City Re Limited for the year ended 31 March 2018 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and Financial Reporting Standard 103 "Insurance Contracts" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008 and The Insurance Business (Bailiwick of Guernsey) Law, 2002.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"). Our responsibilities under these standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Guernsey, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where The Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the company; or
- the financial statements are not in agreement with the accounting records; or
- we have failed to obtain all the information and explanations, which, to the best of our knowledge and belief, are

Matters on which we are required to report by exception (continued)
We have nothing to report in respect of the following matters where The Insurance Business (Bailiwick of Guernsey) Law, 2002 requires us to report to you if, in our opinion:

- the information given in the annual return prepared pursuant to section 33 is inconsistent with the financial statements; or
- there is any transaction outside the normal course of business which resulted in the Statement of Financial Position showing a situation materially different from that which would otherwise have obtained, and which is not adequately disclosed in the financial statements.

Responsibilities of directors
As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report
This report is made solely to the company's members, as a body, in accordance with Section 262 of The Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

MOORE STEPHENS
Town Mills South
La Rue Du Pre
St Peter Port
Guernsey, GY1 3HZ

Date 2 July ~~June~~ 2018

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2018

CONTINUING OPERATIONS	Notes	31 Mar 2018 £	31 Mar 2017 *As restated* £
REVENUE			
Gross premiums written	2	2,393,905	2,234,651
Change in unearned premium provision	2	(106,525)	(397,708)
Premium earned for the year		**2,287,380**	**1,836,943**
UNDERWRITING EXPENSES			
Claims payable	2	(1,713,077)	(1,449,513)
Claims reserve movement - outstanding loss reserves	2	(320,400)	(99,845)
IBNR Movement	2	125,000	-
Commission	2	(67,144)	(50,358)
Total underwriting expenses		**(1,975,621)**	**(1,599,716)**
UNDERWRITING RESULT FOR THE YEAR		**311,759**	**237,227**
Interest income	2	15,078	16,222
Administrative expenses	6	(74,897)	(73,891)
PROFIT BEFORE TAXATION AND COMMISSION		**251,940**	**179,558**
Profit commission payable	2	(3,779)	(2,657)
PROFIT BEFORE TAXATION		**248,161**	**176,901**
Taxation	5	-	-
RETAINED PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**248,161**	**176,901**

The notes on pages 12 to 19 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AT 31 MARCH 2018

	Notes	31 Mar 2018 £	31 Mar 2017 *As restated* £
CURRENT ASSETS			
Deferred commission		52,282	47,614
Premium debtor		-	5,979
Prepaid expenses		15,763	15,640
Cash and cash equivalents		4,805,220	4,313,910
TOTAL ASSETS		**4,873,265**	**4,383,143**
EQUITY AND LIABILITIES			
Issued capital	*7*	500,000	500,000
Retained earnings		263,721	176,901
TOTAL EQUITY		**763,721**	**676,901**
LIABILITIES			
Trade and other payables	*8*	275,149	173,772
TECHNICAL RESERVES			
Unearned premium reserve	*2*	1,742,747	1,636,222
Claims reserves	*9*	2,091,648	1,896,248
TOTAL EQUITY AND LIABILITIES		**4,873,265**	**4,383,143**

These financial statements were approved by the Board of Directors at a meeting on ~~19~~ 21 June 2018

Signed on behalf of the Board of Directors

Director

Director

The notes on pages 12 to 19 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2018

	31 Mar 2018 £	31 Mar 2017 *As restated* £
Balance at the beginning of the year	**676,901**	**640,984**
Dividend paid during the year	(161,341)	(140,984)
Total comprehensive income for the year	248,161	176,901
Balance at the end of the year	**763,721**	**676,901**

The notes on pages 12 to 19 form part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2018

	31 Mar 2018	31 Mar 2017
	£	£
CASH FLOW FROM OPERATING ACTIVITIES		
Profit for the year	248,161	176,901
Less interest income	(15,078)	(16,222)
Increase in unearned premiums	106,525	397,708
Increase in prepaid expenses	(4,791)	(16,793)
Increase in trade and other payables	101,377	(7,948)
Increase in claims reserves	195,400	99,845
Decrease/(Increase) in premium debtors	5,979	(5,979)
Net cash inflow from operating activities	**637,573**	**627,512**
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	15,078	16,222
Net cash from investing activities	**15,078**	**16,222**
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(161,341)	(140,984)
Net cash from financing activities	**(161,341)**	**(140,984)**
Net increase in cash and cash equivalents	**491,310**	**502,750**
Cash and cash equivalents brought forward	**4,313,910**	**3,811,160**
Cash and cash equivalents carried forward	**4,805,220**	**4,313,910**

The notes on pages 12 to 19 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018

1. **BASIS OF PREPARATION**

The company is a limited company, limited by shares and is incorporated in Guernsey. The address of its registered office is PO Box 155, Mill Court, La Charroterie, St Peter Port, Guernsey, GY1 4ET.

The principal activity of the company is to provide reinsurance protection to the RSA Group on the risks associated with the material damage and loss of rent insurance programmes of the City of London property investment portfolio.

The financial statements have been prepared in accordance with The Insurance Business (Bailiwick of Guernsey) Law, 2002, FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts".

2. **PRINCIPAL ACCOUNTING POLICIES**

These financial statements are prepared under the historical cost convention.

The preparation of financial statements in compliance with FRS102 and FRS103 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the accounting policies.

(a) Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

(b) Gross premiums written

Gross premiums written is in respect of the provision of reinsurance protection to RSA Insurance Group Plc on the risks associated with material damage and loss of rent insurance programmes of the City of London portfolio.

(c) Unearned premiums

Unearned premium represents the proportion of premium which has been pre-paid for the following financial period.

(d) Claims

Claims are accounted for on an accruals basis. Provisions made for the cost of outstanding claims reported at the reporting date are included in the outstanding loss reserve. The estimate for the cost of claims incurred but not reported ("IBNR") is included in the IBNR reserve. The current IBNR is in the sum of £125,000 is determined by the Board of Directors using both historical data and any data available up to the approval of the financial statements, in relation to the provision of new claims and deterioration of existing claims.

(e) Commission

Fronting fees calculated as 3% of gross premiums written is payable to RSA Insurance Group Plc and are earned over the related policy period.

Profit commission calculated as 1.5% of the profit before tax in the financial period is payable to JLT Insurance Management (Guernsey) Limited.

(f) Interest income

Interest income is accounted for on an accruals basis.

(g) Cash and cash equivalents

Cash and cash equivalents comprise bank balances, short term fixed deposits and short term notice accounts.

3. FINANCIAL INSTRUMENTS

Financial Assets

Basic financial assets, including debtors and cash and cash equivalents, are initially recognised at transaction price, and are subsequently carried at amortised cost.

Debtors arising out of insurance operations

Debtors arising out of insurance operations consist of balances due from the insurer in respect of outstanding premiums.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. None of the financial assets at the year end are deemed to be impaired.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Financial liabilities

All financial liabilities, are initially recognised at transaction price and are subsequently carried at amortised cost.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

The Company does not hold or issue derivative financial instruments.

Creditors arising out of insurance operations

Creditors arising out of insurance operations consist of balances due to the insurer in respect of outstanding claims payable.

Offsetting

Financial assets and liabilities are not offset in the accounts and the gross amounts are shown in the financial statements.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of the applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 MARCH 2018

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

The most significant assumptions made relate to the level of future claims, the level of future claims settlements and the legal interpretation of insurance policies. Whilst the directors consider that the gross provision for claims are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amount provided. Adjustments to the amounts of provision are reflected in the financial statements for the period in which the adjustments are made.

Outstanding loss reserves.
The carrying amount of the reserve is £1,966,648 (2017: £1,646,248). There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. The level of provision has been set on the basis of the information that is currently available, including potential outstanding loss advices, experience of development of similar claims and on the advice of expert loss adjusters where appropriate.

IBNR
The current IBNR is in the sum of £125,000 (2017: £250,000) is determined by the Board of Directors using both historical data and any data available up to the date of approval of the financial statements, in relation to the provision of new claims and deterioration of existing claims.

5. TAXATION
The Company is taxed at the standard rate of income tax for Guernsey companies of 0%.

6. ADMINISTRATIVE EXPENSES

	31 Mar 2018 £	31 Mar 2017 £
Management fees	51,975	51,912
Audit fees	5,890	5,007
Directors' fees	7,500	7,480
Consultancy fees	400	400
Company registration fees	6,022	5,943
Directors and officers premium	1,195	1,195
Sundry expenses	1,915	1,954
	74,897	73,891

7. SHARE CAPITAL

ISSUED SHARE CAPITAL	31 Mar 2018 £	31 Mar 2017 £
500,000 GBP1 Ordinary Shares	**500,000**	500,000

Dividends
Shareholders of ordinary shares are entitled to receive dividends declared by the Company.

Capital
On winding up of the assets of the Company, the holder of ordinary shares is entitled to repayment of the nominal amount paid thereon. Any surplus is attributable to holders of ordinary shares pro rata in proportion to the number of ordinary shares.

Voting rights
Ordinary shares carry one vote per shareholder at general meetings.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 MARCH 2018

8. TRADE AND OTHER PAYABLES

	31 Mar 2018	31 Mar 2017 *As restated*
	£	£
Claims payable	263,128	163,613
Profit commission	3,979	2,657
Audit fees	5,540	5,000
Directors and officers premium	26	26
Consultancy fees	400	400
Directors' fees	2,076	2,076
	275,149	173,772

9. CLAIMS RESERVES

	31 Mar 2018	31 Mar 2017
	£	£
IBNR reserve	125,000	250,000
Outstanding loss reserves	1,966,648	1,646,248
	2,091,648	1,896,248

10. FINANCIAL RISK MANAGEMENT

The Company is exposed to a range of financial risks through its financial assets, financial liabilities and policyholder liabilities. The most important components of these financial risks are market risk (interest rate risk), credit risk, currency risk and liquidity risk. The risk management policies employed by the Company to manage these risks are discussed below.

a) Credit Risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The Company manages the levels of credit risk it accepts by limiting its exposure to a single counterparty, or groups of counterparty. Such risks are subject to regular review by the Board of Directors.

The assets bearing credit risk and their associated credit ratings are shown below:

	31 Mar 2018	31 Mar 2017
	£	£
Assets bearing credit risk		
Cash and cash equivalents	**4,805,220**	4,313,910
By Rating		
A rated	**4,805,220**	4,313,910

No financial assets are past due or impaired at the reporting date and management expects no significant losses from non-performance by these counterparties.

b) Liquidity risk

Liquidity risk is the risk that the company cannot meet its obligations associated with financial liabilities as they fall due. The company has adopted an appropriate liquidity risk management framework for the management of the company's liquidity requirements. The company manages liquidity risk by maintaining banking facilities and monitoring premiums due and by continuously monitoring the forecast and actual cash flows and matching the maturity profiles of assets and liabilities. The company is exposed to liquidity risk arising from its insurance activities. Liquidity management ensures that the company has sufficient access to funds necessary to cover insurance liabilities and expenses. All financial liabilities are due to be settled within the next twelve months.

There were no significant changes to the company's liquidity risk exposure in the financial year nor the objectives, policies and processes for managing liquidity risk.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 MARCH 2018

10. FINANCIAL RISK MANAGEMENT CONTINUED

c) Interest rate risk

The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its bank deposits, cash and cash equivalents and cash flows. At 31 March 2018 the Company had various interest bearing accounts bearing interest rates ranging from 0.10% to 0.55% (2017: 0.40% to 0.65%).

During the year to 31 March 2018, if Bank of England interest rates had been 50 basis points higher with all other variables held constant, profit for the year would have been increased by £24,026 (2017: £21,570), as a result of interest received on cash and cash equivalents. However if Bank of England interest rates had been 50 basis points lower with all other variables held constant, no interest would have been received therefore a decrease to profit for the year by £15,708 (2017: £16,222).

The following are the underlying assumptions made in the model used to calculate the effect on profits and other components of equity:

- The bank balances at 31 March 2018 formed the basis of the calculation.
- A 50 basis point charge on these principal balances reflects the absolute increase or decrease in profit that could arise with such an interest rate movement. The directors have chosen the estimate of 50 basis points as this reflects the directors best estimate of the change in interest rates which could reasonably be expected to occur.

d) Currency risk

The company manages their foreign exchange risk by currently ensuring all commercial transactions or recognised assets and liabilities are denominated in its functional currency.

e) Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Board does not feel that the company is exposed to significant concentration risk at the current time.

11. MANAGEMENT OF INSURANCE RISK

The principal risk that the Company faces under its insurance contracts is that the actual claims are significantly different to the amounts included in the technical reserves. This could occur because the frequency or severity of claims and benefits are greater or lower than estimated. Insurance events are fortuitous and the actual number and amounts of claims may vary from year to year from the estimate established.

The Company provides re-insurance protection to the RSA Insurance Group Plc on the risks associated with material damage and loss of rent for the City of London's property portfolio. The re-insurance protection is limited to a maximum liability of £250,000 for each and every loss with an aggregate limit equal to £250,000 in excess of net written premium.

All risks covered under the insurance policy are within the United Kingdom.

Claims development tables

The claims development table that follows shows claims reported per underwriting year which remain open in the respective policy year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 MARCH 2018

11. MANAGEMENT OF INSURANCE RISK CONTINUED

Claims development table at 31 March 2018

Underwriting	2012	2013	2014	2015	2016	2017	Total
accounting period end	159,440	427,179	201,400	188,840	223,724	962,927	2,163,510
one year later	1,412,020	1,361,059	1,350,481	1,543,888	1,436,816	-	7,104,264
two years later	1,099,579	1,411,703	1,239,357	1,643,108	-	-	5,393,747
three years later	1,114,079	1,526,623	1,150,662	-	-	-	3,791,364
four years later	1,084,595	1,496,967	-	-	-	-	2,581,562
five years later	1,084,320	-	-	-	-	-	1,084,320
Current estimate of cumulative claims	1,084,320	1,496,967	1,150,662	1,643,108	1,436,816	962,927	7,774,800
Cumulative payments to date	(1,084,320)	(1,127,619)	(1,129,643)	(1,469,008)	(661,596)	(210,966)	(5,683,152)
Statement of Financial Position Reserves	**-**	**369,348**	**21,019**	**174,100**	**775,220**	**751,961**	**2,091,648**

The Company has currently provided for an Incurred but not Reported Reserve in the sum of £125,000 (2017: £250,000) which has been agreed by the Board.

12. CAPITAL MANAGEMENT

The Company defines capital in accordance with regulations prescribed by the Guernsey Financial Services Commission ("GFSC") . The Company's capital consists of:-

	31 Mar 2018	31 Mar 2017 *As restated*
	£	£
Share Capital	500,000	500,000
Retained earnings	263,721	176,901
Capital to meet Minimum Capital Requirements	763,721	676,901
Adjustments	-	-
Capital to meet Prescribed Capital Requirements	**763,721**	676,901

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 MARCH 2018

12. CAPITAL MANAGEMENT (Continued)

Its objectives when managing capital are:

i) to comply with legal and statutory obligations and maintain capital resources commensurate with the nature, scale and risk profile of its business;
ii) to provide a framework for monitoring the financial and capital position of the Company, including the procedures to be followed during periods of general financial distress, either due to internal or external events; and
iii) to safeguard the Company's ability to continue as a going concern.

Under the rules prescribed by the GFSC, the Company must at all times maintain assets of a value sufficient to cover its liabilities, including liabilities arising under or in connection with contracts of insurance and that there is a suitable matching of assets and liabilities.

Under the current regulations, the GFSC rules require the Company to maintain a surplus of admissible assets over its liabilities which is at all times at least higher than both its MCR and PCR. The MCR represents the point at which the regulator would invoke the strongest action, while the PCR is the level of capital above which no action is required, with varying degree of action required if capital lies between MCR and PCR.

As at 31 March 2018, the Company held a surplus of £303,594 above its MCR requirement of £460,127 and a surplus of £99,272 above its PCR requirement of £664,449.

Management information to monitor the Company's capital requirements and solvency position is produced and presented to the Board on a regular basis ensuring that the Company meets its capital requirements at all times.

The Company has complied with the GFSC imposed rules and guidance in respect of capital, in both 2018 and 2017.

13. TECHNICAL PROVISIONS

Technical provisions arising from insurance contracts are included in these financial statements as follows:

	31 Mar 2018	31 Mar 2017 As restated
	£	£
Gross		
Unearned premium reserve	1,742,747	1,636,222
IBNR provision	125,000	250,000
Outstanding loss reserves	1,966,648	1,646,248
Total technical provisions, gross	**3,834,395**	3,532,470

Provisions for claims reported are estimated using the latest available information which comprises up to date reports from the claims handlers, loss adjusters and fronting insurers, on that basis there are no significant assumptions impacting on the level of the claims other than the assumption that the information used is complete and accurate.

14. RELATED PARTY DISCLOSURE

The parent Company and ultimate controlling party which has interests in 100% (2017: 100%) of the issued share capital of the company is the City of London Corporation, the municipal body of the City of London, acting in its City's Cash capacity.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 MARCH 2018

14. RELATED PARTY DISCLOSURE (Continued)

Key management personnel of the company

Key management personnel include all directors who together have authority and responsibility for planning, directing and controlling the activities of the company. The total compensation paid to key management personnel for services provided to the company was £7,500 (2017: £7,480).

Entities that provide key management personnel services to the company

During the year management fees of £51,975 (2017: £51,912) were paid to JLT Insurance Management (Guernsey) Limited, regarded as a related party by virtue of the fact that Mr S Le Prevost is a director of both companies.

Profit commission calculated as 1.5% of the profit before tax in the financial year is also payable to the insurance manager JLT Insurance Management (Guernsey) Limited. An amount of £3,979 is payable as at 31 March 2018. (2017: £2,657)

15. POST BALANCE SHEET EVENT

Following a Board meeting on 19 June 2018, the directors declared a dividend in the sum of £263,721 relating to the profit for the year and retained earnings from the prior year.

16. PRIOR YEAR ADJUSTMENT

The 2017 financial statements included a gross written premium for the 2016/17 underwriting year of £2,161,583 and commission payable of £64,847. It was subsequently identified that there was an error in the reinsurance premiums schedule provided to the company, and the gross premium was £2,228,436 with commission of £66,853. The comparative has been restated to correct the gross written premium and commission, with together with the related increase in the unearned premium reserve of £49,087.

	31 Mar 2017 £
Profit for the year ended 31 March 2017 as originally stated	161,341
Increase in gross premiums written	66,853
Related change in unearned premium provision	(49,087)
Increase in commission expense	(2,006)
Increase in profit commission	(200)
Profit for the year ended 31 March 2017 as restated	176,901
Total assets at 31 March 2017 as originally stated	4,377,164
Increase in premium debtor	5,979
Total assets at 31 March 2017 as restated	4,383,143
Total equity and liabilities at 31 March 2017 as originally stated	4,377,164
Reduction in commission creditor	(58,868)
Increase in unearned premium reserve	49,087
Increase in profit for the year	15,560
Increase in profit commission creditor	200
Total equity and liabilities at 31 March 2017 as restated	4,383,143

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Your Ref:

Our Ref: 102/7292

2 July 2018

The Directors
City Re Ltd
PO Box 155
Mill Court
La Charroterie
St Peter Port
GY1 4ET

Dear Sirs,

CITY RE LIMITED (THE 'COMPANY')
MANAGEMENT AND GOVERNANCE REPORT FOR THE YEAR ENDED 31 MARCH 2018

Introduction

The purpose of this letter is to provide the directors with constructive observations arising from the audit process. We set out below details of any expected modifications to our audit report, details of any uncorrected misstatements in the financial statements (except any misstatements which are clearly trivial) including the effect of uncorrected misstatements related to prior periods on the current period, any material weaknesses in systems we have identified during the course of our audit work and our views about the quality of accounting practices and financial reporting procedures, and any other relevant matters. Our procedures are carried out solely for the purpose of our audit so that we can form and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Our audit does not necessarily disclose every weakness and for this reason the matters referred to below may not be the only shortcomings which exist.

We take this opportunity to remind you that:

- This report has been prepared for the sole use of City Re Limited
- No responsibility is assumed by us to any other person who may choose to rely on it for his or her own purposes.

Independence

The engagement team and the firm have complied with relevant ethical requirements regarding independence. There are no relationships between the firm, network firms and the Company that may reasonably be thought to affect our independence.

Expected modifications to the audit report

We do not expect to make any modifications to our audit report. However, our responsibilities with regard to the audit report extend up to the date on which it is signed and we will advise you of any changes to this position if necessary.

Unadjusted misstatements

There were no unadjusted misstatements noted during the audit, excluding those that we consider to be trivial.

Accounting system and internal controls

During the course of our audit of the financial statements for the above year we examined the principal internal controls which the directors have established to enable them to ensure, as far as possible, the accuracy and reliability of the company's accounting records and to safeguard the company's assets.

The examination of the system's internal control which we carried out cannot necessarily be expected to disclose every weakness, since our audit work is designed primarily to enable us to report on the Company's financial statements, and for this reason the matters below may not necessarily be the only shortcomings which exist in the system.

We are pleased to report that there are no significant weaknesses in control which came to our notice during the audit.

Qualitative aspects of accounting practice and financial reporting

During the course of our audit, we consider the qualitative aspect of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. We have discussed with you the following observations:

- The appropriateness of the accounting policies to the particular circumstances of the company;
- The timing of transactions and the period in which they are recorded;
- The appropriateness of accounting estimates and judgements, (for example, in relation to the IBNR), including the consistency of assumptions and degree of prudence reflected in the accounting records;
- The potential effect on the financial statements of any uncertainties including significant risks and disclosures, such as pending litigation that are required to be disclosed in the financial statements.
- The extent to which the financial statements are affected by any unusual transactions during the period and the extent to which such transactions are separately disclosed in the financial statements;
- Significant matters, if any, arising from the audit that we discussed, or subject to correspondence with management; and written representations the auditor is requesting from management.
- Other matters, if any, arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

Matters required by other Auditing Standards to be communicated to you

There are no matters required by other auditing standards to be communicated to you.

Concluding remarks

Finally, we take this opportunity of thanking your staff for the assistance offered to us during the course of our work. Their patient help and assistance was much appreciated.

We shall be pleased to supply you with any further information you may require.

Yours faithfully,

Moore Stephens

Moore Stephens

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 21

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