Audit and Risk Management Committee

Date: TUESDAY, 30 NOVEMBER 2021

Time: 2.00 pm

Venue: COMMITTEE ROOM 2 - 2ND FLOOR WEST WING, GUILDHALL

8. **CITY'S CASH FINANCIAL STATEMENTS 2020-21**
Report from the External Auditor.

For Decision
(Pages 3 - 40)

9. **CITY FUND AND PENSION FUND STATEMENT OF ACCOUNTS 2020-2021**
Report from the External Auditor.

For Decision
(Pages 41 - 154)

10. **BRIDGE HOUSE ESTATES ANNUAL REPORT AND FINANCIAL STATEMENTS 2020/21**
Report from the External Auditor.

For Decision
(Pages 155 - 200)

a) Bridge House Estates Board Resolution (Pages 201 - 202)

Resolution of the Bridge House Estates Board.

11. **SUNDRY TRUSTS ANNUAL REPORT AND FINANCIAL STATEMENTS 2020-21**
Report from the External Auditor.

For Decision
(Pages 203 - 238)

Item received too late for circulation in conjunction with the Agenda.

John Barradell
Town Clerk and Chief Executive

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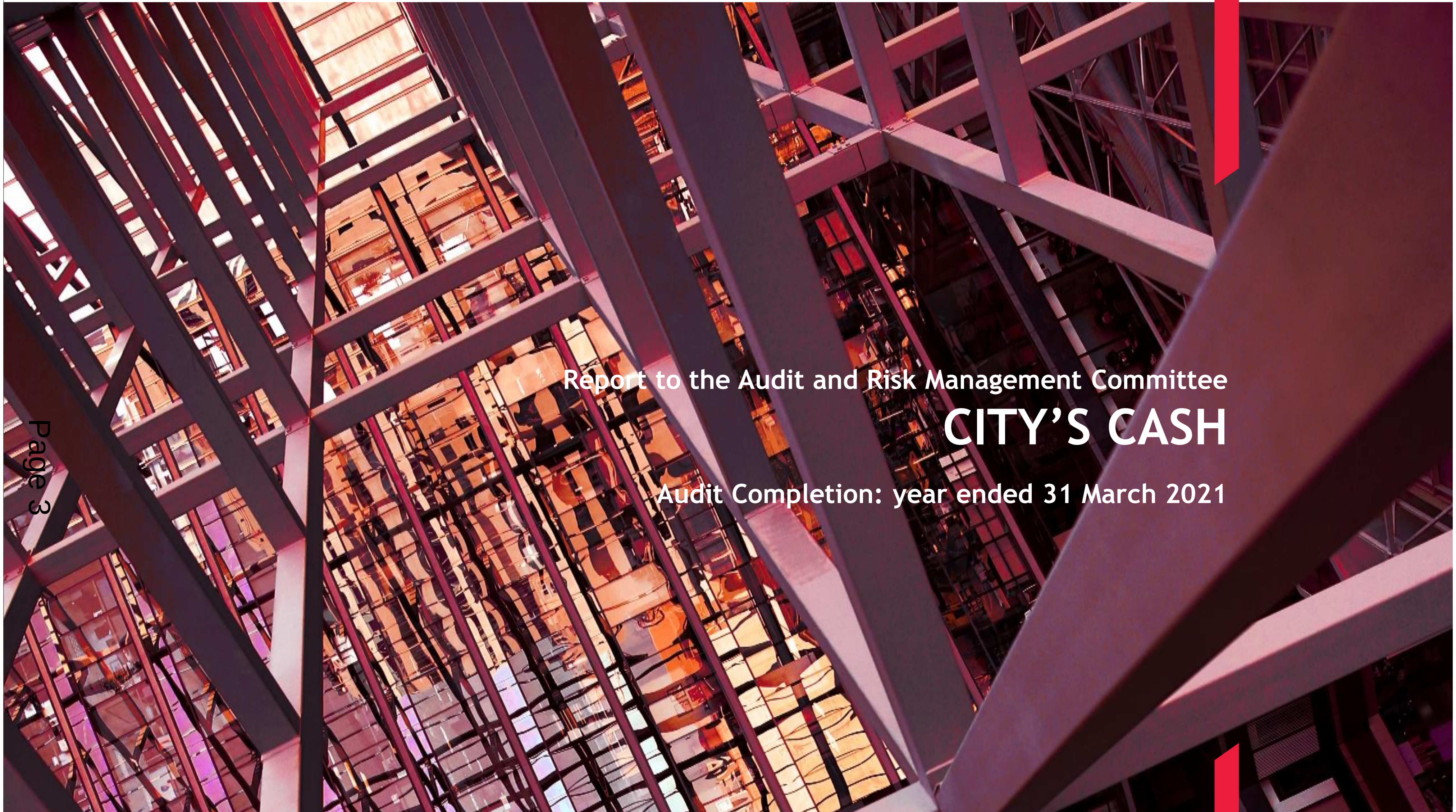


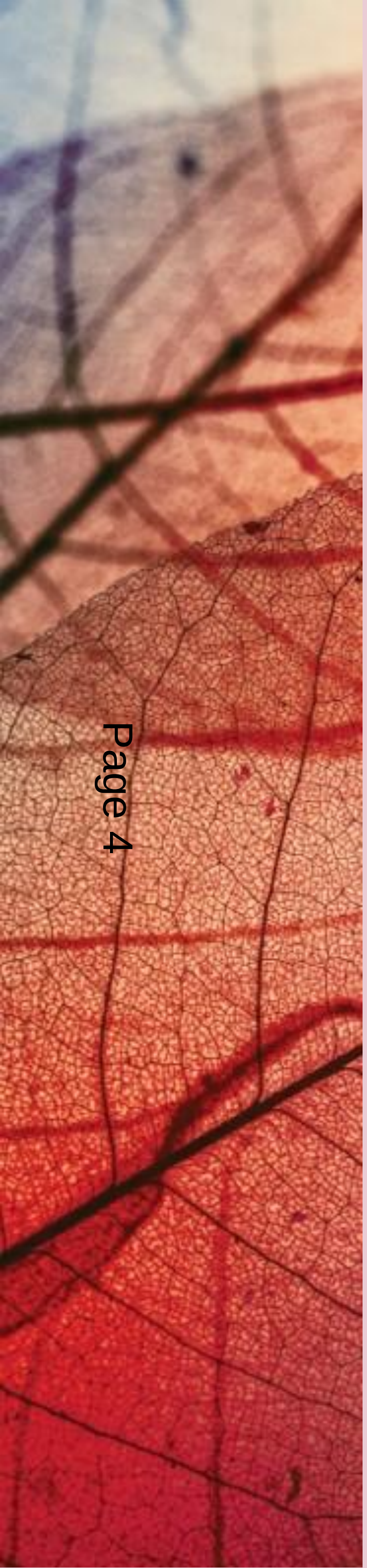
Report to the Audit and Risk Management Committee

CITY'S CASH

Audit Completion: year ended 31 March 2021

IDEAS | PEOPLE | TRUST

BDO



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WELCOME

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We have pleasure in presenting our Audit Completion Report to the Audit Committee and Risk Management Committee (the "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 carrying out the planned audit approach for the year ended 31 March 2021, specific audit findings and areas requiring further discussion and/or the attention of the Committee. At the completion stage of the audit it is essential that we engage with the 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.

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

This report contains matters which should properly be considered by the City of London Corporation. We expect that the Committee will refer such matters to the Members, together with any recommendations, as it considers appropriate.

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

You will be aware that I took on the audit partner responsibility as a result of Fiona Condron's illness. This combined with other illness within our senior team has led to a delay in the completion of our work. We apologise for any inconvenience this may have caused.

Heather Wheelhouse

Heather Wheelhouse

29 November 2021

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Partner

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OVERVIEW

Executive summary

Contents

This summary provides an overview of the audit matters that we believe are important to the Committee in reviewing the results of the audit of the financial statements for City's Cash and the consolidated Open Spaces for the year ended 31 March 2021.

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.

Overview

Our audit work is nearing completion in respect of City's Cash and, subject to the successful resolution of outstanding matters (page 26), we anticipate issuing an unmodified audit opinion for the year ended 31 March 2021 in line with the revised timetable.

Our work on the Open Spaces, the Sir Thomas Gresham Charity and Keats House is currently on going. We have staff booked at the start of December to help finalise this audit work. There is a risk we will not be in a position to sign these accounts prior to the 31 December 2021. If this were to occur, it would not prevent us from approving the City Cash accounts in line with the revised timetable.

It should be noted that Barking Power Limited and Thames Power Services Limited are also audited by BDO. However, this work is carried out by a separate sector specialist team, who then report through to us as Group auditors.

There were no significant changes to the planned audit approach.

No restrictions were placed on our work.

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Final Materiality

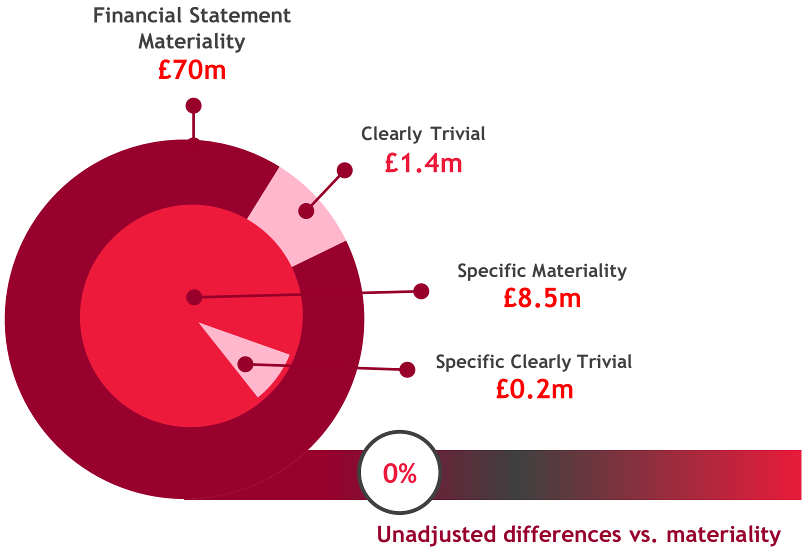
Financial Statement Materiality was determined based upon 2% of total assets and Specific Materiality was determined based upon 5% of total income.

As set out in our planning report, the specific materiality has been applied to non-investment related items in the consolidated statement of comprehensive income as we consider this to be an area of key focus for the users of the accounts

There were no changes to final materiality and triviality from that reported in our planning report other than being updated for the actual results for the year ended 31 March 2021.

Unadjusted audit differences

We have not yet identified any unadjusted audit differences for City’s Cash.



OTHER MATTERS
Executive summary

Contents

Financial reporting

- We have not identified any non-compliance with accounting policies or applicable accounting framework.
- No significant accounting policy changes have been identified impacting the current year.
- The draft Annual Report for City's Cash has been reviewed and the resulting comments have been fed back to the management team. We are awaiting an updated set of accounts and feedback from management to see how our comments have been addressed.

Other matters that require discussion or confirmation

- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation (see page 35).
- Completion of post balance sheet event review up to point of signing the financial statements.

Independence

- We confirm that the firm and its partners and staff involved in the audit remain independent of City's Cash in accordance with the FRC's Ethical Standard.

OVERVIEW - SIGNIFICANT RISKS

Contents

As identified in our audit planning report, we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the directing of the efforts of the engagement team.

Significant Audit Risk	Entities covered	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported in Completion report	Specific Letter of Representation Point	Discussion points for Audit Committee
1. Management Override of Controls	All	Yes	No	No	No	No	No
2. Fraud in Income Recognition	All	Yes	No	No	No	Yes	No
3. Investment Property Valuation	CC	Yes	Yes	No	No	Yes	No
4. Pension Liability Valuation	CC	Yes	Yes	No	No	Yes	No

Areas requiring your attention

MANAGEMENT OVERRIDE OF CONTROLS

Contents

ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud.

- Significant management judgement
- Use of experts
- Unadjusted error
- Adjusted error
- Additional disclosure required
- Control Finding
- Letter of Representation point

Risk description

ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements requires us to presume that the risk of management override of controls is present and significant in all entities.

Details

- We have worked closely with our IT team to gain an understanding of the financial systems in place and assess controls for potential scope for management override including the use of automated journals and administrator access accounts.
- We have used data analytics tools to inspect journals processed throughout the year and as part of the financial reporting closing process for any unusual transactions.
- We have also conducted a specific review of journals posted by admin users.
- We have assessed and corroborated significant management estimates and judgements in following key areas:
  - Allocation of costs
  - Estimation and allocation of the pension scheme liability
  - Valuation of investment properties and financial investments - see pages 11 and 16 for further detail

Details (continued)

- We have performed a detailed review of the cost allocation model including understanding the methods used to allocate costs between funds within the Corporation and testing of this allocation to ensure accuracy of the expenditure charged to City's Cash.

Results and conclusion

- We have not identified any instances of inappropriate management override from our work on journals.
- We have not noted any management bias in accounting estimates. Our detailed conclusions on significant estimates are set out within this report.
- We have identified no significant or unusual transactions that may be indicative of fraud in relation to management override of controls.
- We note that benefits in kind associated with the Town Clerk and Chief Executive are now fully allocated to City Cash. This is a change compared to the prior year, and we understand this was authorised in advance by those charged with governance and reflects the new agreement put in place at the start of the year. We have not identified any other issues with the allocation of costs.

FRAUD IN INCOME RECOGNITION

Contents

ISA (UK) 240 presumes that income recognition presents a fraud risk.

- Significant management judgement
- Use of experts
- Unadjusted error
- Adjusted error
- Additional disclosure required
- Control Finding
- Letter of Representation point

Risk description

- Under auditing standards there is a presumption that there is a risk of fraud in income recognition.
- For City's Cash, we consider there to be a significant risk in respect of the completeness of investment property income and education income (including tuition fees, grants, donations and charges for the use of facilities), due to the cut off risk around the year end. Together these account for approximately 87% of total income.
- For the Open Spaces, we consider there to be a significant risk in respect of the completeness of the contribution from City's Cash, grants, fees and charges, rental income and investment income.

Details

We have carried out audit procedures to gain an understanding of the internal control environment for the significant income streams, including how this operates to prevent loss of income and have ensured that income is recognised in the correct accounting period.

Our audit procedures included substantive testing on the material income streams and cut off testing to ensure income is recognised in the correct period and appropriately classified as restricted (charity entities only) such as:

Details (continued)

- Tested a sample of fees and charges to ensure that income has been recorded in the correct period and that all income that should have been recorded has been;
- We have agreed a sample of rental income to invoice and lease agreements. Where rental periods cross year-end, we have checked the split between years is correct.
- Rental information from the property management system has been reconciled to total rental revenue recognised.
- We selected a sample of properties from the property management system and agreed these to the general ledger and supporting leases to ensure completeness.
- We have performed cut-off testing for all revenue streams by reviewing transactions around the year-end date.

FRAUD IN INCOME RECOGNITION (CONTINUED)

Page 12

ISA (UK) 240 presumes that income recognition presents a fraud risk.

Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Control Finding	
Letter of Representation point	■

Details (continued)

Investment Property Income

- We traced a sample of rental income amounts through to lease agreements. We also obtained a report from the tenant system and developed an expectation of the rental income for the year and compared this to the general ledger.
- We are currently finalising our testing in this area.

Education income (including tuition fees, grants, donations and charges for the use of facilities)

- We obtained details of student fees and pupil numbers and performed substantive analytical procedures to develop an expectation of education income which was then compared to actual results.
- We also traced a sample of individual pupil fees to supporting documentation.
- No issues noted from our work on education income.

Market income

- We traced a sample of market income through to supporting documentation.
- We also reviewed the application of cut off for income recognised either side of the year end.
- No issues were noted from our work on market income.

Details (continued)

Other Income

- We traced a sample of other income through to supporting documentation.
- We also reviewed the application of cut off for income recognised either side of the year end.
- No issues were noted from our work on other income.

Grants (including contributions from City's Cash)

- No issues noted from our sample testing performed

Fees and charges

- No issues noted from our sample testing performed

INVESTMENT PROPERTY VALUATION

Contents

Page 13

There is a risk over the valuation of investment properties where valuations are based on significant assumptions.

Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Control Finding	
Letter of Representation point	■

Risk description

- City's Cash holds an extensive portfolio of investment properties, which are reported at fair value at the balance sheet date.
- The Corporation has appointed two valuers relevant to City's Cash, who perform a year-end valuation based on data provided by the Surveyors Team at the Corporation.
- Due to the significant value of the investment properties and the high degree of estimation uncertainty, there is a risk over the valuation of these assets where valuations are based on assumptions, or where updated valuations have not been provided at the year-end.

Details

As part of our audit work, we have performed procedures including the following:

- Assessed the qualifications and competence of the valuers used
- Reviewed the instructions provided to the valuers and reviewed the valuers; skills to determine whether we can rely on management's expert
- Verified a sample of data provided to the valuers (such as rental income) to use as inputs within the valuation process (this work is currently on going)
- Confirmed that the basis of valuation for each asset is appropriate based on their usage
- Reviewed assumptions used by the valuers and movements in values relative to market indices, and challenged valuations lying outside our expectations with the corresponding valuer.
- Consulted extensively with both our Real Estate and BDO Valuation teams regarding the reasonableness of the assumptions and benchmarks used for specific properties where a higher degree of judgement has been applied (for example more unique properties or developments
- Held meetings with the Surveyors Team and Valuers during the valuation process
- Compared movements in the valuation of assets year-on-year and investigated unusual movements.

Results and conclusion

- Our review of the instructions to the valuers and the valuers' skills and expertise did not identify any issues. We agreed that the basis of valuation for each property valued is appropriate.
- Our work is currently ongoing in respect of the accuracy and completeness of the data provided by the Corporation to the valuers.
- Investment properties are valued by reference to highest and best use market value using an income based approach. Investment properties decreased in value by £71.1m to £1,991.2m (3%) in 2020/21 driven primarily by the revaluation loss of £98.1m.

INVESTMENT PROPERTY VALUATION (CONTINUED)

There is a risk over the valuation of investment properties where valuations are based on significant assumptions.

Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Control Finding	
Letter of Representation point	■

Results and conclusion cont.

- We set yield expectations for the portfolio based on year-end market trends and property type (such as office, retail or industrial). These expectations also included consideration of a property's location and security of future income. We then compared the yields to our expectations, discussing properties outside of these further with the valuers.
- We consulted extensively with our Real Estate and Valuation teams, who confirmed that our base expectations and methodology were suitable for the portfolio of City's Cash.
- We note that due to the ongoing impact of covid-19 as at the 31 March 2021, the valuers have included within their valuation reports, a "Material Valuation Uncertainty" clause in line with the guidance set out in the RICS Red Book Global in respect of pubs held within the investment property portfolio.
- City Cash holds pubs within their investment property portfolio, with a valuation that is not material (£10.9m). Management has flagged this uncertainty in the notes to the financial statements. However, as the pubs held within the City Cash investment portfolio are less than 30% of materiality, management are not flagging this in the accounting policies as a matter of material valuation uncertainty. We concur with this view.

PENSION LIABILITY VALUATION

Page 15

There is a risk the membership data and cash flows used by the actuary in the roll-forward valuation may not be correct, or the valuation uses inappropriate assumptions to value the liability.

- Significant management judgement
- Use of experts
- Unadjusted error
- Adjusted error
- Additional disclosure required
- Control Finding
- Letter of Representation point

Risk description

The LGPS pension fund is required to report the pension liability for estimated promised future benefits for the whole fund.

The Corporation's share of the net liability, including its share of the assets held in the pension fund, is allocated across the funds in proportion to the payroll cost for each fund.

An actuarial estimate of the liability is calculated by an independent firm of actuaries.

The estimate will be based on the submission of membership data from the 2019 triennial valuation exercise for the LGPS and the 2017 triennial valuation for the police pension, updated at 31 March 2021 for factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.

There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability

The proportion of the Pension Fund that relates to City's Cash is not separately identifiable and therefore the share of pension contributions paid to the scheme by the Trust is calculated pro rata to employer's contributions paid by each of the Corporation contributors to the scheme. The risk is therefore also focussed on the accuracy of this calculation.

Details

Our audit procedures undertaken as part of the Pension Fund audit and reviewed for the purposes of the City's Cash audit included the following:

- Assessed the qualifications and competence of the actuary through the use of PwC consulting actuary (auditor's expert);
- Reviewed the reasonableness of the assumptions used by Barnett Waddingham (management's expert) for the calculation of the liability against other local government and police pension actuaries' assumptions and other observable data using the benchmark range of acceptable assumptions provided by PwC consulting actuary (auditor's expert);
- Reviewed the controls for providing accurate membership data to the actuary;
- Checked the accuracy and completeness of the data set submitted to the actuary for the 2019 triennial valuation of the LGPS;
- Checked whether any significant changes in membership data had been communicated to the actuary;
- Discussed with the actuary the continuing impact of GMP equalisation and the McCloud judgement regarding age discrimination on the pension fund liability and impact on employer fund;
- Checked the accuracy of the calculations relating to the allocation of the share of the net assets across the funds in proportion to the employer's contribution's paid to the scheme; and
- Reviewed the reasonableness of the relevant disclosures in City's Cash relating to the basis of apportioning the net pension liability of the Corporation.

PENSION LIABILITY VALUATION (CONTINUED)

Page 16

There is a risk the membership data and cash flows used by the actuary in the roll-forward valuation may not be correct, or the valuation uses inappropriate assumptions to value the liability.

Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	■
Control Finding	
Letter of Representation point	■

Results and conclusion

- We have agreed the disclosures to the information provided by the actuary
- We have taken assurance from the work undertaken on the Pension Fund audit regarding the review of the controls to ensure data provided to the actuary is complete and accurate.
- The allocation of the Corporation's share of LGPS assets and liabilities as 46% in City's Cash is reasonable based on the proportion of payroll costs for each Fund (2020: 46%).
- A full assessment of the pension scheme assumptions is set out in the BDO report to the Committee on the City Fund. These are also set out in the representation letter.

OVERVIEW - OTHER RISKS

Other audit risks

As identified in our audit planning report, we assessed the following matters as being normal risks of material misstatement in the financial statements but areas of audit focus.

Audit Risk	Entities covered	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported in Completion report	Specific Letter of Representation Point	Discussion points for Audit Committee
4. Investment Valuations	CC	No	Yes	No	No	Yes	No
5. Decommissioning Provision	CC	Yes	Yes	No	No	No	No

Areas requiring your attention

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INVESTMENT VALUATIONS

There is a risk that investment valuations may not be correctly reported at year end.

Significant management judgement	
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Control Finding	
Letter of Representation point	■

Risk description

- The investment portfolio within City's Cash includes unquoted infrastructure, private equity holdings and pooled investment vehicles (held through unit trusts). The unquoted infrastructure funds and private equity funds are valued by the General Partner or fund manager using valuations obtained from the underlying partnerships and investments. The valuation of other funds are provided by individual fund managers and reported on a monthly basis.
- Valuations for private equity are provided at dates that are not coterminous with the year end for City's Cash and need to be updated to reflect cash transactions (additional contributions or distributions received) up to 31 March. There is a risk that private equity investments valuations may not be appropriately adjusted to include additional contributions or distributions at the year end.
- There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements

Details

Our audit procedures included the following:

- For unquoted infrastructure and private equity investments, we obtained direct confirmation of investment valuations from the General Partner or fund manager and obtained copies, where applicable, of the audited report on internal controls / audited financial statements of the underlying partnerships (and member allocations);
- For pooled investments, we obtained direct confirmation of investment valuations from the fund managers and agreed independent valuations, where available, provided by the custodian;
- 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; and
- Agreed the allocation of amounts for each fund where there is pooling of investments across the funds.

INVESTMENT VALUATIONS (CONTINUED)

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There is a risk that investment valuations may not be corrected reported at year end.

Significant management judgement	
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Control Finding	
Letter of Representation point	■

Results and conclusion

We have agreed investments within the financial statements to confirmations received from investment managers.

We have confirmed a sample of listed investment valuations to external published sources. We have also performed testing over purchases and sales of Investments.

Our testing of the private equity and other non listed elements of the portfolio identified that all but one of the investments was correctly valued based on the 31 March 2021 valuations.

The one outlier was based on a 31 December 2020 valuation. However, the 31 March 2021 valuation for this fund showed the movement in the last 3 months of the financial year was clearly trivial, and so no proposed adjustment has been raised.

Our review of the control environment of the investment managers we sampled noted that all firms received clean audit reports on internal controls. Furthermore, the specific controls related to the valuation and existence of investments did not highlight any anomalies with the testing performed by the associated auditors.

Results and conclusion

We are satisfied that the overall valuation of financial investments is materially correct.

DECOMMISSIONING PROVISION

Page 20

There is a risk that the site remediation costs will not be calculated on a reasonable basis and not disclosed correctly.

Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Control Finding	
Letter of Representation point	■

Risk description

Barking Power, a subsidiary of City's Cash, is responsible for the rehabilitation of the current site. The decommissioning provision is in place to capture the costs associated with this rehabilitation. There is a risk that the costs of restructuring will not be calculated on a reasonable basis or disclosed correctly.

The provision has increased by £4.6m in the current year to £39.7m. There are significant estimates and assumptions which are incorporated into the assessment of the quantum of total site remediation costs including contingency costs and contractor risks. The judgmental nature of these estimates is considered to be the main contributor to the risk in relation to these balances.

Management engage third party experts to assist with the assessment of the costs to restore the site however additional top-side adjustments are recorded by management to increase the provision in excess of the figure provided by experts.

Details

We are liaising with the audit team responsible for the audit of Barking Power. We note that their work in this area is not yet complete, and they are currently waiting on local management to provide additional information in respect of the year end provision.

As Group auditors, we are conscious that the provision in the accounts is not material to the City Cash consolidated financial statements, and so our work is focussed on considering if this provision is materially understated.

ESTIMATES

Key Estimates

Defined Benefit Pension Scheme	See Page 13
The LGPS pension fund is required to report the pension liability for estimated promised future benefits for the whole fund. The Corporation’s share of the net liability, including its share of the assets held in the pension fund, is allocated across the funds in proportion to the payroll cost for each fund. As at 31 March 2021 the allocation of the total Corporation’s defined benefit pension for City's Cash remained unchanged at 46%. The fund position at the year end is based on a complex calculation with the assumptions having a significant impact on the value of the reported surplus/deficit.	
Fair Value of investment properties	
The fair value of investment property is determined by the valuers to be the estimated amount for which a property should exchange on the date of the valuation in an arm’s length transaction.	See page 11
Going concern	
Management and the Trustee are required to consider at least the 12 month period from date of sign off in assessing the going concern assumption	We have considered the projections produced by management for the 2 years ending 31 March 2023. We concur with management’s view that the City Cash financial statements should be produced on a going concern basis.
Investment Valuations	
Inappropriate assumptions may be used to value investments	See page 16
Amortisation of Goodwill	
Goodwill of £39.3m was generated as part of the purchase of Barking Power Limited and Thames Power Service Limited in FY 2018/2019. Goodwill is required to be amortised over its useful life. Goodwill is amortised over the maximum allowable period under FRS102, 10 years.	Management have currently been unable to confirm the eventual use of the Barking site due to ongoing planning and other considerations. We noted during review of the Policy and Resources Committee minutes Members demonstrate continued support for consolidating the markets on this site.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

Page 22

Fraud

Whilst the Trustee 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 you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the audit plan on 23 March 2021.

Related parties

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud.

We did not identify and significant matters in connection with related parties.

Laws and regulations

The most significant general legislation for your entities are Charities Acts, VAT legislation, Employment Taxes, Health and Safety and the Bribery Act 2010. We made enquiries of management and reviewed correspondence with the relevant authorities.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

OVERVIEW: AUDIT DIFFERENCES AND DISCLOSURES

Summary for the current year

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Page 23

Unadjusted audit differences:

We are required to bring to your attention unadjusted differences and we request that you correct them.

No unadjusted audit differences have been identified by our audit work.

Unadjusted financial reporting matters

We are required to bring to your attention financial reporting disclosure omissions and improvements that the Audit Committee is required to consider.

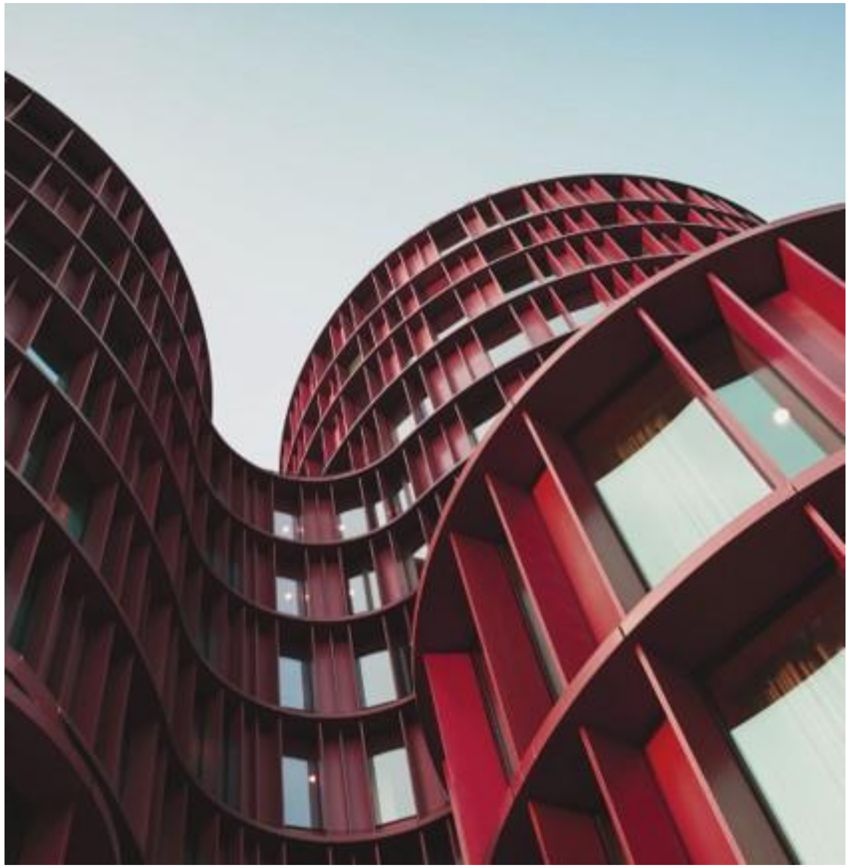
At this stage we are working with management to finalise financial reporting matters. We will provide a verbal update at the meeting.

Adjusted audit differences

No unadjusted audit differences have been identified by our audit work

Adjusted financial reporting matters

At this stage we are working with management to finalise financial reporting matters. We will provide a verbal update at the meeting.



ADDITIONAL MATTERS

Details for the current year

We have comments on the following additional matters:

	Significant matter	Comment
1	Significant difficulties encountered during the audit.	No exceptions to note.
2	Significant matters that arose during the audit that were discussed or were subject to correspondence with management	No exceptions to note in relation to audit work, though we note the change of Audit Partner due to illness as a significant event during the course of the audit.
3	Serious incident reporting	No serious incidents were reported in the year, and we have not identified any matters requiring reporting to the Charity Commission.
4	Written representations which we seek.	We enclose a copy of our draft representation letter
5	Any fraud or suspected fraud issues.	No exceptions to note.
6	Any suspected non-compliance with laws or regulations	No exceptions to note.
7	Any misstatements in opening balances that exist in the current period financial statements	No exceptions to note.
8	Significant matters in connection with related parties.	No exceptions to note.
9	Any other significant matters arising relevant to the oversight of the financial reporting process	No matters noted.

Contents

CONTROL ENVIRONMENT: OBSERVATIONS NOTED

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 Committee.

The table below sets out the deficiencies noted in the course of this year's audit. A number of IT control environment observations have also been separately fed back to central management in detail for their consideration; these apply to all entities across the City of London using these systems.

As the purpose of the audit is for us to express an opinion on the financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

Area	Observation and implication	Recommendation	Management response
Payroll Contract	During our sample testing of the City of London payroll, we have noted 6 out of 40 contracts have not been signed by the employees.	Signed contract ensures both parties (employer and employee) are in agreement to the terms and conditions of the employment and will serves to reduce the chance that one party will have grounds for legal action in future.	The recommendation is accepted. The Corporation are currently reviewing processes within HR and will seek to address this as part of that review.

AUDIT REPORT OVERVIEW

Contents

Opinion on financial statements

We anticipate issuing an unmodified opinion on all financial statements.

Comments on the Annual Report and statutory other information

We have identified no material misstatements in the statutory other information accompanying the financial statements.

Other information

We have reviewed the other information accompanying the financial statements in the annual report. We have not identified any material misstatements that would need to be referred to in our report.

INDEPENDENCE

Under ISAs (UK) and the FRC's Ethical Standard we are required, as auditors, to confirm our 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 partners 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 2021.

Details of services, other than audit, provided by us to City's Cash during the period and up to the date of this report were provided in our planning report. We understand that the provision of these services was approved by the Audit Committee in advance in accordance with the Charity'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 planning report.

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 or the IESBA Code of Ethics as appropriate and are independent of City's Cash.

We also confirm that external audit experts involved in the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of City's Cash and the Open Spaces.

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

OUTSTANDING MATTERS

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We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2021.

The following matters are outstanding at the date of this report and could impact our audit opinion. We will update you on their current status at the Committee meeting at which this report is considered:

City's Cash

- Review of amended financial statements
- A number of related party declarations are currently outstanding from members
- Finalisation of our work on investment properties (predominantly testing the inputs into the valuation models)
- Finalisation of audit work on investment property income
- Finalisation of audit work on the decommissioning provision, and associated deferred tax
- Subsequent events review to date of signing the financial statements
- Receipt of signed letters of representation for all entities

Open Spaces

- Finalisation of audit work on all entities
- Subsequent events review to date of signing the financial statements
- Receipt of signed letters of representation for all entities

APPENDICES CONTENTS

TRUSTEE'S RESPONSIBILITIES EXPLAINED

The Trustee's Responsibilities and Reporting

The Members are responsible for preparing and filing an Annual Report and financial statements which show a true and fair view, comply with the Charities SORP, prepared in accordance with UK GAAP.

Our audit of the financial statements does not relieve Management nor those charged with governance of their responsibilities for the preparation of the financial statements.

Further information regarding these responsibilities is provided in the engagement letter.

Trustee responsibilities	What this means
• Maintain adequate accounting records and maintain an appropriate system of internal control. • Prepare the annual report and the financial statements which give a true and fair view and which are prepared in accordance with UK Generally Accepted Accounting Practice • Safeguard the assets of the organisation and take reasonable steps for the prevention and detection of fraud and other irregularities.	Further information regarding these responsibilities is provided in the engagement. We are happy to explain these in more detail to you.
To make available to us, as and when required, all accounting records and related financial information. To provide us with Committee papers on key issues including but not limited to: • Review of business risks • Going concern assessments • Impairment reviews • Any key judgments and estimates.	This includes information required from subsidiary entities incorporated in the UK and officers, employees or auditors of those subsidiary entities.
Having made enquiries state in the Trustee's report that: • So far as Members (on behalf of the Trustee) are aware, there is no relevant audit information of which the auditors are unaware • Members have taken all reasonable steps they ought to have taken on behalf of the Trustee in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.	In addition to answering our queries, this requires proactive behaviour in order to make us aware of any relevant information. Relevant information is very broad and includes any information needed in connection with our report.

OUR RESPONSIBILITIES

Responsibilities and reporting

Contents

Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your financial statements. We report our opinion on the financial statements to the members.

We report only those matters which come 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.

We are also required to report on the consistency of the Annual report with the Financial Statements and our knowledge of the organisation and their environment obtained in the course of the audit and whether they have been prepared in accordance with the requirements of FRS102 and the Charities SORP.

What we don't report

Our audit is not designed to identify all matters that may be relevant to the board and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

FRAUD RISK

Respective responsibilities

In accordance with the International Standards on Auditing (UK) we are required to discuss with you the possibility of material misstatement, due to fraud or error. Below is a summary of the respective responsibilities of the Members, management, and the Auditor with regards to fraud:

Trustees' Responsibility

- To evaluate management's identification of fraud risk, and implementation of anti-fraud measures; and
- To investigate any alleged or suspected instances of fraud brought to their attention.

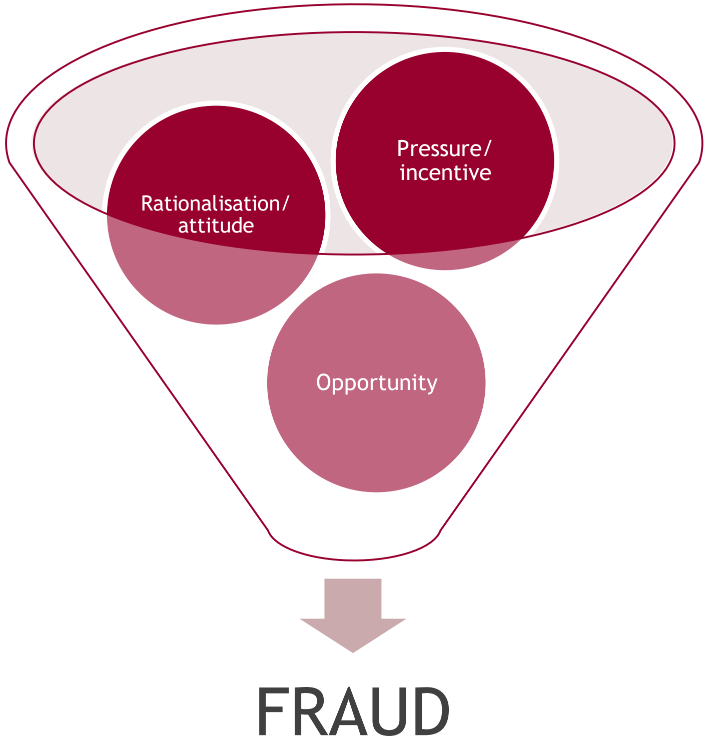
Management's Responsibility

- To design and implement systems and controls that enables the organisation to prevent and detect fraud;
- To ensure that the organisation's culture promotes ethical behaviour; and
- To perform a risk assessment that specifically includes the risk of fraud, and consideration of whether having a whistleblowing policy in place.

Auditor's Responsibility

- To evaluate and obtain sufficient appropriate audit evidence regarding the assessed risk of material misstatement due to fraud;
- To identify and assess the risks of material misstatement of the financial statements due to fraud; and
- To report fraud to an appropriate authority outside the entity where there is a suspected or actual instance suggesting dishonesty or fraud.

The auditor would also report to those charged with governance subject to "tipping-off" provisions under anti-money laundering legislation.



We will continue to consider fraud throughout the audit process and will discuss with the Audit & Risk Management Committee. We will liaise with management to determine any actual, suspected or alleged fraud known to them. We will discuss with management any knowledge they have of suspected or alleged fraud.

We will consider management's process for identifying and responding to the risks of fraud, including the nature, extent and frequency of such assessments. We ask that Members advise us if they do not concur with the assessment made by management in your management representation letter to us.

The key questions we are required to ask the Members are as follows:

- Are you aware of any instances of actual, suspected or alleged fraud?;
- What are your processes for identifying and responding to the risk of fraud?; and
- What communication is made with the Audit & Risk Management Committee with regards to processes for identifying and responding to the risk of fraud?

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COMMUNICATION WITH YOU

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Those Charged with Governance (TCWG)

References in this report to Those Charged With Governance are to the Audit and Risk Management Committee acting on behalf of the Trustee. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit and Risk Management Committee.

Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

MATERIALITY: ALL ENTITIES

The basis for setting materiality for the funds is set out in the Executive Summary. Overall financial statement materiality has been assessed against a benchmark of assets held by each entity. A lower, specific materiality, has been set with reference to income and expenditure in the performance statement.

	2020/21			
	Materiality	CT	Specific materiality	Specific CT
City's Cash	£70m	£1.4m	£8.5m	£0.2m

The basis for setting materiality for the subsidiary trusts, is expenditure for all Trusts whose deficits are funded by City of London Corporation and gross assets for all other Trusts/entities.

A lower specific materiality has been set for those entities whose items of income and expenditure are significantly lower than the asset base.

The Audit and Risk Committee approved a de-minimis reporting level of £1,000 at the planning stage however our audit procedures have considered any items at the lower levels of clearly trivial (as set out below) both individually and in aggregate.

	2020/21			
	Materiality	CT	Specific materiality	Specific CT
	£	£	£	£
Consolidated Entities				
Ashtead Common Preservation of the common at Ashtead	11,000	1,000	-	-
Burnham Beeches Preservation of the open space known as Burnham Beeches	23,000	1,000	-	-
Epping Forest Preservation of Epping Forest in perpetuity	333,000	7,000	137,000	3,000
Hampstead Heath (consolidated) Preservation of Hampstead Heath for the recreation and enjoyment of the public	750,000	21,000	473,000	9,000
Hampstead Heath Trust To meet a proportion of the maintenance cost of Hampstead Heath	663,000	13,000	76.000	2,000
Highgate Wood & Queens Park Kilburn Preservation of Hampstead Heath for the recreation and enjoyment of the public	31,000	1,000	-	-

Contents

MATERIALITY: ALL ENTITIES

	2019/20			
	Materiality	CT	Specific materiality	Specific CT
	£	£	£	£
West Ham Park To maintain and preserve the Open Space known as West Ham Park	32,000	1,000	-	-
West Wickham Common and Spring Park Coulsdon & Other Commons Preservation of West Wickham Common and Spring Park Coulsdon & Other Commons	29,000	1,000	-	-
Keats House Maintenance of Keats House	7,000	140	-	-
Sir Thomas Gresham Charity To provide a programme of public lectures	1,000	20	-	-

LETTER OF REPRESENTATION

The letter concerning City's Cash is included below - note that the letters of representation for the Trusts will be provided separately from this report.

TO BE TYPED ON YOUR HEADED NOTEPAPER

BDO LLP
2 City Place
Beehive Ring Road
Gatwick
West Sussex, RH6 0PA

Dear Sirs

Financial Statements of City's Cash for the year ended 31 March 2021

We confirm that the following representations given to you in connection with your audit of City's Cash and its subsidiaries (together "the financial statements") for the year ended 31 March 2021 are made to the best of our knowledge and belief, and after having made appropriate enquiries of the City of London Corporation and officials of City's Cash and other group entities as appropriate.

We have fulfilled our responsibilities as the City of London Corporation for the preparation and presentation of the group and City's Cash financial statements as set out in the terms of the audit engagement letter, and in particular that the financial statements give a true and fair view of the financial position of the group and City's Cash as at 31 March 2021 and of the results of the group's and City's Cash operations and cash flows for the year then ended in accordance with the applicable financial reporting framework 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 of the City's Cash have been made available to you for the purpose of your audit and all the transactions undertaken by City's Cash have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and trustees' any other key City of London Corporation committee meetings have been made available to you.

Going concern

We have made an assessment of the group's and City's Cash's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the group and City's Cash are able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

Having performed our assessment we were able to conclude that the charity is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the group's and City's Cash's ability to continue as a going concern.

LETTER OF REPRESENTATION

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Laws and regulation

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

Post balance sheet events

Other than those disclosed in note 23, 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.

Fraud and error

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.

Misstatements

We attach a schedule showing uncorrected misstatements that you identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below.

In our opinion, the effects of not correcting such identified misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

Related party transactions

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 requirements of the applicable accounting framework.

Other than as disclosed in note 22 to the financial statements, there were no loans, transactions or arrangements between the group and the members of the corporation or their connected persons at any time in the year which were required to be disclosed.

In the opinion of the City of London Corporation City's Cash has no controlling party.

Carrying value and classification of assets and liabilities

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

LETTER OF REPRESENTATION

Accounting estimates

1. Pension fund assumptions

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

- Rate of inflation (CPI): 2.9%
- Rate of inflation (RPI): 3.2%
- Rate of increase in salaries: 3.9%
- Rate of increase in pensions: 2.9%
- Rate of discounting scheme liabilities: 2.0%

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

2. Valuation of investment properties

The property investment portfolio has been valued by Cushman and Wakefield and Savills in accordance with the RICS Global Standards 2020 as at 31 March 2021, based on tenancy and rental information that was correct at that date.

3. Valuation of private equity investments

We confirm that private equity investments are valued based on the latest available information from the individual private investment fund managers as at 31 March 2021 and therefore represent fair value of the funds as at the balance sheet date.

4. Amortisation of Goodwill

We confirm that goodwill arising from the acquisition of Barking Power Limited and Thames Power Service Limited which is being written off over 10 years, currently represents our best estimate of its useful life, taking into account the ongoing discussions regarding the future of the site.

We confirm that no subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements.

Litigation and claims

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

LETTER OF REPRESENTATION

Confirmation

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. Each trustee 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

Caroline Al-Beyerty

(Signed on behalf of the Trustee)

Date: ……………………..

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FOR MORE INFORMATION:

Heather Wheelhouse

m: +44(0)7798 653 994
e: heather.wheelhouse@bdo.co.uk

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

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www.bdo.co.uk

Report to the Audit and Risk Management Committee

CITY OF LONDON CORPORATION CITY FUND

Audit Completion Report: year ended 31 March 2021

IDEAS | PEOPLE | TRUST

BDO

CONTENTS

WELCOME

Contents

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 2021, 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 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 30 November 2021, 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.

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.

David Eagles, Partner
For and on behalf of **BDO LLP**, Registered Public Auditor

25 November 2021

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OVERVIEW

Executive summary

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This summary provides an overview of the audit matters that we believe are important to the Audit Committee in reviewing the results of the audit of the financial statements for the Company for the year ended 31 March 2021.

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.

Overview

Our audit work is substantially complete and subject to the successful resolution of outstanding matters and clearance of BDO internal review and receipt of amended financial statements, we anticipate issuing an unmodified audit opinion on the Company's financial statements for the year ended 31 March 2021 in line with the agreed timetable.

Outstanding matters are listed on page 67 in the appendices.

There were no significant changes to the planned audit approach and no additional significant audit risks have been identified.

No restrictions were placed on our work.

Audit report

Subject to clearance of the outstanding matters, we anticipate issuing an unmodified audit opinion on the financial statements and use of resources.

We will report an emphasis of matter in our audit report in relation to the material valuation uncertainty around PPE and Investment Property valuations.

We have no exceptions to report at this stage in relation to the arrangements in place to secure economy, efficiency and effectiveness in the use of resources.

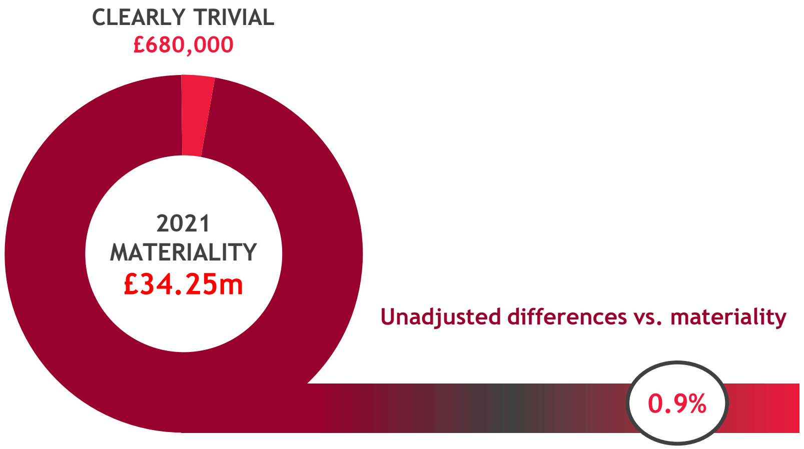
Our audit certificate will be issued when we have completed our work on the Council's value for money arrangements and Whole of Government Accounts work.

Contents

Final Materiality

Group Materiality was determined based on 1% of income generating assets using the combined values of long term assets, managed investments and cash resources as a suitable value for materiality.

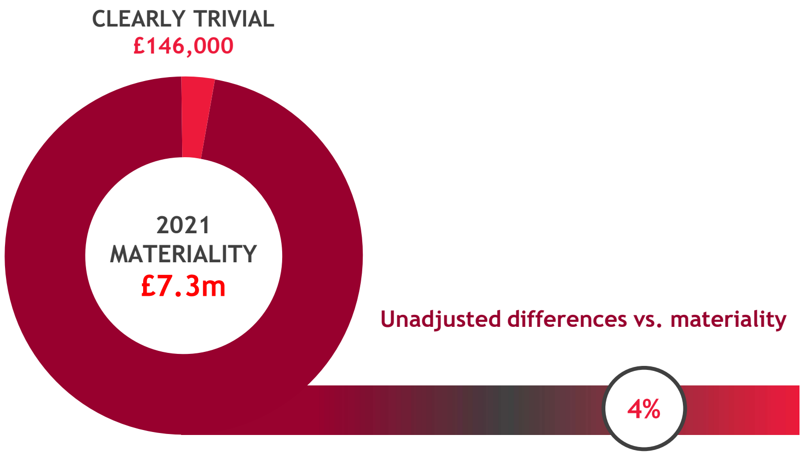
This was revised upwards from £34 million reported in the audit planning report to £34.25 million based on the draft financial statements.



Specific materiality

Specific materiality for the Comprehensive Income and Expenditure Account was based on 1.5% of gross expenditure. 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.

This was revised upwards from £6.9 million reported in the audit planning report to £7.3 million based on the draft financial statements.



Unadjusted audit differences

We identified audit adjustments that, if posted, would decrease the deficit on the provision of services for the year by £0.3m.

OTHER MATTERS

Executive summary

Contents

Financial reporting

- We have not identified any non-compliance with group accounting policies or applicable accounting framework.
- No significant accounting policy changes have been identified impacting the current year.
- Going concern disclosures are deemed sufficient
- We have noted that the vast majority of related parties included in the table in note 35 are deemed to be directors or key managers in common which does not meet the 'related' definition under IAS 24: Related Party Disclosures. This could detract the readers attention from those that are considered to be related party.
- The Narrative Report is consistent with the financial statements and our knowledge acquired in the course of the audit.
- The Annual Governance Statement is not inconsistent or misleading with other information we are aware of.
- We will complete our review of the Whole of Government Accounts Data Collection Tool (DCT) after we have completed our audit of the financial statements.

Other matters that require discussion or confirmation

- Control deficiency identified in relation to logical access controls over the IT application and internal control.
- In March 2021 we followed up on twelve IT related control recommendations arising from our 2019/20 audit work. While these recommendations were shared with Management in August 2020, these have not been formally reported to Those Charged With Governance before inclusion in this Audit Completion Report. None of the findings represented significant deficiencies but we encourage the Audit & Risk Management Committee and the successor auditor to monitor progress on these going forward. These are included on pages 51-54 of our report.
- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation.

Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Corporation in accordance with the Financial Reporting Council's (FRC's) Ethical Standard.

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AUDIT RISKS OVERVIEW

As identified in our audit planning report dated 14 March 2021 we assessed the following matters as being the risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the directing of the efforts of the engagement team.

Significant Audit Risk	Risk Rating	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported	Specific Letter of Representation Point
1. Management override of controls	Significant	Yes	No	No	No	No
2. Revenue recognition	Significant	No	No	Yes	No	No
3. Expenditure cut-off	Significant	No	No	No	No	No
4. Valuation of non-current assets	Significant	Yes	Yes	No	No	Yes
5. Valuation of pension liability	Significant	Yes	Yes	No	No	Yes
6. Non-Domestic Rates appeals provision	Significant	Yes	No	No	No	Yes
7. Allowances for non-collection of receivables and debt	Significant	Yes	No	No	No	Yes
8. Related party transactions	Normal	No	No	No	Yes	No
9. Use of Resources	Significant	No	No	No	No	No

Areas requiring your attention

MANAGEMENT OVERRIDE OF CONTROLS

Auditing standards presume that management is in a unique position to perpetrate fraud by overriding controls.

- **Significant management judgement**
- **Use of experts**
- **Unadjusted error**
- **Adjusted error**
- **Additional disclosure required**
- **Significant Control Findings to be reported in Mgmnt letter**
- **Letter of Representation point**

Risk description

Management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively. We are required to consider this as a significant risk of material misstatement due to fraud.

Details

We carried out the following planned audit procedures:

- Considered estimates and judgements applied in the financial statements to assess their appropriateness and the existence of any systematic bias;
- Reviewed and checked high value and unusual journal entries made in the year and agreed the journals to supporting documentation. We determined key risk characteristics to filter the population of journals and used our IT team to assist with the journal extraction; and
- Considered unadjusted audit differences for indications of bias or deliberate misstatement.

Results

Our views on significant management estimates are set out in this report and does not indicate any evidence of systematic bias in preparing the financial statements.

Our audit work on journals and estimates did not identify any issues.

Our review of unadjusted audit differences does not indicate bias or deliberate misstatement.

Conclusion

We have identified no significant or unusual transactions to date which we consider to be indicative of fraud in relation to management override of controls.

REVENUE RECOGNITION

Auditing standards presume that income recognition presents a fraud risk.

Significant management judgement	
Use of experts	
Unadjusted error	■
Adjusted error	■
Additional disclosure required	
Significant Control Findings to be reported in Mgmnt letter	
Letter of Representation point	

Risk description

Under auditing standards there is a presumption that income recognition presents a fraud risk.

For the City Fund, we consider there to be a significant risk in respect of the existence (recognition) of revenue and capital grants that are subject to performance conditions before these may be recognised as revenue in the Comprehensive Income and Expenditure statement (CIES). There is also a risk around the existence of fees and charges and investment property rental income.

Details

We carried out the following planned audit procedures:

- Tested a sample of grants included in income to documentation from grant paying bodies and check whether recognition criteria have been met;
- Tested a sample of fees and charges to ensure that income has been recorded in the correct period and that all income that should have been recorded has been;
- Tested a sample of grants and donations to ensure completeness, accuracy, existence and classification (as restricted or unrestricted) in the financial statements;
- Tested a sample of investment income and confirm to third party investment manager reports; and
- Tested a sample of property rental income and agree to lease agreements and recalculations performed to determine whether the amounts are accurate and recorded in the correct period.

Results

Our audit testing has not identified errors in the recognition, completeness, accuracy, existence and classification of grant income. The only exception noted was with respect to an error made in applying the split of the NNDR creditor, resulting in an understatement of Taxation & Non-Specific Grant Income by £2.8m. This has been adjusted for.

Our audit testing in respect of fees and charges, investment income and property rental income has found that this income has been recorded accurately and recorded in the correct period with the exception of one item leading to an overstatement of investment property income. This has been recorded as an extrapolated unadjusted error of £0.3m.

As noted on page 67 our sample work in this area remains in progress. Any further findings will be reported n the final audit completion report.

Conclusion

Subject to the resolution of remaining testing areas, we are satisfied that revenue has been correctly recognised in the CIES.

EXPENDITURE CUT OFF

For public sector bodies the risk of fraud related to expenditure is also relevant.

Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings to be reported in Mgmnt letter	
Letter of Representation point	

Risk description

For net-spending bodies in the public sector there is also risk of fraud related to expenditure. For the Corporation, we consider the risk of fraud to be in respect of the cut-off of expenditure at year-end.

Details

We carried out the following planned audit procedures:

- Tested a sample of expenditure either side of year end, to confirm that expenditure has been recorded in the correct period and that all expenditure that should have been recorded at year end has been.

Results

We have completed the testing on expenditure invoice. We have note two sample related to February and March 2021 cleaning for Bishopsgate Police Station and 21 Garlick Hill which had not been accrued as at 31 March 2021. We have assess the error and noted that the potential impact of the error is £133k. This is below our reporting threshold.

No other issues have been identified in respect of expenditure invoice cut-off.

As at 22 November our work on expenditure payment cut off is in progress with 18 samples outstanding.

In the context of thematic regulatory findings on the audit of expenditure cut-off as a whole, the methodology we have applied this year has been updated as compared with the prior period. This has resulted in a larger number of sample items requiring testing this year and over a greater period of months post year end.

Work outstanding

To complete the testing of the remaining samples noted above.

Conclusion

We have not identified any issues in respect of expenditure cut-off.

VALUATION OF NON-CURRENT ASSETS

There is a risk over the valuation of land, buildings, dwellings and investment properties where valuations are based on significant assumptions.

Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings to be reported in Mgmnt letter	
Letter of Representation point	■

Risk description

Land, buildings and dwellings are reported at fair value / carrying value. Operational assets are valued at current value and surplus assets / assets held for sale at fair value at the balance sheet date. Investment properties are reported at fair value at the balance sheet date.

The Corporation applies an annual revaluation process for investment properties and higher value operational assets to provide assurance that carrying values are not materially misstated; with the remainder of the immaterial value assets being revalued every 5 years. The Corporation has appointed four different valuers for investment property and other operational land and buildings. Internal valuers also carry out some valuations at year end.

In the prior year RICS issued guidance to valuers regarding material uncertainties over valuations of land and buildings due to prevailing market conditions as a result of the coronavirus pandemic. The Corporation’s valuers responsible for valuing land and buildings included material uncertainties over their valuations in their updated valuation reports as at 31 March 2020. RICS latest guidance suggests that there is unlikely to be material uncertainties over valuations as at 31 March 2021. However, Gerald Eve have disclosed a material valuation uncertainty over car parks in their report, with a value of £16.4m.

Due to the significant value of the land, buildings, dwellings and investment properties and the high degree of estimation uncertainty, there is a risk over the valuation of these assets where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year-end.

Details

We carried out the following planned audit procedures:

- Reviewed the instructions provided to the valuer and the valuer’s skills and expertise in order to determine if we can rely on the management expert;
- Confirmed that the basis of valuation for assets valued in year is appropriate based on their usage;
- Reviewed the accuracy and completeness of information provided to the valuer;
- Reviewed assumptions used by the valuer in light of the prevailing market conditions to support the valuations including any material uncertainty for classes of assets;
- Discussed with our Real Estate Team the reasonableness of assumptions on benchmark and yields range for investment properties;
- Followed up valuation movements that appeared unusual or outside of our expectations; and
- Confirmed that assets not specifically valued in the year have been assessed to ensure their reported values remain materially correct.

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VALUATION OF NON-CURRENT ASSETS

There is a risk over the valuation of land, buildings, dwellings and investment properties where valuations are based on significant assumptions.

Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings to be reported in Mgmnt letter	
Letter of Representation point	■

Results

Our review of instructions to the valuer including the valuer's skills and expertise did not identify any issues.

We confirmed that the basis of valuation for assets valued in year is appropriate and in line with Code.

Our review of the accuracy and completeness of the data inputs used by the valuers identified no issues.

The results of our review of the significant assumptions and estimates used by the valuers for classes of assets are reported on the following pages.

Those assets not specifically valued in year have been assessed and are considered to be materially accurate at year end.

Work outstanding

The testing of the assumptions, estimates, and inputs used is still in progress, along with the assessment of assets not revalued this year.

Representations required

We have sought specific representations over material assumptions used in the valuations including investment property yields and rebuild cost indices.

Conclusion

We are satisfied that the valuations of land, buildings, dwellings and investment properties have been appropriately calculated and the assumptions used are reasonable.

VALUATION OF NON-CURRENT ASSETS

Significant estimate – Investment properties

Estimates: Investment property £1,601.0 million

Investment properties are valued by reference to highest and best use market value using an income based approach. This valuation is based on the current passing rents for the existing lease term, expectations about future rents at the next rent review, market driven yield expectations for similar properties and the covenant strength of the existing lease and tenant. The significant valuation assumption is the market yield applied to the rents.

Investment properties decreased in value by £20.5 million to £1,601.0 million (1.3%) in 2020/21 driven primarily by the revaluation decrease of £24.4 million and addition of £3.9 million.

We set yield expectations for the portfolio based on year-end market trends and property type (such as office, retail or industrial). These expectations also included consideration of a property's location and security of future income.

The majority of investment properties comprise office buildings within the city and the following range of yields were applied:

- City office space (EC1 to EC4) -3.07% to 5.98%
- City strategic estate (Bonhill and Worship St) 1.97% to 5.01%

In consultation with our Real Estate and Valuation teams, we compared the yields used by the valuers to our expectations and discussed properties outside of these expectations with the valuer to assess the appropriateness of the yields used.

For those properties that were outside of the expected yields the valuers provided detailed information to support the valuations. We are satisfied that the yields applied to the valuations of investment properties are reasonable.

Work outstanding

To complete the testing of those assets identified as outside our expectations.

Impact

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VALUATION OF NON-CURRENT ASSETS

Significant estimate – Non-specialised other land and buildings

Estimates: Non-specialised other land and buildings £267.9 million (£274.2)

Non-specialised other land and buildings decreased in value by £4.5 million (1.64%) in 2020/21. These valuations may be based on:

- income approach using the current net profits for the assets at market driven yield expectations for similar types of assets (eg car parks, markets); and
- recent market sales prices for similar assets adjusted for size and condition.

The significant valuation assumptions are the market yield applied to net profits and sales of similar properties.

Existing Use Value

We set detailed expectations for year on year valuation movements, taking into account various external sources of information tailored to the individual assets that were revalued. We compared the movements to our expectations and investigated assets with movements that fell outside of the expectations.

The inputs used in these valuations were agreed to income and expenditure data as per City Fund records. The reasonableness of the yield applied to the valuations were also tested by assessing against comparative data and the cost rate percentages applied were compared to expected estimates. We discussed the EBITDA multiple applied with the valuer to gain assurance that this was consistent with the industry standard used for this type of valuation.

Based on our work, we are satisfied that the valuations of using existing use value are reasonable.

Market Value (Spitalfields Market, Barbican Residential Estate and HRA commercial property)

We set detailed expectations for year on year valuation movements and checked the key inputs used in the valuations.

We agreed the income and expenditure used in the Spitalfields Markets valuation and the reasonableness of the yields and cost rates. While we noted some small variances in the rates these were within tolerable thresholds for testing.

We agreed the lease and rent data used for a sample of assets from the Barbican Estate and assessed yields and cost rates against our expectations. Some small variances were noted but these were within tolerable thresholds.

We compared the estimated rental values and yields for the HRA commercial property to similar properties and market benchmarks and all were found to be within expectations.

Impact

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VALUATION OF NON-CURRENT ASSETS

Significant estimate – Specialised other land and buildings

Estimates: Specialised land and buildings £315.7 million

Specialised land and buildings increased in value by £6.2 million (2.00%) in 2020/21.

Land and buildings that do not have a market value due to their specialised nature are valued on a depreciated replacement cost basis. This valuation estimates the cost of replacing the 'service potential' of that asset using modern materials and adjusted to reflect the age and obsolescence of the asset to reflect its remaining useful economic life.

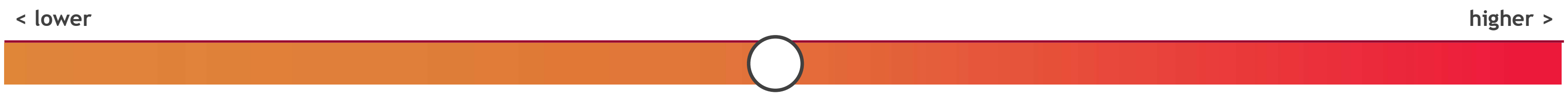
The service potential of the asset does not necessarily have to be a like-for-like replacement and a 'modern equivalent asset' replacement can be specified that may result in a different size or specification building or re-provisioning to a more appropriate location. Management determined that no adjustments are needed to the service potential valuations for building size, specification or location. Some assets are deemed to be of such cultural or historic significance that a rebuild cost uses assumptions to rebuild the asset in the same materials rather than modern materials that can increase the replacement cost valuation.

The key input to the depreciated replacement cost valuations is the size of the building and the key estimate is the rebuild cost to be applied.

Specialised property assets valued this year have been subject to detailed testing including agreeing the replacement size by checking the gross internal floor area (GIA) and agreeing the age / obsolescence adjustment to the remaining useful life provided by the valuer.

The rebuild cost assumptions have been agreed to data provided by RICS for Building Cost Indices including Weighted Overall Cost Rate, Location Factor, professional fees and external works percentages, and overall obsolescence factors applied.

Impact



VALUATION OF NON-CURRENT ASSETS

Significant estimate – HRA dwellings

Estimates: HRA dwellings £184.1 million

Dwellings decreased in value by £37.3 million (16.8%) in 2020/21 and it is primarily driven by the change in the social housing discount factor.

HRA dwellings are valued at open market value and then reduced to reflect the discounted social rents charged to tenants. The reduction is a measure of the economic cost of providing council housing at less than open market rents. Current MHCLG guidance (2016) estimated that across London the average reduction was 75% (discount factor of 25%) but may be adjusted for local circumstances if considered more appropriate.

In previous years, the Corporation has adjusted the valuation by 70% (discount factor of 30%). In 20/21, a data set from the ONS which captures average rents for Studio, 1, 2, 3 and 4 bedroom accommodation in London shows that private rents across London have increased slightly, whilst social rents have largely remained unchanged. This has led to a decrease in the calculated discount factor to circa 26-27%. The MHCLG guidance note is clear that when within 5% of the suggested 25% figure, 70% should be used, as such the factor has been reduced from 30% to 25%.

Dwellings were subject to valuation based on the allocation of properties into relevant Beacons (for similar types of properties) and valued by reference to recent sales data for similar properties. Where possible, the City Surveyor has used other sales on City Fund Estates to support the valuations. Where there haven't been equivalent sales in the year, the City Surveyor has used other similar properties in the area or other City of London Estates.

The key input to the valuation is the allocation of all dwellings into an appropriate Beacon. The key estimates are the open market value of a Beacon by reference to recent similar sales or housing indices and the social housing discount factor applied.

Our testing of the allocation of dwellings into appropriate Beacons (by location, architype and bedrooms) did not identify any issues.

The valuer has appropriately applied sales prices for recent sales for the limited number of City Fund dwellings sold in year along with sales of similar properties. We checked and agree the data used for these recent sales in determining the open market value for each Beacon property.

We also assessed the reasonableness of the overall valuation movement using London house price index data from Halifax and Nationwide, Land Registry data, and other publicly available external residential market data for central London from Knight Frank, CBRE and the GLA London Datastore. Our analysis of the market movement shows a fairly minimal movement year-on-year and the overall 0.76% valuation reduction is in line with our expectation.

We have reported in recent years that the useful economic lives (UEL) of dwellings has been set at 125 years based on the usual term for leases granted. This is significantly longer than the UELs used by other local authorities which tends to range from 60 to 80 years. The 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 consider this to be at the optimistic end for UELs but this would not result in a material difference in the annual depreciation charge had a UEL of 80 year been applied.

Work outstanding

To complete the testing of the beacons used in the valuation and the change in the adjustment factor.

Impact

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VALUATION OF PENSION LIABILITY

The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty

Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings to be reported in Mgmnt letter	
Letter of Representation point	■

Risk description

The LGPS pension fund is required to report the pension liability for estimated promised future benefits for the whole fund. The Corporation's share of the net liability, including its share of the assets held in the pension fund, is allocated across the funds in proportion to the payroll cost for each fund. The City Fund also reports the pension liability for the City Police pension scheme and Judges pension scheme. Both are unfunded scheme and the Judges pension scheme is immaterial.

An actuarial estimate of the liability is calculated by an independent firm of actuaries. The estimate will be based on the submission of membership data from the 2019 triennial valuation exercise for the LGPS and the 2017 quadrennial valuation for the police pension, updated at 31 March 2021 for factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.

There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.

Details

We carried out the following planned audit procedures:

- Assessed the qualifications and competence of the actuary through the use of PwC consulting actuary (auditor's expert);
- Reviewed the reasonableness of the assumptions used by Barnett Waddingham (management's expert) for the calculation of the liability against other local government and police pension actuaries' assumptions and other observable data using the benchmark range of acceptable assumptions provided by PwC consulting actuary (auditor's expert);
- Reviewed the controls for providing accurate membership data to the actuary;
- Checked whether any significant changes in membership data had been communicated to the actuary;
- Assessed the impact of Goodwin and O'Brien cases regarding same sex couple discrimination on the pension fund liability and impact on employer fund;
- Discussed with the actuary the continuing impact of GMP equalisation and the McCloud judgement regarding age discrimination on the pension fund liability and impact on employer fund; and
- Reviewed the testing of the assets carried out as part of the LGPS audit and checked the accuracy of the calculations relating to the allocation of the share of the net assets across the funds in proportion to the employer's contribution's paid to the scheme.

VALUATION OF PENSION LIABILITY

The valuation of the pension liability is a significant risk as it involves a high degree of estimation uncertainty

Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings to be reported in Mgmnt letter	
Letter of Representation point	■

Results

We are satisfied that the actuary has the appropriate skills and experience, and has applied the appropriate technical actuarial standards to calculate the LGPS and police pension liabilities.

Management confirmed there has been no significant changes in the membership these funds during the year.

The actuary has applied full GMP indexation for members at state pension age and this is consistent with the previous year. The actuary has calculated the Corporation impact of McCloud at £12.9 million assuming that active members since 2012 will benefit from the scheme amendments. This is consistent with the assumptions in the previous year and with the recent consultation on the proposed remedy to remove age discrimination for those members in the scheme at the time that the age underpin was agreed.

The actuary has not included the potential additional liability arising from the Goodwin case and our assessment have found the impact to be immaterial.

No issues has been noted in our testing of the police pension scheme.

Our review of the assumptions used to calculate the present value of future pension obligations is noted in the following pages, and were found to fall within a reasonable range.

In our review of the financial statements, we have noted a number of errors in the disclosures in Note 23 (Pension Schemes), Note 25 (Judges' Pension Scheme) and Note 26 (Transactions Relating to Post-employment Benefits within the Financial Statements). Management has confirmed that they will be corrected in the final version of the financial statements and have been included in our adjusted schedule on page 40.

Representations required

We have sought specific representations over material assumptions used in the valuation of the pension liability include the financial and mortality assumptions.

Conclusion

We are satisfied that defined benefit obligation for the LGPS and Police pension schemes have been appropriately calculated and the assumptions used are reasonable.

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VALUATION OF PENSION LIABILITY

Significant estimate – LGPS pension liabilities

Estimates: LGPS pension liabilities £1,073.2 million

City Fund's share of the liability has increased from £799.7 million to £1,073.2 million and it's share of the assets increased from £477.8 million to £606.4 million. The net deficit increased by £321.9 million to £466.8 million. The is mainly driven by £246.3 million losses arising from changes to financial assumptions including the salaries increases of 3.85% (previously 2.90%), pension increases of 2.85% (previously 1.90%), and decrease in discount rate of to 2.00% (previously 2.35%).

The key estimates are the financial and mortality assumptions. We have compared the assumptions used to an acceptable range provided by a consulting actuary commissioned for local public auditors by the NAO.

Financial:

Assumption	Actual used	Acceptable range	Comments
Discount rate	2.00%	1.95% - 2.05%	Reasonable
RPI	3.20%	3.15% - 3.35%	Reasonable
CPI	2.85%	2.80% - 2.85%	Reasonable
Pension increases	2.85%	2.80% - 2.85%	Reasonable
Salary increases	3.85%	3.80% - 3.85%	Reasonable

Mortality:

Assumption	Actual used	Acceptable range	Comments
Male/current	21.6 years	20.5 - 23.1 years	Reasonable
Male/non current	22.9 years	21.9 - 24.4 years	Reasonable
Female/current	24.3 years	23.3 - 25.0 years	Reasonable
Female/non current	25.7 years	24.8 - 26.4 years	Reasonable

We consider that the assumptions and methodology used by the actuary are appropriate and will result in an reasonable estimate of the pension liability.

Impact

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VALUATION OF PENSION LIABILITY

Significant estimate – Police pension liabilities

Estimates: Police pension liabilities £1,139.3 million

The police pension liability has increased from £935.1 million to £1,139.3 million. The increase in the liability includes a £208.0 million loss arising from changes to financial assumptions including salaries increases of 3.80% (previously 3.40%), pension increases of 2.80% (previously 1.90%), and a change in the discount rate to 2.00% (previously 2.35%). It also includes a gain on demographic assumptions of £14.2 million arising from decreased mortality assumptions of approximately 0.3 years.

The key estimates are the following financial and mortality assumptions. We have compared the assumptions used to an acceptable range provided by a consulting actuary commissioned for local public auditors by the NAO.

Financial:

Assumption	Actual used	Acceptable range	Comments
Discount rate	2.00%	1.95% - 2.05%	Reasonable
RPI	3.20%	3.15% - 3.35%	Reasonable
CPI	2.80%	2.80% - 2.85%	Reasonable
Pension increases	2.80%	2.80% - 2.85%	Reasonable
Salary increases	3.80%	3.80% - 3.85%	Reasonable

Mortality:

Assumption	Actual used	Acceptable range	Comments
Male/current	21.1 years	20.5 - 21.1 years	Reasonable
Male/non current	22.3 years	21.7 - 22.3 years	Reasonable
Female/current	23.3 years	22.7 - 23.3 years	Reasonable
Female/non current	24.8 years	24.2 - 24.8 years	Reasonable

We consider that the assumptions and methodology used by the actuary are appropriate and will result in an reasonable estimate of the pension liability.

Impact

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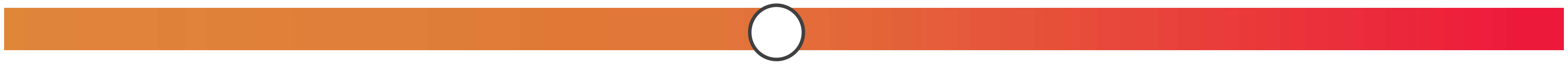

NON-DOMESTIC RATES APPEALS PROVISION

There is 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.

Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings to be reported in Mgmnt letter	
Letter of Representation point	

Risk description

City Fund as a billing authority is required to estimate the value of potential refunds 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.

There is a low number of appeals and settlements from the 2017 VOA list following the introduction of the Check - Challenge - Appeal process that means there is limited data on which to base the estimate for the provision. This increases the level of risk as the provision could be overstated based on the assumptions used for the 2017 VOA list provided by MHCLG.

Details

We carried out the following planned audit procedures:

- Reviewed the accuracy of the appeals data to confirm that it is complete based on the VOA list, and that settled appeals are removed; and
- Reviewed the assumptions used in the preparation of the estimate including the historic success rates to confirm that the rates applied are appropriate to outstanding 2010 appeals and expected losses for the 2017 rating list.

Results

Management commissioned an expert (Analyse LOCAL) to calculate the 2020/21 appeals provision. We have assessed the skills and competency of the management expert.

Key assumptions used by Analyse LOCAL to estimate the likely success rates of appeals and amounts refundable have been assessed on the following page. We note that City Fund's share of the provision has decreased from £49.2 million to £45.8 million this year. This is partly driven by the Business Rate Pool Pilot has moved from a 75% to a 67% scheme, has reduced the City Funds share of the appeal provision from 48% to 30%.

We checked and agreed that the data provided to the expert was complete and accurate.

Representations required

We have sought specific representations over material assumptions for appeals success rates from Analyse LOCAL.

Conclusion

We are satisfied that the estimated NDR appeals provision is reasonable.

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NON-DOMESTIC RATES APPEALS PROVISION

Significant estimate – Non-Domestic Rates appeals provision

Estimates: City Fund's share of the appeals provision £45.8 million

Analyse LOCAL has confirmed that their model estimates the expected rateable value (RV) loss resulting from any current and future appeals and the loss to NDR income that would cause based on the estimated effective date of the RV change. This is produced by the model's processing of the following factors for each NDR property on the listing – type of property (e.g. office), the size (in RV), and the geographical location. This produces a comparative average RV loss by inputting the results of all the appeals that have been settled since 1990 and weighting those with similar type, size and relevant location. The model therefore produces a listing of the estimated RV loss from all current appeals, but also the potential RV loss from all expected future appeals (threats).

Additionally, following previous findings management have undertaken an additional exercise to consider the impact on the provision of any reliefs that would reduce the appeal refund due for relevant properties. This has been estimated by analysing the current reliefs of each property in the provision and applying an average percentage over the last two years for both the threats and challenges, following an approach designed by the prior year audit team. Management have reviewed and agreed the data and method used last year and updated the calculation with this year's data.

We have been unable to obtain access to review the detailed assumptions used in Analyse LOCAL's system for the estimated RV loss from current appeals and expected future appeals. We have therefore carried out our own analysis to verify the reasonableness of the estimate calculated by Analyse LOCAL as follows:

- In respect of the provision made against the appeals submitted against the 2010 rating lists, we calculated an average success rate based on recent settled appeals in 2020/21 and applied to the 2010 listing.
- In respect of the provision made against the 2017 rating lists, we calculated an expected range by using MHCLG's estimated RV losses of 4.7% and an average success rate based on recent settled appeals in 2020/21 and applied both to the 2017 listing as we would expect the provision to fall somewhere between the two.

Our testing carried out on the provision made against the 2010 and 2017 rating lists indicates a lower potential success rate for refunding NDR appeals using the MHCLG rate assumption. However, we are satisfied that the provision falls within a reasonable range.

Impact

ALLOWANCES FOR NON-COLLECTION OF RECEIVABLES AND DEBT

There is a risk over the valuation of the impairment allowance for the non-collection of arrears and debt.

Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings to be reported in Mgmnt letter	
Letter of Representation point	■

Risk description

The City Fund recognises an allowance for the non-collection of receivables (arrears and debt), primarily in respect of council tax, NDR, housing benefit overpayments, housing and commercial rents and parking charges. Management assesses each type of receivable separately in determining how much to allow for non-collection. There is a risk over the valuation of this allowance if incorrect assumptions or source data are used, or an inappropriate methodology is applied.

There is an increased risk of customer default over collection of receivables where the losses are measured at either the Incurred Credit Loss model for statutory debt (e.g. council tax and NDR) or Expected Credit Loss (contract receivables). For some receivables, the Corporation may have suspended recovery action or offered deferred payment terms, and some customers that may be taking advantage of these arrangements may be in financial difficulty.

Estimating potential losses from defaults on amounts due will be subject to a greater degree of estimation than in previous years, historical collection rates may offer only some indication of potential future losses and assigning key economic metrics that may reflect patterns of historic default rates may be imperfect in the current conditions.

Details

We carried out the following planned audit procedures:

- Reviewed the provision model for significant income streams and receivables / debt balances to assess whether it appropriately reflects potential default losses in light of current conditions using historical collection rates, an assessment of potential defaults for customers making use of deferral arrangements and aging of debt, and future losses and assessing the sensitivities to the impairment calculation and assumptions used by management;
- Followed up prior year recommendations to ensure that where impairment allowance percentages had been rolled forward for a number of years, these allowances have now been calculated using historical collection rates or similar types of evidence; and
- Checked that information has been accurately extracted from systems to support the modelling of collection rates by age.

ALLOWANCES FOR NON-COLLECTION OF RECEIVABLES AND DEBT

There is a risk over the valuation of the impairment allowance for the non-collection of arrears and debt.

Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings to be reported in Mgmnt letter	
Letter of Representation point	■

Results

Our review of the assumptions used to calculate the impairment allowance for non-collection of receivables is noted in the following pages, and were found to fall within a reasonable range based on the available data for historical collection rates.

We agreed the information used to calculate the impairment allowance for each type of receivable was correctly extracted from the underlying data.

Representations required

We have sought specific representations that:

- historic collection rates calculated in previous years for NDR arrears, Barbican residential and HRA rents remain consistent with collection rates in 2020/21; and
- historic collection rates are a reasonable basis for calculating expected credit losses and that enhanced forecasting of losses will not result in material differences in the impairment allowances.

Conclusion

Although the expected credit loss estimate does not include any enhanced forecasting of losses, we are satisfied that the impairment allowance estimate is reasonable.

ALLOWANCES FOR NON-COLLECTION OF RECEIVABLES AND DEBT

Significant estimate – Allowance for non-collection

Estimates: Allowances for non-collection £11.9 million

Management periodically review collection rates for each income stream to estimate the potential losses on receivables or arrears at balance sheet date. The impairment allowance is a calculated by reference to losses and write-offs by age of the debt or current recovery stage. The expected credit loss and impairment allowance is based on these historic collection rates. Management has not undertaken a review of expected credit losses based on future expectations as required for receivables within the scope of IFRS 9 for financial assets as the majority of receivables are statutory debt subject to the previous incurred loss model and have determined that the historical losses model remains appropriate.

Non-domestic rate arrears and cost provision

City Fund’s share of the arrears and provision as at 31 March 2021 were £85.0 million and £31.1 million respectively. Arrears of £1.3 million has been provided for in full (95-100%) as it is considered uncollectable or is due to be written off. We consider this reasonable given all stages of recoverability have been exhausted.

Debts that have entered the ‘late demand’ stage of recoverability total £37.3 million and 6% of this has been impaired. The impairment allowance is based on an analysis of debt collected against 31 March 2020 NDR arrears that was calculated to support the impairment allowance as at 31 March 2021. This analysis has been updated following a prior audit finding to support the 6% allowance, increased from 5% in the prior year, and applied to arrears as at 31 March 2021.

The remainder of the debt totalling £43.7 million is in various stages of debt recovery and an impairment allowance of £5.1 million has been estimated by reference to different stages of recovery and non-collection of 20% to 89%. These impairment rates are based on historical collection rates that have been rolled forward for a number of years. Management has refreshed the collection rates to assess the appropriateness of the continued use of these impairment allowances, although it is unlikely this would materially impact the impairment allowance as at 31 March 2021.

Rent arrears and cost provision

Arrears and provision as at 31 March 2021 were £9.0 million and £2.1 million respectively.

The management surveyor reviews all individual arrears over £30,000, which accounts for 93% of the total debt, to determine the likely rent to be recovered. Collection rates for the past three years have been applied to the remaining debt. However, audit evidence could not be provided to support the calculation of collection rates. Given that the total value of the remaining debt is £0.63 million any change to the provision already calculated against this debt would be minimal.

We are satisfied that the provision for non-collection of rent arrears assumptions are reasonable.

Impact

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ALLOWANCES FOR NON-COLLECTION OF RECEIVABLES AND DEBT

Significant estimate – Allowance for non-collection

Estimates: Allowances for non-collection £11.9 million

Penalty Charge Notices (PCN) arrears and cost provision

Arrears and provision as at 31 March 2021 were £8.8 million and £7.4 million respectively.

The cost provision covers debt from PCNs issued from 2012/13 to 2020/21. For each year, this is calculated as collectable debt for that year, less total cash received as at 31/03/2021, less debtors written off as at 31/03/2021, less forecast future collections.

Forecast future collection is calculated as the collectable debt for that year multiplied by a percentage. The percentage is based on the amount historically collected in the nth year from issue. This is calculated for the following 5 years from issue with any remainder included as a provision.

The PCN cost provision is based on historical collection rates which we consider to be reasonable for estimating future losses.

Other sundry debt arrears and cost provision

Arrears and provision as at 31 March 2021 were £22.7 million and £2.4 million respectively. The vast majority of the sundry arrears relate to HRA, Spitalfields Market, Port Health and Environmental Services and Police.

All significant debts in respect of these sundry debts are reviewed on a case-by-case basis and we are satisfied that reasonable assumptions have been made in calculating the provision for these debts.

We consider these to be reasonable for estimating future losses.

Impact

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Page 67

RELATED PARTY TRANSACTIONS

There is a risk that related party disclosures are not complete or accurate.

Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings to be reported in Mgmnt letter	
Letter of Representation point	

Risk description

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud. Our audit approach includes the consideration of related party transactions throughout the audit including making enquiries of management and the Audit and Risk Management Committee.

There is a risk that related party disclosures are not complete or accurate.

Details

We carried out the following planned audit procedures:

- Reviewed management processes and controls to identify and disclose related party transactions;
- Reviewed relevant information concerning any such identified transactions;
- Discussed with management and reviewed members' and management declarations to ensure that there are no potential related party transactions which have not been disclosed; and undertaken Companies House and Charity Commission searches for potential undisclosed interests.

Results

Our audit testing identified five related party transactions that were not disclosed in the financial statements and one related party disclosure where the payable values were incorrectly disclosed. Management has confirmed that these will be corrected in the revised version of the financial statements. As in previous years, we have also noted, as part of this audit, that the vast majority of related parties included in the table in note 35 are deemed to be directors or key managers in common which does not meet the 'related' definition under IAS 24: Related Party Disclosures and therefore should not be disclosed as related party transactions. We recommend that management carry out a critical review of their related party disclosures and exclude those that do not meet the definition of a related party so as not to detract the readers attention from those that do meet the definition of a related party.

During our review of declarations, it was noted that a number of declarations have not been completed accurately nor completely, with the member either leaving sections blank, or omitting to sign the forms. A control weakness has been raised regarding this matter and that above on page 48.

Conclusion

Except for the issues noted above, the related party transactions disclosures are appropriate.

GOING CONCERN

We are required to highlight any judgements about events or conditions that may cast significant doubt over the entity's ability to continue as a going concern

The concept of going concern within the public sector context focuses primarily on the continuation of service delivery. However, where there are potential material uncertainties over the going concern assumption, these require additional disclosure.

Management's assessment of going concern

Management continue to regard the City Fund as a going concern. This is based on the current level of reserves held, a history of prudent financial management and the fact that the majority of the Fund's activities are Government-funded.

In coming to this assessment management has taken into account the Corporation's 2021/22 budget and the wider medium term financial plan which maps on a rolling basis expected financial pressures over a four year period.

Discussion and conclusion

We have concluded that it is appropriate that the financial statements are prepared on a going concern basis given that there is no anticipated cessation of service provision.

We therefore agree with the Corporation's assessment that there are no material uncertainties over going concern.

OTHER MATTERS

Contents

The following are additional matters arising during the audit which we want to bring to your attention:

Issue	
Bank and petty cash reconciliation differences	The Corporation's bank reconciliation does not reconcile by £128,000. Management believe that £90,000 of this relates to an old fraud case and amounts have yet to be analysed to confirm if they should be written out. The remaining difference of £38,000 could not be fully explained by management. The Petty Cash reconciliation log included un-investigated small differences totalling £456. This is below our reporting threshold for uncorrected misstatements. However, a bank reconciliation is a key internal control in order to confirm the accuracy of the cash balance on the balance sheet so we therefore recommend that the bank reconciliation differences are appropriately investigated and dealt with so that the bank reconciles correctly.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

Contents

Fraud

Whilst the Council's directors and officers 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 you whether you are aware of any known, suspected or alleged frauds that have come to your attention since we last enquired when presenting the audit plan on 14 March 2021.

Laws and regulations

We consider that the most significant considerations for your organisation are the:

- Local Government Acts of 1972, 1985, 1992 and 2003
- Localism Act 2011
- Local Government Finance Acts of 1988, 1992 and 2012
- Local Government and Housing Act 1989
- Local Audit and Accountability Act 2014
- Accounts and Audit Regulations 2015
- GDPR (or Data Protection Act 2018)
- VAT legislation
- PAYE legislation.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

Related parties

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud.

We did not identify and significant matters in connection with related parties.

UNADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

Contents

We are required to bring to your attention unadjusted differences and we request that you correct them.

There are two unadjusted audit differences identified by our audit work which, in conjunction with the impact of brought forward unadjusted errors, would decrease the deficit on the provision of services for the year of £100.4m by £0.3m and would increase net assets of £1,179.2m by £0.3m.

The general fund balance would increase by £0.3m if these audit differences were adjusted.

You consider the remaining differences to be immaterial in the context of the financial statements as a whole.

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance Sheet	
Unadjusted audit differences	**NET DR/(CR) £m**	**DR £m**	**(CR) £m**	**DR £m**	**(CR) £m**
Deficit on the provision of services for the year before adjustments	100.4				
1: Impact of brought forward unadjusted errors	(0.6)				
DR Net Assets				0.6	
CR Expenditure			(0.6)		
2: As part of our sample testing of fees and charges we identified one instance where recovery income from a Housing Benefit overpayment, totalling £39,303.12, had been classified as income rather than as a reduction to expenditure. Extrapolated across the sample population, this leads to an overstatement of income of £1,201,387.80 and a corresponding overstatement of expenditure of £1,201,387.80. There is no net impact on the accounts as a whole.	0				
DR Gross Income		1.2			
CR Gross Expenditure			(1.2)		

UNADJUSTED AUDIT DIFFERENCES: DETAIL 2

Details for the current year

Unadjusted audit differences	Income and expenditure NET DR/(CR) £m	Income and expenditure DR £m	Income and expenditure (CR) £m	Balance Sheet DR £m	Balance Sheet (CR) £m
3: As part of our sample testing of non-rental investment property income, we noted one instance whereby the value of insurance income recognised was £8,046.16 greater than the value to which the authority was entitled. This arose from a tenant revaluation which results in a lower premium for policy years 2019-20 and 2020-21 for £30,095.01 and £8,046.16 respectively. While these amounts were credited to the tenant in April 2021, the conditions giving rise to this revaluation existed prior to year end and should have been accrued for in 2020-21. This leads to an extrapolated overstatement of investment property income of £314,044.87 with a corresponding overstatement of accounts receivable. From discussions and correspondence with management, we note that while it was agreed that this should have been accrued for in principle, the ledger closure timetable limits management's ability to make adjustments for information received shortly after year end (and this credit was not material).	0.3				
DR Investment Property income		0.3			
CR Accounts receivable					(0.3)
Total unadjusted audit differences	(0.3)	1.5	(1.8)	0.6	(0.3)
Deficit on the provision of services for the year if above issues adjusted	100.1				

UNADJUSTED AUDIT DIFFERENCES: DETAIL 3

Details for the current year

Impact on the General Fund balance and HRA balance	General Fund balance £m	HRA balance £m
Balance before unadjusted audit differences	254.3	(0.2)
Impact on deficit on the provision of services above	0.3	-
Adjustments that would be reversed from the General Fund and HRA balance through the Movement in Reserves Statement	-	-
Balance / Balances if above adjustments made	**254.6**	**(0.2)**

UNADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

We are required to bring to your attention other financial reporting matters that the Audit and Risk Management Committee is required to consider.

The following unadjusted disclosure matters were noted:

- The front-end reporting of outturn does not reconcile to the Expenditure & Funding Analysis (EFA). The purpose of the EFA is to reconcile management information to what is in the accounts. This difference also means that the EFA does not provide the segmental information required by IFRS 8 as is presumed by the Code. This is a finding that has been raised in previous years.

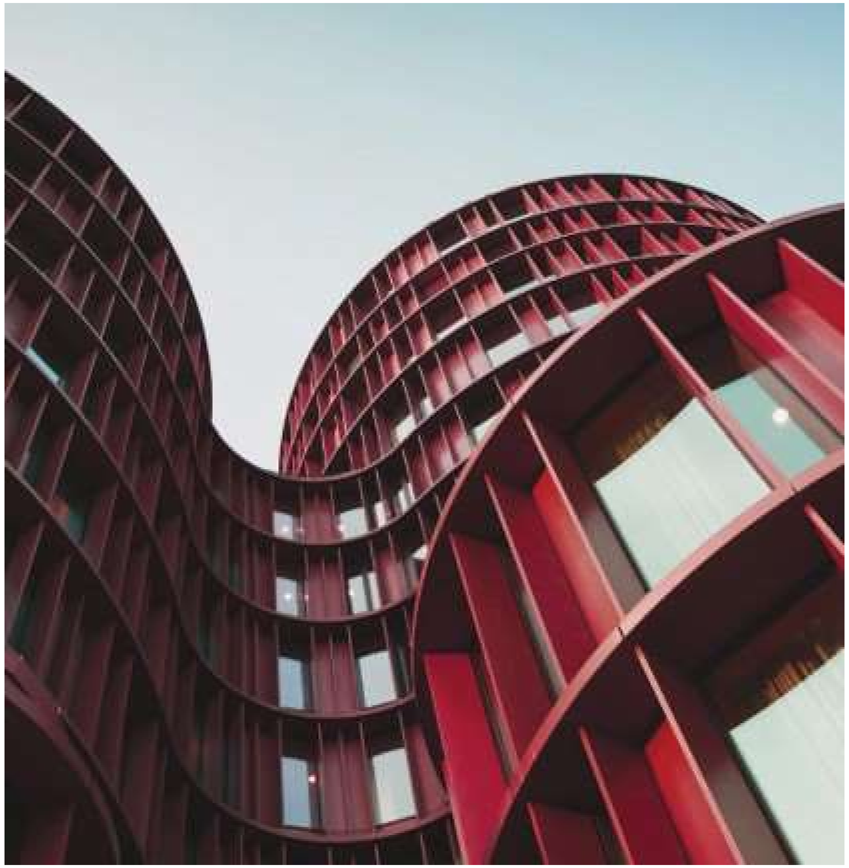
  We discussed this with management. In line with the approach taken last year, the EFA presents the general and earmarked reserve balances together whereas the front end focuses on the general reserve position and links to how the City Fund reports in year and at outturn. On this basis, the segmental position is provided, but in a way that excludes reserve movements in the EFA on order to come back to the CIES.

- In Note 33 the movement on short term and long term investments is presented net rather than gross. There are only limited circumstances within IAS 7 when cash flows can be presented net. This is a finding that has been raised in previous years.

  We discussed this with management. In line with the approach taken last year, management have not adjusted for this. This partly reflects the fact that the current treasury management system does not readily enable this information to be obtained in a straightforward way. However, management have acknowledged that this will be addressed in the future pending system changes.

- In Note 35, there are a significant number of disclosures that do not appear to meet the definition of a related party transactions under IAS 24: Related Party Disclosures and therefore should not be disclosed as related party transactions. This is a finding that has been raised in previous years.

  We discussed this with management. In line with the approach taken last year, management are of the view that including these additional disclosures is aimed at increasing transparency and so will be retained.



UNADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS 2

Disclosure omissions and improvements

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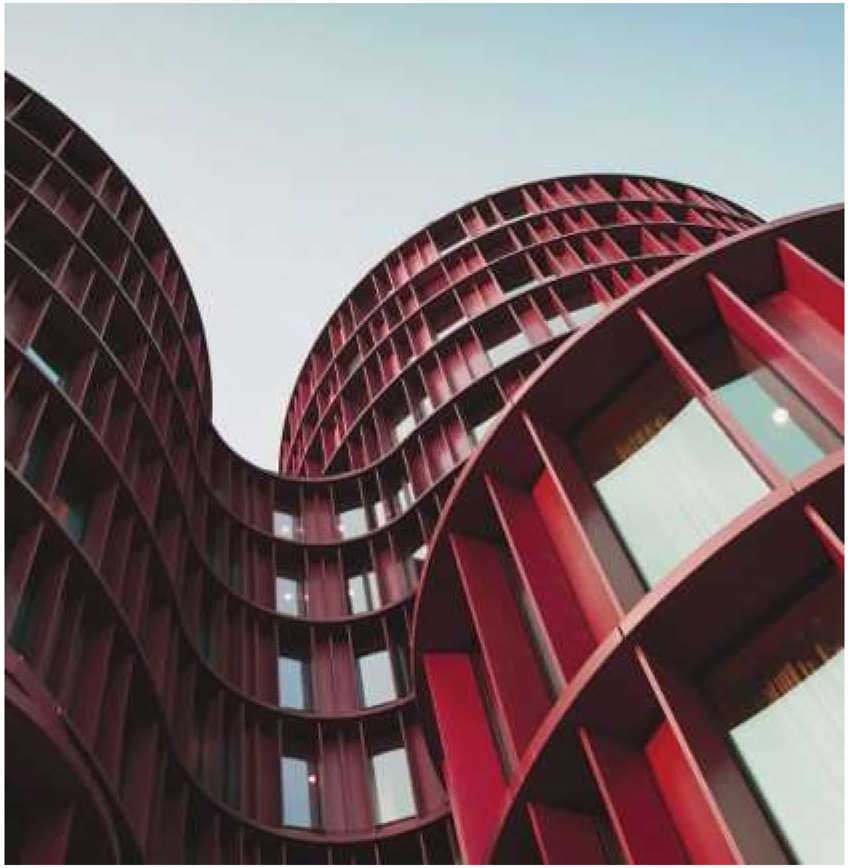
We are required to bring to your attention other financial reporting matters that the Audit and Risk Management Committee is required to consider.

The following unadjusted disclosure matters were noted:

- The Preface to the accounts refers to a "material valuation uncertainty" in relation to the valuation of property assets, citing a year end value of £1.1m. However, our review of valuation reports indicates that the City Fund's external valuer has also identified a material valuation uncertainty with respect to all Car Park assets as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards, meaning that "in respect of these valuations less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case."

  These assets have a total value of £16.4m. Consequently, in respect of these material uncertainties, which are material to the accounts, management should enhance the disclosures under Note 2c) Assumptions Made About the Future and Other Major Sources of Estimation and Uncertainty - c) Property Valuations setting out these uncertainties (a similar approach was taken in 2019/20 for uncertainties identified in that year.) We will then need to refer to this in our auditor's report by way of an emphasis of matter.



ADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

There was one audit difference identified by our audit work that was adjusted by management. This decreased the draft deficit on the provision of services of £100.4m by £2.8m and increased draft net assets of £1,179.2m by £2.8m.

There was no impact on the general fund balance

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ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

Adjusted audit differences	NET DR/(CR) £m	Income and expenditure DR £m	Income and expenditure (CR) £m	Balance Sheet DR £m	Balance Sheet (CR) £m
Deficit on the provision of services for the year before adjustments	100.4				
Adjustment 1: The GLA and NNDR elements of the balance sheet do not agree to NNDR 3. The working originally provided by the Group Accountant had distributed the balance of NNDR debtor based on the proportionate shares. However, central government has a deficit balance in the prior year which make the balances different: therefore these balances needed to be adjusted in order to bring them in line with NNDR 3.	(2.8)				
DR Creditors			(2.8)		
CR Taxation & Non-Specific Grant Income				2.8	
Total Adjusted audit differences	(2.8)		(2.8)	2.8	
Adjusted deficit on the provision of services for the year	97.6				

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ADJUSTED AUDIT DIFFERENCES: DETAIL 2

Details for the current year

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Impact on the General Fund balance and HRA balance	General Fund balance £'000	HRA balance £'000
Balance before audit differences	254.3	(0.2)
Impact on deficit on the provision of services above	-	-
Adjustments reversed from the General Fund and HRA balance through the Movement in Reserves Statement	-	-
Balances after the above adjustments	**254.3**	**(0.2)**

The adjusted audit differences do not impact the General Fund balance or the HRA balance. The adjusted audit impacts the Collection fund adjustment account, which is an unusable reserve.

ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

We are required to bring to your attention other financial reporting matters that the Audit and Risk Management Committee is required to consider.

The following are the most significant adjusted disclosure matters that were noted:

- Note 25 Judge's Pension scheme - disclosure of net liability needs to be updated to £2.8m for 2020-21.
- Note 23 Pension scheme - reconciliation of present value of the scheme liabilities table should be updated in the draft accounts so they match the prior year signed accounts.
- Note 23 Pension scheme - impact on the City Fund's cash flows needs to be changed from £470.5m to £469.0m.
- Note 30 Operating Leases (City Lessor) - amounts should be disclosed to nearest £0.1m
- Note 35 Related Party Transactions -
  - Eight Members Club: Receivables of £3,370.00 were not entered in the draft accounts
  - Hiscox Group: Receivables of £10,900.00 was not entered. Payables of £18,000.00 was entered in the draft account whilst the AP listing records £18.070.00 from Hiscox Group.
  - Homerton University Hospital’s payables of £83,440.00 was rounded to £84,000.00 rather than £83,000.00.
  - International Dispute Resolution Centre: No transactions were recorded on the Draft Accounts. The receivables listing showed £1,937,043.00.
  - PWC LLP: Draft Accounts records no transactions. Receivables listing records £11,143.00.
  - The CityUK: The Draft Accounts records £17,000.00. Neither the Receivables nor Payables listings recorded any transactions.
- Note 9 Exit Packages charged to City Fund - Four employees had been classified as 'Other Departures' whereas in practice these related to 'Compulsory Redundancies'. This error arose as a result of the note having been prepared by management based on summary information sent by Human Resources (explaining the reason for departures), but without having reviewed the underlying termination contracts (which had different reasons). This error did not change the overall value of exit packages.
- Note 13 There is a disclosure requirement in the code around the effective date of valuations that was absent from the original accounts.
- The Accounting Policies should make reference to IFRS 16.
- A number of presentational or typographical changes were identified by the auditor and agreed with management, which are not material for separate itemisation within this report.

REPORTING ON OTHER INFORMATION

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

Matter	Comment
We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	We are satisfied that other information in the Narrative Report is consistent with the financial statements and our knowledge.
We are required to report by exception if the Annual Governance Statement is inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Corporation review of effectiveness and our knowledge of the Corporation.	We have no matters to report in relation to the consistency of the Annual Governance Statement with the financial statements and our knowledge.

SPECIAL REPORTING POWERS AND DUTIES

Matter	Comment
We have not identified the need to use and do not plan to use any special reporting powers and duties.	N/A.

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WHOLE OF GOVERNMENT ACCOUNTS

The Council is required to prepare a Data Collection Tool (DCT) return for use by the Department for Levelling Up, Housing and Communities (DLUHC) for the consolidation of local government accounts, and by HM Treasury at Whole of Government Accounts level.

Auditors are required to review Whole of Government Accounts (WGA) information prepared by component bodies that are over a prescribed threshold in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure.

The OSCAR II system for submission of the 2020/21 WGA DCT is not yet available and HM Treasury has not yet confirmed the thresholds or timetable for audit review. The Group Audit Instructions, which include the required programme of work for auditors, have therefore not yet been issued.

In the prior year, the threshold was £500 million and we were therefore required to perform tests on the DCT. This work included 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.

We will update the Audit and Risk Management Committee on this issue when further information is available.

USE OF RESOURCES OVERVIEW

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New Code of Audit Practice ("Code")

The Comptroller & Auditor General has determined through a new Code and guidance that the key output from local audit work in respect of value for money (VFM) arrangements is a commentary as reported in the Auditor's Annual Report, not a VFM arrangements 'conclusion' or 'opinion'. There may be matters referred to in the auditor's commentary that do not represent significant weaknesses in arrangements and where significant weaknesses are reported we are required to also report recommendations.

As auditors we need to gather sufficient evidence and document our evaluation of arrangements to enable us to draft our commentary under three reporting criteria. These criteria are:

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** ('Improving 3Es') - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Risk of Significant Weakness

At the time of our Audit Planning Report of 14 March 2021, we were awaiting formalisation of the scope and guidance.

We have since received these and completed our risk assessment. Against this, we identified two potential significant risks

- Medium Term Financial Planning - City Fund, City Police, Capital Schemes
- Limited Assurance Internal Audit Reports

Our work is substantively complete and our detailed commentary will be included as part of our Auditor's Annual Report. We have no exceptions to report at this stage in respect of the Council's value for money arrangements. Summary findings are included on the following pages.

Audit Risk	Criterion	Risk Rating	Findings
Medium Term Financial Planning - City Fund, City Police, Capital Schemes	Financial Sustainability	Significant	No identified significant weaknesses.
Limited Assurance Internal Audit Reports	Improving economy, efficiency and effectiveness	Significant	No identified significant weaknesses.

USE OF RESOURCES OVERVIEW - MEDIUM TERM FINANCIAL PLANNING - CITY FUND, CITY POLICE, CAPITAL SCHEMES SUMMARY FINDINGS

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There is a risk that the Council has insufficient arrangements to identify and achieve savings requirements to balance its budget in the medium term, including through the appropriate integration of City Police funding and of Capital Schemes.

Significant risk	■
Normal risk	
Financial sustainability	■
Governance	
Improving economy, efficiency and effectiveness	
Significant control findings to be reported	

Risk description

There is a risk that the Council has insufficient arrangements to identify and achieve savings requirements to balance its budget in the medium term, including through the appropriate integration of City Police funding and of Capital Schemes.

Work performed

We carried out the following planned audit procedures:

- Reviewed the Council's arrangements for identifying significant financial pressures relevant to its short and medium financial plans, and how the Council plans to bridge known funding gaps and identify achievable savings;
- Reviewed the assumptions used in the Medium Term Financial Plan, including those pertaining to City Police and Capital Schemes.

Results

Our audit work did not identify any issues.

Discussion and conclusion

The Corporation's arrangements for 2020/21 were in the context of the response to the Covid-19 pandemic. To varying degrees of intensity, but for the whole period, the Corporation has as with other local authorities been at the 'front line' of then national response to the Covid-19 pandemic, requiring changes both to short term governance arrangements and medium-term planning, presenting significant financial and operational challenges.

The Corporation has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its statutory and strategic priorities in the medium term, including with respect to City of London Police and the integration of major capital projects into the medium-term planning arrangements. However, the assumptions supporting the medium-term financial strategy are reliant on the identification of significant recurrent savings (12%) which, while progress has been made, have not yet been fully identified and have required some one-off non-recurrent savings to be made. However, as part of bilateral meetings the process for identifying ongoing medium-term savings continues. This is monitored by the Efficiency & Performance Sub (Finance) Committee.

Furthermore, we have noted that while the budget for 21/22 was set on a "steady cash" assumption (based on low inflation rates at the time), recent increases to the inflation rate may undermine this assumption in the medium term. We note however that the impact of this (as manifested in increased construction and contract/supplier costs) has been considered at the Resource Allocation Sub (Policy and Resources) Committee as part of its September 2021 'Away Day' update on Medium Term Financial Planning.

We have also noted that changes have been made to the authority's creditworthiness policy (for investments) and that, for the first time, the Corporation has identified the need for 'bridging' loan finance as part of its treasury management pending the timings of disposal of investment properties, albeit the planned loan is expected to be intra-fund (with City's Cash). While it is common for local authorities to engage in borrowing, particularly through inter-authority loans or the Public Works Loan Board, the authority should continue to monitor and challenge the use and purpose of borrowing or changes to investment strategy in the medium term, to ensure that appropriate oversight remains in place.

USE OF RESOURCES OVERVIEW - LIMITED ASSURANCE REPORTS SUMMARY FINDINGS

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The presence of limited assurance internal audit reports may undermine the Council's ability to secure improvements to economy, efficiency and effectiveness within affected service areas.

Significant risk	■
Normal risk	
Financial sustainability	
Governance	
Improving economy, efficiency and effectiveness	■
Significant control findings to be reported	

Risk description

The presence of limited assurance internal audit reports may undermine the Council's ability to secure improvements to economy, efficiency and effectiveness within affected service areas.

Work performed

We carried out the following planned audit procedures:

- *Reviewed the follow up arrangements in place for all 'amber' or 'red' rated assurance reports concluded in 2020/21*
- *Reviewed the Council's arrangements for reporting and following up on internal audit recommendations as a whole*

Results

Our audit work did not identify any issues.

Discussion and conclusion

For 2020/21, the Corporation has had the arrangements we would expect to see to enable it to make informed decisions and properly manage its risks. As part of our risk assessment we considered whether the presence of 3 'red' limited-assurance reports represented a potential significant weakness in arrangements. However, from the follow up work performed by the Corporation it is clear that matters identified are being addressed and that the overall mechanisms for monitoring and addressing recommendations are robust.

CONTROL ENVIRONMENT: OTHER DEFICIENCIES

Contents

We are required to report to you, in writing, 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 City Fund's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

Area	Observation & implication	Recommendation	Management response
Bank and petty cash reconciliations	Our audit testing has found that the Corporation bank reconciliation does not reconcile by £128,000. Management believe that circa £90,000 of this relates to an old fraud case and amounts have yet to be analysed to confirm if they should be written out. The remaining difference of £38,000 could not be fully explained by management. The Petty Cash reconciliation log included un-investigated small differences totalling £456. A bank reconciliation is a key internal control in order to confirm the accuracy of the cash balance on the balance sheet.	The bank and petty cash reconciliation differences are appropriately investigated and dealt with.	We agree with the recommendation and will update the Audit and Risk Management Committee separately in due course.
Related party transactions	Majority of related parties included in Note 35 are deemed to be directors or key managers in common which does not meet the 'related' definition under IAS 24: Related Party Disclosures. This could detract the readers attention from those that are considered to be related party.	We recommend that management carry out a critical review of their related party disclosures and exclude those that do not meet the definition of a related party so as not to detract the readers attention from those that do meet the definition of a related party.	We are of the view that including these additional disclosures helps to increase transparency and so these will be retained for the current year. The issue has recently been discussed with members, who similarly favour the extended reporting format adopted. However, the matter will continue to be reviewed ahead of the 2021/22 accounts closing process.

CONTROL ENVIRONMENT: OTHER DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Payroll Contract	During our sample testing, we have noted 6 out of 40 contract has not been signed by the employees.	Signed contract ensures both parties (employer and employee) are in agreement to the terms and conditions of the employment and will serves to reduce the chance that one party will have grounds for legal action in future.	The recommendation is accepted. The Corporation are currently reviewing processes with in HR and will seek to address this as part of that review.
Related party transactions	During our review of declarations, it was noted that a number of declarations have not been completed accurately nor completely, with the member either leaving sections blank, or omitting to sign the forms. Not receiving complete declarations may lead to management not identifying related party transactions during the accounts preparation process, and may also influence financial decisions during the year if a related party is not included on a register of interest.	The importance of completed declarations should be reinforced to all members, through training if necessary. These declarations should then be reviewed when returned to ensure all information is complete before they are then subject to our review and consideration.	

CONTROL ENVIRONMENT: IT DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Oracle EBS - CBIS	Access is not timely removed from the application, it takes around 6-8 business days to remove access post the HR termination date.	BDO recommends that Access Deprovisioning needs to be performed on the same date the user has left the organization. The processes that are interlinked with removal of access from the application needs to be worked upon by City of London team so that there is no dependency to keep the account active post termination.	[Detailed management responses to both current year and prior year recommendations are currently in the process of being agreed and will be reported to the Audit & Risk Management Committee separately.]
Oracle EBS - CBIS	No formal user access reviews are performed on a periodic basis. The risk is heightened as user activity logs also are not monitored on a periodic basis.	BDO recommended that user access reviews are performed at least quarterly and should include: • Both administrator, Generic Account(if any) and standard user accounts; • User group and individual customised levels of access reviews to identify any users who do not possess an appropriate level of access; and • Checks against HR leavers lists to identify any users that should have been disabled.	[See above]
Oracle EBS - CBIS	BDO noted that there is no audit logging on the system of user actions, which has been turned off due to system performance considerations and resulting in lack of monitoring of privileged and generic account access.	BDO recommends that audit trail should be enabled for privileged users and access activities to be reviewed on a defined frequency.	[See above]

CONTROL ENVIRONMENT: IT DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Oracle Database Server - CBIS	No external or independent party has been engaged to perform security assessment on Oracle database supporting central accounting application CBIS.	It is advisable for the management to consider whether a one-off or regular security assessment or penetration testing of key infrastructure elements supporting accounting applications. This testing should be carried out no less frequently than annually and should also be carried out following any significant systems change. Any test findings should be addressed in a timely manner and a remediation plan should be formally documented and approved by management.	[Detailed management responses to both current year and prior year recommendations are currently in the process of being agreed and will be reported to the Audit & Risk Management Committee separately.]
Oracle Database Server - CBIS	It is noted that no Data Encryption is enabled on the database supporting CBIS.	We recommend to upgrade the database version and enforce appropriate encryption technologies for enhancement of security.	[See above]
Oracle Database Server - CBIS	It is noted that there are no database user access reviews performed.	We recommend that database user access reviewed should be performed at least quarterly and should include: • Both administrator, Generic Account and standard user accounts (apart from Weir application users); • User group and individual customised levels of access reviews to identify any users who do not possess an appropriate level of access; • Checks against HR leavers lists to identify any users that should have been disabled.	[See above]
Oracle Database Server - CBIS	Auditing is enabled for the Oracle database supporting CBIS but access to make changes to the log is with the DBA's.	We recommend that the logs should be made non-editable or access to the logs restricted outside of the DBA team to ascertain that logs are complete and accurate.	[See above]

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CONTROL ENVIRONMENT: FOLLOW UP OF PRIOR YEAR DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Prior year deficiency	iTrent, Paris, Civica and Capita No formal user access reviews are performed on a periodic basis.	It is therefore recommended that user access reviewed are performed at least quarterly and should include: 1. Both administrator, Generic Account(if any) and standard user accounts; 2. User group and individual customised levels of access reviews to identify any users who do not possess an appropriate level of access; 3. Checks against HR leavers lists to identify any users that should have been disabled.	[Detailed management responses to both current year and prior year recommendations are currently in the process of being agreed and will be reported to the Audit & Risk Management Committee separately. As noted in the Executive Summary, in March 2021 we followed up on twelve IT related control recommendations arising from our 2019/20 audit work. While these recommendations were shared with Management during the 2019/2020 audit cycle, these have not been subject to formal agreement and have therefore not previously been formally reported to Those Charged With Governance, or specific management actions agreed, prior inclusion in this Audit Completion Report.]
Prior year deficiency	iTrent For samples selected with people manger role There are 2 approvals one coming from HR automated email and additional approval from line manager. These approvals were not retained by the application support team.	Any account within the system should only be created after formal approval. All the formal approvals should be retained on a shared drive for the purpose of the audit.	[See above]
Prior year deficiency	Capita and Orchard There are significant numbers of generic accounts on these systems. 6 of these accounts on Orchard also have systems access and there is on evidence of monitoring these accounts.	Management should reduce the number of administrative accounts available and look to only have user accounts uniquely identifiable to an individual user.	[See above]
Prior year deficiency	Paris, Civica, Capita and Orchard Weak password parameters configured for the identified systems.	Passwords parameters should be updated to meet the current best practice guidance	[See above]

CONTROL ENVIRONMENT: FOLLOW UP OF PRIOR YEAR DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Prior year deficiency	iTrent Inappropriate provisioning of system admin privileges exists as both the Payroll team and the IT Team have system administrative privileges. Additionally there is no process in place to perform active review of the admin accounts. There risk is heightened as user activity logs for admin accounts are not monitored on a periodic basis.	We recommend that formal monitoring review over the critical activities performed by administrators which would impact financial data, be undertaken by management and evidence of this should be retained for audit purposes. This review should be performed on a quarterly basis.	[See above (p.51)]
Prior year deficiency	Paris, Capita and Civica For the identified systems, there is no monitoring of privileged user activities. For Civica the Generic account 'admin ' has system admin access and there is no activity log monitoring performed for admin account	The user access review process should be performed by an individual who is independent of the user access set up and deletion process. The process should include obtaining a system generated user list for the respective application which specifically details the access permissions that each user has been allocated. This should be signed by management to verify that this allocation is appropriate. If any changes are required as a result of this review, this should be requested via the formal request for user modification process. For all systems that are considered to be high risk, this review should take place on a quarterly basis. Reviews on systems considered to be a low risk should take place at least on an annual basis.	[See above (p.51)]
Prior year deficiency	iTrent There are no formal user access reviews of the database carried out.	We recommended that user access reviewed are performed at least quarterly and should include: •Both administrator, Generic Account(if any) and standard user accounts; •User group and individual customised levels of access reviews to identify any users who do not possess an appropriate level of access; and •Checks against HR leavers lists to identify any users that should have been disabled.	[See above (p.51)]

CONTROL ENVIRONMENT: FOLLOW UP OF PRIOR YEAR DEFICIENCIES

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Area	Observation & implication	Recommendation	Management response
Prior year deficiency	Paris and Capita We noted that auditing at database level is not enabled.	The user access review process should be performed by an individual who is independent of the user access set up and deletion process. The process should include obtaining a system generated user list for the respective application which specifically details the access permissions that each user has been allocated. This should be signed by management to verify that this allocation is appropriate. If any changes are required as a result of this review, this should be requested via the formal request for user modification process. For all systems that are considered to be high risk, this review should take place on a quarterly basis. Reviews on systems considered to be a low risk should take place at least on an annual basis.	[See above (p.51)]
Prior year deficiency	Paris No formal process for change management.	Management should ensure that authorised users must submit a Request For Change Form/Online Ticket which would be submitted to the correct authority for approval. This must outline the details of the request and be archived for at least one year.	[See above (p.51)]

CONTROL ENVIRONMENT: FOLLOW UP OF PRIOR YEAR DEFICIENCIES

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Area	Observation & implication	Recommendation	Management response
Prior year deficiency	Orchard The change Management process is managed by vendor however there is no SLA or SOC report provided by the Vendor.	Management should ensure that for a formal SLA should be signed with the vendor / supplier who is responsible for performing any of the service to the business . The SLA should clearly define the scope of work to vendor and should mandate the vendor to provide assurance through the independent audit for the IT controls environment managed at the vendor side.	[See above (p.51)]
Prior year deficiency	Capita No evidence could be provided in relation to default accounts	A process should be developed to ensure that evidence can be provided in relation to default accounts.	[See above (p.51)]
Prior year deficiency	iTrent There is no encryption of sensitive information.	Management should ensure that sensitive information is encrypted.	[See above (p.51)]

AUDIT REPORT OVERVIEW

Contents

The Audit Report will be drafted and agreed once outstanding testing has been completed.

Opinion on financial statements

Subject to the resolution of outstanding matters on page 67, we anticipate issuing an unmodified opinion on the financial statements.

We wish to draw attention to the 'emphasis of matter' that we will be including in our audit report in respect of the material uncertainty in relation to PPE and Investment Property valuations.

Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting or the Council's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

There are no material uncertainties in relation to going concern disclosed in the financial statements of which we are aware that we need to draw attention to in our report.

Irregularities, including fraud

Our report will contain an explain to what extent the audit was considered capable of detecting irregularities, including fraud. Irregularities in this context means non-compliance with laws or regulations.

Other information

We have not identified any material misstatements that would need to be referred to in our report.

Annual Governance Statement

We have no matters to report in relation to the Annual Governance Statement as it is not inconsistent or misleading with other information we are aware of.

Use of resources

We have no matters to report at this stage in relation to the Council's value for money arrangements.

INDEPENDENCE

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Under ISAs (UK) and the FRC's Ethical Standard we are required, as auditors, to confirm our 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 partners 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 2021.

Details of services, other than audit, provided by us to the Council during the period and up to the date of this report are set out on the following page and were provided in our Audit Planning Report. We understand that the provision of these services was approved by the Audit Committee in advance in accordance with the Council'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 Planning Report. Since this planning report, the previously named manager (Kerry Barnes) has been replaced by a new manager (Sebastian Evans) for whom this is year one of involvement with a mandatory rotation period of 10 years. No other changes to key members of the audit team have occurred.

We have not identified any 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 or the IESBA Code of Ethics as appropriate and are independent of the Council.

We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council.

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

FEES

Contents

Fees summary	2020/21 Actual £	2020/21 Planned £	2019/20 Actual £
Audit fee	TBC	TBC	185,000
• Code audit fee: financial statements and use of resources	TBC	111,000	108,000
Additional audit fee: overruns	TBC	-	77,000
Additional audit fee: new Use of Resources	TBC	TBC[1]	-
Additional audit fee: Covid related costs	TBC	16,650	-
Non-audit assurance services	TBC	25,000	TBC
Fees for reporting on government grants:			
• Housing benefits subsidy claim	TBC	20,000	TBC – not yet complete
• Pooling of housing capital receipts return	TBC	2,500	3,500
• Teachers' pensions return	TBC	2,500	TBC
Fees for other non-audit services			
• ICF China Green Finance Programme reasonable assurance report	N/A	N/A	7,000
Total fees	**TBC**	**TBC**	**TBC**

[1] We will propose an additional fee for our work on the Council's value for money arrangements as a result of the increased work scope introduced by the NAO, which will be subject to agreement by the Audit and Risk Management Committee.

APPENDICES CONTENTS

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RESTORING TRUST IN AUDIT AND CORPORATE GOVERNANCE

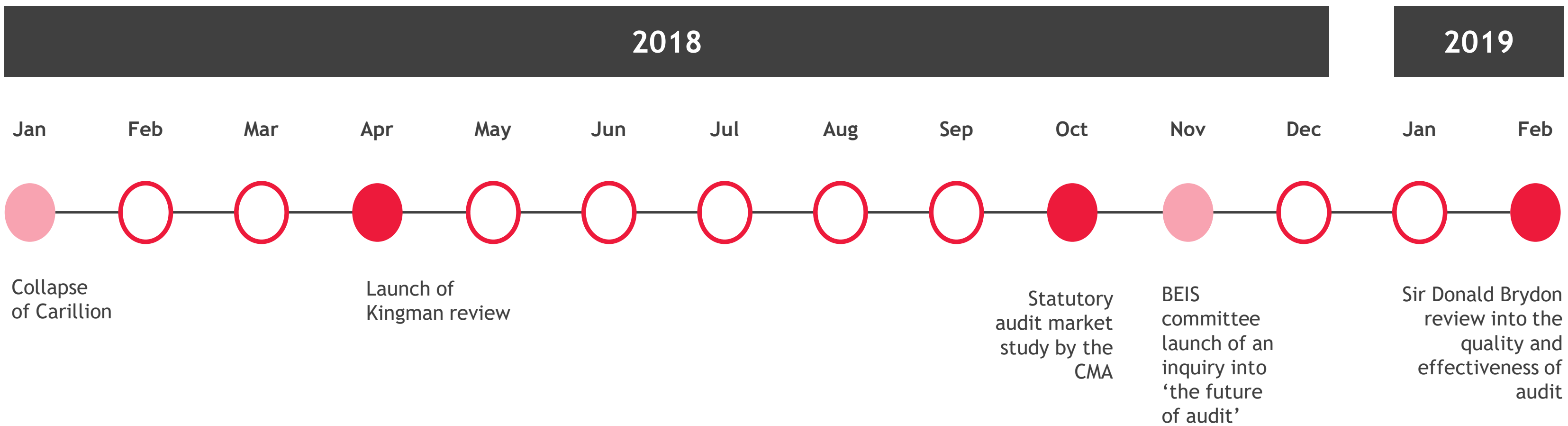
BEIS consultation issued March 2021

The collapse of Carillion at the beginning of 2018 precipitated a root and branch review of how the audit market works with three main components, all reporting to the Secretary of State for Business Energy and Industrial Strategy. The latest BEIS consultation as published in March 21 outlines proposals to increase choice and quality in the audit market, establish clearer responsibilities for the detection and prevention of fraud, and ensure the audit product and audit profession are fit for the future. The consultation aims to present measures that balance the need for meaningful reform with proportionate impacts on business, both now and for the future. The next pages aim to summarise the key areas of the consultation but for more information please refer to the consultation directly.

Although the consultation only closed in July 2021, changes have already begun: There are already a number of changes being made by the market participants themselves such as increased operational separation of audit from consulting and voluntary restriction of non-audit services. At BDO we support the aims of operational separation of audit practices. Without being complacent we do not have a large consulting practice like some of our rivals and we have always run our audit business to be independently and sustainably profitable, therefore the main causes of concern that this seeks to address namely cultural contamination and cross subsidisation are less relevant for us. We do however recognise that the profession needs to restore the confidence of users and operational separation or ring fencing is an important step on that journey. We have drawn up plans for how we would implement this and are currently consulting with stakeholders. Whilst full compliance is not required until 2024 we are likely to implement a number of aspects particularly around governance and financial transparency by July 2021.

Whilst there is some uncertainty regarding the timeline post the close of the consultation it is our understanding that the implementation of the Audit, Reporting and Governance Authority (ARGA) is likely to be in 2023.

HISTORIC CONSULTATIONS TIMELINE



BEIS CONSULTATION AT A GLANCE

Issued March 2021

Key Area of the BEIS consultation	Summary
1. Resetting the scope of regulation by expanding the definition of Public Interest Entities to include large private companies and "large" AIM quoted companies.	The government proposes two possible tests to extend the scope of PIES: To adopt the test used to identify companies already required to include a corporate Annual Governance Statement in their directors' report, or adopt a narrower test which incorporates the threshold for additional non-financial reporting requirements for existing PIEs. This would cover companies with both: Over 500 employees and a turnover of more than £500 million as their consolidated position. The Government is also proposing that any new definition of PIE should also include companies on the exchange-regulated AIM market with market capitalisations above €200m.
2. Increasing the accountability of directors	The consultation sets out a couple of options relating to directors accountability for internal controls and then indicates a tentative preferred option which would require a directors' statement about the effectiveness of the internal controls. Unlike the US's approach to internal controls which mandates external auditor attestation in most cases this option would leave the decision on whether the statement should be assured by an external auditor to the directors, audit committee and shareholders. This section of the consultation also includes proposals to require companies to report on their distributable reserves and for directors to be required to make a formal statement about the legality and affordability of proposed dividends.
3. New corporate reporting requirements	Introducing a requirement for PIEs to produce an annual Resilience Statement. This new statement consolidates and builds upon the existing going concern and viability statements and would apply initially to Premium Listed companies. Introducing an Audit and Assurance Policy where directors have to describe their approach to seeking assurance. For publicly quoted entities, this would be subject to an advisory shareholder vote at the time of its publication,
4. Strengthening the supervision of corporate reporting	Giving the Audit, Reporting and Governance Authority (ARGA) (which replaces the Financial Reporting Council) more power to direct changes to company reports and accounts. Creating increased transparency for the Corporate Reporting Review (CRR) process and an extension of the CRR process to the whole of the annual report and accounts. The Government proposes to broaden the regulator's review powers so that it can scrutinise the entire contents of a company's Annual Report and Accounts.

BEIS CONSULTATION AT A GLANCE 2

Key Area of the BEIS consultation	Summary
5. Provisions concerning company directors	Giving the regulator investigation and enforcement powers in relation to wrongdoing by all directors of Public Interest Entities. Due to the principles of collective responsibility and a unitary board, all directors of Public Interest Entities would be in scope. Strengthening malus and clawback provisions within executive director remuneration.
6. Changes to audit purpose and scope	The Government will seek to introduce a regulatory framework to cover both audits of financial statements (statutory audit) and other types of information which companies decide to have audited through the Audit and Assurance Policy process. It also proposes to legislate to require directors of Public Interest Entities to report on the steps they have taken to prevent and detect material fraud.
7. Changes to audit committee oversight and engagement with shareholders	ARGA to establish a standards and supervision regime. ARGA will write the standards by which Audit Committees will need to operate and they will monitor compliance against these standards. Initially this will only apply to FTSE 350 Audit Committees. Additional requirements for audit committees in the appointment and oversight of auditors, which is intended to ensure the committee acts effectively as an independent body responsible for safeguarding the interests of shareholders. Increased engagement between a company and its shareholders. The Government agrees with Brydon's recommendation that the audit committee's annual report should set out which shareholder suggestions put forward for consideration had been accepted or rejected by the auditor.
8. Improved competition, choice and resilience in the audit market	The implementation of a managed shared audit regime for companies audited by the Big Four. The operational separation of certain accountancy firms. Statutory powers for the regulator to monitor the resilience of the audit market.
9. Greater supervision of audit quality	Making the regulator responsible for approving the auditors of PIEs and improving the transparency of Audit Quality Review reports by allowing AQR reports on individual audits to be published without consent.
10. A new and strengthened regulator; the Audit, Reporting and Governance Authority	The regulator will be given the power to make rules requiring market participants to pay a levy to meet the regulator's costs of carrying out its regulatory functions.
11. Additional changes to the regulator's responsibilities	The regulator will have the power to require an expert review where it has identified significant concern regarding a PIEs corporate reporting and auditing.

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FRC ETHICAL STANDARD

Issued in December 2019

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In December 2019 the FRC published the Revised Ethical Standard 2019 (‘ES’), which is applicable from 15 March 2020. There are some transitionary provisions for services and arrangements that are not currently prohibited under the existing Standard. The ES aims to further strengthen auditor independence and enhance confidence in the profession. The table below provides a high level summary of the key headlines.

Key headlines	Impact
The objective, reasonable & informed third party test	Reinforcement that ethical principles take priority over rules. A need to take care where particular facts and circumstances are either not addressed directly by the rules or might appear to ‘work around’ the rules, or result in an outcome that is inconsistent with the general principles.
Extra-territorial impact	For group audits where the audited entity has overseas operations, the ES will require all BDO Member firms to be independent of the UK audited entity and its UK and overseas affiliates in accordance with the UK Ethical Standard, irrespective of if their audit work is relied upon.
Contingent fees	Non-audit services with contingent or success-based fee arrangements will be prohibited for audited entities.
Secondments	All secondments/loan staff to audited entities are prohibited with the exception of secondments to public sector entities.
Recruitment and remuneration services	Prohibition on providing remuneration services to audited entities such as advising on the quantum of the remuneration package or the measurement criteria for calculation of the package. In addition, the prohibition on providing recruitment services to an audited entity that would involve the firm taking responsibility for, or advising on the appointment of, any director or employee of the entity.
Non-audit services to a public interest entity (PIE)	Moving to a “white-list” of permitted non-audit services for PIEs. The white-list largely consists of services which are either audit-related or required by law and/or regulation. The provision of services not on the white-list are prohibited. The ES separates those permitted services which are exempt from the 70% fee cap and those services which are subject to the fee cap.
Other entities of public interest (‘OEPI’)	OEPI is a new term in the Ethical Standard. The FRC have imposed the ‘white-list’ applicable to PIE audited entities to also apply to OEPIs. OEPIs are entities which, according to the FRC, do not meet the definition of a PIE but nevertheless are of significant public interest to stakeholders. They include AIM listed entities which exceed the threshold to be an *SME listed entity* - generally those with a market cap of more than €200m; Lloyd’s syndicates; Private sector pension schemes with more than 10,000 members and more than £1billion of assets; Entities that are subject to the governance requirements of The Companies (Miscellaneous Reporting) Regulations 2018 (SI/2018/860), excluding fund management entities which are included within a private equity or venture capital limited partnership fund structure. These would be entities which: – Have more than 2000 employees; and / or – Have a turnover of more than £200 million and a balance sheet total of more than £2 billion. The FRC have noted that the rules applicable to OEPIs will apply from periods commencing on or after 15 December 2020.

FRC PRACTICE AID FOR AUDIT COMMITTEES

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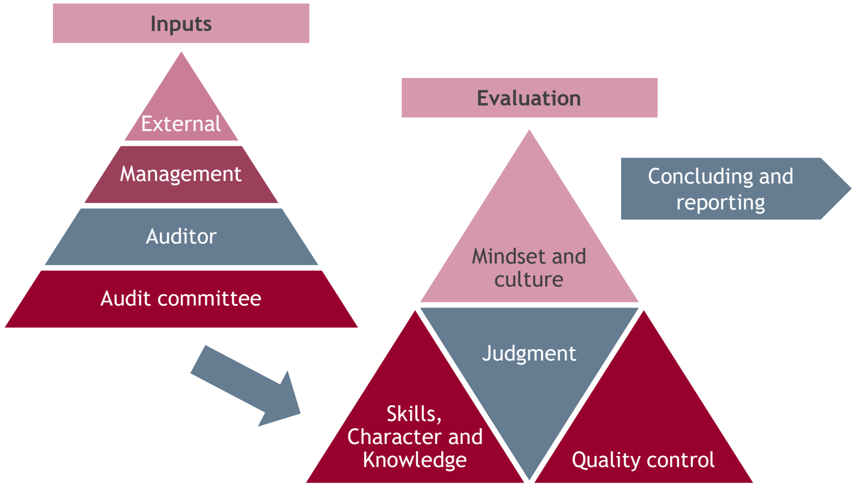
The Financial Reporting Council (FRC) issued an updated practice aid for audit committees in December 2019 and a full copy can be found on the FRC website. In their practice aid the FRC note: 'The directors of a company (the Board as a whole) are responsible for ensuring its financial statements are prepared in accordance with the applicable financial reporting framework and for overseeing the company's internal control framework. A high-quality audit provides investors and other stakeholders with a high level of assurance that the financial statements of an entity give a true and fair view and provide a reliable and trustworthy basis for taking decisions.'

The practice aid then discusses how the role of audit committees in serving the interests of investors and other stakeholders is through their independent oversight of the annual corporate reporting process including the audit. The FRC highlight that the responsibility for appointing the external auditor, approving their remuneration and any non audit services work, ensuring their independence and challenging them over the quality of their work falls to the audit committee and can play a key role in facilitating a high quality audit (see note below).

It gives guidance for Audit Committees in the following areas:

- Audit tenders and the tender process including audit fee negotiations and auditor independence
- A model for use by audit committees in making an overall assessment of an external auditor including inputs, evaluations and concluding



- Transparency - reporting to the Board on how the audit committee has discharged these responsibilities
- Some guidance on key areas of audit judgement

The provision of high quality audits are a key focus of FRC and the new Executive Director of Supervision, David Rule, sent a letter to all audit firms in November 2019 explaining the factors he would expect to see in place in order to facilitate the delivery of high quality audits. A copy of the letter can be found on the FRC website

OUR RESPONSIBILITIES

Responsibilities and reporting

Contents

Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on the City Fund's financial statements. We report our opinion on the financial statements to the members of the Corporation.

We read and consider the 'other information' contained in the Annual Report such as the additional narrative reports. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

We report where we consider that the Corporation had not put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We review the Whole of Government Accounts Data Collection Tool provided to HM Treasury and express an opinion on whether it is consistent with the audited financial statements.

We are additionally required to include in our report:

- Where we conclude there is no material uncertainty in relation to going concern, a statement to that effect
- A conclusion that management's use of the going concern basis of account is appropriate.
- An explanation of the extent to which the audit was capable of detecting irregularities, including fraud.

What we don't report

Our audit is not designed to identify all matters that may be relevant to the Audit and Risk Management Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

	Issue	Comments
1	Significant difficulties encountered during the audit.	No exceptions to note
2	Written representations which we seek.	We enclose a copy of our draft representation letter.
3	Any fraud or suspected fraud issues.	No exceptions to note
4	Any suspected non-compliance with laws or regulations.	No exceptions to note
5	Significant matters in connection with related parties.	No exceptions to note

COMMUNICATION WITH YOU

Those Charged with Governance (TCWG)

References in this report to Those Charged With Governance are to the Corporation as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit and Risk Management Committee.

Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Communication required	Date (to be) communicated	To whom
Audit planning report	14 March 2021	Audit and Risk Management Committee
Audit completion report	30 November 2021	Audit and Risk Management Committee
Auditor’s annual report	TBC	Audit and Risk Management Committee

OUTSTANDING MATTERS

Contents

We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2021

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

- Contingent liabilities returns
- Testing of reserve movements
- Review of going concern
- Income receipt, income invoice and expenditure payment cut off queries
- Finalisation of our review of disclosure, assumptions and estimates with respect to the valuation of non-current assets
- Review of other PPE information provided with respect to additions, transfers, depreciation, assets under construction, completeness and leases
- Finalisation of review of EFA, financial instrument, cash flow statement Reserves and HRA statements
- Resolution of remaining sample queries with respect to service specific grants, capital grants and grants received in advance
- Review of subsequent events
- Completion of senior review process and follow up of issues arising.
- Receipt and review of final financial statements
- Receipt of signed letter of representation

AUDIT QUALITY

Contents

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 a necessary actions to address their findings.

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

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

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

LETTER OF REPRESENTATION

[City of London Letter headed paper]

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
IP3 9SJ

Dear Madam

Financial statements of the Corporation of London - City Fund for the year ended 31 March 2021

We confirm that the following representations given to you in connection with your audit of the City Fund's financial statements for the year ended 31 March 2021 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 our responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the City Fund as of 31 March 2021 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, in respect of the City Fund, 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 of the Corporation, in relation to the City Fund, have been made available to you for the purpose of your audit and all the transactions undertaken by the City Fund have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of management and other meetings have been made available to you.

Going concern

We have made an assessment of the Corporation's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release.

As a result of our assessment we consider that the Corporation is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis. Furthermore, we confirm that the disclosures included in the financial statements are sufficient.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the Corporation and City Fund's ability to continue as a going concern.

Laws and regulations

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

Post balance sheet events

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.

Fraud and error

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.

LETTER OF REPRESENTATION 2

[City of London Letter headed paper]

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
IP3 9SJ

Contents

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.

Misstatements

We attach a schedule showing uncorrected misstatements that you have identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below. 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 as a whole.

Related party transactions

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 requirements of the applicable accounting framework.

As noted in the uncorrected narrative misstatements, we acknowledge that the vast majority of related parties included in the table in note 35 are deemed to be directors or key managers in common which does not meet the ‘related’ definition under IAS 24: Related Party Disclosures and therefore should not be disclosed as related party transactions.

Other than as disclosed in note 35 to the financial statements, there were no loans, transactions or arrangements between the Corporation and Corporation members or their connected persons at any time in the year which were required to be disclosed.

Carrying value and classification of assets and liabilities

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

Accounting estimates

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 increase in salaries: LGPS 3.85% / Police 3.80%
- Rate of increase in pensions: LGPS 2.85%/ Police 2.80%
- Rate of discounting scheme liabilities: LGP 2.00% / Police 2.00%
- Commutation take up option: LPGS 50% / Police 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, 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 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 confirm that the assumptions used in calculating the social housing discount factor of 75% applied to HRA dwelling valuations is reasonable.

LETTER OF REPRESENTATION 3

[City of London Letter headed paper]

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
IP3 9SJ

The yields used in the valuation of investment property and other land and buildings valued on an income approach are appropriate and reflect current market conditions. There are principally:

- City office space (EC1 to EC4) -3.07% to 5.98%
- City strategic estate (Bonhill and Worship St) 1.97% to 5.01%

The rebuild costs applied for depreciated replacement cost valuations are appropriate and reflect our best estimate of replacing the service potential of the buildings. The rebuild cost assumptions have been agreed to data provided by RICS for Building Cost Indices including Weighted Overall Cost Rate, Location, Location Factor, professional fees percentages and overall obsolescence factors applied.

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) Non domestic rates appeals provision

We are satisfied that the provision recognised for non-domestic rates appeals is materially correct and that the assumptions used by Analyse LOCAL are reasonable for calculating expected losses on appeals received not yet settled and an allowance for future expected appeals that will be backdated to the start of the appropriate rating list.

We confirm that the success rates applied to outstanding appeals as at 31 March 2021 are consistent with our knowledge of the business.

d) 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. The historic collection rates calculated in previous years for NDR arrears, Barbican residential and HRA rents remain consistent with collection rates in 2020/21.

We are satisfied that historic collection rates are a reasonable basis for calculating expected credit losses and that enhanced forecasting of losses will not result in material differences in the impairment allowances.

Litigation and claims

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

Confirmation

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. Each director and member has taken all the steps that they ought to have taken as a director or member of the Corporation in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Caroline Al-Beyerty - Chamberlain

Date: ……………………..

FOR MORE INFORMATION:

David Eagles, Partner

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

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Report to the Audit and Risk Management Committee

CITY OF LONDON CORPORATION PENSION FUND

Audit Completion:

Year ended 31 March 2021

IDEAS | PEOPLE | TRUST

BDO

CONTENTS

WELCOME

Contents

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 2021, 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 30 November 2021, 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.

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

David Eagles, Partner
For and on behalf of **BDO LLP**

25 November 2021

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Partner

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OVERVIEW

Executive summary

Contents

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 for the Pension Fund for the year ended 31 March 2021.

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.

Overview

Our audit work is substantially complete and subject to the successful resolution of outstanding matters we anticipate issuing an unmodified audit opinion on the Pension Fund's financial statements for the year ended 31 March 2021 in line with the agreed timetable.

Outstanding matters are listed on page 33 in the appendices.

There were no significant changes to the planned audit approach and no additional significant audit risks have been identified.

No restrictions were placed on our work.

Audit report

We anticipate issuing an unmodified audit opinion on the individual financial statements of the Pension Fund as set out on page 34.

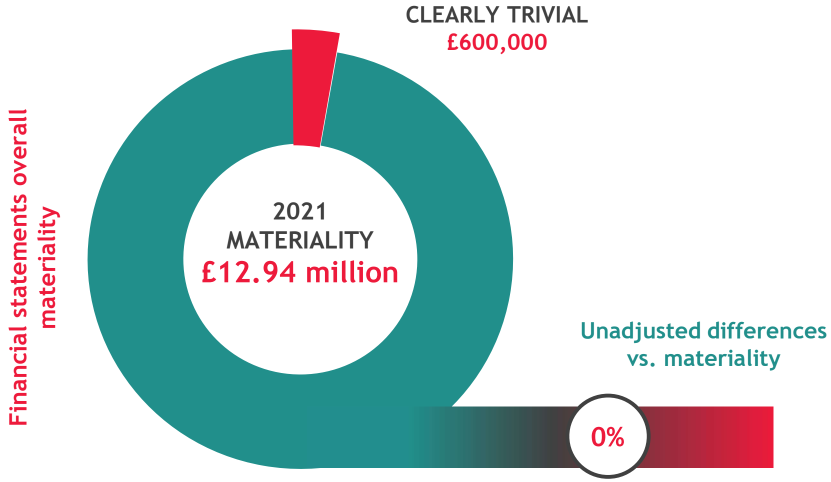
Contents

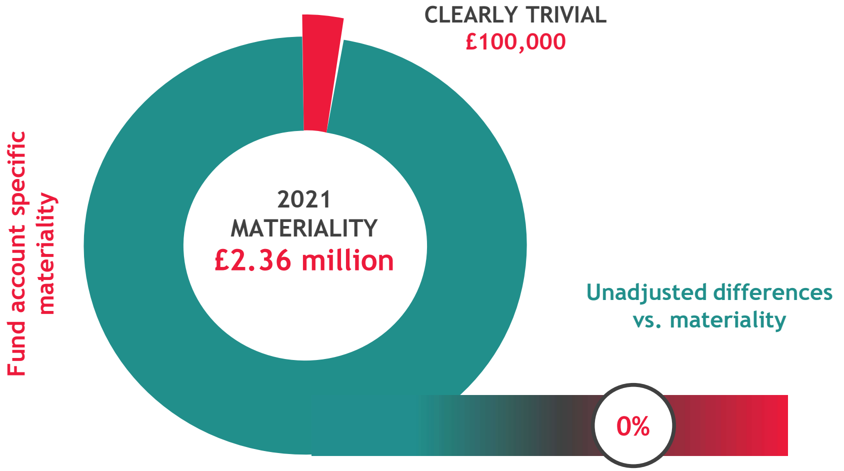
Final Materiality

Final financial statement materiality was determined based on 1% of the value of investments in the net assets statement.

Specific materiality on the fund account was based on 5% of contributions.

We increased our materiality from the planning materiality of £12.6 million to £12.94 million for financial statement materiality and from £2.20 million to £2.36 million for fund account materiality as the planning materiality was based on the estimated net assets and expenditure.





Audit Adjustments

We have not identified any audit differences based on the work completed to date.

OTHER MATTERS
Executive summary

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Financial reporting

- We have not identified any non-compliance with group accounting policies or applicable accounting framework.
- No significant accounting policy changes have been identified impacting the current year.

Other matters that require discussion or confirmation

- Control deficiencies identified in relation to controls over the IT application and our walkthrough.
- In March 2021 we followed up on five IT related control recommendations arising from our 2019/20 audit work. While these recommendations were shared with Management during the 2019/20 audit cycle, these have not been formally reported to Those Charged With Governance before inclusion in this Audit Completion Report. None of the findings represented significant deficiencies but we encourage the Audit & Risk Management Committee and the successor auditor to monitor progress on these going forward.
- Significant control deficiency with respect to the fact no evidence is retained of management review of journals.
- Control deficiency with respect to the timely completion of bank reconciliations.
- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation.

Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Pension Fund and the City of London Corporation in accordance with the Financial Reporting Council's (FRC's) Ethical Standard.

OVERVIEW

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As identified in our Audit Planning Report dated 14 March 2021 we assessed the following matters as being the risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the directing of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported in Management letter	Specific Letter of Representation Point
Management override of controls	**Significant**	Yes	No	No	No	No
Pension liability valuation	**Significant**	Yes	Yes	No	No	Yes - confirm material assumptions used
Valuation of investments (Private equity, infrastructure and property funds)	**Significant**	Yes	No	No	No	No
Valuation of investments (Pooled investment vehicles and other investments)	Normal	No	No	No	No	No
Contributions receivable	Normal	No	No	No	No	No

Areas requiring your attention

MANAGEMENT OVERRIDE OF CONTROLS

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ISA (UK) 240 notes that management is in a unique position to perpetrate fraud.

[Significant risk]

Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings to be reported in Mgmnt letter	
Letter of Representation point	

Risk description

Management has the ability to manipulate accounting records and override controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.

Details

We carried out the following planned audit procedures:

- Reviewed and verified journal entries made in the year, agreeing the journals to supporting documentation to ensure that they were appropriate. We determined key risk characteristics to filter the population of journals. We used our IT team to assist with the journal extraction;
- Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- Reviewed unadjusted audit differences that may represent a risk of material misstatement due to fraud for indications of bias or deliberate misstatement.

Results

We have not found any indication of management bias in accounting estimates. Our views on significant management estimates are set out in this report.

We have identified no significant or unusual transactions from our work, including that on journals, which we consider to be indicative of fraud or indicate potential management override of controls.

Conclusion

Our audit work on journals, estimates and management override of controls did not identify any issues.

PENSION LIABILITY VALUATION

Contents

There is a risk the membership data and cash flows used by the actuary in the roll-forward valuation may not be correct, or the valuation uses inappropriate assumptions to value the liability.

[Significant risk]

Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings to be reported in Mgmnt letter	
Letter of Representation point	

Risk description

An actuarial estimate of the pension fund liability to pay future pensions is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the Pension Fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.

The most recent actuarial valuation of the pension fund liability was carried out during the 2019/20 year to calculate the liability as at 31 March 2019. This involved the provision of membership and cash flow data from the pension fund to the actuary, data cleansing by the actuary and re-setting the financial and actuarial assumptions related to the valuation. The estimate of the pension fund liability at 31 March 2021 is based on a roll-forward of data from the 2019 triennial valuation, updated where necessary.

There is a risk the valuation is not based on appropriate membership data (where there are any significant changes) or uses inappropriate assumptions to value the liability.

Work performed

We carried out the following planned audit procedures:

- Assessed the qualifications and competence of the actuary through the use of PwC consulting actuary (auditor’s expert);

Work performed (continued)

- Reviewed the reasonableness of the assumptions used by Barnett Waddingham (management’s expert) for the calculation of the liability against other local government and police pension actuaries’ assumptions and other observable data using the benchmark range of acceptable assumptions provided by PwC consulting actuary (auditor’s expert);
- Reviewed the processes and controls in place for providing accurate membership data to the actuary and agreed cash flow data provided to the actuary;
- Checked the accuracy and completeness of the data set submitted to the actuary;
- Checked whether any significant changes in membership data have been communicated to the actuary since the 2019 LGPS submission;
- Agreed the disclosure of the pension liability to the information provided by the actuary;
- Assessed the impact of Goodwin and O'Brien cases regarding same sex couple discrimination on the pension fund liability and impact on employer fund;
- Discussed with the actuary the continuing impact of GMP equalisation and the McCloud judgement regarding age discrimination on the pension fund liability and impact on employer fund; and
- Checked the accuracy of the calculations relating to the allocation of the share of the net assets across the funds in proportion to the membership of the scheme.

PENSION LIABILITY VALUATION

Contents

There is a risk the membership data and cash flows used by the actuary in the roll-forward valuation may not be correct, or the valuation uses inappropriate assumptions to value the liability.

[Significant risk]

Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings to be reported in Mgmnt letter	
Letter of Representation point	

Results

We have agreed the disclosures to the information provided by the actuary and identified no issues.

We have agreed the completeness and accuracy of the information provided to the actuary and identified no issues.

Management confirmed there have been no significant changes in the membership of the fund in the year.

The actuary has not included the potential additional liability arising from the Goodwin case and our assessment have found the impact to be immaterial.

The actuary has applied full GMP indexation for members at state pension age and this is consistent with the previous year.

We have confirmed that an allowance was made for the potential impact of the McCloud judgement in the results provided to the Fund at the last accounting date and therefore is already included in the starting position for this report.

Our review of the assumptions used to calculate the present value of future pension obligations is noted in the following page, and were found to fall within a reasonable range.

Representations required

We have sought specific representations over material assumptions used in the valuation of the pension liability including the financial and mortality assumptions.

Conclusion

Our audit work on pension liability valuation did not identify any issues.

PENSION LIABILITY VALUATION

Significant estimate – LGPS pension liabilities

Scheme pension liabilities (£2,304.4 million)

< lower **Impact of assumptions on the estimate** **higher >**

The pension liability has increased from £1,703.4 million to £2,304.4 million. This includes an increase of £573.9 million arising from changes to financial assumptions for salary increases of 3.85% (previously 2.90%), pension decreases of 2.85% (previously 1.90%), and a change in the rate of discounting scheme liabilities to 2.00% (previously 2.35%). It also includes a gain on demographic assumptions of £19.3 million arising from reduced mortality assumptions of approximately 0.2 years for males and 0.1 years for females as increases in life expectancy have stalled in recent years. The actuary has allowed for actual pension increase experience for the period from 2019-2021. This assumes that pension increases are in line with the annual pension increases set by HM Treasury Revaluation Order and this has decreased the liability for 'experience gains and losses' by £22.3 million.

We have compared the key financial and demographic assumptions used to an acceptable range provided by our consulting actuary, PwC.

Financials:	**Actual used**	**Acceptable range**	**Comments**
- RPI increase	3.20%	3.15% - 3.35%	Reasonable
- CPI increase	2.85%	2.80% - 2.85%	Reasonable
- Salary increase	3.85%	3.80% - 3.85%	Reasonable
- Pension increase	2.85%	2.80% - 2.85%	Reasonable
- Discount rate	2.00%	1.95% - 2.05%	Reasonable
Commutation:	50%	50%	Reasonable
Mortality:			
- Male current	22.9 years	21.9 – 24.4 years	Reasonable
- Female current	25.7 years	24.8 – 26.4 years	Reasonable
- Male retired	21.6 years	20.5 – 23.1 years	Reasonable
- Female retired	24.3 years	23.3 – 25.0 years	Reasonable

As for mortality gains, the actuary used the CMI_2020 Model, allowing for a long-term rate of improvement of 1.25% p.a., smoothing parameter of 7.5, an initial addition parameter of 0.5% p.a. and a 2020 weighting of 25%. The acceptable range indicated by our consulting actuary is based on the CMI_2020 Model, allowing for a long-term rate of improvement of 1.25% - 1.5% p.a., smoothing parameter of 7.0 - 7.5, an initial addition parameter of 0% - 0.5% p.a. and a 2020 weighting of 25%. Therefore the assumption used for mortality gain appears reasonable.

We consider that the assumptions and methodology used by the actuary are appropriate and will result in an estimate of the net pension liability which falls within a reasonable range.

VALUATION OF INVESTMENTS (PRIVATE EQUITY, INFRASTRUCTURE AND PROPERTY FUNDS)

Contents

Page 124

The valuation of private equity, infrastructure and property funds investments is a significant risk as it involves a high degree of estimation uncertainty.

[Significant risk]

Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings to be reported in Mgmnt letter	
Letter of Representation point	

Risk description

The investment portfolio includes unquoted private equity, infrastructure and pooled property funds which are valued by the fund managers. The valuation of these assets may be subject to a significant level of assumption and estimation, and valuations may not be based on observable market data. Due to significance of these valuations, even a small change in assumptions and estimates could have a material impact on the financial statements.

In some cases, the 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) since the latest available valuations. Due to current market volatility the valuation received can quickly become outdated.

As a result, we consider there to be a significant risk that investments are not appropriately valued in the financial statements.

In the case of the Pension Fund, the year end disclosures included £189.2m of such assets, all of which were Level 3 investments. These comprised £38.0m held in Private Equity funds, £62.8m in Infrastructure Funds and £88.2m held in Pooled Property Investments.

Details

We carried out the following planned audit procedures:

- Obtained direct confirmation of valuations from General Partners or fund managers and requested copies of the audited financial statements of the partnerships (and member allocations);
- We confirmed that appropriate adjustments have been made to the valuations in respect of additional contributions and distributions with the funds;
- Where available, obtained independent assurance reports over the controls operated by the General Partners (private equity) or fund managers for valuations and existence of investments;
- Reviewed the valuation completed by the fund manager and any significant assumptions made in the valuation; and
- Agreed the allocation of amounts for each fund where there is pooling of investments across the Corporation.

Results

For all Private Equity, Infrastructure and Property Fund investments we obtained direct confirmation of investment valuations from the General Partners or fund managers.

For Private Equity and Infrastructure investments, we obtained the most recently audited financial statements (generally 31 December 2020) for each of the funds and traced the Pension Fund's share of assets to the closing position as at 31 March 2021. We have also considered the general movement in private equity valuations between 31 December 2020 and 31 March 2021 against wider industry trends.

For Property Fund investments, we consulted an internal property valuations specialist in order to benchmark the fair value movement of Property Fund investments against wider industry trends.

VALUATION OF INVESTMENTS (PRIVATE EQUITY, INFRASTRUCTURE AND PROPERTY FUNDS)

Page 125

The valuation of private equity, infrastructure and property funds investments is a significant risk as it involves a high degree of estimation uncertainty.

[Significant risk]

Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings to be reported in Mgmnt letter	
Letter of Representation point	

Results (continued)

For Private Equity, Infrastructure and Property Fund investments, where commissioned, we obtained assurance reports over the controls operated by General Partners or fund managers for valuations.

Where these assurance reports are not available, we reviewed the most recently audited financial statements of the fund to assess whether the auditor had provided an unqualified opinion on the accounts. This applied to £8.4m of Private Equity investments, £20.8m of infrastructure investments and £0.0m of Property Funds.

Where an assurance reports were received but were not coterminous with the Pension Fund's 31st March 2021 year end, we obtained bridging letters from the General Partners or fund managers to confirm whether the conclusions of the assurance reports remained valid for the bridging period.

Our review of the valuation completed by the fund manager and significant assumptions made in the valuation have not identified any issues.

We have agreed the split of pooled investments between the relevant funds.

Conclusion

Our audit work on valuation of private equity, infrastructure investments and property funds did not identify any issues. We are awaiting responses on four follow up questions with respect to tracing the Pension Fund's share of private equity fund net assets as at 31/12/2020 to the share as at 31/03/2021.

VALUATION OF INVESTMENTS (POOLED INVESTMENT VEHICLES AND OTHER INVESTMENTS)

Contents

There is a risk that pooled investments may not be appropriately valued and correctly recorded in the financial statements.

[Normal risk]

Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings to be reported in Mgmnt letter	
Letter of Representation point	

Risk description

The fair value of funds (principally pooled investments) is provided by individual fund managers and reviewed by the Custodian (BNY Mellon). These valuation are reported on a monthly/quarterly basis.

There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements.

In the case of the Pension Fund, the year end disclosures included £1,105.4m of such assets, of which £1,105.2m were held as Level 2 investments and £0.2m as Level 1.

Details

We carried out the following planned audit procedures:

- Obtained direct confirmation of investment valuations from the fund managers including any subsequent final valuations to 'flash' valuations in the draft accounts (where applicable);
- Verified that investments have been correctly valued in accordance with the relevant accounting policies; and
- 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.

Results

We obtained direct confirmation of investment valuations from the General Partners or fund managers. We obtained assurance reports over the controls operated by General Partners or fund managers for valuations.

Our review of the valuation completed by the fund manager and significant assumptions made in the valuation have not identified any issues.

Conclusion

Our audit work on valuation of pooled investment vehicles and other investments did not identify any issues.

CONTRIBUTIONS RECEIVABLE

Contents

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There is a risk that employers may not be calculating contributions correctly and paying over the full amount due to the pension fund.

[Normal risk]

Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings to be reported in Mgmnt letter	
Letter of Representation point	

Risk description

Employers are required to deduct amounts from employee pensionable pay based on tiered pay rates and to make employer normal and deficit contributions in accordance with rates agreed with the actuary.

Additional contributions are also required against pension strain for unreduced pensions for early retirements and augmentation of pensions.

There is a risk that employers may not be calculating contributions correctly and paying over the full amount due to the pension fund.

Details

We carried out the following planned audit procedures:

- Tested a sample of normal contributions due (and additional deficit contributions where included in a higher employer rate) for active members including checking to employer payroll records;
- Reviewed contributions receivable and checked that income is recognised in the correct accounting period where the employer is making payments in the following month; and
- Carried out audit procedures to review contributions income in accordance with the Actuary's Rates and Adjustments Certificate, including specified increased rates to cover the minimum contributions to be paid as set out in the Certificate.

Results

Our testing has not identified any issues with the calculation of normal contributions receivable from employers or employees or pension strain contributions.

Our testing has not identified any issues with the timings of contributions receivable to the fund.

Our review of contributions income in accordance with the Actuary's Rates and Adjustments Certificate, including specified increased rate to cover minimum contributions to be paid as set out in Certificate did not identify and issues.

We have also agreed the total contributions payable by the Corporation to the amounts received in the pension fund.

Conclusion

Our audit work did not identify any issues.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

Contents

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 you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Planning Report on 31 March 2021.

Laws and regulations

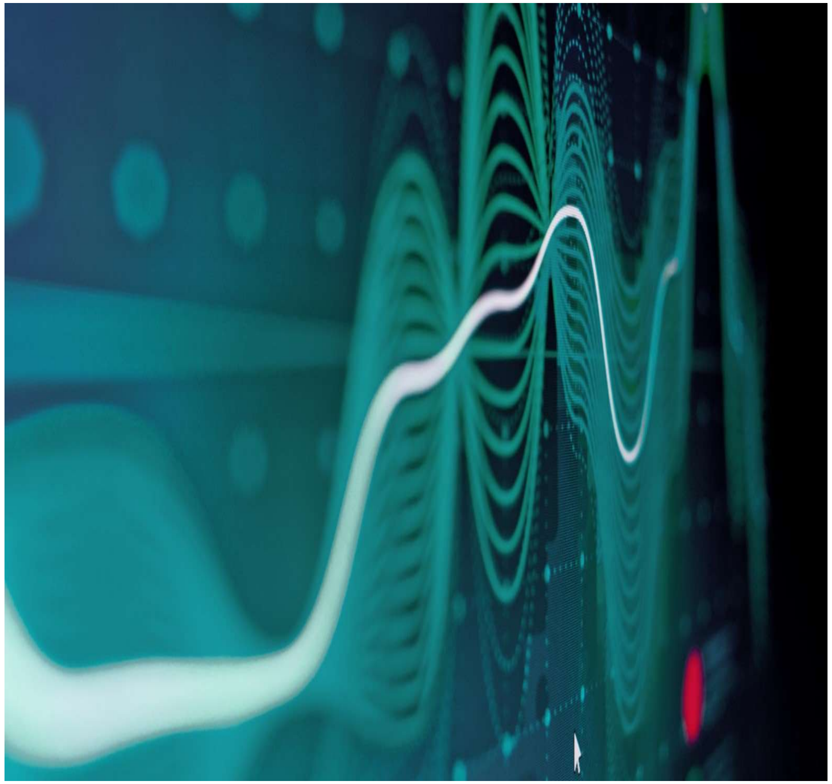
We have made enquiries of management regarding compliance with laws and regulations and reviewed correspondence with the relevant authorities.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

Related parties

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud.

We did not identify and significant matters in connection with related parties.



ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

Contents

We are required to bring to your attention other financial reporting matters that the Audit and Risk Management Committee is required to consider.

The following adjusted disclosure matters were noted:

- In the Local Government Pensions Board membership list, the name of the LGPB member "Jon Averns" is incorrectly spelt as "John Averns".
- In Note 1 Membership of the Fund table, the table shows that Skanska has 4 actives, 1 deferred and 0 pensioner and it should actually be 4 actives 0 deferred and 1 pensioner. As for Veolia , the notes shows 4 actives 0 deferred and 0 pensioner and it should be 4 actives 0 deferred and 1 pensioner.
- Additional voluntary contributions are managed externally. The confirmation from the external entities was not received prior to the draft account being published. The value has increased from £1.9m to £2.1m for Prudential and from £0.4m to £9.6m for Standard Life Investment.
- In Note 17 disclosure of the neutral estimate of discount rate based on long-term investment strategy, the calculation has included expenses in its real return assumption when it should not have. Therefore the real neutral estimate of discount rate based on long-term investment strategy should increase from 3.7% to 3.9%.
- In Note 13 disclosure of the reconciliation of fair value measurements within level 3 is incorrect. The -£0.6m under sales should be changed to £1.1m and the £0.4m under unrealised gains should be changed to £0.9m.
- In Note 16 disclosure of interest rate risk for bonds, the calculation was incorrect and the correct figures should be £230.2m and 240.2m respectively.
- Net return on investment disclosed in Financial Performance Report needs to be updated from £280.2m to £283.3m.
- Net assets of fund needs to be updated from £1,298.0m to £1301.1m in Financial Performance Report.
- Total investment assets needs to be updated from £1,291.5m to £1,294.6m in Financial Performance Report.
- The funding level stated at 2016 needs to be updated from 85% to 84% in Financial Performance Report.
- The undrawn investment commitments figure stated on p.9 of the Financial Performance report needs to be updated from £7.2m to £8.0m.
- A wording change has been made to Note 22 related party transactions, where the nature of the transaction is clarified as management expenses.
- A wording change has been made to Note 23 key management personnel to better reflect that management costs were done on an apportionment basis.

CONTROL ENVIRONMENT: SIGNIFICANT DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Significant deficiency	No evidence is retained of management review of journals.	Evidence of the review of journals should be retained.	[xx]

Contents

CONTROL ENVIRONMENT: OTHER DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Other deficiency	There is an unexplained £15 in the bank reconciliation at year end. Bank reconciliation is a key control for good financial governance.	All reconciling differences should be investigated in a timely manner.	[xx]
Other deficiency	Oracle EBS – CBIS No formal user access reviews are performed on a periodic basis. The risk is heightened as user activity logs also are not monitored on a periodic basis.	We recommend that user access reviews are performed at least quarterly and should include: • Both administrator, Generic Account (if any) and standard user accounts; • User group and individual customised levels of access reviews to identify any users who do not possess an appropriate level of access; • Checks against HR leavers lists to identify any users that should have been disabled.	[Detailed management responses to both current year and prior year recommendations are currently in the process of being agreed and will be reported to the Audit & Risk Management Committee separately.]

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CONTROL ENVIRONMENT: OTHER DEFICIENCIES

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Area	Observation & implication	Recommendation	Management response
Other deficiency	Oracle EBS - CBIS BDO noted that there is no audit logging on the system of user actions, which has been turned off due to system performance considerations and resulting in lack of monitoring of privileged and generic account access.	We recommend that audit trail should be enabled for privileged users and access activities to be reviewed on a defined frequency.	[See above (p.19)]
Other deficiency	Oracle EBS – CBIS Access is not timely removed from the application, it takes around 6-8 business days to remove access post the HR termination date	We recommend that access deprovisioning needs to be performed on the same date the user has left the organization. The processes that are interlinked with removal of access from the application needs to be worked upon by City of London team so that there is no dependency to keep the account active post termination.	[See above (p.19)]
Other deficiency	Oracle Database Server - CBIS No external or independent party has been engaged to perform security assessment on Oracle database supporting central accounting application CBIS.	It is advisable for the management to consider whether a one-off or regular security assessment or penetration testing of key infrastructure elements supporting accounting applications. This testing should be carried out no less frequently than annually and should also be carried out following any significant systems change. Any test findings should be addressed in a timely manner and a remediation plan should be formally documented and approved by management.	[See above (p.19)]

CONTROL ENVIRONMENT: OTHER DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Other deficiency	Oracle Database Server - CBIS It is noted that there are no database user access reviews performed.	We recommend that database user access reviewed should be performed at least quarterly and should include: • Both administrator, Generic Account and standard user accounts (apart from Weir application users); • User group and individual customised levels of access reviews to identify any users who do not possess an appropriate level of access; • Checks against HR leavers lists to identify any users that should have been disabled.	[See above (p.19)]
Other deficiency	Oracle Database Server - CBIS Auditing is enabled for the Oracle database supporting CBIS but access to make changes to the log is with the DBA's.	It is recommended by BDO to make the logs non-editable or access to the logs restricted outside of the DBA team to ascertain that logs are complete and accurate.	[See above (p.19)]
Other deficiency	Oracle Database Server - CBIS It is noted that no Data Encryption is enabled on the database supporting CBIS.	We recommend to upgrade the database version and enforce appropriate encryption technologies for enhancement of security.	[See above (p.19)]

Contents

CONTROL ENVIRONMENT: FOLLOW UP OF PRIOR YEAR DEFICIENCIES

Contents

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Area	Issue and impact	Original recommendation	Progress	Management response
Prior year deficiency	No evidence is retained of management review of the data submitted to the actuary for the triennial valuation.	Evidence of the review of the data submitted to the actuary should be retained.	Evidence of management's review of the data submitted to the actuary has been retained. [Closed]	N/A
Prior year deficiency	No evidence is retained of management review of the IAS26 report received from the actuary.	Evidence of the review of the IAS26 report should be retained.	Evidence of management's review of IAS 26 report has be retained. [Closed]	N/A
Prior year deficiency (IT General Controls)	Altair No formal user access reviews are performed on a periodic basis.	It is therefore recommended that user access reviewed are performed at least quarterly and should include: 1. Both administrator, Generic Account(if any) and standard user accounts; 2. User group and individual customised levels of access reviews to identify any users who do not possess an appropriate level of access; 3. Checks against HR leavers lists to identify any users that should have been disabled.	[Detailed management responses to both current year and prior year recommendations are currently in the process of being agreed and will be reported to the Audit & Risk Management Committee separately. As noted in the Executive Summary, in March 2021 we followed up on five IT related control recommendations arising from our 2019/20 audit work. While these recommendations were shared with Management during the 2019/2020 audit cycle, these have not been subject to formal agreement and have therefore not previously been formally reported to Those Charged With Governance, or specific management actions agreed, prior inclusion in this Audit Completion Report.]	
Prior year deficiency (IT General Controls)	Altair There is no encryption of sensitive information.	Management should ensure that sensitive information is encrypted.	[As above]	

CONTROL ENVIRONMENT: FOLLOW UP OF PRIOR YEAR DEFICIENCIES

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Area	Issue and impact	Original recommendation	Progress	Management response
Prior year deficiency (IT General Controls)	Altair A standardised, formal access provisioning or de-provisioning is currently not in place for Altair. A Senior Accountant creates /disables user accounts based on their knowledge of new starters and leavers	Formal access provisioning or de-provisioning process should be implemented. Any user accounts that needs to created should have a formal approval before the accounts are created. All the leavers should be communicated to system admin who would revoke the access of the user based on the last working date of the user.	[As above (p.23)]	
Prior year deficiency (IT General Controls)	Altair Weak password parameters configured for the identified systems.	Passwords parameters should be updated to meet the current best practice guidance	[As above (p.23)]	
Prior year deficiency (IT General Controls)	Altair There are no formal user access reviews of the database carried out.	It is recommended that user access reviewed are performed at least quarterly and should include: • Both administrator, Generic Account (if any) and standard user accounts; • User group and individual customised levels of access reviews to identify any users who do not possess an appropriate level of access; and • Checks against HR leavers lists to identify any users that should have been disabled.	[As above (p.23)]	

AUDIT REPORT OVERVIEW

Contents

A draft copy of our report is included in the appendices on page 34.

Opinion on financial statements

We anticipate issuing an unmodified opinion on the financial statements.

There are no matters disclosed in the financial statements that we wish to draw attention to by way of ‘emphasis of matter’.

Going concern

Our report will:

- state our conclusion that management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate
- state that we have not identified a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Irregularities, including fraud

Our report will contain an explain to what extent the audit was considered capable of detecting irregularities, including fraud. Irregularities in this context means non-compliance with laws or regulations.

Other information

We have reviewed the other information accompanying the financial statements in the Pension Fund’s annual report. We have not identified any material misstatements that would need to be referred to in our report.

INDEPENDENCE

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Under ISAs (UK) and the FRC's Ethical Standard we are required, as auditors, to confirm our 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 partners 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 2021.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our planning report. Since this planning report, the previously named manager (Francesca Palmer) has been replaced by a new manager (Sebastian Evans) for whom this is year one of involvement with a mandatory rotation period of 10 years. No other changes to key members of the audit team have occurred.

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 or the IESBA Code of Ethics as appropriate and are independent of the City of London Corporation and the Pension Fund.

We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the City of London Corporation and the Pension Fund.

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

FEES

Fees summary for year ended 31 March 2021

	£	£
Audit fee for period ending 31 March 2021		
• Code audit fee	22,000	
• Covid-related costs	3,300	
Total fees		**25,300**

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APPENDICES CONTENTS

FRC ETHICAL STANDARD

Issued in December 2019

In December 2019 the FRC published the Revised Ethical Standard 2019 ('ES'), which is applicable from 15 March 2020. There are some transitional provisions for services and arrangements that are not currently prohibited under the existing Standard. The ES aims to further strengthen auditor independence and enhance confidence in the profession. The table below provides a high level summary of the key headlines.

Key headlines	Impact
The objective, reasonable & informed third party test	Reinforcement that ethical principles take priority over rules. A need to take care where particular facts and circumstances are either not addressed directly by the rules or might appear to 'work around' the rules, or result in an outcome that is inconsistent with the general principles.
Extra-territorial impact	For group audits where the audited entity has overseas operations, the ES will require all BDO Member firms to be independent of the UK audited entity and its UK and overseas affiliates in accordance with the UK Ethical Standard, irrespective of if their audit work is relied upon.
Contingent fees	Non-audit services with contingent or success-based fee arrangements will be prohibited for audited entities.
Secondments	All secondments/loan staff to audited entities are prohibited with the exception of secondments to public sector entities.
Recruitment and remuneration services	Prohibition on providing remuneration services to audited entities such as advising on the quantum of the remuneration package or the measurement criteria for calculation of the package. In addition, the prohibition on providing recruitment services to an audited entity that would involve the firm taking responsibility for, or advising on the appointment of, any director or employee of the entity.
Non-audit services to a public interest entity (PIE)	Moving to a "white-list" of permitted non-audit services for PIEs. The white-list largely consists of services which are either audit-related or required by law and/or regulation. The provision of services not on the white-list are prohibited. The ES separates those permitted services which are exempt from the 70% fee cap and those services which are subject to the fee cap.
Other entities of public interest ('OEPI')	OEPI is a new term in the Ethical Standard. The FRC have imposed the 'white-list' applicable to PIE audited entities to also apply to OEPIs. OEPIs are entities which, according to the FRC, do not meet the definition of a PIE but nevertheless are of significant public interest to stakeholders. They include AIM listed entities which exceed the threshold to be an *SME listed entity* - generally those with a market cap of more than €200m; Lloyd's syndicates; Private sector pension schemes with more than 10,000 members and more than £1billion of assets; Entities that are subject to the governance requirements of The Companies (Miscellaneous Reporting) Regulations 2018 (SI/2018/860), excluding fund management entities which are included within a private equity or venture capital limited partnership fund structure. These would be entities which: – Have more than 2000 employees; and / or – Have a turnover of more than £200 million and a balance sheet total of more than £2 billion. The FRC have noted that the rules applicable to OEPIs will apply from periods commencing on or after 15 December 2020.

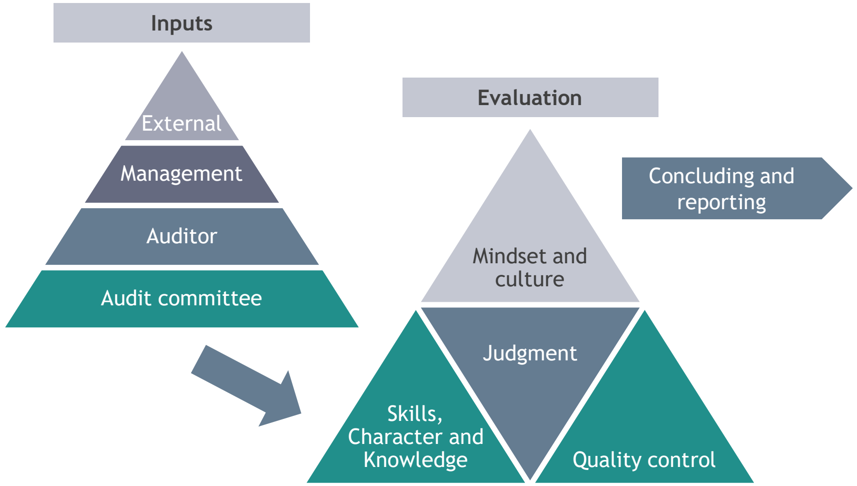
FRC PRACTICE AID FOR AUDIT COMMITTEES

The Financial Reporting Council (FRC) issued an updated practice aid for audit committees in December 2019 and a full copy can be found on the FRC website. In their practice aid the FRC note: 'The directors of a company (the Board as a whole) are responsible for ensuring its financial statements are prepared in accordance with the applicable financial reporting framework and for overseeing the company's internal control framework. A high-quality audit provides investors and other stakeholders with a high level of assurance that the financial statements of an entity give a true and fair view and provide a reliable and trustworthy basis for taking decisions.'

The practice aid then discusses how the role of audit committees in serving the interests of investors and other stakeholders is through their independent oversight of the annual corporate reporting process including the audit. The FRC highlight that the responsibility for appointing the external auditor, approving their remuneration and any non audit services work, ensuring their independence and challenging them over the quality of their work falls to the audit committee and can play a key role in facilitating a high quality audit (see note below).

It gives guidance for Audit Committees in the following areas:

- Audit tenders and the tender process including audit fee negotiations and auditor independence
- A model for use by audit committees in making an overall assessment of an external auditor including inputs, evaluations and concluding



- Transparency - reporting to the Board on how the audit committee has discharged these responsibilities
- Some guidance on key areas of audit judgement

The provision of high quality audits are a key focus of FRC and the new Executive Director of Supervision, David Rule, sent a letter to all audit firms in November 2019 explaining the factors he would expect to see in place in order to facilitate the delivery of high quality audits. A copy of the letter can be found on the FRC website

OUR RESPONSIBILITIES

Responsibilities and reporting

Contents

Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your financial statements. We report our opinion on the financial statements to the members of the Corporation (as the Administering Authority).

We read and consider the ‘other information’ contained in the Annual Report such as the additional narrative reports. We will form an opinion on whether the information given in the other information is consistent with the financial statements and our knowledge obtained in the audit and whether the reports have been prepared in accordance with applicable requirements.

We are additionally required to include in our report:

- Where we conclude there is no material uncertainty in relation to going concern, a statement to that effect
- A conclusion that Pension Fund’s use of the going concern basis of account is appropriate.
- An explanation of the extent to which the audit was capable of detecting irregularities, including fraud.

What we don’t report

Our audit is not designed to identify all matters that may be relevant to the Audit and Risk Management Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

	Issue	Comments
1	Significant difficulties encountered during the audit.	No exceptions to note.
2	Written representations which we seek.	We enclose a copy of our draft representation letter.
3	Any fraud or suspected fraud issues.	No exceptions to note.
4	Any suspected non-compliance with laws or regulations.	No exceptions to note.
5	Significant matters in connection with related parties.	No exceptions to note.

Contents

COMMUNICATION WITH YOU

Contents

Those Charged with Governance (TCWG)

References in this report to Those Charged With Governance are to the City of London Corporation as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit and Risk Management Committee.

Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Communication required	Date (to be) communicated	To whom	Communication method
Audit Planning Report	14 March 2021	Audit and Risk Management Committee	Presentation
Audit Completion Report	30 November 2021	Audit and Risk Management Committee	Presentation

OUTSTANDING MATTERS

Contents

We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2021

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

- Receipt of year end up date to formal written going concern assessment.
- Receipt of documented explanation of bank reconciling item noted in control deficiencies above.
- Responses to four follow up questions with respect to tracing the Pension Fund's share of private equity funds' net assets as at 31/12/2020 to the share as at 31/03/2021.
- Receipt of supporting documentation for post year end transaction and all post year end minutes.
- Completion of senior review process and follow up of issues arising.
- Receipt and review of final financial statements.
- Receipt of signed letter of representation.

AUDIT REPORT - DRAFT

Contents

To the Members of City of London Corporation Pension Fund

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2021 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year; and
- have been properly prepared in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

We have audited the financial statements of City of London Corporation Pension Fund ('the Fund') for the year ended 31 March 2021 which comprise the Fund Account, Statement of Net Assets (available for benefits) 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 the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), the Code of Audit Practice issued by the National Audit Office in April 2015 ("Code of Audit Practice") and applicable law. Our responsibilities under those 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 Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (FRC's) Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these 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

In auditing the financial statements, we have concluded that the Chamberlain's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Chamberlain with respect to going concern are described in the relevant sections of this report.

Other information

The Chamberlain are responsible for the other information. The other information comprises the information included in the annual report and financial statements, other than the financial statements and our auditor's report thereon. 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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

AUDIT REPORT - DRAFT

Contents

Responsibilities of Chamberlain and City of London Corporation ("the Corporation") as administering authority of the Pension Fund

As explained more fully in the Statement of the Chamberlain's Responsibilities the Chamberlain is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chamberlain 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 Chamberlain responsible for assessing the Fund'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 Chamberlain either intend to wind up the Fund or have 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 from 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 of 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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- enquiring of the administrator as to whether:
  - the Fund is in compliance with laws and regulations that have a material effect on the financial statements;
  - they have knowledge of any actual, suspected or alleged fraud;
  - any reports have been made to the Pensions Regulator.
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

AUDIT REPORT

Contents

A further description of our responsibilities is available on the Financial Reporting Council's website at:

https://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 Fund's member of the City of London Corporation, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in the Responsibilities of the Audited Body and Responsibility of the Auditor within Chapter 2 of the Code of Audit Practice published by the National Audit Office in April 2015. Our audit work has been undertaken so that we might state to the Fund'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 City of London Corporation and the Corporation's member, as a body, for our audit work, for this report, or for the opinions we have formed.

David Eagles (Senior Statutory Auditor)

For and on behalf of BDO LLP, statutory auditor

Ipswich

United Kingdom

[Insert Date]

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

AUDIT QUALITY

Contents

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 a necessary actions to address their findings.

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

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

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

Contents

[Client name and Letter headed paper]

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
IP3 9SJ

Dear Sirs/Madams

Financial Statements of the City of London Corporation Pension Fund ("the Pension Fund") for the period ended 31 March 2021

We confirm that the following representations given to you in connection with your audit of the Pension Fund's financial statements (the "financial statements") for the year ended 31 March 2021 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 our responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Pension Fund as at 31 March 2021 and of the results of the Pension Fund's operations 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 Pension Fund, 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, 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 of the Pension Fund have been made available to you for the purpose of your audit and all the transactions undertaken by the company have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and shareholders' meetings have been made available to you.

Going concern

We have made an assessment of the Pension Fund's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the Pension Fund is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis. Furthermore, we confirm that the disclosures included in note 2 to the financial statements are sufficient.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the Pension Fund's ability to continue as a going concern.

Laws and regulations

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

Post balance sheet events

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.

Fraud and error

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.

LETTER OF REPRESENTATION 2

[Client name and Letter headed paper]

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
IP3 9SJ

Contents

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.

Misstatements

You have not advised us of any unadjusted misstatements in the financial statements or other information in the annual report.

Related party transactions

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 requirements of the applicable accounting framework.

Other than as disclosed in note 22 to the financial statements, there were no loans, transactions or arrangements between the Pension Fund and the member of the City of London Corporation or their connected persons at any time in the year which were required to be disclosed.

The disclosures in the financial statements concerning the Corporation as the Administering Authority of the Pension Fund are accurate.

Carrying value and classification of assets and liabilities

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

Accounting estimates

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.

No assets of the fund has been assigned, pledged or mortgaged.

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

- Rate of inflation (CPI): 2.85%
- Rate of increase in salaries: 3.85%
- Rate of increase in pensions: 2.85%
- Rate of discounting scheme liabilities: 2.00%
- 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.

We consider these assumptions to be appropriate for the purposes of estimating the pension liability in accordance with the Code and IAS 26.

Litigation and claims

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

LETTER OF REPRESENTATION 3

[Client name and Letter headed paper]

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
IP3 9SJ

Contents

Confirmation

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. Each officer and member has taken all the steps that they ought to have taken as an officer or member of the Corporation in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Caroline Al-Beyerty - Chamberlain

[date]

FOR MORE INFORMATION:

David Eagles, Partner

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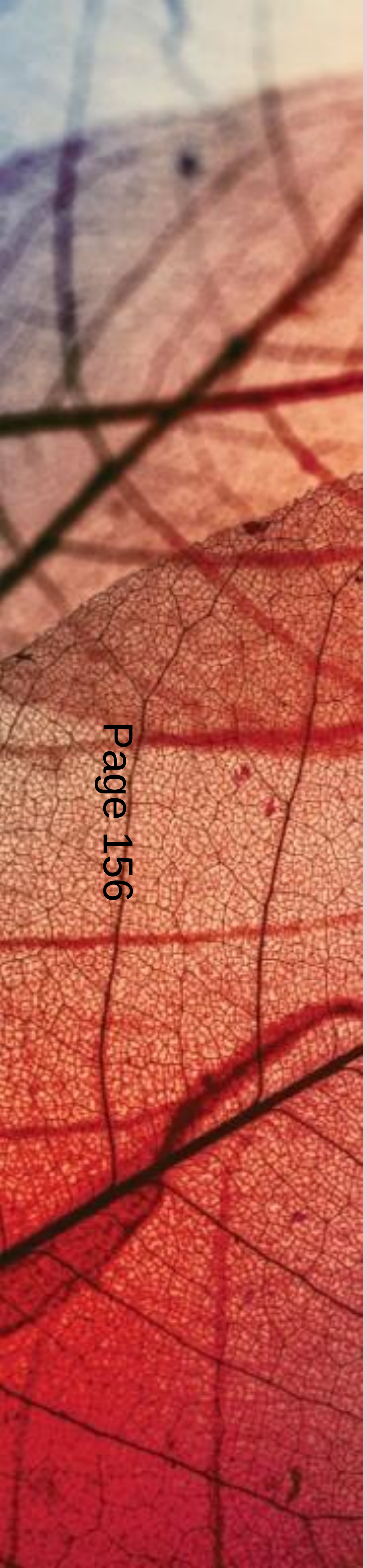
Draft Report to the Audit and Risk Management Committee

BRIDGE HOUSE ESTATES

Audit Completion: year ended 31 March 2021

IDEAS | PEOPLE | TRUST



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WELCOME

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We have pleasure in presenting our Audit Completion Report to the Audit Committee and Risk Management Committee (the "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 performing the planned audit approach for the year ended 31 March 2021, specific audit findings and areas requiring further discussion and/or the attention of the Committee. At the completion stage of the audit it is essential that we engage with the 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 Committee meeting on 30 November 2021, 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.

This report contains matters which should properly be considered by the Board as a whole. We expect that the Committee will refer such matters to the Board, together with any recommendations, as it considers appropriate. A final version of this draft report will be issued prior to the signing of the accounts.

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

Heather Wheelhouse

Heather Wheelhouse

29 November 2021

Heather Wheelhouse
Partner

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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. This report has been prepared solely for the use of the Audit Committee and Those Charged with Governance and should not be shown to any other person without our express permission in writing. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

OVERVIEW

Executive summary

Contents

This summary provides an overview of the audit matters that we believe are important to the Committee in reviewing the results of the audit of the financial statements for the Charity for the year ended 31 March 2021.

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.

Overview

Our audit work is substantially complete and subject to the successful resolution of outstanding matters we anticipate issuing an unmodified audit opinion on the Charity's financial statements for the year ended 31 March 2021.

Heather Wheelhouse took on the audit partner responsibility as a result of Fiona Condron's illness. This combined with other illness within our senior team has led to a delay in the completion of our work. We apologise for any inconvenience this may have caused.

Outstanding matters are listed in detail on page 25 of this report. These include:

- The completion of our testing of input data into the investment property valuations;
- The review of the financial statements updated for BDO's feedback; and
- Subsequent events review to the date of the signing of the accounts.

There were no significant changes to the planned audit approach.

No restrictions were placed on our work.

THE NUMBERS

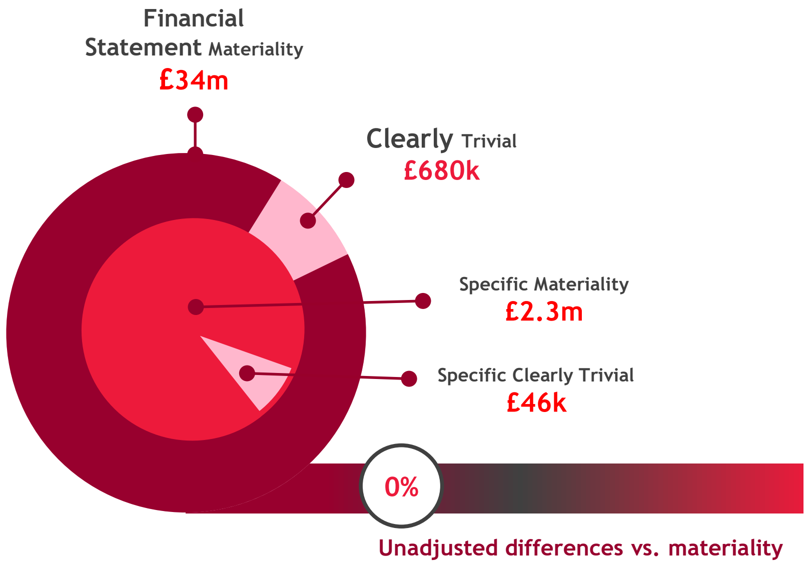
Executive summary

Contents

Final Materiality

Financial Statement Materiality was determined based upon 2% of total assets and Specific Materiality was determined based upon 5% of Total income

There were no changes to final materiality and triviality from that reported in our planning report other than being updated for the actual results for the year ended 31 March 2021.



Unadjusted audit differences

We have not identified any unadjusted audit differences.

Audit scope

Our approach was designed to ensure we obtained the required level of assurance in accordance with International Standards on Auditing (UK). This objective has been achieved.

OTHER MATTERS

Executive summary

Contents

Financial reporting

- We have not identified any non-compliance with accounting policies or applicable accounting framework.
- The prior year numbers in the cash flow statement have been amended to better present the nature of rental income arising from investment properties. Apart from this, no significant accounting policy changes have been identified impacting the current year.
- The draft Trustee’s Report has been reviewed and the resulting comments have been considered by the management team. Recommendations which have not been taken on board by management are set out on page 19 of this report.

Other matters that require discussion or confirmation

- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation (see page 31).
- Completion of post balance sheet event review up to point of signing the financial statements.

Independence

- We confirm that the firm and its partners and staff involved in the audit remain independent of the Charity in accordance with the FRC's Ethical Standard.

Contents

OVERVIEW - SIGNIFICANT RISKS

As identified in our audit planning report dated 4 March 2021, we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the directing of the efforts of the engagement team.

Significant Audit Risk	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported in Completion report	Specific Letter of Representation Point	Discussion points for Audit Committee
1. Management Override of Controls	Yes	No	No	No	No	No
2. Fraud in income recognition	Yes	No	No	No	Yes	No
3. Investment Property Valuation	Yes	Yes	No	No	Yes	No

Areas requiring your attention

MANAGEMENT OVERRIDE OF CONTROLS

Contents

Page 162

ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud.

Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Control Finding	
Letter of Representation point	

Risk description

ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements requires us to presume that the risk of management override of controls is present and significant in all entities.

Details

- We have worked closely with our IT team to gain an understanding of the financial systems in place and assess controls for potential scope for management override including the use of automated journals and administrator access accounts.
- We have used data analytics tools to inspect journals processed throughout the year and as part of the financial reporting closing process for any unusual transactions.
- We have also conducted a specific review of journals posted by admin users.
- We have assessed and corroborated significant management estimates and judgements in following key areas:
  - Allocation of costs
  - Valuation of investment properties and financial investments - see pages 10 and 13 respectively for further detail
  - Estimation and allocation of the pension scheme liability

Details (cont)

- We have performed a detail review of the cost allocation model including understanding the methods used to allocate costs between funds within the Corporation and testing of this allocation to ensure accuracy of the expenditure charged to the charity.

Results and conclusion

- Our audit work on both journals and estimates has not identified any instances of inappropriate management override.
- We have not noted any management bias in accounting estimates. Our detailed conclusions on significant estimates are set out within this report.
- We have identified no significant or unusual transactions that may be indicative of fraud in relation to management override of controls.
- We have not identified any issues with the allocation of costs.

FRAUD IN INCOME RECOGNITION

Contents

ISA (UK) 240 presumes that income recognition presents a fraud risk.

Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Control Finding	
Letter of Representation point	■

Risk description

- Under auditing standards there is a presumption that there is a risk of fraud in income recognition.
- For Bridge House Estates, we consider there to be a significant risk in respect of the completeness of investment property income, which accounts for approximately 75% of total income, due to the cut-off risk around the year end.

Details

We have carried out audit procedures to gain an understanding of the internal control environment for the significant income streams, including how this operates to prevent loss of income and have ensured that income is recognised in the correct accounting period.

Our audit procedures included the following:

- We have agreed a sample of rental income to invoice and lease agreements. Where rental periods cross year-end, we have checked the split between years is correct.
- Rental information from the property management system has been reconciled to total rental revenue recognised.
- A sample of grants have been tested to ensure recognition criteria have been met, the amount recorded is accurate and the classification (as restricted or unrestricted) is correct.
- We have performed cut-off testing for all revenue streams by reviewing transactions around the year-end date.

Results and conclusion

Investment Property Income

Testing within this area has been completed as outlined above, with no issues noted in this area.

Grant Income

Testing of this balance has been completed with no issues noted.

Tourism Income

Due to COVID 19 restrictions, Tower Bridge as a visitor attraction was closed for most of the year, including at the year end. As a result, tourism income was greatly reduced for the year (£0.5m compared to £6.7m the previous year).

The reduction in income is in line with our expectations given the actual number of days the experience was open during the year.

As this income was not material, nor expected to be, no further testing was carried out.

INVESTMENT PROPERTY VALUATION

Contents

Page 164

There is a risk over the valuation of investment properties where valuations are based on significant assumptions.

Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Control Finding	
Letter of Representation point	■

Risk description

- Bridge House Estates holds an extensive portfolio of investment properties, which are reported at fair value at the balance sheet date.
- The Corporation has appointed two valuers relevant to Bridge House Estates, who perform a year-end valuation based on data provided by the Surveyors Team at the Corporation.
- Due to the significant value of the investment properties and the high degree of estimation uncertainty, there is a risk over the valuation of these assets where valuations are based on assumptions, or where updated valuations have not been provided at the year-end.

Details

As part of our audit work, we have performed procedures including the following:

- Assessed the qualifications and competence of the valuers used
- Reviewed the instructions provided to the valuers and reviewed the valuers; skills to determine whether we can rely on management's expert
- Confirmed that the basis of valuation for each asset is appropriate based on their usage
- Reviewed assumptions used by the valuers and movements in values relative to market indices, and challenged valuations lying outside our expectations with the corresponding valuer.
- Consulted extensively with both our Real Estate and BDO Valuation teams regarding the reasonableness of the assumptions and benchmarks used for specific properties where a higher degree of judgement has been applied (for example more unique properties or developments)
- Held meetings with the Surveyors Team and Valuers during the valuation process
- Compared movements in the valuation of assets year-on-year and investigated unusual movements.

Results and conclusion

- Our review of the instructions to the valuers and the valuers' skills and expertise did not identify any issues. We agreed that the basis of valuation for each property valued is appropriate.
- Investment properties are valued by reference to highest and best use market value using an income based approach. Investment properties reduced in value by £11.1 million to £843.8 million (1.3%) in 2020/21 driven by the net additions of £11.8m offset by the revaluation loss of £22.9m.

INVESTMENT PROPERTY VALUATION (CONTINUED)

There is a risk over the valuation of investment properties where valuations are based on significant assumptions.

Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Control Finding	
Letter of Representation point	■

Results and conclusion cont.

- We set yield expectations for the portfolio based on year-end market trends and property type (such as office, retail or industrial). These expectations also included consideration of a property's location and security of future income. We then compared the yields to our expectations, discussing properties outside of these further with the valuers.
- We consulted extensively with our Real Estate and Valuation teams, who confirmed that our base expectations and methodology were suitable for the portfolio of Bridge House Estates.
- We note that due to the ongoing impact of covid-19 as at the 31 March 2021, the valuers have included within their valuation reports, a "Material Valuation Uncertainty" clause in line with the guidance set out in the RICS Red Book Global in respect of pubs held within the investment property portfolio.
- BHE holds one pub as an investment property, with a valuation that is not material (£1m). As a result, management do not consider it necessary to raise attention to this in the financial statements. We concur with this view.

Work remains outstanding around the testing of the accuracy and completeness of the data provided to the valuers by the capital team to use in determining the property values (such as rental income figures). We will provide an update on this work within the final version of our report.

OVERVIEW
Other audit risks

Page 166

As identified in our audit planning report dated 4 March 2021, we assessed the following matters as being normal risks of material misstatement in the financial statements but areas of audit focus.

Significant Audit Risk	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported in Completion report	Specific Letter of Representation Point	Discussion points for Audit Committee
4. Financial Investment Valuations	Yes	Yes	No	No	No	No
5. Completeness of grant commitments	No	No	No	No	No	No

Areas requiring your attention

INVESTMENT VALUATIONS

Page 167

There is a risk that investment valuations may not be corrected reported at year end.

Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Control Finding	
Letter of Representation point	■

Risk description

- The investment portfolio within BHE includes unquoted infrastructure, private equity holdings and pooled investment vehicles (held through unit trusts). The unquoted infrastructure funds and private equity funds are valued by the General Partner or fund manager using valuations obtained from the underlying partnerships and investments. The valuation of other funds are provided by individual fund managers and reported on a monthly basis.
- Valuations for private equity are provided at dates that are not coterminous with the year end for Bridge House Estates and need to be updated to reflect cash transactions (additional contributions or distributions received) up to 31 March. There is a risk that private equity investments valuations may not be appropriately adjusted to include additional contributions or distributions at the year end.
- There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements

Details

Our audit procedures will included the following:

- For unquoted infrastructure and private equity investments, we obtained direct confirmation of investment valuations from the General Partner or fund manager and obtained copies, where applicable, of the audited report on internal controls / audited financial statements of the underlying partnerships (and member allocations);
- For pooled investments, obtained direct confirmation of investment valuations from the fund managers and agreed independent valuations, where available, provided by the custodian;
- 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; and
- Agreed the allocation of amounts for each fund where there is pooling of investments across the City of London.

INVESTMENT VALUATIONS (CONTINUED)

There is a risk that investment valuations may not be corrected reported at year end.

Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Control Finding	
Letter of Representation point	■

Results and conclusion

We have agreed investments within the financial statements to confirmations received from investment managers.

We have confirmed the existence of a sample of the social investments held within the portfolio and a small sample of additions made during the year. No indicators of impairment have been identified.

We have confirmed a sample of listed investment valuations to external published sources. We have also performed testing over purchases and sales of Investments.

Our testing of the private equity and other non listed elements of the portfolio identified that all of the investments were correctly valued based on the 31 March 2021 valuations.

Our review of the control environment of the investment managers we sampled noted that all firms received clean audit reports on internal controls. Furthermore, the specific controls related to the valuation and existence of investments did not highlight any anomalies with the testing performed by the associated auditors.

Results and conclusion

We are satisfied that the overall valuation of financial investments is materially correct.

COMPLETENESS OF GRANT COMMITMENTS

The recognition of grant commitments is an audit risk due to the existence of multi-year grants which can, under certain circumstances, be cancelled or refunded in future periods.

- Significant management judgement
- Use of experts
- Unadjusted error
- Adjusted error
- Additional disclosure required
- Control Finding
- Letter of Representation point

Risk description

We understand that, in response to the Covid-19 pandemic, Bridge House Estates, (City Bridge Trust) has significantly increased the level of grant making activities in 20/21.

The recognition of grant commitments is an audit risk due to the existence of multi-year grants which can, under certain circumstances, be cancelled or refunded in future periods.

Details

As part of our audit work, we have completed the following:

- Reviewed the systems and procedures in place for recording and monitoring grant commitments;
- Tested the controls in place over the approval of grants and payment of funds.
- Reviewed a sample of grant agreements and the standard grant agreement wording, to ensure that a liability existed at year end and that the total grant expenditure was correctly recognised;
- Reviewed the overall grant liability calculation;
- Agreed a sample of grant commitments to the underlying agreements and, where appropriate, payments made and ensure that expenditure has been appropriately classified between restricted and unrestricted funds; and
- Considered the completeness of grant expenditure through review of the board minutes.

Results and conclusion

- Our testing is complete. No issues have been noted.

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ESTIMATES

Key Estimates

Defined Benefit Pension Scheme

The LGPS pension fund is required to report the pension liability for estimated promised future benefits for the whole fund. The Corporation's share of the net liability, including its share of the assets held in the pension fund, is allocated across the funds in proportion to the payroll cost for each fund.

As at 31 March 2021 the allocation of the total Corporation's defined benefit pension for BHE remained at 3% (2020: 3%).

The fund position at the year end is based on a complex calculation with the assumptions having a significant impact on the value of the reported surplus/deficit.

We have;

- reviewed the reasonableness of the assumptions used by Barnett Waddingham (management's expert) for the calculation of the liability against other local government and police pension actuaries' assumptions and other observable data using the benchmark range of acceptable assumptions provided by PwC consulting actuary (auditor's expert);
- checked the accuracy of the calculations relating to the allocation of the share of the net assets across the funds in proportion to the employer's contribution's paid to the scheme

No issues have arisen from our work.

Fair Value of investment properties

The fair value of investment property is determined by the valuers to be the estimated amount for which a property should exchange on the date of the valuation in an arm's length transaction.

See page 10

Going concern

Management and the Trustee are required to consider at least the 12 month period from date of sign off in assessing the going concern assumption

We have considered the projections produced by management for the 2 years ending 31 March 2023. We concur with management's view that the BHE financial statements should be produced on a going concern basis.

Investment Valuations

Inappropriate assumptions may be used to value investments

See page 13

MATTERS REQUIRING ADDITIONAL CONSIDERATION

Contents

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Fraud

Whilst the Trustee 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 you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the audit plan on 23 March 2021.

Further information on how our audit work has addressed the risk of fraud has been included within this year's audit report. We have included a copy of this report within the appendices, on page 35.

Related parties

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud.

We did not identify and significant matters in connection with related parties.

Laws and regulations

The most significant general legislation for your charity are Charities Acts, Companies Act 2006, Corporate and VAT legislation, Employment Taxes, Health and Safety and the Bribery Act 2010. We made enquiries of management and reviewed correspondence with the relevant authorities.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

OVERVIEW: AUDIT DIFFERENCES AND DISCLOSURES

Summary for the current year

Contents

Unadjusted audit differences:

We are required to bring to your attention unadjusted differences and we request that you correct them.

No unadjusted audit differences have been identified by our audit work.

Unadjusted financial reporting matters

We are required to bring to your attention financial reporting disclosure omissions and improvements that the Audit Committee is required to consider.

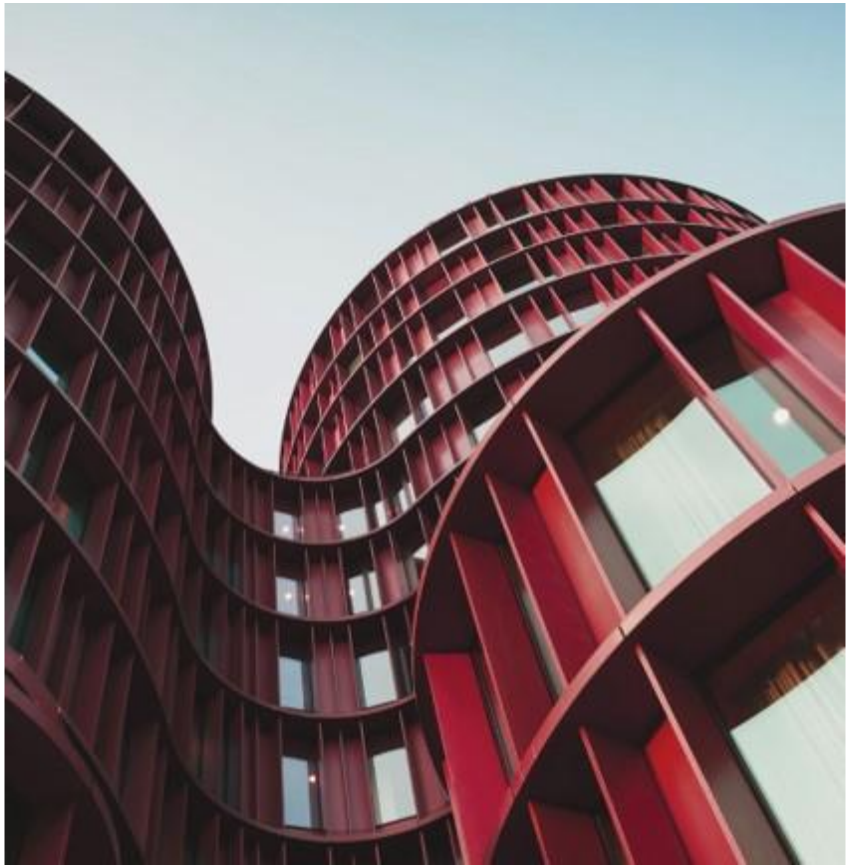
A number of suggested improvements to the disclosures in the financial statements have been made to management, but not reflected in the latest financial statements. Further details of these is set out on page 19.

Adjusted audit differences

No adjusted audit differences have arisen from our work.

Adjusted financial reporting matters

Some disclosure improvements were identified and have been corrected in the draft accounts presented to the Committee.



UNADJUSTED FINANCIAL REPORTING MATTERS

Disclosure omissions and improvements

Page 173

We are required to bring to your attention other financial reporting matters that the Audit & Risk Management Committee is required to consider.

We have made various suggestions to enhance the Trustee's report and financial statements. While some of these have been taken into account, we bring your attention to the following matters that have not been addressed:

Amendments required to ensure full compliance with FRS102:

- Disclosure has not been given in the notes to the accounts of the future minimum lease payments receivable under operating leases (para 20.30 of FRS102). We understand management intend to address this point in next year's financial statements.
- Note 18 should give a breakdown of the categories, and amounts, of debtors due in more than one year (at present, it just gives the total amount due after one year)

Proposed amendments to help make the accounts easier to understand for a general reader

- Page 2 of the trustees report talks about the Climate Action Strategy, but does not tell a reader where this strategy can be obtained from.
- Page 7 of the trustees report sets out the various committees which had responsibility for directly managing matters related to the charity. It would be helpful for some readers of the accounts to understand where they can find details of the people who serve on these committees.
- Page 38 sets out the accounting policy applied to the recognition of income (note 1d). Expectations have increased in recent years to the level of disclosure given in this policy, and we recommend being more transparent on when income is recognised for each key income stream.
- Page 40 sets out the accounting policy for recognising the pension deficit in the balance sheet. The disclosures could be enhanced by being clear on whether the ratio of contributions paid by BHE compared to total contributions is assessed annually or over a different period of time.

ADDITIONAL MATTERS

Details for the current year

We have comments on the following additional matters:

	Significant matter	Comment
1	Significant difficulties encountered during the audit.	No exceptions to note.
2	Significant matters that arose during the audit that were discussed or were subject to correspondence with management	No exceptions to note in relation to audit work, though we note the change of Audit Partner due to illness as a significant event during the course of the audit.
3	Serious incident reporting	No serious incidents were reported in the year, and we have not identified any matters requiring reporting to the Charity Commission.
4	Written representations which we seek.	We enclose a copy of our draft representation letter
5	Any fraud or suspected fraud issues.	No exceptions to note.
6	Any suspected non-compliance with laws or regulations	No exceptions to note.
7	Any misstatements in opening balances that exist in the current period financial statements	No exceptions to note.
8	Significant matters in connection with related parties.	No exceptions to note.
9	Any other significant matters arising relevant to the oversight of the financial reporting process	No matters noted.

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CONTROL ENVIRONMENT: OBSERVATIONS NOTED

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 Committee.

The table below sets out the deficiencies noted in the course of this year's audit. A number of IT control environment observations have also been separately fed back to central management in detail for their consideration; these apply to all entities across the City of London using these systems.

As the purpose of the audit is for us to express an opinion on the financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

Area	Observation & implication	Recommendation	Management response
Payroll Contract	During our sample testing of the City of London payroll, we have noted 6 out of 40 contracts has not been signed by the employees.	Signed contract ensures both parties (employer and employee) are in agreement to the terms and conditions of the employment and will serves to reduce the chance that one party will have grounds for legal action in future.	XX

CONTROL ENVIRONMENT: FOLLOW UP OF PRIOR YEAR DEFICIENCIES

Area	Issue and impact	Original recommendation	Progress	Management response
Related party transactions	During testing, it was noted that a number of related party declarations have been returned by members with sections missing. When performing our own checks, we have noted that these members do have potential related parties that they have not disclosed. This may lead to management not identifying related party transactions during the accounts preparation process, and may also influence financial decisions during the year if a related party is not included on a register of interest.	We recommend that the importance of the declarations is reinforced to all members, through training if necessary. These declarations should then be reviewed when returned to ensure all information is complete before they are then subject to our review and consideration.	A similar issue has been noted this year, with a number of related party declarations from members not being returned. As such, this deficiency remains applicable this year.	N/A

AUDIT REPORT OVERVIEW

Contents

Opinion on financial statements

We anticipate issuing an unmodified opinion on the financial statements. Please see page 35 for a copy of our audit opinion.

Comments on the Trustee's report and statutory other information

We have identified no material misstatements in the statutory other information accompanying the financial statements.

Other information

We have reviewed the other information accompanying the financial statements in the annual report. We have not identified any material misstatements that would need to be referred to in our report.

INDEPENDENCE

Contents

Under ISAs (UK) and the FRC's Ethical Standard we are required, as auditors, to confirm our 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 partners 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 2021.

Details of services, other than audit, provided by us to the Charity during the period and up to the date of this report were provided in our planning report. We understand that the provision of any services would be approved by the Audit Committee in advance in accordance with the Charity'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 planning report.

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 or the IESBA Code of Ethics as appropriate and are independent of the Charity.

We also confirm that we have obtained confirmation of independence from any external audit experts involved in the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Charity.

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

OUTSTANDING MATTERS

We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2021.

The following matters are outstanding at the date of this report and could impact our audit opinion. We will update you on their current status at the Committee meeting at which this report is considered:

- A number of related party declarations are currently outstanding from members.
- Finalisation of our work on investment properties (predominantly testing the inputs into the valuation models)
- Final review of financial statements
- Subsequent events review to date of signing the financial statements
- Receipt of signed letter of representation for all entities

APPENDICES CONTENTS

TRUSTEE'S RESPONSIBILITIES EXPLAINED

The Board's Responsibilities and Reporting

The Trustee is responsible for preparing and filing an Annual Report and financial statements which show a true and fair view, comply with the Charities SORP, prepared in accordance with UK GAAP.

Our audit of the financial statements does not relieve Management nor those charged with governance of their responsibilities for the preparation of the financial statements.

Further information regarding these responsibilities is provided in the engagement letter.

Trustee responsibilities	What this means
• Maintain adequate accounting records and maintain an appropriate system of internal control for the charity • Prepare the annual report and the financial statements which give a true and fair view and which are prepared in accordance with UK Generally Accepted Accounting Practice and the Charities Act 2011 • Safeguard the assets of the charity and take reasonable steps for the prevention and detection of fraud and other irregularities.	Further information regarding these responsibilities is provided in the engagement. We are happy to explain these in more detail to you.
To make available to us, as and when required, all the charity's accounting records and related financial information. To provide us with Board papers on key issues including but not limited to: • Review of business risks • Going concern assessments • Impairment reviews • Any key judgments and estimates.	
Having made enquiries state in the Trustee's report that: • So far as Members (on behalf of the Trustee) are aware, there is no relevant audit information of which the auditors are unaware • Members have taken all reasonable steps they ought to have taken on behalf of the Trustee in order to make themselves aware of any relevant audit information and to establish that the charity's auditors are aware of that information.	In addition to answering our queries, this requires proactive behaviour in order to make us aware of any relevant information. Relevant information is very broad and includes any information needed in connection with our report.

OUR RESPONSIBILITIES

Responsibilities and reporting

Contents

Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your financial statements. We report our opinion on the financial statements to the members.

We report only those matters which come 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.

We are also required to report on the consistency of the Annual report with the Financial Statements and our knowledge of the charity and their environment obtained in the course of the audit and whether they have been prepared in accordance with the requirements of the Charities SORP.

What we don't report

Our audit is not designed to identify all matters that may be relevant to the board and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

FRAUD RISK

Respective responsibilities

In accordance with the International Standards on Auditing (UK) we are required to discuss with you the possibility of material misstatement, due to fraud or error. Below is a summary of the respective responsibilities of the Board of Trustees, management, and the Auditor with regards to fraud:

Trustees' Responsibility

- To evaluate management's identification of fraud risk, and implementation of anti-fraud measures; and
- To investigate any alleged or suspected instances of fraud brought to their attention.

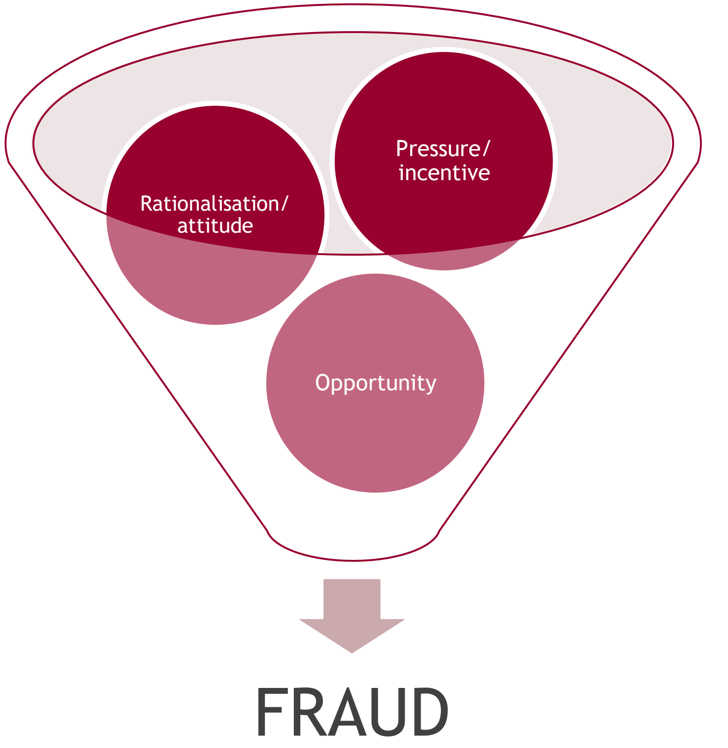
Management's Responsibility

- To design and implement systems and controls that enables the organisation to prevent and detect fraud;
- To ensure that the organisation's culture promotes ethical behaviour; and
- To perform a risk assessment that specifically includes the risk of fraud, and consideration of whether having a whistleblowing policy in place.

Auditor's Responsibility

- To evaluate and obtain sufficient appropriate audit evidence regarding the assessed risk of material misstatement due to fraud;
- To identify and assess the risks of material misstatement of the financial statements due to fraud; and
- To report fraud to an appropriate authority outside the entity where there is a suspected or actual instance suggesting dishonesty or fraud.

The auditor would also report to those charged with governance subject to "tipping-off" provisions under anti-money laundering legislation.



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We will continue to consider fraud throughout the audit process and will discuss with the Audit Committee. We will liaise with management to determine any actual, suspected or alleged fraud known to them. We will discuss with management any knowledge they have of suspected or alleged fraud.

We will consider management's process for identifying and responding to the risks of fraud, including the nature, extent and frequency of such assessments. We ask that Board members advise us if they do not concur with the assessment made by management in your management representation letter to us.

The key questions we are required to ask the trustees are as follows:

- Are you aware of any instances of actual, suspected or alleged fraud?;
- What are your processes for identifying and responding to the risk of fraud?; and
- What communication is made with the Audit Committee and the Board with regards to processes for identifying and responding to the risk of fraud?

COMMUNICATION WITH YOU

Those Charged with Governance (TCWG)

References in this report to Those Charged With Governance are to the Audit & Risk Management Committee acting on behalf of the Trustee. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit and Risk Management Committee.

Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

LETTER OF REPRESENTATION

TO BE TYPED ON YOUR HEADED NOTEPAPER

BDO LLP
2 City Place
Beehive Ring Road
Gatwick
West Sussex, RH6 0PA

Dear Madams/Sirs

Financial Statements of Bridge House Estates for the year ended 31 March 2021

We confirm that the following representations given to you in connection with your audit of the charity's financial statements (the "financial statements") for the year ended 31 March 2021 are made to the best of our knowledge and belief, and after having made appropriate enquiries of Members and officials of the charity.

We have fulfilled our responsibilities as the Trustee for the preparation and presentation of the financial statements as set out in the terms of the audit engagement letter, and in particular that the financial statements give a true and fair view of the financial position of charity as at 31 March 2021 and of the results of the charity's operations and cash flows for the year then ended in accordance with the applicable financial reporting framework 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 of the charity have been made available to you for the purpose of your audit and all the transactions undertaken by the charity have been properly reflected and recorded in the accounting

Going concern

We have made an assessment of the charity's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the charity is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

Having performed our assessment we were able to conclude that the charity is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the charity's ability to continue as a going concern.

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LETTER OF REPRESENTATION CONT.

Laws and regulation

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

Post balance sheet events

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.

Fraud and error

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.

Misstatements

We attach a schedule showing uncorrected narrative misstatements that you identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below.

In our opinion, the effects of not correcting such identified misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

Related party transactions

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 requirements of the applicable accounting framework.

Other than as disclosed in note 27 to the financial statements, there were no loans, transactions or arrangements between the charity and the charity's Trustee or their connected persons at any time in the year which were required to be disclosed.

In the opinion of the Trustee the charity has no controlling party.

Carrying value and classification of assets and liabilities

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

Contents

LETTER OF REPRESENTATION CONT.

Accounting estimates

1. Pension fund assumptions

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

- Rate of inflation (CPI): 2.9%
- Rate of inflation (RPI): 3.2%
- Rate of increase in salaries: 3.9%
- Rate of increase in pensions: 2.9%
- Rate of discounting scheme liabilities: 2.0%

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

2. Valuation of investment properties

The Charity's property investment portfolio has been valued by Cushman and Wakefield and Savills in accordance with the RICS Global Standards 2020 as at 31 March 2021, based on tenancy and rental information that was correct at that date.

3. Valuation of private equity investments

We confirm that private equity investments are valued based on the latest available information from the individual private investment fund managers as at 31 March 2021 and therefore represent fair value of the funds as at the balance sheet date.

We confirm that no subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements.

Litigation and claims

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

Serious incident reports

We confirm that no serious incident reports have been made to the Charity Commission during the period or since the end of the period.

Charity income

All grants, donations and other income, the receipt of which is subject to specific terms or conditions, have been notified to you. There have been no breaches of terms or conditions during the period in the application of such income.

LETTER OF REPRESENTATION CONT.

Confirmation

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. Each trustee has taken all the steps that they ought to have taken as a trustee in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Caroline Al-Beyerty

(Signed on behalf of the Trustee)

Date: ....

AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT TO TRUSTEE OF BRIDGE HOUSE ESTATES

Opinion on the financial statements

In our opinion, the financial statements:

• give a true and fair view of the state of the Charity's affairs as at 31 March 2021 and of its incoming resources and application of resources 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 Charities Act 2011.

We have audited the financial statements of Bridge House Estates ("the Charity") for the year ended 31 March 2021 which comprise the Statement of Financial Activities, the Balance Sheet, 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 (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain independent of the Charity in accordance with the ethical requirements relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions related to going concern

In auditing the financial statements, we have concluded that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Charity's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Trustee with respect to going concern are described in the relevant sections of this report.

AUDITOR’S REPORT CONT.

Other information

The Trustee is responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements, other than the financial statements and our auditor’s report thereon. The other information comprises: Overview of the year; Origins of the charity; Trustee's Annual Report; Trustee Responsibilities; Report of the Audit Review Panel; Reference and Administration Details. 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. 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 in relation to which the Charities Act 2011 requires us to report to you if, in our opinion;

- the information contained in the financial statements is inconsistent in any material respect with the Trustees’ Annual Report; or
- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Trustees

As explained more fully in the Trustee responsibilities statement, the Trustee is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines 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 Trustee is responsible for assessing the Charity’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 Trustees either intend to liquidate the Charity or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements

We have been appointed as auditor under section 144 of the Charities Act 2011 and report in accordance with the Act and relevant regulations made or having effect thereunder.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from 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 of 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.

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AUDITOR'S REPORT CONT.

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Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory framework applicable to the Charity. We focused on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Charity. The laws and regulations we considered in this context were United Kingdom Accounting Standards (Financial Reporting Standard 102), the Statement of Recommended Practice (SORP) Accounting and Reporting by Charities (FRS 102), and the Charities Act 2011.

- We understood how the Charity is complying with those legal and regulatory frameworks, by making enquiries to management, and the Trustee, of known or suspected instances of non-compliance with laws and regulations. We corroborated our enquiries through our review of key committee board minutes.

- We reviewed the financial statement disclosures to assess compliance with the relevant laws and regulations discussed above. We remained alert to any indications of non-compliance throughout the audit.

- We assessed the susceptibility of the Charity's financial statements to material misstatement, including how fraud might occur, by discussing with management and the Trustee to understand where it is considered there was a susceptibility of fraud.

- We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements, and determined that the principal risks were related to the override of controls by management including posting of inappropriate journal entries, management bias in key material accounting estimates, and the timing of revenue recognition.

- Audit procedures performed in response to the assessment above included: Enquiries of management; reviewing accounting estimates for bias and challenging assumptions made by management in their significant accounting estimates including, but not limited to, valuation of investment properties, valuation of the Charity's financial investments, measurement of the defined benefit pension scheme liability; Sample testing the recognition of income, Sample testing the appropriateness of journal entries.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's ("FRC's") website at:

https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

AUDITOR'S REPORT CONT.

Use of our report

This report is made solely to the Charity's trustee, as a body, in accordance with the Charities Act 2011. Our audit work has been undertaken so that we might state to the Charity's trustees 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 Charity and the Charity's trustees as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP, statutory auditor

London, UK

Date:

BDO LLP is eligible for appointment as auditor of the charity by virtue of its eligibility for appointment as auditor of a company under section 1212 of the Companies Act 2006.

LOOKING FORWARDS

Please note that we have issued a separate comprehensive publication : CHARITIES & COVID-19. This is available on our website https://www.bdo.co.uk/en-gb/home, and is updated regularly.

The following developments are therefore of general application to all larger charities, and are included because we recognise that trustees often have an interested in the wider sector.

FINANCIAL REPORTING AND GOVERNANCE

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Financial Reporting Council

The FRC has requested companies to provide more information about how boards have assessed the entity's going concern position, especially where there is any uncertainty over the financial future. Significant judgements should also be explained. At the same time they identified opportunities for companies to reduce duplication of material in the accounts and annual report. Although this is addressed to commercial entities, the same principles apply to charities. The FRC say that investors (supporters?) seek information relating to risks, uncertainties and opportunities that contributes to their understanding of a company's business model, longer term strategy, resilience and viability. The annual report should therefore cover context, form (how risks are identified and classified), approach, linkage to wider strategy, response, and scenarios and stress testing.

The FRC has also issued guidance for the 2021 year end reporting season. In particular they highlight the climate change disclosures required by premium listed companies that charites may wish to consider. The FRC expects material climate change policies, risks and uncertainties to be included in narrative reporting and appropriately considered and reflected in the financial statements.

Alternative Performance Measures

The FRC has conducted a review of the use by companies of Alternative Performance Measures (APM). These are measures that are usually derived from the financial statements and used to explain performance in a way the board feels is more relevant to the company's needs or situation. The report is not aimed at charities, but it is not uncommon for charities to include performance measures in their annual report which are not simply drawn from the Sorp based accounts. In that situation the FRC say that while companies generally provided good quality APM disclosures, their context needs to be better explained, particularly as profit-based APMs tended to be more favourable than their GAAP results. Companies should clearly define their APMs and explain why they are needed, but not give them greater focus than their GAAP equivalents.

Provisions, Contingent Liabilities and Contingent Assets

The FRC has also reviewed companies' treatment of Provisions, Contingent Liabilities and Contingent Assets. The review found scope for improvements in several areas, in particular in: explaining how the amounts of expected outflows have been estimated, identifying the key assumptions applied and describing the associated uncertainties; disclosing the phasing of outflows companies expect to see as they utilise their provisions; and describing the underlying costs for which companies make provisions.

Revised Audit standard on fraud

The FRC has issued a revised standard (ISA 240) for the auditor's responsibilities relating to fraud, effective for December 2022 year ends. The revisions clarify the auditor's obligations, and enhance the requirements for the identification and assessment of risk of material misstatement due to fraud and the procedures to respond to those risks.

FINANCIAL REPORTING AND GOVERNANCE

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Amendments to FRS 102: COVID -19 related rent concessions

A further revision to FRS102 affects temporary rent concessions occurring as a direct consequence of the COVID-19 pandemic and within a limited timeframe. This now applies to rent concessions that reduce lease payments originally due on or before 30 June 2022. The change requires entities to recognise such changes on a systematic basis over the periods that the change in lease payments is intended to compensate.

Corporate Board Diversity

The FRC has published research (Board Diversity and Effectiveness in FT350 Companies) showing that diverse boards are beneficial in terms of boardroom culture and performance. To maximise these benefits boards should recognise that change takes time and that diversity without active inclusion is unlikely to encourage new talent to the board. The main findings of the research concluded that:

- It is the responsibility of the Chair of a board to drive inclusion.
- Organisations must focus on collecting more data on the types of diversity, board dynamics and social inclusion
- the Nomination Committee, or equivalent, should itself be diverse and access talent from wide and diverse pools.

Workforce engagement

The UK Corporate Governance Code asks companies to report on their engagement with the workforce. The Financial Reporting Council (FRC) has published research on recent annual reports concluding that an effective feedback loop between boards and the workforce is needed to achieve meaningful dialogue, those who act as an interface between the board and the workforce, should receive appropriate support, and energies should be focussed principally on the substance of the engagement, not the process.

TAX

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HMRC Concessions for Retail Gift Aid

As a result of disruption caused by the pandemic, charities have not been able to meet all the HMRC's requirements for the Retail Gift Aid scheme. As a result HMRC has provided limited concessions relating to end of year letters, returned mail, oral declarations, staff and volunteer training, and the scheduling of internal audit visits.

Budget 2021

The recent budget had little to offer charities. However trustees may wish to note the introduction of a new temporary business rates relief scheme for 2022-23, which may be of use to some charities. In addition there is an extension of the Museums and Galleries Exhibition Tax Relief (MGETR) for a further two years until 31 March 2024.

Tax increases

From 1 April 2022, there will be a temporary 1.25% increase in class 1 (employee) and class 4 (self-employed) national insurance contributions (NIC) paid by workers, as well as a 1.25% increase in class 1 secondary NIC paid by employers (to 2.5% in total). The 1.25% increase will also apply to class 1A and class 1B NIC paid by employers. The projected £12bn annual income is to be ringfenced to pay for health and social care. From the same date, dividend tax rates will increase by 1.25%, taking rates to: 8.75% for basic rate taxpayers, 33.75% for higher rate taxpayers and 39.35% for additional rate taxpayers
Charities will need to budget for the impact of these changes on their personnel costs, and consider any possible impact on donor income and tax to cover.

TAX

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VAT apportionment and outside the scope income

In a number of recent cases HMRC has argued that receipt of outside scope grants to support a business causes the input tax on all the business costs to be apportionable pro rata to the taxable income and outside scope income received. Charities often receive grants and donations that they use to support charitable trading activities. This currently seems open to attack by HMRC, although with no success reported to date.

VAT liability of coronavirus (COVID-19) testing services

An HMRC brief explains the rules for the VAT treatment of coronavirus (COVID-19) testing services. This is relevant to any organisation that provides or receives such services. Where the service of Covid -19 testing is treated as medical care the service would normally be exempt, and the same applies to the supply of test kits. However, this position is dependant on a number of detailed factors, and charities should consider their own situation carefully to ensure the Vat treatment applied is correct.

CHARITY FINANCIAL AND REGULATORY

Contents

Sorp example accounts

The Sorp example accounts available on the Sorp microsite, now include two examples dealing with the implications of the pandemic. Issues addressed include: closure of services, accounting for furlough, deteriorating trade, contingent grant funding support, donations of cancelled tickets, a public appeal, changes in expenditure to reflect working from home, and revised annual report wording.

Whistleblowing

The Charity Commission has issued its latest report on whistleblowing reports received in its role as a prescribed person. Over 20219disclsoures increased by 75%, mainly from employees but increasingly from trustees. The main issues raised related to governance, safeguarding and financial management

Charities Bill 2021

The Charities Bill 2021 includes several changes that will affect any charity. Many of the proposals are technical, and relate to the Charity Commission's functions, or will be of specific interest to a limited class of charities. However the more wide ranging recommendations for charities, include:

- allowing trustees to be paid for goods, as well as services, in certain situations
- simplifying the process on ex gratia payments
- giving charities more flexibility to obtain tailored advice when they sell land, and removing unnecessary administrative burdens
- increased flexibility to use permanent endowment, with checks in place to ensure its protection in the long term
- removing legal barriers to charities merging, when a merger is in their best interests
- giving trustees advance assurance that litigation costs in the Charity Tribunal can be paid from the charity's funds

A more detailed analysis can be found here: https://www.bdo.co.uk/en-gb/insights/industries/not-for-profit/charities-bill-briefing-proposed-changes

Impact of Covid-19 on charities

The Charity Commission reported in October on the impact of Covid-19 on charities. Amongst their findings they note that there is a mixed view on charities' future viability. A significant minority (34%) expect to generate less revenue from fundraising and donations in 2022; over half (62%) anticipate a threat to their charity's financial viability in the next 12 months; however, a majority expect their charity to be in the same or better position overall.

Public Trust in Charities

The Charity Commission has released independent research, also referenced by the OSCR, showing that trust in charities is gradually recovering, to a 6-year high. The research shows that charities are among the most trusted groups in society, third only after doctors and the police. The findings also indicate that a decade-long decline in people's perception of charities' importance in society has partially reversed – 60% of those asked say charities play an important or very important role, compared to 55% last year.
This modest uptick may be linked in part to the COVID-19 pandemic, and charities' visible role in responding to the national crisis. Meanwhile, very high-profile scandals in household name charities appear to be retreating in the collective memory.
The findings confirm that the key drivers of trust in charities have not changed during the pandemic, and that people expect charities to:
show that they make a positive difference
spend a high proportion of funds on the end cause, and
live their values, showing charity not just in what they do, but how they behave along the way

CHARITY FINANCIAL AND REGULATORY

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Charity Commission blog

In a blog from the Charity Commission the following typical issues were identified for charities coming out of the pandemic: anticipated challenges with long-term funding, how hard it has been to plan long term, due to uncertainty over restrictions, difficulties with recruitment, the time it will take to be able to return to ways of operating from before the pandemic, and challenges in returning to pre-pandemic levels of engagement when working with vulnerable people. Charities often have more in common with other organisations than they expect, and may benefit from sharing how they have responded to these issues

CCNI and COVID 19 reporting

The Charity Commission of Northern Ireland has issued a checklist covering COVId-19 disclosures. A key message in the Trustees Annual Report will be the impact of the coronavirus on the charity and how the charity will need to adopt and change its plans going forward. Charities registered in Northern Ireland should consult this guidance in respect of the their annual report and accounts.

Remuneration practices

There continues to be interest in the levels of pay for higher paid staff in charities, both from the media and the regulators. The FRC has commented on reporting remuneration practices in the FTSE 350, and some of its comments could equally apply to charities. The FRC comment on the trend to disclose more information on remuneration, that most companies link rewards to long term performance, but that there is still a lack of detail on the principles relating to remuneration setting. Rob Wilson, sometime minister for civil society, has called for salary disclosure to be compulsory on charities' websites and annual reports if they have an annual income of over £500,000.

Government funding

The Public Accounts committee has published its report into how DCMS distributed coronavirus support funds to charities. It has noted that there was insufficient attention given to charities' impact and benefit to taxpayers, and an implication that subjective decisions were taken. One can expect that any future funding will be allocated more transparently, based on measurable outcomes.

Fundraising

The Fundraising Regulator reports that online fundraising is now the most complained about technique, which probably reflects changes in activity during the pandemic. However, complaint levels are generally low, at less than one in 1.9m contacts. Charity bags and mail were the next biggest sources of complaint. Trustees are reminded that information relating to fundraising standards is required in the annual report of all charities subject to audit.

FOR MORE INFORMATION:

Heather Wheelhouse

m: +44(0)7798 653 994
e: heather.wheelhouse@bdo.co.uk

To: Audit & Risk Management Committee **30 November 2021**

From: Bridge House Estates Board **14 July 2021**

9. **Governance Arrangements: Establishment of a Grants Committee and Co-Option Protocol**

The Board considered a report of the Managing Director of BHE setting out several proposals to support the Board in the effective administration and governance of the charity.

RESOLVED – That the Bridge House Estates Board, in discharge of functions for the City Corporation as Trustee of Bridge House Estates (charity no. 1035628) and solely in the charity's best interests:

Resolve that the Audit & Risk Management Committee's advice be sought as appropriate in relation to audit and risk matters as they affect both the external audit of Bridge House Estates Annual Report, and otherwise as they affect audit and risk management for the charity which operates and is managed within City Corporation's operational and management audit and risk framework adopted in the discharge of all its functions.

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CITY OF LONDON – SUNDRY TRUSTS

REPORT TO THE AUDIT AND RISK MANAGEMENT COMMITTEE

Draft Audit Completion: year ended 31 March 2021

IDEAS | PEOPLE | TRUST

CONTENTS

WELCOME

Contents

We have pleasure in presenting our Audit Completion Report to the Audit and Risk Management Committee (the “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. This report will be updated at the sign off of the accounts.

It summarises the results of completing the planned audit approach for the year ended 31 March 2021, specific audit findings and areas requiring further discussion and/or the attention of the Committee. At the completion stage of the audit it is essential that we engage with the 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.

This report contains matters which should properly be considered by the Board as a whole. We expect that the Committee will refer such matters to the Board, together with any recommendations, as it considers appropriate.

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

Heather Wheelhouse

29 November 2021

Heather Wheelhouse
Partner

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Manager

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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. This report has been prepared solely for the use of the Audit and Risk Management Committee and Those Charged with Governance and should not be shown to any other person without our express permission in writing. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

OVERVIEW

Executive summary

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This summary provides an overview of the audit matters that we believe are important to the Committee in reviewing the results of the audit of the financial statements for the Sundry Trusts for the year ended 31 March 2021.

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.

This report covers the following Sundry Trusts:

- City of London Charities Pool
- King George's Field
- Guildhall Library Centenary Fund
- City of London Educational Trust Fund
- Combined Relief of Poverty
- Charities ICW CLFS
- CLS Bursary Fund
- CLGS Bursary Fund
- City of London Corporation Combined Education Charity
- Emanuel Hospital
- Sir William Coxen Trust Fund
- Wilson's Loan Trust
- Vicker's Dunfee Memorial Benevolent Fund
- City of London Almshouses Trust

Overview

Our audit work is substantially complete and subject to the successful resolution of outstanding matters we anticipate issuing an unmodified audit opinion on the individual financial statements for the year ended 31 March 2021 in line with the agreed timetable.

Outstanding matters are listed on page 19 in the appendices.

There were no significant changes to the planned audit approach and no additional significant audit risks have been identified.

No restrictions were placed on our work.

Audit report

We anticipate issuing an unmodified audit opinion on the individual Sundry Trust financial statements.

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Final Materiality

Financial statement Materiality was determined based on 2% of total assets for most entities. Where Specific Materiality was used, this was based on either 5% of total income or total expenditure. See page 24 for details of individual trusts.

At the planning stage materiality was based on the 2020 figures but these were updated for actual results for the year ended 31 March 2021.

Unadjusted audit differences

We have identified audit adjustments in relation to The City of London Almshouses that, if posted, would increase the net income by £858, and increase net assets by £858.

OTHER MATTERS
Executive summary

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Financial reporting

- We have not identified any non-compliance with accounting policies or applicable accounting framework.
- No significant accounting policy changes have been identified impacting the current year.
- The draft Trustees Reports have been reviewed and we are currently undertaking our final review of these financial statements.

Other matters that require discussion or confirmation

- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation.

Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Sundry Trusts in accordance with the FRC's Ethical Standard.

OVERVIEW

Significant audit risks

Contents

As identified in our audit planning report dated 12 March 2021 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the directing of the efforts of the engagement team.

Significant Audit Risk	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings	Specific Letter of Representation Point
Management override of control	Yes	No	No	No	No
Fraud in Income Recognition	Yes	No	Yes, unadjusted (see page 14)	No	No

Areas requiring your attention

MANAGEMENT OVERRIDE OF CONTROLS

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ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud.

Risk description

ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements requires us to presume that the risk of management override of controls is present and significant in all entities

Details

- We have worked closely with our IT team to gain an understanding of the financial systems in place and assess controls for potential scope for management override including the use of automated journals and administrator access accounts.
- We have used data analytics tools to inspect journals processed throughout the year and as part of the financial reporting closing process for any unusual transactions.
- We have also conducted a specific review of journals posted by admin users.
- We have reviewed the individual assessments of significant estimates and judgement as detailed in the financial statements. We concur with the assessment that there are none which are followed in the preparation of the financial statements.

Results and conclusion

- We have not identified any instances of inappropriate management override from our work on journals.
- We have not identified any significant estimates applicable to the Sundry Trusts.
- We have identified no significant or unusual transactions that may be indicative of fraud in relation to management override of controls.

FRAUD IN INCOME RECOGNITION

Contents

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ISA (UK) 240 presumes that income recognition presents a fraud risk.

Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Control findings to be reported in Mgmnt letter	
Letter of Representation point	■

Risk description

Under auditing standards there is a presumption that there is a risk of fraud in income recognition. For charities, the risks can be identified as affecting the completeness of income.

The Sundry Trusts we consider there to be a significant risk in respect of the completeness of the contribution from City's Cash, grants, donations and legacies, fees and charges (including admissions), rental income and investment income. For grants, donations and legacies we also consider there to be a risk that any relevant restrictions are not correctly identified.

Details

We have carried out audit procedures to gain an understanding of the internal control environment for the significant income streams, including how this operates to prevent loss of income and have ensured that income is recognised in the correct accounting period.

Our audit procedures included substantive testing on the material income streams and cut off testing to ensure income is recognised in the correct period and appropriately classified as restricted (charity entities only) such as:

- We have reviewed the investment income that has been recognised in Charities Pool and ensured that for completeness the relevant income has been traced back correctly recognised in the Sundry Trusts.
- We have enquired as to completeness of grant income and considered post year end income for completeness. We have tested grant and donation income to ensure that a sample, including material items, have been properly recorded where restrictions apply.
- We have created an expectation of rental income in The City of London Almshouses and ensured that the amount recognised for the year is not materially different. We agreed a sample of rental income from the Orchard System to invoice and lease agreements. Where rental periods cross year-end, we have reviewed and documented incorrect application of cut-off at the year end (see unadjusted errors).
- We have performed cut-off testing for all revenue streams by reviewing transactions around the year-end date.

Results and conclusion

Our planned audit work was carried out satisfactorily in this area for all entities, except as noted above. As such, sufficient assurance has been gained that there is no material misstatement of income

OVERVIEW

Other audit risks

Contents

As identified in our audit planning report dated 12 March 2021 we assessed the following matters as being normal risks of material misstatement in the financial statements but areas of audit focus.

Audit Risk	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported in Management letter	~~Specific~~ Letter of Representation Point
Investment valuations	No	No	No	No	No

Areas requiring your attention

INVESTMENT VALUATIONS

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There is a risk that investment valuations may not be correctly reported at year end.

Significant management judgement	
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Control Finding	
Letter of Representation point	■

Risk description

- There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements

Details

Our audit procedures included the following:

- For pooled investments, we obtained direct confirmation of investment valuations from the fund managers and agreed independent valuations, where available, provided by the custodian;
- 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; and
- Agreed the allocation of amounts for each fund where there is pooling of investments across the funds.

Results and conclusion

We have agreed investments within the financial statements to confirmations received from investment managers.

We have confirmed a sample of listed investment valuations to external published sources. We have also performed testing over purchases and sales of Investments.

Our review of the control environment of the investment managers we sampled noted that all firms received clean audit reports on internal controls. Furthermore, the specific controls related to the valuation and existence of investments did not highlight any anomalies with the testing performed by the associated auditors.

We are satisfied that the overall valuation of financial investments is materially correct.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

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Fraud

Whilst the trustees 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 you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the audit plan on 12 March 2021.

As noted on page 17 our audit specifically refers to how our audit deals with material fraud and error.

Related parties

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud. Our audit approach includes the consideration of related party transactions throughout the audit including making enquiries of Management and the Board. We will also consider the adequacy of the procedures you have in place to identify such transactions and assess completeness and accuracy inline with the requirements.

The definition of related party also includes ‘an officer, agent or member of key management personnel of the group and ‘de facto’ directors.

We did not identify any significant matters in connection with related parties

Laws and regulations

The most significant consideration(s) for your business Charities Acts, VAT legislation, Employment Taxes, Health and Safety and the Bribery Act 2010. We made enquiries of management and reviewed correspondence with the relevant authorities.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

OVERVIEW: AUDIT DIFFERENCES AND DISCLOSURES

Summary for the current year

Unadjusted audit differences:

We are required to bring to your attention unadjusted differences and we request that you correct them.

There were unadjusted audit differences identified by our audit work in conjunction with The City of London Almshouses. These would increase the net income for the year by £858 and increase net assets £858. Management consider the differences to be immaterial in the context of the financial statements as a whole. We request that the reason for not correcting is included in the letter of representation.

Details of the unadjusted audit differences can be found on page 14.

There were no further unadjusted audit differences identified for any of the other Sundry Trust by our audit work.

Unadjusted financial reporting matters

We are required to bring to your attention financial reporting disclosure omissions and improvements that the Committee is required to consider.

There were no unadjusted reporting matters identified at this stage, we are currently finalising the accounts for the Sundry Trusts.

Adjusted audit differences

There were no adjusted audit difference identified throughout the audit.

Adjusted financial reporting matters

We have reviewed the accounts and made comments regarding immaterial items. One adjustment that we have noted and which is being corrected in the accounts is the narrative on the Statement of Financial Activity which should include ‘Net income or expenditure’ as appropriate as well as ‘Net movement in funds’.

There were no other adjusted financial reporting matters identified during our review at this stage, we are currently finalising the accounts for the Sundry Trusts.

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UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year – City of London Almshouses

		Income and expenditure		Balance sheet	
Unadjusted audit differences	£	Dr £	Cr £	Dr £	Cr £
Net income for the year before adjustments	234,025				
Adjustment 1: Income relating to 2022 recognised in the current year					
DR Income	(2,631)	2,631			
CR Deferred income					2,631
Adjustment 2: Release of deferred income in relation to Sir Thomas Gresham not recognised in the current year					
DR Deferred income				3,489	
CR Income	3,489		3,489		
Total unadjusted audit differences		2,631	3,489	3,489	2,631
Surplus/(deficit)for the year if adjustments accounted for	234,883				

ADDITIONAL MATTERS

Contents

	Issue	Comments
1	Significant difficulties encountered during the audit.	No exceptions to note
2	Significant matters that arose during the audit that were discussed or were subject to correspondence with management	No exceptions to note
3	Serious incident reporting	None
4	Written representations which we seek.	We enclose a copy of our draft representation letter
5	Any fraud or suspected fraud issues.	No exceptions to note
6	Any suspected non-compliance with laws or regulations	No exceptions to note
7	Any misstatements in opening balances that exist in the current period financial statements	No exceptions to note
8	Significant matters in connection with related parties.	No exceptions to note
9	Any other significant matters arising relevant to the oversight of the financial reporting process	No exceptions to note

CONTROL ENVIRONMENT: SIGNIFICANT DEFICIENCIES

Contents

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] Committee.

As the purpose of the audit is for us to express an opinion on the Group's financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

Area	Observation and implication	Recommendation	Management response
Payroll Contract	During our sample testing of the City of London payroll, we have noted 6 out of 40 contracts have not been signed by the employees.	Signed contract ensures both parties (employer and employee) are in agreement to the terms and conditions of the employment and will serves to reduce the chance that one party will have grounds for legal action in future.	TBC
Fixed asset register for The City of London Almshouses	During our audit work it was noted that there was no fixed asset register splitting the details on the nominal ledger into the individual properties held. The implication is that the costs are not readily available should there be any future transactions in property.	The costs should be allocated between the relevant properties and updated as necessary on an annual basis.	TBC

AUDIT REPORT OVERVIEW

Contents

Opinion on financial statements

We anticipate issuing an unmodified opinion on the financial statements.

There are no matters that we wish to draw attention to by way of 'emphasis of matter'.

Going concern

Our report will:

- state our conclusion that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate
- state that we have not identified a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Sundry Trust's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Irregularities, including fraud

Our report will contain an explain to what extent the audit was considered capable of detecting irregularities, including fraud. Irregularities in this context means non-compliance with laws or regulations.

Comments on the Trustees report and statutory other information

We have identified no material misstatements in the statutory other information accompanying the financial statements.

Other information

We have reviewed the other information accompanying the financial statements in the individual annual reports. We have not identified any material misstatements that would need to be referred to in our report.

INDEPENDENCE

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Under ISAs (UK) and the FRC's Ethical Standard we are required, as auditors, to confirm our 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 partners 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 2021.

Details of services, other than audit, provided by us to the Sundry Trusts during the period and up to the date of this report were provided in our planning report. We understand that the provision of these services was approved by the Audit and Risk Management Committee in advance in accordance with City of London'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 planning report.

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, trustees, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Group.

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

OUTSTANDING MATTERS

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We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2021.

The following matters are outstanding at the date of this report and could impact our audit opinion. We will update you on their current status at the Board meeting at which this report is considered:

- Final review of financial statements for all entities
- Subsequent events review to date of signing the financial statements
- Receipt of signed letter of representation for all entities

APPENDICES CONTENTS

TRUSTEES’ RESPONSIBILITIES

The Board’s Responsibilities and Reporting

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The Trustees are responsible for preparing and filing an Annual Report and financial statements which show a true and fair view, comply with the Charities SORP, prepared in accordance with UK GAAP.

Our audit of the financial statements does not relieve Management nor those charged with governance of their responsibilities for the preparation of the financial statements.

Further information regarding these responsibilities is provided in the engagement letter.

Trustee responsibilities	What this means
• Maintain adequate accounting records and maintain an appropriate system of internal control. • Prepare the annual report and the financial statements which give a true and fair view and which are prepared in accordance with UK Generally Accepted Accounting Practice and Charities Act 2011. • Safeguard the assets of the Sundry Trusts and take reasonable steps for the prevention and detection of fraud and other irregularities.	Further information regarding these responsibilities is provided in the engagement. We are happy to explain these in more detail to you.
To make available to us, as and when required, all the Sundry Trusts’ accounting records and related financial information. To provide us with Board papers on key issues including but not limited to: • Review of business risks • Going concern assessments • Impairment reviews • Any key judgments and estimates.	
Having made enquiries state in the Trustees’ reports that: • So far as they are aware, there is no relevant audit information of which the auditors are unaware • They have taken all reasonable steps they ought to have taken as Trustees in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.	In addition to answering our queries, this requires proactive behaviour in order to make us aware of any relevant information. Relevant information is very broad and includes any information needed in connection with our report.

OUR RESPONSIBILITIES

Responsibilities and reporting

Contents

Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your financial statements. We report our opinion on the financial statements to the members.

We report only those matters which come 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.

We are also required to report on the consistency of the Trustees reports with the Financial Statements and our knowledge of the Sundry Trusts and their environment obtained in the course of the audit and whether they have been prepared in accordance with the requirements of the Charities SORP.

What we don't report

Our audit is not designed to identify all matters that may be relevant to the board and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

COMMUNICATION WITH YOU

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Those Charged with Governance (TCWG)

References in this report to Those Charged With Governance are to the Trustee/Trustees Board of the individual boards for each Sundry Trust as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit and Risk Management Committee.

Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

MATERIALITY: ALL ENTITIES

The basis for setting materiality for the sundry trusts, is expenditure for all Trusts whose deficits are funded by City of London Corporation and gross assets for all other Trusts/entities.

A lower specific materiality has been set for those entities whose items of income and expenditure are significantly lower than the asset base.

The Audit and Risk Committee approved a de-minimis reporting level of £1,000 at the planning stage however our audit procedures have considered any items at the lower levels of clearly trivial (as set out below) both individually and in aggregate.

	2019/20			
	Materiality	CT	Specific materiality	Specific CT
	£	£	£	£
Charities Administered ICW the City of London Freemen's School Promotion of education through prizes	4,000	90	-	-
City Educational Trust Fund Advancement of education through grants	80,000	2,000	100	2
City of London Almshouses Almshouses for poor or aged people	67,000	1,000	14,000	300
City of London Corporation Combined Education Charity Advancing education by the provision of grants and financial assistance	24,000	500	-	-
City of London Corporation Relief of Poverty Charity Relief of poverty for widows, widowers or children of a Freemen of the City of London	11,000	200	-	-
City of London Freemen's School Bursary Fund Promotion of education through bursaries	30,000	600	-	-
City of London School Bursary Fund Promotion of education through bursaries, scholarships and prizes	80,000	2,000	-	-
City of London School for Girls Bursary Fund Promotion of education through bursaries, scholarships and prizes	96,000	2,000	43,000	1,000
Corporation of London Charities Pool Investments pool for Sundry Trusts	438,000	9,000	64,000	1,000

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MATERIALITY: ALL ENTITIES

	2019/20			
	Materiality	CT	Specific materiality	Specific CT
	£	£	£	£
Emmanuel Hospital Payment of pensions and financial assistance to poor persons	65,000	1,000	-	-
Guildhall Library Centenary Fund Provision of education and training in library, archives, museum, and gallery services	400	8	-	-
King George's Field Open space for sports, games and recreation	400	8	-	-
Samuel Wilson's Loan Trust Granting of low interest loans to young people who have or are about to set up in business	55,000	1,000	5,000	100
Sir William Coxen Trust Fund Granting of assistance to eligible charitable trusts in the form of donations	55,000	1,000	-	-
Vickers Dunfee Memorial Benevolent Fund Financial assistance to distressed past and present members of the City of London Special Constabulary and their dependents	5,000	100	-	-

AUDIT QUALITY

Contents

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 a necessary actions to address their findings.

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

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

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

LOOKING FORWARDS

Please note that we have issued a separate comprehensive publication : CHARITIES & COVID-19. This is available on our website https://www.bdo.co.uk/en-gb/home.

The following developments are therefore of general application to all larger charities, and are included because we recognise that trustees often have an interested in the wider sector.

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FINANCIAL REPORTING AND GOVERNANCE

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Financial Reporting Council
The FRC has requested companies to provide more information about how boards have assessed the entity’s going concern position, especially where there is any uncertainty over the financial future. Significant judgements should also be explained. At the same time they identified opportunities for companies to reduce duplication of material in the accounts and annual report. Although this is addressed to commercial entities, the same principles apply to charities. The FRC say that investors (supporters?) seek information relating to risks, uncertainties and opportunities that contributes to their understanding of a company’s business model, longer term strategy, resilience and viability. The annual report should therefore cover context, form (how risks are identified and classified), approach, linkage to wider strategy, response, and scenarios and stress testing. The FRC has also issued guidance for the 2021 year end reporting season. In particular they highlight the climate change disclosures required by premium listed companies that charities may wish to consider. The FRC expects material climate change policies, risks and uncertainties to be included in narrative reporting and appropriately considered and reflected in the financial statements.
Alternative Performance Measures
The FRC has conducted a review of the use by companies of Alternative Performance Measures (APM). These are measures that are usually derived from the financial statements and used to explain performance in a way the board feels is more relevant to the company’s needs or situation. The report is not aimed at charities, but it is not uncommon for charities to include performance measures in their annual report which are not simply drawn from the Sorp based accounts. In that situation the FRC say that while companies generally provided good quality APM disclosures, their context needs to be better explained, particularly as profit-based APMs tended to be more favourable than their GAAP results. Companies should clearly define their APMs and explain why they are needed, but not give them greater focus than their GAAP equivalents.
Provisions, Contingent Liabilities and Contingent Assets
The FRC has also reviewed companies’ treatment of Provisions, Contingent Liabilities and Contingent Assets. The review found scope for improvements in several areas, in particular in: explaining how the amounts of expected outflows have been estimated, identifying the key assumptions applied and describing the associated uncertainties; disclosing the phasing of outflows companies expect to see as they utilise their provisions; and describing the underlying costs for which companies make provisions.
Revised Audit standard on fraud
The FRC has issued a revised standard (ISA 240) for the auditor's responsibilities relating to fraud, effective for December 2022 year ends. The revisions clarify the auditor's obligations, and enhance the requirements for the identification and assessment of risk of material misstatement due to fraud and the procedures to respond to those risks.

FINANCIAL REPORTING AND GOVERNANCE

Amendments to FRS 102: COVID -19 related rent concessions
A further revision to FRS102 affects temporary rent concessions occurring as a direct consequence of the COVID-19 pandemic and within a limited timeframe. This now applies to rent concessions that reduce lease payments originally due on or before 30 June 2022. The change requires entities to recognise such changes on a systematic basis over the periods that the change in lease payments is intended to compensate.
Corporate Board Diversity
The FRC has published research (Board Diversity and Effectiveness in FT350 Companies) showing that diverse boards are beneficial in terms of boardroom culture and performance. To maximise these benefits boards should recognise that change takes time and that diversity without active inclusion is unlikely to encourage new talent to the board. The main findings of the research concluded that: • It is the responsibility of the Chair of a board to drive inclusion. • Organisations must focus on collecting more data on the types of diversity, board dynamics and social inclusion • the Nomination Committee, or equivalent, should itself be diverse and access talent from wide and diverse pools.
Workforce engagement
The UK Corporate Governance Code asks companies to report on their engagement with the workforce. The Financial Reporting Council (FRC) has published research on recent annual reports concluding that an effective feedback loop between boards and the workforce is needed to achieve meaningful dialogue, those who act as an interface between the board and the workforce, should receive appropriate support, and energies should be focussed principally on the substance of the engagement, not the process.

TAX

Gift aid on loan waivers
Gift aid can now be claimed on waivers of loans or refunds, as well as on donations. In order for gift aid to be claimed there must be an auditable correspondence trail, or a formal waiver in the case of larger amounts. HMRC say that charities are expected in all cases to explain the options available to donors and that individuals “must positively choose to waive their right”.
HMRC Concessions for Retail Gift Aid
As a result of disruption caused by the pandemic, charities have not been able to meet all the HMRC’s requirements for the Retail Gift Aid scheme. As a result HMRC has provided limited concessions relating to end of year letters, returned mail, oral declarations, staff and volunteer training, and the scheduling of internal audit visits.
Budget 2021
The recent budget had little to offer charities. However trustees may wish to note the introduction of a new temporary business rates relief scheme for 2022-23, which may be of use to some charities. In addition there is an extension of the Museums and Galleries Exhibition Tax Relief (MGETR) for a further two years until 31 March 2024.
Tax increases
From 1 April 2022, there will be a temporary 1.25% increase in class 1 (employee) and class 4 (self-employed) national insurance contributions (NIC) paid by workers, as well as a 1.25% increase in class 1 secondary NIC paid by employers (to 2.5% in total). The 1.25% increase will also apply to class 1A and class 1B NIC paid by employers. The projected £12bn annual income is to be ringfenced to pay for health and social care. From the same date, dividend tax rates will increase by 1.25%, taking rates to: 8.75% for basic rate taxpayers, 33.75% for higher rate taxpayers and 39.35% for additional rate taxpayers Charities will need to budget for the impact of these changes on their personnel costs, and consider any possible impact on donor income and tax to cover.

TAX

VAT partial exemption
HMRC Brief 4 was issued on 23 March 2021, relating to partially exempt VAT registered businesses affected by coronavirus (COVID-19). It outlines an accelerated process for VAT registered businesses to request temporary alterations to their partial exemption methods (including combined methods) to reflect changes to their business practices because of the coronavirus (COVID-19) pandemic.
VAT apportionment and outside the scope income
In a number of recent cases HMRC has argued that receipt of outside scope grants to support a business causes the input tax on all the business costs to be apportionable pro rata to the taxable income and outside scope income received. Charities often receive grants and donations that they use to support charitable trading activities. This currently seems open to attack by HMRC, although with no success reported to date.
VAT liability of coronavirus (COVID-19) testing services
An HMRC brief explains the rules for the VAT treatment of coronavirus (COVID-19) testing services. This is relevant to any organisation that provides or receives such services. Where the service of Covid -19 testing is treated as medical care the service would normally be exempt, and the same applies to the supply of test kits. However, this position is dependant on a number of detailed factors, and charities should consider their own situation carefully to ensure the Vat treatment applied is correct.

CHARITY FINANCIAL AND REGULATORY

Sorp example accounts
The Sorp example accounts available on the Sorp microsite, now include two examples dealing with the implications of the pandemic. Issues addressed include: closure of services, accounting for furlough, deteriorating trade, contingent grant funding support, donations of cancelled tickets, a public appeal, changes in expenditure to reflect working from home, and revised annual report wording.
Whistleblowing
The Charity Commission has issued its latest report on whistleblowing reports received in its role as a prescribed person. Over 20219disclsoures increased by 75%, mainly from employees but increasingly from trustees. The main issues raised related to governance, safeguarding and financial management
Charities Bill 2021
The Charities Bill 2021 includes several changes that will affect any charity. Many of the proposals are technical, and relate to the Charity Commission's functions, or will be of specific interest to a limited class of charities. However the more wide ranging recommendations for charities, include: • allowing trustees to be paid for goods, as well as services, in certain situations • simplifying the process on ex gratia payments • giving charities more flexibility to obtain tailored advice when they sell land, and removing unnecessary administrative burdens • increased flexibility to use permanent endowment, with checks in place to ensure its protection in the long term • removing legal barriers to charities merging, when a merger is in their best interests • giving trustees advance assurance that litigation costs in the Charity Tribunal can be paid from the charity's funds A more detailed analysis can be found here: https://www.bdo.co.uk/en-gb/insights/industries/not-for-profit/charities-bill-briefing-proposed-changes
Impact of Covid-19 on charities
The Charity Commission reported in October on the impact of Covid-19 on charities. Amongst their findings they note that there is a mixed view on charities' future viability. A significant minority (34%) expect to generate less revenue from fundraising and donations in 2022; over half (62%) anticipate a threat to their charity's financial viability in the next 12 months; however, a majority expect their charity to be in the same or better position overall.
Public Trust in Charities
The Charity Commission has released independent research, also referenced by the OSCR, showing that trust in charities is gradually recovering, to a 6-year high. The research shows that charities are among the most trusted groups in society, third only after doctors and the police. The findings also indicate that a decade-long decline in people's perception of charities' importance in society has partially reversed - 60% of those asked say charities play an important or very important role, compared to 55% last year. This modest uptick may be linked in part to the COVID-19 pandemic, and charities' visible role in responding to the national crisis. Meanwhile, very high-profile scandals in household name charities appear to be retreating in the collective memory. The findings confirm that the key drivers of trust in charities have not changed during the pandemic, and that people expect charities to show that they make a positive difference, spend a high proportion of funds on the end cause, and live their values, showing charity not just in what they do, but how they behave along the way

CHARITY FINANCIAL AND REGULATORY

Charity Commission blog
In a blog from the Charity Commission the following typical issues were identified for charities coming out of the pandemic: anticipated challenges with long-term funding, how hard it has been to plan long term, due to uncertainty over restrictions, difficulties with recruitment, the time it will take to be able to return to ways of operating from before the pandemic, and challenges in returning to pre-pandemic levels of engagement when working with vulnerable people. Charities often have more in common with other organisations than they expect, and may benefit from sharing how they have responded to these issues
CCNI and COVID 19 reporting
The Charity Commission of Northern Ireland has issued a checklist covering COVId-19 disclosures. A key message in the Trustees Annual Report will be the impact of the coronavirus on the charity and how the charity will need to adopt and change its plans going forward. Charities registered in Northern Ireland should consult this guidance in respect of the their annual report and accounts.
Remuneration practices
There continues to be interest in the levels of pay for higher paid staff in charities, both from the media and the regulators. The FRC has commented on reporting remuneration practices in the FTSE 350, and some of its comments could equally apply to charities. The FRC comment on the trend to disclose more information on remuneration, that most companies link rewards to long term performance, but that there is still a lack of detail on the principles relating to remuneration setting. Rob Wilson, sometime minister for civil society, has called for salary disclosure to be compulsory on charities' websites and annual reports if they have an annual income of over £500,000.
Government funding
The Public Accounts committee has published its report into how DCMS distributed coronavirus support funds to charities. It has noted that there was insufficient attention given to charities' impact and benefit to taxpayers, and an implication that subjective decisions were taken. One can expect that any future funding will be allocated more transparently, based on measurable outcomes.
Fundraising
The Fundraising Regulator reports that online fundraising is now the most complained about technique, which probably reflects changes in activity during the pandemic. However, complaint levels are generally low, at less than one in 1.9m contacts. Charity bags and mail were the next biggest sources of complaint. Trustees are reminded that information relating to fundraising standards is required in the annual report of all charities subject to audit.

FOR MORE INFORMATION:

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