



Report to the Audit and Risk Management Committee

CITY OF LONDON PENSION FUND

Audit Completion Report: Year ended 31 March 2019

IDEAS | PEOPLE | TRUST

BDO

CONTENTS

1	Introduction	3	6	Audit report	20
	Welcome	3		Overview	20
2	Executive summary	4	7	Independence and fees	21
	Overview	4		Independence	21
	The numbers	5		Fees	22
	Other matters	6	8	Appendices contents	23
3	Financial statements	7			
	Audit risks overview	7			
	Management override of controls	8			
	Pension liability valuation	9			
	Valuation of investment assets	12			
	Related party transaction disclosure	13			
	Pensions Contributions	14			
	Pensions benefits	15			
	Other matters	16			
	Matters requiring additional consideration	17			
4	Other reporting matters	18			
	Reporting on other information	18			
5	Control environment	19			
	Significant deficiencies	19			

WELCOME

Introduction

Contents

Introduction

Welcome

Executive summary

Financial statements

Other reporting matters

Control environment

Audit report

Independence and fees

Appendices 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 2019, 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 our audit of the financial statements comprising: 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 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 Corporation as a whole. We expect that the Audit and Risk Management Committee will refer such matters to the Corporation, together with any recommendations, as it considers appropriate.

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.

Leigh Lloyd-Thomas

11 July 2019



Leigh Lloyd-Thomas
Engagement lead

t: 020 7893 2616
e: leigh.lloyd-thomas@bdo.co.uk



Michael Asare Bediako
Audit Manager

t: 020 7893 3643
e: michael.asarebediako@bdo.co.uk

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. 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
Introduction
Executive summary
Overview
The numbers
Other matters
Financial statements
Other reporting matters
Control environment
Audit report
Independence and fees
Appendices 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 of the Pension Fund for the year ended 31 March 2019.

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 our opinion on the financial statements for the year ended 31 March 2019 in line with the agreed timetable.

Outstanding matters are listed 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 financial statements.

THE NUMBERS

Executive summary

- Contents
- Introduction
- Executive summary
- Overview
- The numbers
- Other matters
- Financial statements
- Other reporting matters
- Control environment
- Audit report
- Independence and fees
- Appendices contents

Final materiality

Final financial statements 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 have increased our materiality from the planning materiality of £9.8 million to £10.6 million as a result of increase in valuation of investment asset at year end.

There were no changes to final specific materiality from that reported in our audit plan.

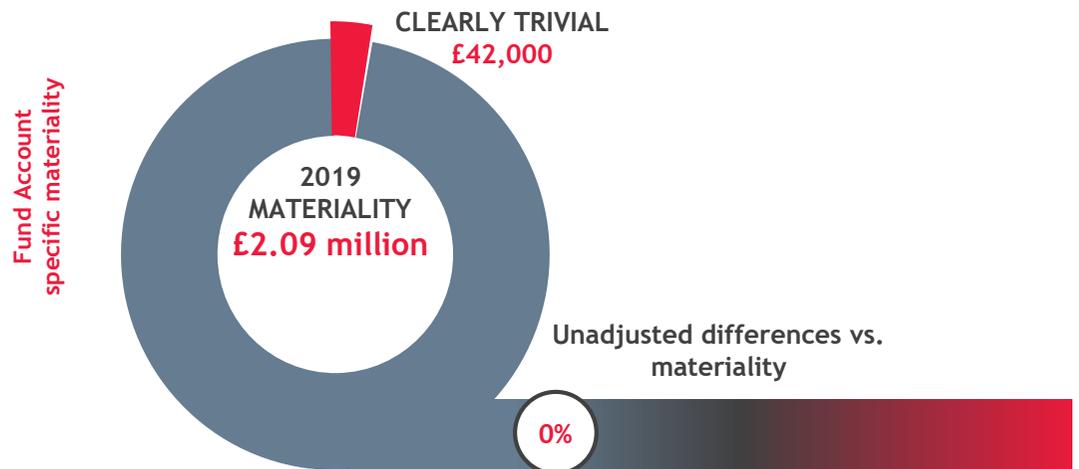
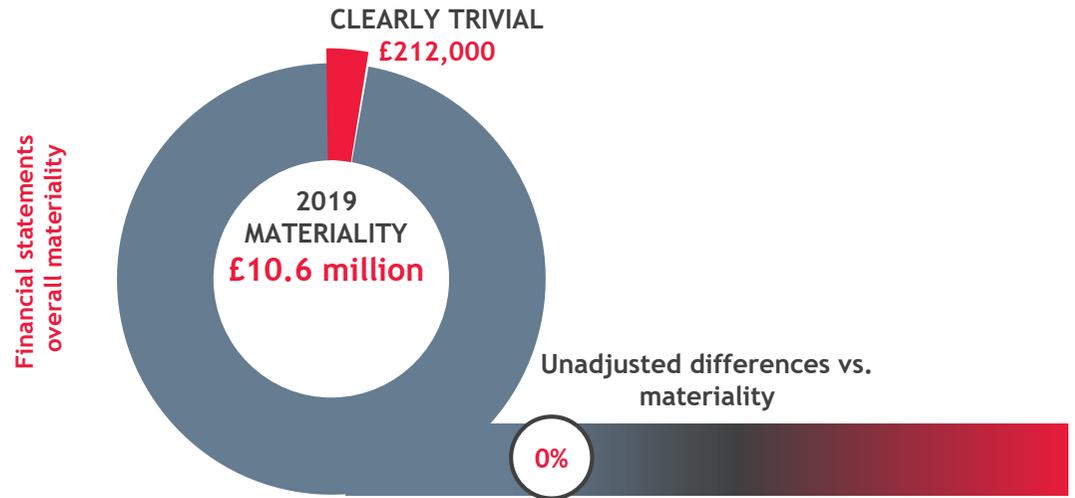
Material misstatements

We identified one material misstatement in the disclosure for the actuarial value of promised future benefits that was understated by £12.9 million in respect of liability arising from the McCloud age discrimination judgment.

No adjustments were required to the Fund Account or Net Asset Statement.

Unadjusted audit differences

We did not identify any audit differences.



OTHER MATTERS

Executive summary

Contents

Introduction

Executive summary

Overview

The numbers

Other matters

Financial statements

Other reporting matters

Control environment

Audit report

Independence and fees

Appendices contents

Financial reporting

- We have not identified any non-compliance with accounting policies or the applicable accounting framework.
- No significant accounting policy changes have been identified impacting the current year.
- Going concern disclosures are deemed sufficient.
- The pension fund annual report is consistent with the financial statements and our knowledge acquired in the course of the audit.

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 Pension Fund in accordance with the Financial Reporting Corporation's Ethical Standard.



AUDIT RISKS OVERVIEW

As identified in our Audit Plan dated 28 February 2019 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 direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant Management Estimates or Judgement	Use of Experts Required	Error Identified	Significant Control Findings	Discussion points / Letter of Representation
Management override of controls	Significant	No	No	No	No	No
Pension liability valuation	Significant	Yes	Yes	Yes, adjusted	No	Impact of McCloud liability on actuarial value of future promised benefits
Valuation of investment assets	Normal	No	Yes	No	No	No
Related party transactions disclosure	Normal	No	No	No	No	No
Pension contribution	Normal	No	No	No	No	No
Pension benefits payable	Normal	No	No	No	No	No

 Areas requiring your attention

^[1] Amendment arises as a result of the Government being refused leave to appeal and therefore this issue needs to be considered by an Employment Tribunal. This confirms the constructive obligation arising from the decision of the High Court in January 2019.

- Contents
- Introduction
- Executive summary
- Financial statements
- Audit risks overview
- Management override of controls
- Pension liability valuation
- Pension liability valuation 1
- Pension liability valuation 2
- Valuation of investment assets
- Related party transaction disclosure
- Pensions Contributions
- Pensions benefits
- Other matters
- Matters requiring additional consideration
- Other reporting matters
- Control environment
- Audit report
- Independence and fees
- Appendices contents

MANAGEMENT OVERRIDE OF CONTROLS

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

Risk description

The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.

Under auditing standards there is a presumed significant risk of management override of the system of internal controls.

Work performed

We carried out the following planned audit procedures:

- Reviewed and verified large and unusual journal entries made in the year and agreeing the journals to supporting documentation; and
- Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias.

Results

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

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 to date which we consider to be indicative of fraud in relation to management override of controls.

Significant risk
Normal risk
Significant management judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant Control Findings
Letter of Representation point

Contents
Introduction
Executive summary
Financial statements
Audit risks overview
Management override of controls
Pension liability valuation
Pension liability valuation 1
Pension liability valuation 2
Valuation of investment assets
Related party transaction disclosure
Pensions Contributions
Pensions benefits
Other matters
Matters requiring additional consideration
Other reporting matters
Control environment
Audit report
Independence and fees
Appendices contents

PENSION LIABILITY VALUATION

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

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Contents
Introduction
Executive summary
Financial statements
Audit risks overview
Management override of controls
Pension liability valuation
Pension liability valuation 1
Pension liability valuation 2
Valuation of investment assets
Related party transaction disclosure
Pensions Contributions
Pensions benefits
Other matters
Matters requiring additional consideration
Other reporting matters
Control environment
Audit report
Independence and fees
Appendices contents

Risk description

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

An actuarial estimate of the liability is calculated by an independent firm of actuaries. The estimate is based on the roll forward of membership data from the 2016 triennial valuation exercise, updated at 31 March 2019 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.

Work performed

We carried out the following planned audit procedures:

- Assessed the qualifications and competence of the actuary;
- Reviewed the controls for providing accurate membership data to the actuary;
- Checked whether any significant changes in membership data have been communicated to the actuary;
- Agreed the disclosures to the information provided by the actuary; and
- Reviewed the reasonableness of the assumptions used in the calculation against other actuaries and other observable data.

Results

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

Our review of the controls to ensure data provided to the actuary for the roll forward valuation at 31 March 2019 is complete and accurate did not identify any issues. We have identified differences in the cash flow information sent to the actuary as at month 10 plus two months estimates to the actual final figures for the year. We did not consider these to be significant differences.

Management confirmed there has been no significant changes in the membership data.

Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations is noted in the following page.

PENSION LIABILITY VALUATION 1

Significant estimate - LGPS pension liabilities

Whole scheme pension liabilities (£1,721 million)

< lower valuation

> Higher valuation

The pension liability has increased from £1,627 million to £1,721 million. The increased liability includes £80 million arising from changes to financial assumptions including annual salaries increases of 3.9% (previously 3.8%), annual pension increases of 2.4% (previously 2.3%), and a change in the rate of discounting scheme liabilities to 2.4% (previously 2.55%). It also includes a gain on demographic assumptions of £45 million arising from reduced mortality assumptions of approximately 0.6 years as increases in life expectancy have stalled in recent years.

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

	Actual used	Acceptable range	Comments
Financials:			
- RPI increase	3.4%	3.40 - 3.45%	Reasonable
- CPI increase	2.4%	2.40 - 2.45%	Reasonable
- Salary increase	3.9%	3.10 - 4.35%	Reasonable (CPI +0% to 2020 and then CPI +1.5%)
- Pension increase	2.4%	2.40 - 2.45%	Reasonable
- Discount rate	2.4%	2.35- 2.45%	Reasonable
Commutation:	50%	50%	Reasonable
Mortality:			
- Male current	24.5 years	22.4 - 25.0	Reasonable
- Female current	26.1 years	25.0 - 26.6	Reasonable
- Male retired	23.2 years	20.6 - 23.4	Reasonable
- Female retired	24.6 years	23.2 - 24.8	Reasonable
Mortality gains	CMI 2018 (+1.5% improvement rate)		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.

We note that the consulting actuary has stated that the assumptions used by Barnett Waddingham do tend to produce slightly lower LGPS liabilities calculations than the other actuaries, and the relative strength of assumptions compared to the average used by others could result in a liability being at 98.2% based on average of the assumptions used by all actuaries.

Contents
Introduction
Executive summary
Financial statements
Audit risks overview
Management override of controls
Pension liability valuation
Pension liability valuation 1
Pension liability valuation 2
Valuation of investment assets
Related party transaction disclosure
Pensions Contributions
Pensions benefits
Other matters
Matters requiring additional consideration
Other reporting matters
Control environment
Audit report
Independence and fees
Appendices contents

PENSION LIABILITY VALUATION 2

Significant estimate - McCloud impact

McCloud age discrimination

Following the ruling on age discrimination in the McCloud case, where members approaching retirement age received protected benefits moving to the career average relevant earnings scheme from the final salary scheme but employees more than 10 years from retirement did not receive this underpin of benefits, Government will have to remedy the discrimination in the LGPS and police pension schemes.

For the LGPS, the Government Actuary Department has undertaken an LGPS-wide impact assessment and a worse case scenario suggests that the liability could increase by up to 3.2% for active members where the remedy would be for all staff to receive the underpin, and using a model with an average member age of 46 and salaries increasing at +1.5% above CPI.

Management has obtained an updated whole fund valuation of the liability to take account of the impact of this ruling. This suggests that the pension liability could increase by £12.9 million (0.7% of total liabilities).

We are still in the process of reviewing the actuary's assumptions and calculation of the best estimate of potential additional costs and scheme liabilities arising from the McCloud judgement.

We will provide an update to the Committee upon completion of this work.

Contents
Introduction
Executive summary
Financial statements
Audit risks overview
Management override of controls
Pension liability valuation
Pension liability valuation 1
Pension liability valuation 2
Valuation of investment assets
Related party transaction disclosure
Pensions Contributions
Pensions benefits
Other matters
Matters requiring additional consideration
Other reporting matters
Control environment
Audit report
Independence and fees
Appendices contents

VALUATION OF INVESTMENT ASSETS

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

Risk description

The investment portfolio across the funds includes unquoted infrastructure, private equity holdings and pooled investment vehicles (held through unit trust). 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 Corporation's year end and need to be updated to reflect cash transactions (additional contributions or distributions received) up to 31 March. There is a risk that 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.

Work performed

We carried out the following planned audit procedures:

- For unquoted infrastructure and private equity investments, we obtained direct confirmation of investment valuations from the General Partner or fund manager and requested copies, where applicable, of the audited financial statements of the underlying partnerships (and member allocations). We have confirmed that appropriate adjustments have been made to the valuations in respect of additional contributions and distributions with the funds;
- For pooled investments, we obtained direct confirmation of investment valuations from the fund managers and agreed independent valuations, where available, provided by the custodian; 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 agreed all valuations to fund manager reports. However, we noted that the valuation of the Carnegie fund manager differed to that provided by the custodian valuation due to differences in exchange rate used. The Carnegie valuation had applied a £:\$ exchange rate of 1.299 whereas the custodian had used 1.303 resulting in the custodian reporting a lower valuation by £323,000. The pension fund has used the valuation provided by the custodian. We confirmed the quoted value of the Carnegie funds at year-end on Bloomberg with only a trivial difference between the quoted market value and custodian's valuation.

We have obtained direct confirmation of investment valuations from the fund managers and agreed published fund manager valuations, where available, to readily available observable data such as Bloomberg.

Contents
Introduction
Executive summary
Financial statements
Audit risks overview
Management override of controls
Pension liability valuation
Pension liability valuation 1
Pension liability valuation 2
Valuation of investment assets
Related party transaction disclosure
Pensions Contributions
Pensions benefits
Other matters
Matters requiring additional consideration
Other reporting matters
Control environment
Audit report
Independence and fees
Appendices contents

Significant risk
Normal risk
Significant management judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant Control Findings
Letter of Representation point

RELATED PARTY TRANSACTION DISCLOSURE

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

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, accurate or properly disclosed.

Work performed

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 review members' and management declarations to ensure that there are no potential related party transactions which have not been disclosed; and
- Undertook Companies House searches for potential undisclosed interests.

Results

Our testing has not identified any issues with the disclosure of related parties transactions.

Significant risk
Normal risk
Significant management judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant Control Findings
Letter of Representation point

Contents
Introduction
Executive summary
Financial statements
Audit risks overview
Management override of controls
Pension liability valuation
Pension liability valuation 1
Pension liability valuation 2
Valuation of investment assets
Related party transaction disclosure
Pensions Contributions
Pensions benefits
Other matters
Matters requiring additional consideration
Other reporting matters
Control environment
Audit report
Independence and fees
Appendices contents

PENSIONS CONTRIBUTIONS

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

Significant risk

Normal risk

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Significant Control Findings

Letter of Representation point

Risk description

Employers are required to deduct amounts from employee pay based on tiered pay rates and to make employer contributions to the pension fund in accordance with rates agreed with the actuary. Additional contributions are also required against pension strain for early retirements.

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

Work performed

We carried out the following planned audit procedures:

- Tested amount payable by employers / receivable by the pension fund for normal contributions including checking to employer payroll records;
- Confirmed that income is recognised in the correct accounting period where the employer is making payments in the following month;
- Tested pension strain contributions due from employers;
- Agreed total contributions payable by the Corporation (as employer) to the amounts received in the pension fund; and
- Reviewed 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.

We identified in the prior year that pension strain costs payable for unreduced pension benefits for early retirement of employees was accounted for on a cash basis. Management has confirmed that this is now accounted for on an accrual basis when the capital cost is due.

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

Contents
Introduction
Executive summary
Financial statements
Audit risks overview
Management override of controls
Pension liability valuation
Pension liability valuation 1
Pension liability valuation 2
Valuation of investment assets
Related party transaction disclosure
Pensions Contributions
Pensions benefits
Other matters
Matters requiring additional consideration
Other reporting matters
Control environment
Audit report
Independence and fees
Appendices contents

PENSIONS BENEFITS

There is a risk that pension benefits payable may not be correct or paid to non-existent member.

Risk description

There is a risk that pension benefits payable may not be correct based on accrued benefits of members or may not be in calculated in accordance with the scheme regulations.

Payment to wrong or non-existent members will result in loss of assets and risk of reputational damage.

Work performed

We carried out the following planned audit procedures:

- For members leaving the scheme and deferring their pension and members becoming entitled to receive pension during the year, we checked a sample of calculations of pension entitlement;
- Checked the correct application of annual pension uplift for members in receipt of benefits;
- Tested a sample of pensioners in receipt of pensions to underlying records to confirm the existence of the member and also review the results of the checks undertaken by ATMOS on the existence of pensioners;
- Reviewed the results of the latest National Fraud Initiative data matching exercise of members in receipt of benefits with the records of deceased persons and what actions have been taken to resolve potential matches; and
- Cross checked payments to movements in the membership statistics.

Results

We did not identify any issues regarding the accuracy and existence of pension benefits.

Our test did not identify any issues regarding the existence of pensioners.

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Contents
Introduction
Executive summary
Financial statements
Audit risks overview
Management override of controls
Pension liability valuation
Pension liability valuation 1
Pension liability valuation 2
Valuation of investment assets
Related party transaction disclosure
Pensions Contributions
Pensions benefits
Other matters
Matters requiring additional consideration
Other reporting matters
Control environment
Audit report
Independence and fees
Appendices contents

OTHER MATTERS

The following are additional significant and other matters arising during the audit which we want to bring to your attention.

Issue	Comment
Audit fees incorrectly disclosed in the accounts.	We noted that 2018/19 audit fees was incorrectly disclosed in the accounts. Management has agreed to amend this in the financial statements.
Presentation and missing disclosures in the accounts	Our review of the draft accounts identified a number of presentational and other missing disclosures. Management has agreed to amend the financial statements.

Contents
Introduction
Executive summary
Financial statements
Audit risks overview
Management override of controls
Pension liability valuation
Pension liability valuation 1
Pension liability valuation 2
Valuation of investment assets
Related party transaction disclosure
Pensions Contributions
Pensions benefits
Other matters
Matters requiring additional consideration
Other reporting matters
Control environment
Audit report
Independence and fees
Appendices contents

MATTERS REQUIRING ADDITIONAL CONSIDERATION

Contents

Introduction

Executive summary

Financial statements

Audit risks overview

Management override of controls

Pension liability valuation

Pension liability valuation 1

Pension liability valuation 2

Valuation of investment assets

Related party transaction disclosure

Pensions Contributions

Pensions benefits

Other matters

Matters requiring additional consideration

Other reporting matters

Control environment

Audit report

Independence and fees

Appendices 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 Plan on 12 March 2019.

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.

Internal audit

We reviewed the audit work of the Corporation's / internal audit function to assist our risk scoping at the planning stage.



REPORTING ON OTHER INFORMATION

- Contents
- Introduction
- Executive summary
- Financial statements
- Other reporting matters
- Reporting on other information
- Control environment
- Audit report
- Independence and fees
- Appendices contents

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 annual 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 the other information in the annual report is consistent with the financial statements and our knowledge.

SIGNIFICANT DEFICIENCIES

Contents
Introduction
Executive summary
Financial statements
Other reporting matters
Control environment
Significant deficiencies
Audit report
Independence and fees
Appendices 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 and Risk Management Committee.

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

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

We have not identified any significant deficiencies.

OVERVIEW

Contents
Introduction
Executive summary
Financial statements
Other reporting matters
Control environment
Audit report
Overview
Independence and fees
Appendices 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’.

Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting or the Pension Fund’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.

Other information

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

INDEPENDENCE

Contents
Introduction
Executive summary
Financial statements
Other reporting matters
Control environment
Audit report
Independence and fees
Independence
Fees
Appendices 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 2019.

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

We have not identified any 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 Pension Fund.

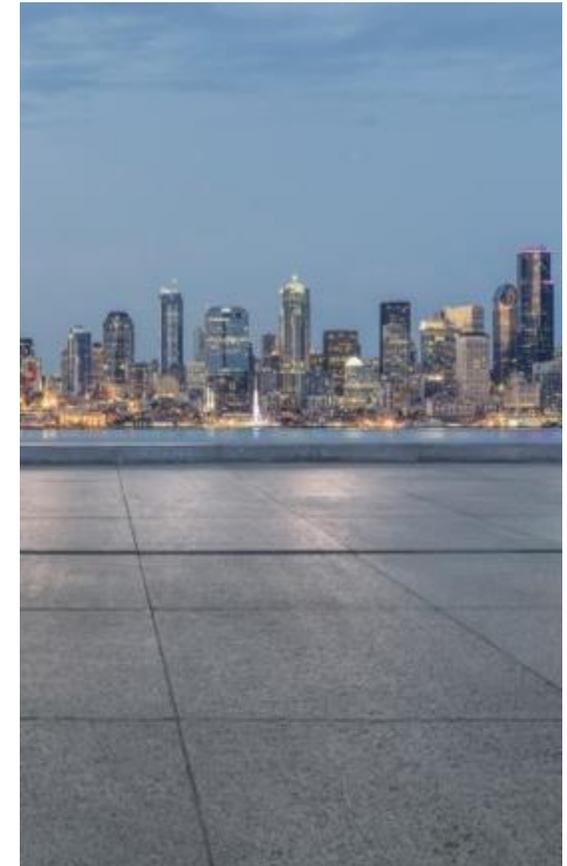
We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit comply with relevant ethical requirements including the FRC’s Ethical Standard and are independent of the Pension Fund.

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

FEES

Fees summary

	2018/19	2018/19	2017/18
	Actual	Planned	Actual
	£	£	£
Audit fee			
Code audit fee	15,000	15,000	21,000
Total fees	15,000	15,000	21,000



Contents
Introduction
Executive summary
Financial statements
Other reporting matters
Control environment
Audit report
Independence and fees
Independence
Fees
Appendices contents

APPENDICES CONTENTS

A	Our responsibilities	24
	Responsibilities and reporting	24
	Additional matters we are required to report	25
	Communication and reports issued	26
B	Outstanding matters	27
	Outstanding matters	27
C	Audit report	28
	Audit report	28
D	Audit quality	29
	Audit quality	29
E	Letter of representation	30
	Representation letter	30

RESPONSIBILITIES AND REPORTING

Responsibilities and reporting

Contents
Appendices contents
Our responsibilities
Additional matters we are required to report
Communication and reports issued
Outstanding matters
Audit report
Audit quality
Letter of representation
Letter of representation 2
Letter of representation 3

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.

We read and consider the ‘other information’ contained in the Statement of Accounts such as the Annual report. 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.

What we don’t report

Our audit is not designed to identify all matters that may be relevant to the Pensions 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

Contents

Appendices contents

Our responsibilities

Additional matters we are required to report

Communication and reports issued

Outstanding matters

Audit report

Audit quality

Letter of representation

Letter of representation 2

Letter of representation 3

	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 AND REPORTS ISSUED

Contents

Appendices contents

Our responsibilities

Additional matters we are required to report

Communication and reports issued

Outstanding matters

Audit report

Audit quality

Letter of representation

Letter of representation 2

Letter of representation 3

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	Date (to be) communicated	To whom
Audit Plan	23 February 2019	Audit and Risk Management Committee
Initial Audit Completion Report	11 July 2019	Audit and Risk Management Committee
Final Audit Completion Report	(31 July 2019)	Audit and Risk Management Committee

OUTSTANDING MATTERS

We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2019.

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:

1. Clearance of outstanding issues on the audit queries tracker currently with management. The key items on the tracker are:
 - Remaining journals sample
 - Unreconciled bank balance
 - Proof of receipt of strain cost income
2. Manager, Partner and Quality Control review, and clearance of review points
3. Final review and approval by you of the financial statements
4. Technical clearance
5. Subsequent events review
6. Management letter of representation to be approved and signed



Contents
Appendices contents
Our responsibilities
Additional matters we are required to report
Communication and reports issued
Outstanding matters
Audit report
Audit quality
Letter of representation
Letter of representation 2
Letter of representation 3

AUDIT REPORT

To follow

Contents
Appendices contents
Our responsibilities
Additional matters we are required to report
Communication and reports issued
Outstanding matters
Audit report
Audit quality
Letter of representation
Letter of representation 2
Letter of representation 3

AUDIT QUALITY

Contents
Appendices contents
Our responsibilities
Additional matters we are required to report
Communication and reports issued
Outstanding matters
Audit report
Audit quality
Letter of representation
Letter of representation 2
Letter of representation 3



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 Corporation'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

BDO LLP
55 Baker Street
London
W1U 7EU

Dear Sirs

Financial statements of City of London Pension Fund for the year ended 31 March 2019

We confirm that the following representations given to you in connection with your audit of the Pension Fund’s financial statements for the year ended 31 March 2019 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Corporation.

The Chamberlain has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Pension Fund as of 31 March 2019 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 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 Pension 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 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 xx 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 the Pension Fund’s business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

We have not made any reports to The Pensions Regulator nor are we aware of any such reports having been made by any of our advisers. We confirm that we are not aware of any matters which have arisen that would require a report to The Pensions Regulator. There have been no communications with the Pensions Regulator or other regulatory bodies during the year or subsequently covering areas of non-compliance with any legal duty.

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.

Contents
Appendices contents
Our responsibilities
Additional matters we are required to report
Communication and reports issued
Outstanding matters
Audit report
Audit quality
Letter of representation
Letter of representation 2
Letter of representation 3

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

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 applicable financial reporting framework.

There were no loans, transactions or arrangements between the Pension Fund and the members or their connected persons at any time in the year which were required to be disclosed.

The disclosures in the financial statements concerning 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.

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

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

- Rate of inflation (CPI): 2.4%
- Rate of increase in salaries: 3.9%
- Rate of increase in pensions: 2.4%
- Rate of discounting scheme liabilities: 2.4%
- 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 19 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.

Contents

Appendices contents

Our responsibilities

Additional matters we are required to report

Communication and reports issued

Outstanding matters

Audit report

Audit quality

Letter of representation

Letter of representation 2

Letter of representation 3

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 member and member has taken all the steps that they ought to have taken as a 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

Peter Kane
Chamberlain of London
[date]

Contents

Appendices contents

Our responsibilities

Additional matters we are required to report

Communication and reports issued

Outstanding matters

Audit report

Audit quality

Letter of representation

Letter of representation 2

Letter of representation 3



FOR MORE INFORMATION:

Leigh Lloyd-Thomas

t: 020 7893 2616

e: leigh.lloyd-thomas@bdo.co.uk

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

BDO is an award winning UK member firm of BDO International, the world's fifth largest accountancy network, with more than 1,500 offices in over 160 countries.

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

© 2019 BDO LLP. All rights reserved.

www.bdo.co.uk

