





# CONTENTS

| 1 | Introduction                    | 3  |
|---|---------------------------------|----|
|   | Welcome                         | 3  |
| 2 | Executive summary               | 4  |
|   | Scope                           | 4  |
|   | Materiality                     | 6  |
|   | Audit strategy                  | 9  |
|   | Audit risk overview             | 10 |
|   | Independence and fees           | 11 |
| 3 | Audit scope and objectives      | 12 |
|   | Overview                        | 12 |
|   | Team organisation               | 13 |
|   | BDO team                        | 14 |
| 4 | Audit risks                     | 17 |
|   | Overview                        | 17 |
|   | Management override of controls | 19 |

|   | Revenue (and expenditure) recognition      | 20 |
|---|--|----|
|   | PPE and investment property valuation      | 21 |
|   | Pension liability valuation                | 22 |
|   | NDR appeals provision                      | 23 |
|   | Investment valuations                      | 24 |
|   | Impairment allowance for receivables       | 25 |
|   | Related party transactions                 | 26 |
|   | Pension contributions                      | 27 |
|   | Pensions benefits payable                  | 28 |
|   | Decommissioning Provision                  | 29 |
|   | Going concern                              | 30 |
| 5 | Use of resources risks                     | 31 |
|   | Overview                                   | 31 |
|   | Police financial management                | 32 |
|   | Sustainable finances                       | 33 |
| 6 | Other matters                              | 34 |
|   | Other matters requiring further discussion | 34 |
|   | IT general controls                        | 35 |
| 7 | Independence                               | 36 |
|   | Independence                               | 36 |
| 8 | Appendices contents                        | 37 |

# **WELCOME**

**CONTENTS** 

Welcome

Executive summary

Audit scope and objectives

Audit risks

Use of resources risks

Other matters

Independence

Appendices contents

We have pleasure in presenting our Audit Planning Report to the Audit and Risk Management Committee of the City of London Corporation (the 'Corporation'). This report forms a key part of our communication strategy with you, a strategy which is designed to promote effective two way communication throughout the audit process with those charged with governance.

In communicating with the Corporation, we consider those charged with governance of the other entities within the scope of this report to be informed about matters relevant to their charity, company or fund. Please let us know if this is not appropriate.

It summarises the planned audit strategy for the year ending 31 March 2020 in respect of our audit of the financial statements of the City Fund, Pension Fund, Bridge House Estates, City's Cash, Guildhall School of Music and Drama, City's Cash Trusts, other Sundry Trusts and the Lord Mayor's Show; and our review of the arrangements in place for the use of resources of the City Fund. It comprises our proposed materiality levels, key audit risks and the planned approach to these, together with timetable and the BDO teams.

The planned audit strategy has been discussed with management to ensure that it incorporates developments in the business during the year under review, the results for the year to date and other required scope changes.

This report contains matters which should properly be considered by the Court of Common Council. We expect that the Audit and Risk Management Committee will refer such matters to the Court, together with any recommendations, as it considers appropriate.

We look forward to discussing this plan with you at the Audit and Risk Management Committee meeting on 31 March 2020 and to receiving your input on the scope and approach.

In the meantime if you would like to discuss any aspects in advance of the meeting please contact one of the team.

Leigh Lloyd-Thomas

LE May 8- Tenus

Sima Ludon

17 March 2020



Leigh Lloyd-Thomas
Engagement Partner (City Fund and Pension Fund)

t: 020 7983 2616

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



Fiona Condron
Engagement Partner (City's Cash, Bridge House
Estates and Sundry Trusts)

t: 01293 591 102

e: fiona.condron@bdo.co.uk



Kerry Barnes (City Fund) Senior Manager

t: 020 7893 3837

e: kerry.l.barnes@bdo.co.uk



Francesca Palmer (Pension Fund) Audit Manager

t: 01473 320 739

e: francesca.palmer@bdo.co.uk



Peter Lewis
Senior Audit Manager (City's Cash, Bridge House
Estates and Sundry Trusts)

t: 01293 848 969

e: peter.lewis@bdo.co.uk



James Hay Audit Manager (City's Cash, Bridge House Estates and Sundry Trusts)

t: 020 7893 2934

e: james.hay@bdo.co.uk

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.

# **SCOPE**

# **Executive summary**

**CONTENTS** 

Introduction

#### Executive summar

Scope

Scope 2

Materiality

Materiality 2

Materiality 3

Audit strategy

Audit risk overview

Independence and fees

Audit scope and objectives

Audit risks

Use of resources risks

Other matters

Independence

Appendices contents

This summary provides an overview of the significant audit matters that we believe are important to the Audit and Risk Management Committee in reviewing the planned audit strategy for the Corporation for the year ending 31 March 2020.

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

#### Audit scope

Our approach is designed to ensure we obtain the requisite level of assurance in accordance with applicable laws, appropriate standards and other guidance issued by the NAO and Charity Commission.

#### City Fund

The scope of the City Fund audit, in exercising the Corporation's functions as a local authority, is determined by the NAO's Code of Audit Practice that sets out what local auditors are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014.

This includes: auditing the financial statements included in the Statement of Accounts; reviewing the arrangements to secure value for money through the economic, efficient and effective use of its resources; and, where appropriate, exercising the auditor's wider reporting powers and duties.

#### **Pension Fund**

The scope of the pension fund audit, as the administering authority providing the local government pension scheme for the Corporation and other scheduled and admitted bodies, is also determined by the NAO's Code of Audit Practice and the Local Audit and Accountability Act 2014.

This includes: auditing the financial statements included in the Statement of Accounts, and reviewing the pension fund annual report to check the consistency of the pension fund financial statements within the annual report with the pension fund financial statements in the Statement of Accounts.

#### **Bridge House Estates**

Bridge House Estates is an unincorporated charity registered with the Charity Commission. The principal objective of Bridge House Estates is to maintain Tower Bridge, London Bridge, Southwark Bridge, Blackfriars Bridge and the Millennium Bridge. It may also use surplus funds to support other charitable activities across London.

The Corporation, as the Corporate Trustee, is responsible for preparing and filing an annual report and financial statements which show a true and fair view and are prepared in accordance with FRS 102 and the Charities SORP.

The Corporation has delegated responsibility in respect of management of this charity to various committees of the Common Council.

# SCOPE 2

# **Executive summary**

**CONTENTS** 

Introduction

Executive summary

Scope

Scope 2

Materiality 2

\_\_\_\_\_

Materiality 3

Audit strategy

Audit risk overview

Independence and fees

Audit scope and objectives

Audit risks

Use of resources risks

Other matters
Independence

Appendices contents

#### City's Cash and Sundry Trusts

City's Cash is a fund of the Corporation that can be traced back to the 15th Century and has built up from a combination of properties, land, bequests and transfers under statute since that time. Investments in properties, stocks and shares are managed to provide a total return that supports the provision of services that are of importance nationally and internationally as well as to the City and Greater London.

There is no legislation that governs the reporting requirements for City's Cash and the Corporation has elected to prepare the financial statements in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102).

The Sundry Trusts are unincorporated charities whose financial statements are prepared in accordance with FRS 102 and the Charities SORP.

#### Guildhall School of Music and Drama (GSM&D)

Guildhall School of Music & Drama is a designated Higher Education (HE) institution and as such is required to produce a set of financial accounts for the year ended 31 July. The School is part of the City of London Corporation (not a separate legal entity) and as such is not required to produce full statutory accounts. The Income and Expenditure Account is prepared following the general format of the Further and Higher Education SORP. An independent accountant's report is required to cover "regularity" (use of OfS funds) and compliance with the Terms and Conditions of Funding for HEIs.

# **MATERIALITY**

# **Executive summary**

#### **CONTENTS**

Introduction

#### Executive summary

Scope

Scope 2

Materiality

Materiality 2

Materiality 3

Audit strategy

----

Audit risk overview

Independence and fees

Audit scope and objectives

Audit risks

Use of resources risks

Appendices contents

Other matters

Independence

#### Materiality

As the main funds of the Corporation have custody of significant public assets through the ownership of property assets and managed investments that are used to generate income to support each fund, overall financial statements planning materiality has been determined by reference to a benchmark using Statement of Financial Position / Net Assets Statement for relevant assets.

We also consider that a misstatement at a lower level through income and expenditure would be material where this may impact on available resources to support each fund, or where significant transactions or classes of transaction would be important in understanding the financial performance. Therefore, we will apply a lower level of specific materiality to income and expenditure transactions in the performance statement / statement of financial activity for each of the main funds. Planning materiality has been based on balances and transactions disclosed in the prior year financial statements. Materiality will be revisited when the draft financial statements are received for audit.

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. Specific materiality is applied to those areas of the financial statements where a misstatement would normally affect net income before investment gains and losses.

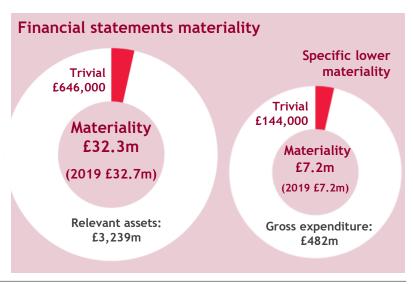
Although materiality is the judgement of the engagement lead, the Audit and Risk Management Committee is obliged to satisfy themselves that the materiality chosen is appropriate for the scope of the audit.

#### City Fund

We have applied a benchmark total comprising the combined value of long term assets and managed investments as a suitable value for materiality. Materiality has been set at 1% of this Balance Sheet amount.

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. Revenue reserves and resources available to the City Fund at 31 March 2019 was £126m, comprising the General Fund balance £44m, Housing Revenue Account balance £4m and earmarked reserves £78m. We will therefore apply a lower specific level of materiality at 1.5% of gross expenditure to income and expenditure transactions in the Comprehensive Income and Expenditure statement (CIES) and Movement in reserves statement (MiRS) that impact on revenue resources to reduce the risk of material misstatements.

The clearly trivial amount is based on 2% of the materiality level.



# MATERIALITY 2

# **Executive summary**

#### **CONTENTS**

Introduction

#### Executive summary

Scope

Scope 2

Materiality

Materiality 2

Materiality 3

Audit strategy

Audit risk overview

Independence and fees

Audit scope and objectives

Audit risks

Use of resources risks

Other matters
Independence

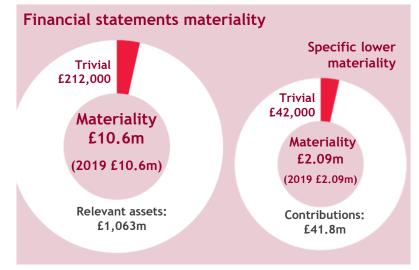
Appendices contents

#### **Pension Fund**

We have applied a benchmark total comprising the gross value of investment assets as a suitable value for materiality. Materiality has been set at 1% of this Net Asset Statement amount.

Specific materiality for the Fund Account, for income and expenditure classes of transactions, has been set at 5% of contributions receivable.

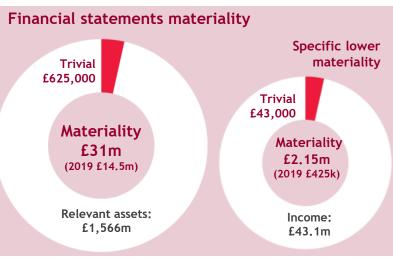
The clearly trivial amount is based on 2% of the materiality level.



#### **Bridge House Estates**

We have applied a benchmark comprising the gross assets of the charity as a suitable basis for materiality. Given the relative significance of the assets held by Bridge House Estates materiality has been set at 2% of gross assets.

Specific materiality for non-investment related items in the Statement of Financial Activities has been set at 5% of total income. As noted on page 6, materiality is the judgement of the audit partner and takes into account a number of facts including risk of misstatement, users' interests and areas of the financial statements which are a focus for those users. As is permissible under BDO methodology, financial statement materiality has increased from the prior year. In determining an appropriate level of specific materiality for areas of income and expenditure, we have determined a level which ensures there is consistency with prior year in terms of the material areas of testing and lower sample sizes for residual balances. The scope of our work will continue to ensure that individual items above trivial are reported to the Committee. The clearly trivial amount is based on 2% of the materiality level.



# **MATERIALITY 3**

# **Executive summary**

#### **CONTENTS**

Introduction

#### Executive summary

Scope

Scope 2

Materiality

Materiality 2

Materiality 3

Audit strategy

Audit risk overview

Independence and fees

Audit scope and objectives

Audit risks

Use of resources risks

Other matters

Independence

Appendices contents

#### City's Cash (and Sundry Trusts)

With respect to City's Cash, We have applied a benchmark comprising the gross assets of the charity as a suitable basis for materiality. Given the relative significance of the assets held by City Cash, materiality has been set at 2% of gross assets.

Specific materiality for non-investment related items in the Statement of Financial Activities has been set at 5% of total income. As noted on page 6, materiality is the judgement of the audit partner and takes into account a number of facts including risk of misstatement, users' interests and areas of the financial statements which are a focus for those users. As is permissible under BDO methodology, financial statement materiality has increased from the prior year. In determining an appropriate level of specific materiality for areas of income and expenditure, we have determined a level which ensures there is consistency with prior year in terms of the material areas of testing and lower sample sizes for residual balances. The scope of our work will continue to ensure that individual items above trivial are reported to the Committee.

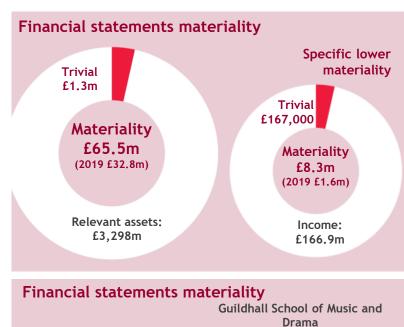
The materiality levels for the Sundry Trusts are based on 2% of gross assets, where appropriate a specific materiality has been set at 5% of expenditure for those entities whose deficits are funded by City of London Corporation. Further details are included in the appendices.

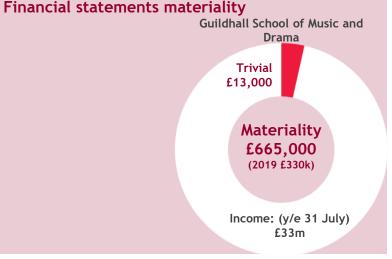
The clearly trivial amount is based on 2% of the materiality level.

#### Guildhall School of Music and Drama

We have applied a benchmark comprising the total income of the School as a suitable value for materiality. Materiality has been set at 2% of total income in line with BDO methodology taking into account that this is the first audit.

The clearly trivial amount is based on 2% of the materiality level.





# **AUDIT STRATEGY**

# **Executive summary**

**CONTENTS** 

Introduction

Executive summary

Scope

Scope 2

Materiality

Materiality 2

Materiality 3

Audit strategy

Audit risk overview

Independence and fees

Audit scope and objectives

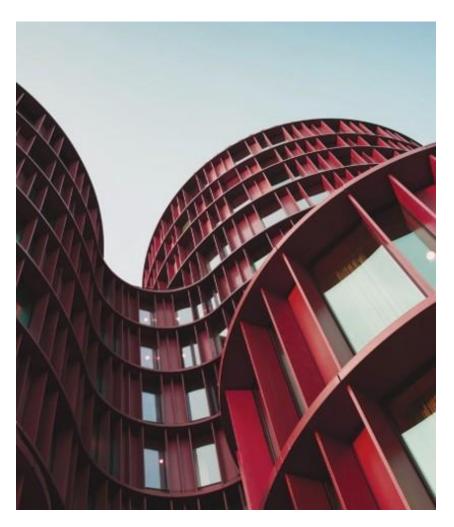
Audit risks

Use of resources risks

Other matters

Independence

Appendices contents



Our Audit Strategy is predicated on a risk based approach, so that audit work is focused on the areas of the financial statements where the risk of material misstatement is assessed to be higher, and (for City Fund) where there is a risk that the organisation has not made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We have discussed the changes to the business, systems and controls in the year with management and obtained their own view of potential audit risks in order to update our understanding of each entity's activities and to determine which risks impact on the numbers and disclosures in the financial statements, or (for City Fund) on its arrangements for securing economy, efficiency and effectiveness in its use of resources.

A lower level of materiality is applied to the areas of the financial statements that are considered to be sensitive, such as senior management remuneration disclosures, auditor's remuneration disclosures and related party disclosures.

We will continue to update this assessment throughout the audit.

The table on the next page summarises our planned approach to audit risks identified.

# **AUDIT RISK OVERVIEW**

# Executive summary

|                            | Risk identified - Financial statements                         | City Fund | Pension Fund | City's Cash | Bridge House<br>Estates | Sundry Trusts | GSM&D |             |                  | Impact of significant    |
|----------------------------|--|-----------|--------------|-------------|-------------------------|---------------|-------|-------------|------------------|--------------------------|
| CONTENTS                   | ■ Significant risk ■ Normal risk                               | Ü         | Pens         | Ç           | Brid                    | Sund          | 0     | Fraud risk  | Testing          | judgements and estimates |
| Introduction               | - NOTHIAT LISK   |           | I            | ı           | 1                       |               |       | present     | approach         | estillates               |
| Executive summary          | Management override of controls                                |           |              |             |                         |               |       | Yes         | Substantive      | Medium                   |
| Scope                      | Revenue (and expenditure) recognition                          |           |              |             |                         |               |       | Yes         | Substantive      | Medium                   |
| Scope 2                    | nevertide (and experimental e) recognition                     |           |              |             |                         |               |       | 103         | Sabstarrerve     | Mediaiii                 |
| Materiality                | Property, plant & equipment and investment property valuations |           |              |             |                         |               |       | No          | Substantive      | High                     |
| Materiality 2              | Pension liability valuation                                    |           |              |             |                         |               |       | No          | Substantive      | High                     |
| Materiality 3              | rension habitity valuation                                     |           |              |             |                         |               |       | 140         | Substantive      | 111811                   |
| Audit strategy             | NDR appeals provision  |           |              |             |                         |               |       | No          | Substantive      | High                     |
| Audit risk overview        | In contrast on the title on                                    |           |              |             |                         |               |       | M-          | Culturation      | AA                       |
| Independence and fees      | Investment valuations  |           |              |             |                         |               |       | No          | Substantive      | Medium                   |
| Audit scope and objectives | Impairment allowance for non-collection of receivables         |           |              |             |                         |               |       | No          | Substantive      | Medium                   |
| Audit risks                |  |           |              |             |                         |               |       |             |                  |                          |
| Use of resources risks     | Related party transactions                                     |           |              |             |                         |               |       | No          | Substantive      | Low                      |
| Other matters              | Pension contributions  |           |              |             |                         |               |       | No          | Substantive      | Low                      |
| Independence               |  |           |              | -           |                         |               |       |             |                  |                          |
| Appendices contents        | Pension benefits payable                                       |           |              |             |                         |               |       | No          | Substantive      | Low                      |
|                            | Decommissioning Provision                                      |           |              |             |                         |               |       | No          | Substantive      | High                     |
|                            | Risk identified - Use of resources                             |           |              |             |                         |               |       | Testing ap  | proach           |                          |
|                            | Police financial management                                    |           |              |             |                         |               |       | Detailed re | eview of savings | s plans                  |

Sustainable finances

Detailed review of MTFS

# **INDEPENDENCE AND FEES**

# **Executive summary**

# Introduction Executive summary Scope Scope 2 Materiality Materiality 2 Materiality 3 Audit strategy Audit risk overview Independence and fees Audit scope and objectives Audit risks Use of resources risks Other matters Independence

Appendices contents

#### Independence

We confirm that the firm complies with the Financial Reporting Council's Ethical Standard for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.

| Fees  | 2019/20 £              | 2018/19 £   |
|---|------------------------|-------------|
| rees  | 2019/20 E              | Z010/19 L   |
| Corporation audit fees  |                        |             |
| City Fund   | (1) 108,000            | (1) 128,000 |
| Pension Fund  | (1) 22,000             | (1) 22,000  |
| City's Cash and Sundry Trusts   | <sup>(2)</sup> 146,000 | 100,000     |
| Bridge House Estates  | (2) 70,000             | 40,000      |
| Subsidiaries audit fees   |                        |             |
| Barking Power Limited and Thames<br>Power Services Limited            | (4) 24,000             | 31,500      |
| Total audit fees  | 370,000                | 321,000     |
| Non audit fees  |                        |             |
| Grants and subsidies certification                                    | 31,000                 | 36,000      |
| Report on Guildhall School of Music and<br>Drama financial statements | 10,000                 | 8,000       |
| Non audit fees  | 41,000                 | 44,000      |
| Total fees  | 411,000                | 365,000     |

#### Fees updates

- (1) This includes additional costs in 2018/19 that were incurred as a result of the increased scope in work as a major local audit and additional work around NDR pooling and SIP income/expenditure and the McCloud impact on pension liabilities (City Fund £48,000 and Pension Fund £7,000). We have reflected the baseline element of these increased in costs in the 2019/20 fees.
- (2) We have rebased the costs for City's Cash and Bridge House Estates and increased fees by £80,000 (offset by a £4,000 reduction for 2 sundry trusts no longer requiring audit) to reflect the size and complexity of the entities as well as the level of resources, including significant input of specialist time.
- (3) This includes additional fees due to the increased scope of the Housing Benefit Assurance Process work, additional reporting requirements and errors found in 2018/19.
- (4) To be discussed and agreed with financial management.

| Grants and subsidies certification                         | 2019/20 £ | 2018/19 £  |
|--|-----------|------------|
| Housing benefit subsidy                                    | 18,000    | (3) 23,000 |
| Teachers Pensions Return - Sir John Cass<br>Primary School | 2,000     | 2,000      |
| Teachers Pensions Returns (x2)                             | 9,000     | 9,000      |
| Pooled housing capital receipts                            | 2,000     | 2,000      |
| Total  | 31,000    | 36,000     |

# Audit scope and objectives

CONTENTS Introduction

Executive summary

#### Overview

Team organisation

BDO team

BDO team 2

BDO team 3

Audit risks

Use of resources risks

Other matters

Independence

Appendices contents

# **OVERVIEW**

Key components of our audit objectives and strategy for the Corporation are highlighted and explained on the following pages.

Audit planning is a collaborative and continuous process and our audit strategy, as reflected here, will be reviewed and updated as our audit progresses.

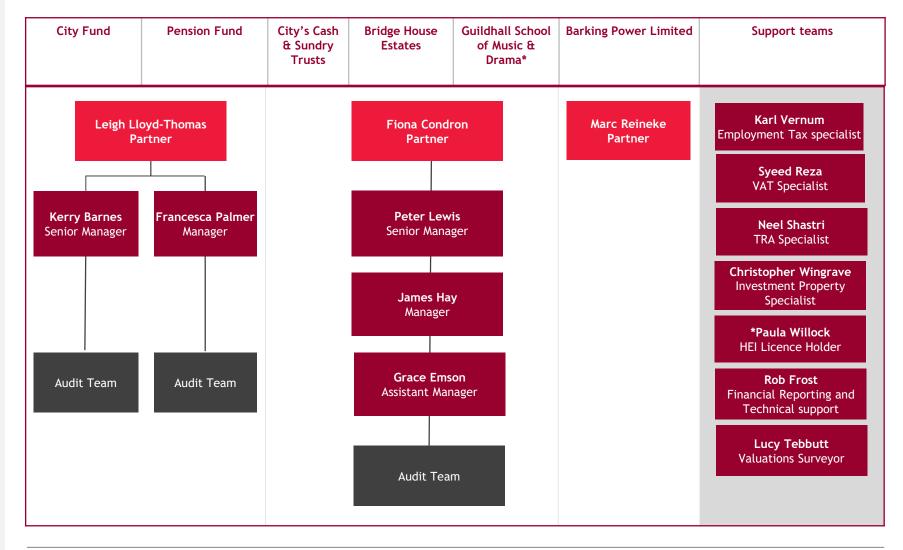
We will communicate any significant changes to our audit strategy, should the need for such change arise.

| Reporting  | Objectives   |
|--|--|
| Auditing standards   | We will perform our audit in accordance with International Standards on Auditing UK (ISAs (UK)) and relevant guidance published by the NAO, Charity Commission and HEFCE.  |
| Financial statements                                       | We will express an opinion on the financial statements for each entity, prepared in accordance with the relevant financial reporting framework. For City Fund and the Pension Fund this is the CIPFA Code of Practice on Local Authority Accounting 2019/20. For City's Cash this is UK GAAP. For Bridge House Estates and the Sundry Trusts this is UK GAAP, the Charities Act 2011 and the Charities SORP 2015 (2 <sup>nd</sup> Edition). For Guildhall School of Music and Drama this is the Further and Higher Education SORP 2015.  |
| Statement of<br>Accounts / Annual<br>Reports               | <ul> <li>In addition to our objectives regarding the financial statements, we will also:</li> <li>Read and consider the 'other information' contained in the Statement of Accounts / Annual Reports 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.</li> </ul>   |
|  | <ul> <li>For statutory other information (defined by the Charities SORP) for the charities 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 legal requirements.</li> </ul>   |
| Use of resources<br>(City Fund)                            | We will report to the Corporation, in respect of the activities of the City Fund, whether it has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.  |
| WGA (City Fund)  | We will review the Whole of Government Accounts (WGA) return for City Fund and express an opinion on the return as to whether it is consistent with the audited financial statements.  |
| Additional powers<br>and duties (City<br>Fund)             | Where necessary we may be required to: issue of a report in the public interest; make a written recommendation to the Corporation; allow local electors to raise questions and objections on the accounts; or exercise legal powers to apply to the courts for a declaration that an item of account is contrary to law, issue an advisory notice or an application for a judicial review.   |
| Report to the Audit<br>and Risk<br>Management<br>Committee | Prior to the approval of the financial statements, we will discuss our significant findings of our audit for each fund, charity or entity with the Audit and Risk Management Committee. As noted in the introduction, in communicating with the Corporation, we consider those charged with governance of the other entities within the scope of this report to be informed about matters relevant to their charity, company or fund. We will highlight key accounting and audit issues as well as internal control findings and any other significant matters arising from the audit. |

# **TEAM ORGANISATION**

#### Our structure

| CONTENTS                   |
|----------------------------|
| Introduction               |
| Executive summary          |
| Audit scope and objectives |
| Overview                   |
| Team organisation          |
| BDO team                   |
| BDO team 2                 |
| BDO team 3                 |
| Audit risks                |
| Use of resources risks     |
| Other matters              |
| Independence               |
| Appendices contents        |



# **BDO TEAM**

# Team responsibilities - engagement leads

**CONTENTS** 

Introduction

Executive summary

Overview

Team organisation

BDO team

BDO team 2

BDO team 3

Audit risks

Use of resources risks

Other matters

Independence

Appendices contents



Leigh Lloyd-Thomas Engagement Lead

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



t: 01293 591 102 e: fiona.condron@bdo.co.uk I will have primary responsibility to ensure that the appropriate audit opinions are given for City Fund and the Pension Fund.

I will ensure that we have undertaken sufficient work to assess the Corporation's arrangements, in respect of the City Fund, for securing economy, efficiency and effectiveness in the use of its resources against the guidance published by the NAO.

I am also responsible for co-ordinating the audit work across the funds and on various grants and certification returns.

I will have primary responsibility to ensure that the appropriate audit opinions are issued for Bridge House Estates, City's Cash and the Sundry Trusts.



In meeting this responsibility, we ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that the financial statements are free from material misstatement, whether due to fraud or error, and to report on the financial statements and communicate as required by the ISAs (UK), in accordance with our findings.

# **BDO TEAM 2**

# Team responsibilities - audit managers

**CONTENTS** 

Introduction

Executive summary

Overview

Team organisation

BDO team

BDO team 2

BDO team 3

Audit risks

Use of resources risks

Other matters

Independence

Appendices contents



Kerry Barnes Senior Manager

t: 020 7893 3837

e: kerry.l.barnes@bdo.co.uk



Francesca Palmer Audit Manager

t: 01473 320 739

e: francesca.palmer@bdo.co.uk



Peter Lewis Senior Audit Manager

t: 01293 848969

e: peter.lewis@bdo.co.uk



James Hay Audit Manager

t: 020 7893 2934

e: james.hayl@bdo.co.uk

I will lead on the audit of the City Fund and on various grants and certification returns.

I will lead on the audit of the Pension Fund.

I will oversee the audit of City's Cash and the Sundry Trusts and Bridge House Estates.

I will lead on the audit of City's Cash and the Sundry Trusts, Bridge House Estates and Guildhall School of Music and Drama.

The audit managers work closely with Leigh and Fiona to develop and execute the audit strategy for each fund and the trusts. Each manager has been assigned as a key point of contact on a day to day basis for these audits and will ensure that timelines are carefully managed to ensure that deadlines are met and matters to be communicated to management and the Audit and Risk Management Committee are highlighted on a timely basis.

# **BDO TEAM 3**

# Team responsibilities - other key team members

CONTENTS

Introduction

Executive summary

Overview

Team organisation

BDO team

BDO team 2

BDO team 3

Audit risks

Use of resources risks

Other matters

Independence

Appendices contents



Syeed Reza VAT Specialist

t: 020 7893 3665 e: syeed.reza@bdo.co.uk Syeed will provide VAT support to the engagement team and will liaise with management with regards to the VAT audit assist across all entities and funds.



Karl Vernum Employment Tax Specialist

t: 020 7893 3549 e: karl.vernum@bdo.co.uk Karl will provide employment tax support to the engagement team and will liaise with management with regards to the employment taxes audit assist across all entities and funds.



Neel Shastri TRA Specialist

t: 020 7893 2328 e: neel.shastri@bdo.co.uk I will provide IT and data analytics support to the engagement team across all entities and funds.



Christopher Wingrave Investment Property Specialist

t: 0129 384 8971 e: christopher.wingrace@bdo.co.uk Chris is a director in Real Estate assurance and his team will provide comparative benchmark data to the audit team to review the valuations and yields used by the valuers for investment property valuations.



Lucy Tebbutt Valuations Surveyor

t: 020 3860 6451 e: lucy.tebbutt@bdo.co.uk Lucy is a qualified valuer in the valuations team and will provide assistance to the audit team to review the valuations and yields used by the valuers for investment property valuations.



Paula Willock HEI Licence Holder t: 0129 384 8970

e: paula.willock@bdo.co.uk

Paula will provide support to the engagement team with respect to the Guildhall School of Drama and Music. I am an education licence holder and have experience of working with Higher Education Institutions.

### Audit risks

**OVERVIEW** 

We have assessed the following as financial statements audit risks. These are matters assessed as most likely to cause a material misstatement in the financial statements and include those that will have the greatest effect on audit strategy, the allocation of audit resources and the amount of audit focus by the engagement team.

| CONTENTS                              |
|---------------------------------------|
| Introduction                          |
| Executive summary                     |
| Audit scope and objectives            |
| Audit risks                           |
| Overview                              |
| Overview 2                            |
| Management override of controls       |
| Revenue (and expenditure) recognition |
| PPE and investment property valuation |
| Pension liability valuation           |
| NDR appeals provision                 |
| Investment valuations                 |
| Impairment allowance for receivables  |
| Related party transactions            |
| Pension contributions                 |
| Pensions benefits payable             |
| Decommissioning Provision             |
| Going concern                         |
| Use of resources risks                |
| Other matters                         |
| Independence                          |

Appendices contents

| <ul><li>Description of risk</li><li>Significant risk</li><li>Normal risk</li></ul> | City Fund | Pension Fund | City's Cash | Bridge House<br>Estates | Sundry Trusts | GSM&D | Overview of risk   |
|--|-----------|--------------|-------------|-------------------------|---------------|-------|--|
| Management override of controls  |           |              |             |                         |               |       | Auditing standards presumes that management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.  |
| Revenue (and expenditure) recognition  |           |              |             |                         |               |       | Auditing standards presume there is a significant risk of fraud in relation to revenue recognition.  For City Fund, there is 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. For net-spending bodies in the public sector there is also risk of fraud related to recognition of expenditure.  |
|  |           |              |             |                         |               |       | For City's Cash and the Sundry Trusts, Bridge House Estates and Guildhall School of Music and Drama there are material revenue streams from a variety of sources: rental income, tourism fees and charges, tuition fees, investments, grants and donations. We consider the risk to be related to the completeness of the amounts recognised in the year and the appropriate identification of any relevant restrictions. For charities, the risks can be identified as affecting the completeness of income, although there are also risks regarding restrictions, accuracy and existence of income.  |
| PPE and<br>Investment<br>property valuation  |           |              |             |                         |               |       | The Corporation holds an extensive portfolio of land, buildings, dwellings and investment properties.  There is a risk over their valuation where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at year-end.  |
| Pension liability valuation  |           |              |             |                         |               |       | The valuation of the defined benefit obligation is a complex calculation involving a number of significant judgements and assumptions. The accounting estimate for the defined benefit pension liability uses information on current, deferred and retired member data and applies various actuarial assumptions over pension increases, salary increases, mortality, commutation take up and discount rates to calculate the present value of the liabilities. The calculation is complex and inputs can be part of a range of appropriate percentages. The inputs are usually highly sensitive to change and due to the amounts being highly material, a small change in input could result in materially different liabilities. |

# **OVERVIEW 2**

| Description of risk  Significant risk Normal risk | City Fund | Pension Fund | City's Cash | Bridge House<br>Estates | Sundry Trusts | GSM&D | Overview of risk  |
|---|-----------|--------------|-------------|-------------------------|---------------|-------|---|
| NDR appeals provision                             |           |              |             |                         |               |       | There is a risk in relation to the estimation of the provision to repay business rates income due to assumptions used in calculating the likely success rate of appeals.  |
| Investment valuations                             |           |              |             |                         |               |       | There is a risk that investments may not be appropriately valued particularly where the investments are held in private equity or infrastructure pooled funds.  |
| Impairment allowance for receivables              |           |              |             |                         |               |       | There is a risk over the valuation of the impairment allowance for non-collection of receivables and arrears if incorrect assumptions or source data are used.  |
| Related party<br>transactions                     |           |              |             |                         |               |       | There is a risk that related party disclosures are not complete and accurate. Historically members have provided declarations but the requirements to consider other connected parties (including family and business connections) may not have been explicitly considered.   |
| Pension 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.   |
| Pension benefits payable                          |           |              |             |                         |               |       | 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.  |
| Decommissioning<br>Provision                      |           |              |             |                         |               |       | There is a risk that the costs of restructuring will not be calculated on a reasonable basis and not disclosed correctly. The provision has increased by £8.7m in FY19 - there were significant estimates and assumptions built into this, including the contingency costs and contractor risks factored in. There is a risk the definition of a provision under FRS 102 has not been met with regard to these costs, and that estimates and assumptions are incorrect. |

#### CONTENTS

Introduction

Executive summary

Audit scope and objectives

#### Audit Hisr

Overview

#### Overview 2

Management override of controls

Revenue (and expenditure) recognition

PPE and investment property valuation

Pension liability valuation

NDR appeals provision

Investment valuations

Impairment allowance for receivables

Related party transactions

Pension contributions

Pensions benefits payable

**Decommissioning Provision** 

Going concern

Use of resources risks

Other matters

Independence

Appendices contents

# MANAGEMENT OVERRIDE OF CONTROLS

**CONTENTS** 

Introduction

Executive summary

Audit scope and objectives

Audit risks

Overview 2

----

Management override of controls

Revenue (and expenditure) recognition

PPE and investment property valuation

Pension liability valuation

NDR appeals provision

Investment valuations

Impairment allowance for receivables

Related party transactions

Pension contributions

Pensions benefits payable

**Decommissioning Provision** 

Going concern

Use of resources risks

Other matters

Independence

Appendices contents

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

| Fund                 | Fund       | Cash      | House<br>Estates | Trusts |
|----------------------|------------|-----------|------------------|--------|
| GSM&D                |            |           |                  |        |
| Fraud ris            |            |           |                  |        |
| Assess de controls   | ition of   |           |                  |        |
| Significa<br>& judge | imates     |           |                  |        |
| Controls<br>approacl |            |           |                  |        |
| Substant             | ive testin | g approac | h                |        |

Risk highlighted by Corporation

#### Risk detail

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.

#### Planned audit approach

- Consideration of estimates and judgements applied in the financial statements to assess their appropriateness and the existence of any systematic bias;
- Review and checking of high value and unusual journal entries made in the year and agreeing the
  journals to supporting documentation. We will determine key risk characteristics to filter the
  population of journals. We will use our IT team to assist with the journal extraction;
- · Consideration of unadjusted audit differences for indications of bias or deliberate misstatement; and
- Consideration of areas where management bias could impact remuneration through performance based payment schemes.

# REVENUE (AND EXPENDITURE) RECOGNITION

Auditing standards presume that income recognition presents a fraud risk.

| City<br>Fund         | , House I           |            |        |  |  |  |  |  |  |  |
|----------------------|---------------------|------------|--------|--|--|--|--|--|--|--|
| GSM&D                |                     |            |        |  |  |  |  |  |  |  |
| Fraud ris            |                     |            |        |  |  |  |  |  |  |  |
| Assess d controls    | tion of             |            |        |  |  |  |  |  |  |  |
| Significa<br>& judge | int Manage<br>ments | ement est  | imates |  |  |  |  |  |  |  |
| Controls             |                     |            |        |  |  |  |  |  |  |  |
| Substant             | tive testin         | g approac  | h      |  |  |  |  |  |  |  |
| Risk high            | nlighted by         | / Corporat | tion   |  |  |  |  |  |  |  |

#### Risk detail

Under auditing standards there is a presumption that there is a risk of fraud in revenue recognition.

We have rebutted revenue recognition as a risk for the Pension Fund as revenue is principally monthly payroll contributions from a small number of employers. 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. For net-spending bodies in the public sector there is also risk of fraud related to recognition of expenditure.

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.

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 89% of total income.

The Sundry Trusts we consider there to be a significant risk in respect of the completeness of grants, donations and legacies, fees and charges (including admissions) and rental income due to the cut off risk around the year end. For grants, donations and legacies we also consider there to be a risk that any relevant restrictions are not correctly identified.

For Guildhall School of Music and Drama, we consider there to be a significant risk in respect of the completeness of academic fees and contracts, funding council grants, research grants and contracts and other operating income (including support from City of London Corporation and residencies, catering and conference income).

#### Planned audit approach

Our audit procedures will include the following:

- Test a sample of grants included in income to documentation from grant paying bodies and check whether recognition criteria have been met (City Fund);
- Testing material income streams and cut off testing to ensure income is recognised in the correct period and appropriately classified as restricted or unrestricted funds (charity entities only);
- Test 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;
- Test a sample of grants and donations to ensure completeness, accuracy, existence and classification (as restricted or unrestricted) in the financial statements;
- Test a sample of investment income and confirm to third party investment manager reports;
- Test 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; and
- Test 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 (City Fund).

#### CONTENTS

Introduction

**Executive summary** 

Audit scope and objectives

Audit risk

Overview

Overview 2

Management override of controls

Revenue (and expenditure) recognition

PPE and investment property valuation

Pension liability valuation

NDR appeals provision

Investment valuations

Impairment allowance for receivables

Related party transactions

Pension contributions

Pensions benefits payable

Decommissioning Provision

Going concern

Use of resources risks

Other matters

Independence

Appendices contents

# PPE AND INVESTMENT PROPERTY VALUATION

**CONTENTS** 

Introduction

**Executive summary** 

Audit scope and objectives

Audit ris

Overview

Overview 2

Management override of controls

Revenue (and expenditure) recognition

PPE and investment property valuation

Pension liability valuation

NDR appeals provision

Investment valuations

Impairment allowance for receivables

Related party transactions

Pension contributions

Pensions benefits payable

**Decommissioning Provision** 

Going concern

Use of resources risks

Other matters

Independence

Appendices contents

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

| City<br>Fund                                  | Pension<br>Fund | City's<br>Cash | Bridge<br>House<br>Estates | Sundry<br>Trusts |
|---|-----------------|----------------|----------------------------|------------------|
| GSM&D   |                 |                |                            |                  |
| Fraud ris                                     | sk              |                |                            |                  |
| Assess d controls                             |                 |                |                            |                  |
| Significant Management estimates & judgements |                 |                |                            |                  |
| Controls testing approach                     |                 |                |                            |                  |
| Substantive testing approach                  |                 |                |                            |                  |
| Risk highlighted by Corporation               |                 |                |                            |                  |

#### Risk detail

Land, buildings and dwellings are reported at fair value / carrying value. For City Fund, operational assets are valued at current value and surplus assets / assets held for sale at fair value at the balance sheet date. For Bridge House Estates and City's Cash, operational assets are carried at cost.

For all entities, 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 non material 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.

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.

The Pension Fund does not carry any Property, plant & equipment or Investment property.

#### Planned audit approach

- Assess the qualifications and competence of the valuers used;
- Review the instructions provided to the valuers and review the values' skills and expertise in order to determine if we can rely on the management expert;
- Confirm that the basis of valuation for assets valued in year is appropriate based on their usage;
- Review accuracy and completeness of asset information provided to the valuer such as rental agreements and land plot / building sizes;
- Review assumptions used by the valuers and movements against relevant indices for similar classes of assets and follow up valuation movements that appear unusual; and
- Discuss with our Real Estate Team the reasonableness of assumptions on benchmark and yields range for investment properties.

# PENSION LIABILITY VALUATION

CONTENTS

Introduction

**Executive summary** 

Audit scope and objectives

Audit ri:

Overview

Overview 2

Management override of controls

Revenue (and expenditure) recognition

PPE and investment property valuation

Pension liability valuation

NDR appeals provision

Investment valuations

Impairment allowance for receivables

Related party transactions

Pension contributions

Pensions benefits payable

**Decommissioning Provision** 

Going concern

Use of resources risks

Other matters

Independence

Appendices 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.

| City<br>Fund   | Pension<br>Fund | City's<br>Cash | Bridge<br>House<br>Estates | Sundry<br>Trusts |
|--|-----------------|----------------|----------------------------|------------------|
| GSM&D  |                 |                |                            |                  |
| Fraud ris  |                 |                |                            |                  |
| Assess design & implementation of controls to mitigate |                 |                |                            |                  |
| Significant Management estimates & judgements          |                 |                |                            |                  |
| Controls testing approach (accurate membership data)   |                 |                |                            |                  |
| Substantive testing approach (assumptions)             |                 |                |                            |                  |
| Risk high  | nlighted by     | y Corporat     | tion                       |                  |

#### Risk detail

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. This is an unfunded scheme.

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 2020 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.

#### Planned audit approach

Our audit procedures will include the following:

 Assess the qualifications and competence of the actuary through the use of PwC consulting actuary (auditor's expert);

- Review 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);
- Review the controls for providing accurate membership data to the actuary;
- Check the accuracy and completeness of the data set submitted to the actuary for the 2019 triennial valuation of the LGPS;
- Check whether any significant changes in membership data have been communicated to the actuary;
- Discuss 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
- Check 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.

# NDR APPEALS PROVISION

CONTENTS

Introduction

**Executive summary** 

Audit scope and objectives

Audit risl

Overview

Overview 2

Management override of controls

Revenue (and expenditure) recognition

PPE and investment property valuation

Pension liability valuation

NDR appeals provision

Investment valuations

Impairment allowance for receivables

Related party transactions

Pension contributions

Pensions benefits payable

**Decommissioning Provision** 

Going concern

Use of resources risks

Other matters

Independence

Appendices contents

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.

| City<br>Fund   | Pension<br>Fund | City's<br>Cash | Bridge<br>House<br>Estates | Sundry<br>Trusts |
|--|-----------------|----------------|----------------------------|------------------|
| GSM&D  |                 |                |                            |                  |
| Fraud risk   |                 |                |                            |                  |
| Assess design & implementation of controls to mitigate |                 |                |                            |                  |
| Significant Management estimates & judgements          |                 |                |                            |                  |
| Controls testing approach                              |                 |                |                            |                  |
| Substantive testing approach                           |                 |                |                            |                  |
| Risk highlighted by Corporation                        |                 |                |                            |                  |

#### Risk detail

City Fund as a billing authority is required to estimate the value of potential refund of business rates arising from rate appeals, including backdated appeals. The Valuation Office Agency (VOA) provides information regarding the appeals currently being assessed and settled.

Management use this information to calculate a success rate for specific business types for settled appeals, and applies an appropriate rate to each type of business appeal still outstanding at year end.

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 that the 2010 VOA list suffered appeals losses of 4.7% over that rating period.

#### Planned audit approach

- Review of the accuracy of the appeals data to confirm that it is complete based on the VOA list, and that settled appeals are removed; and
- Review of 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 the estimate of expected losses for the 2017 rating list.

# INVESTMENT VALUATIONS

#### CONTENTS

Introduction

Executive summary

Audit scope and objectives

Overview

Overview 2

Management override of controls

Revenue (and expenditure) recognition

PPE and investment property valuation

Pension liability valuation

NDR appeals provision

Investment valuations

Impairment allowance for receivables

Related party transactions

Pension contributions

Pensions benefits payable

**Decommissioning Provision** 

Going concern

Use of resources risks

Other matters

Independence

Appendices contents

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

| City<br>Fund | Pension<br>Fund | City's<br>Cash | Bridge<br>House<br>Estates | Sundry<br>Trusts |
|--------------|-----------------|----------------|----------------------------|------------------|
| GSM&D        |                 |                |                            |                  |
| Fraud ris    | sk              |                |                            |                  |

Assess design & implementation of controls to mitigate

Significant Management estimates & judgements

Controls testing approach

Substantive testing approach

Risk highlighted by Corporation

#### Risk detail

The managed investment portfolio across the funds (including pension fund assets) comprises unquoted infrastructure, private equity holdings and pooled investment vehicles.

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.

Audited 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.

#### Planned audit approach

- For unquoted infrastructure and private equity investments, obtain direct confirmation of investment valuations from the General Partner or fund manager and request copies, where applicable, of the audited financial statements of the underlying partnerships (and member allocations). We will confirm that appropriate adjustments have been made to the valuations in respect of additional contributions and distributions with the funds;
- For pooled investments, obtain direct confirmation of investment valuations from the fund managers and agree independent valuations, where available, provided by the custodian:
- Obtain 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
- Agree the allocation of amounts for each fund where there is pooling of investments across the funds.

# IMPAIRMENT ALLOWANCE FOR RECEIVABLES

#### **CONTENTS**

Introduction

Executive summary

Audit scope and objectives

#### Audit ris

Overview

Overview 2

Management override of controls

Revenue (and expenditure) recognition

PPE and investment property valuation

Pension liability valuation

NDR appeals provision

Investment valuations

Impairment allowance for receivables

Related party transactions

Pension contributions

Pensions benefits payable

Decommissioning Provision

Going concern

Use of resources risks

Other matters

Independence

Appendices contents

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

| City<br>Fund | Pension<br>Fund | City's<br>Cash | Bridge<br>House<br>Estates | Sundry<br>Trusts |
|--------------|-----------------|----------------|----------------------------|------------------|
| GSM&D        |                 |                |                            |                  |

Fraud risk

Assess design & implementation of controls to mitigate

Significant Management estimates & judgements

Controls testing approach

Substantive testing approach

Risk highlighted by Corporation

#### Risk detail

The City Fund recognises an allowance for the noncollection of receivables primarily in respect of council tax, NDR, housing benefit overpayments, housing rents and parking penalty 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.

The Pension Fund does not carry significant amounts for receivables.

#### Planned audit approach

- Review the provision model for significant income streams and receivables and debt balances to assess whether it appropriately reflects historical collection rates by age of debt or arrears, and for financial assets within the scope of IFRS 9 that this also reflects expected credit losses; and
- Check that information has been accurately extracted from systems to support the modelling of collection rates by age.

# **RELATED PARTY TRANSACTIONS**

Bridge

#### **CONTENTS**

Introduction

Executive summary

Audit scope and objectives

Overview

Overview 2

Management override of controls

Revenue (and expenditure) recognition

PPE and investment property valuation

Pension liability valuation

NDR appeals provision

Investment valuations

Impairment allowance for receivables

Related party transactions

Pension contributions

Pensions benefits payable

**Decommissioning Provision** 

Going concern

Use of resources risks

Other matters

Independence

Appendices contents

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

|   | Fund                 | Pension<br>Fund | City's<br>Cash | House<br>Estates | Sundry<br>Trusts |
|---|----------------------|-----------------|----------------|------------------|------------------|
|   | GSM&D                |                 |                |                  |                  |
| Ì | Fraud ris            |                 |                |                  |                  |
|   | Assess d controls    |                 |                |                  |                  |
|   | Significa<br>& judge |                 |                |                  |                  |
|   | Controls<br>approac  |                 |                |                  |                  |
|   | Substant             |                 |                |                  |                  |

Risk highlighted by Corporation

#### Risk detail

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 and accurate, and disclosed in accordance with the applicable reporting framework for each fund / entity.

Historically members / trustees of each entity have provided year end declarations but the requirements to consider other connected parties (inc. family and business connections) may not have been explicitly considered.

#### Planned audit approach

- Review management processes and controls to identify and disclose related party transactions;
- Review relevant information concerning any such identified transactions;
- Discuss with management and review 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.

# PENSION CONTRIBUTIONS

CONTENTS

Introduction

Executive summary

Audit scope and objectives

Audit ri

Overview

Overview 2

Management override of controls

Revenue (and expenditure) recognition

PPE and investment property valuation

Pension liability valuation

NDR appeals provision

Investment valuations

Impairment allowance for receivables

Related party transactions

Pension contributions

Pensions benefits payable

**Decommissioning Provision** 

Going concern

Use of resources risks

Other matters

Independence

Appendices contents

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.

| City<br>Fund | Pension<br>Fund | City's<br>Cash | Bridge<br>House<br>Estates | Sundry<br>Trusts |
|--------------|-----------------|----------------|----------------------------|------------------|
| GSM&D        |                 |                |                            |                  |
|              |                 |                |                            |                  |

Fraud risk

Assess design & implementation of controls to mitigate

Significant Management estimates & judgements

Controls testing approach

Substantive testing approach

Risk highlighted by Corporation

#### Risk detail

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

Additional contributions are also required against pension strain for early retirements.

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.

#### Planned audit approach

- Test amount payable by employers / receivable by the pension fund for normal contributions including checking to employer payroll records;
- Ensure that income is recognised in the correct accounting period where the employer is making payments in the following month;
- We will perform tests over pension strain contributions due from employers for early retirements with undiscounted pensions;
- Agree total contributions payable by the Corporation (as employer) to the amounts received in the pension fund; and
- 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.

# PENSIONS BENEFITS PAYABLE

CONTENTS
Introduction
Executive summary
Audit scope and objectives

Overview 2

Management override of controls

Revenue (and expenditure) recognition

PPE and investment property valuation

Pension liability valuation

NDR appeals provision

Investment valuations

Impairment allowance for receivables

Related party transactions

Pension contributions

Pensions benefits payable

**Decommissioning Provision** 

Going concern

Use of resources risks

Other matters

Independence

Appendices contents



Risk highlighted by Corporation

#### Risk detail

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.

#### Planned audit approach

- For members leaving the scheme and deferring their pension and members becoming entitled to receive pension during the year, we will check a sample of calculations of pension entitlement;
- Check the correct application of annual pension uplift for members in receipt of benefits;
- Test 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;
- Review 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 check payments to movements in the membership statistics.

# **DECOMMISSIONING PROVISION**

Bridge

Sundry

**CONTENTS** 

Introduction

Executive summary

Audit scope and objectives

Audit ris

Overview

Overview 2

Management override of controls

Revenue (and expenditure) recognition

PPE and investment property valuation

Pension liability valuation

NDR appeals provision

Investment valuations

Impairment allowance for receivables

Related party transactions

Pension contributions

Pensions benefits payable

Decommissioning Provision

Going concern

Use of resources risks

Other matters

Independence

Appendices contents

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

| Fund                            | Fund | Cash | Estates | Trusts |
|---------------------------------|------|------|---------|--------|
| GSM&D                           |      |      |         |        |
| Fraud ris                       |      |      |         |        |
| Assess de controls              |      |      |         |        |
| Significa<br>& judge            |      |      |         |        |
| Controls<br>approac             |      |      |         |        |
| Substant                        |      |      |         |        |
| Risk highlighted by Corporation |      |      |         |        |

City's

City

Pension

#### Risk detail

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 and not disclosed correctly. The provision has increased by £8.7m in FY19 and there were significant estimates and assumptions built into this, including the contingency costs and contractor risks factored in.

There is a risk the definition of a provision under FRS 102 has not been met with regard to these costs, and that estimates and assumptions are incorrect.

#### Planned audit approach

We will undertake the following audit procedures in this area:

- Use professional scepticism on each category of cost built into the provision to determine if costs; were a present obligation due to past usage of the facility, were probable (more likely than not), and could be measured reliably;
- Challenge the costs provided for by management, tying figures back to independent expert reports (where applicable), testing reasonability of assumptions by using judgement, and performing recalculation of key calculations; and
- Evaluate whether the management experts used have the necessary competence, capabilities, and objectivity for the purposes of accurately analysing the costs associated with decommissioning.

# **GOING CONCERN**

#### **CONTENTS**

Introduction

Executive summary

Audit scope and objectives

Overview

Overview 2

Management override of controls

Revenue (and expenditure) recognition

PPE and investment property valuation

Pension liability valuation

NDR appeals provision

Investment valuations

Impairment allowance for receivables

Related party transactions

Pension contributions

Pensions benefits payable

**Decommissioning Provision** 

Going concern

Use of resources risks

Other matters

Independence

Appendices contents

#### Corporation's responsibilities

It is the responsibility of Members of the Corporation and Chamberlain to make an assessment for each of the Fund's (City Fund, Pension Fund, Bridge House Estates, City Cash and the Sundry Trusts) ability to continue as a going concern to support the basis of preparation for the financial statements. This is a requirement of the accounting standards.

This assessment should be supported by detailed cash flow forecasts with clear details of the key underlying assumptions, consideration of available finance throughout the forecast period, and a consideration of the forecast's sensitivity to reasonably possible variations in those assumptions along with any other relevant factors.

The going concern assessment should cover a minimum of 12 months from the date of the officers' approval of the financial statements. However, consideration should also be given to any major events or circumstances that may fall outside this period.

#### **Auditor responsibilities**

Our responsibilities in respect of going concern are:

- To obtain sufficient appropriate audit evidence regarding, and conclude on, i) whether a material uncertainty related to going concern exists; and ii) the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements; and
- To report in accordance with ISA (UK) 570.

We will obtain an understanding of the business model, objectives, strategies and related business risk, the measurement and review of the Funds' financial performance including forecasting and budgeting processes and the Funds' risk assessment process. We will evaluate:

- The method, including the relevance and reliability of underlying data used to make the assessment, whether assumptions and changes to assumptions from prior years are appropriate and consistent with each other;
- The plans for future actions in relation to the going concern assessment including whether such plans are feasible in the circumstances; and
- The adequacy and appropriateness of disclosures in the financial statements regarding the going concern assessment and any material uncertainties that may exist.

# Use of resources risks

# CONTENTS Introduction Executive summary Audit scope and objectives Audit risks Use of resources risks Overview Police financial management Sustainable finances Other matters Independence Appendices contents

# **OVERVIEW**

We have assessed the following as use of resources audit risks. These are matters assessed as most likely to impact on our use of resources conclusion and include those that will have the greatest effect on audit strategy, the allocation of audit resources and the amount of audit focus by the engagement team.

| Description of risk                                    |           |   |  |  |  |
|--|-----------|---|--|--|--|
| <ul><li>Significant risk</li><li>Normal risk</li></ul> | City Fund | Overview of risk  |  |  |  |
| Police financial<br>management                         |           | There is a need for City Police to develop an MTFS with significant savings to ensure that it can continue to deliver the level of policing required in the City.                     |  |  |  |
| Sustainable finances                                   |           | The Corporation will need to deliver planned savings to maintain financial sustainability in the medium term and there is a significant risk that these savings may not be delivered. |  |  |  |

# POLICE FINANCIAL MANAGEMENT

**CONTENTS** 

Introduction

Executive summary

Audit scope and objectives

Audit risks

Overview

Police financial management

Sustainable finances

Other matters

Independence

Appendices contents

There is a need for City Police to develop an MTFS with significant savings to ensure that it can continue to deliver the level of policing required in the City.

#### City Fund

Assess design & implementation of controls to mitigate

Review work of other inspectorates

Review work undertaken by internal audit

Detailed review

Risk highlighted by Corporation

#### Risk detail

As at quarter 3, the City of London Police is forecasting an overspend of £0.7m by the end of the 2019/20 which is an improved position from £2.2m overspend reported at quarter 2. The overspend is primarily due to an unfunded increase in police officer pension contributions of £2.2m plus a partyear (£1m) effect of recruiting towards 67 growth roles, offset by full use of the POCA reserve of £2.5m. Restrictions on staff recruitment have been in place to manage the forecast position and these will continue with the aim of bringing this back into balance by the end of the year.

The City Police are forecasting an underlying budget deficit of £11.1m in 2020/21, rising to £16.8m per annum by 2023/24. It is planned that the City Fund will provide £5.4m of support in 2020/21, with City Police responsible for making necessary savings of £5.7m in 2020/21 rising to £9.2m in 2023/24 to balance budgets. It has been proposed that the business rates premium is increased by 0.2p to 0.8p in the £ as this will raise £5m in order to cover the support needed by the City Fund along with the Police savings that would balance the budget in 2020/21.

Although the 2020/21 budget can be balanced, City Police are likely to be required to make difficult decisions in order to meet savings targets necessary over the medium-term in order to balance revenue budgets and generate funds needed to deliver capital programmes that are currently unfunded.

#### Planned audit approach

- Review the assumptions used in the Medium Term
  Financial Strategy and assess the reasonableness of the
  cost pressures, the amount of Government grant applied
  and increases in the business premium;
- Monitor the delivery of the budgeted savings in 2019/20 and the plans to reduce costs from 2020/21; and
- Review the strategies and any transformation programmes to close the budget gap after 2020/21.

# SUSTAINABLE FINANCES

CONTENTS

Introduction

Executive summary

Audit scope and objectives

Audit risks

Overview

Police financial management

Sustainable finances

Other matters

Independence

Appendices contents

The Corporation will need to deliver planned savings to maintain financial sustainability in the medium term and there is a significant risk that these savings may not be delivered.

#### City Fund

Assess design & implementation of controls to mitigate

Review work of other inspectorates

Review work undertaken by internal audit

High level review

Risk highlighted by Corporation

#### Risk detail

As at quarter 3 the City Fund forecast an overspend of £1.2m against its 2019/20 budget. The majority of this related to overspends in respect of the Barbican due to increased costs and a delay in restructuring teams to deliver agreed savings. All non-statutory or uncommitted spend has been put on hold and changes to the programme in the final quarter have been put in place to try and manage the projected overspend.

The 2020/21 City Fund budget forecasts a surplus of £27.3m. This has mainly been achieved through opportunities to increase income and make savings that do not impact on front line services, as identified by the Fundamental Review. This includes income proposals of £19.5m, savings/resource reductions of £8.8m and a £6.7m draw on reserves. The Government has also pushed back its reform of Business Rates to 2021/22 which means there is an extra year of retaining the current level of rates before they are reduced. Despite the savings made to date in the Fundamental review and those identified over the next year. City Fund faces substantial growing deficits over the medium term starting in 2021/22 (£15.2m) growing to a deficit of £31m by the end of 2023/24 which, at present, can only be reduced and budgets balanced through use of reserves.

The impact of capital projects, such as the Museum of London and the combined courts building, is a major factor contributing to these deficits in the medium-term and over a longer 10-year horizon. The deficit could increase if the financial strategy is weighted towards borrowing, rather than asset disposal, due to the statutory need to provide an annual contribution to debt repayment. Budgets over the medium-term also include a substantial proportion (25%) of proposals relating to income generation which, the achievement of, is far less certain than cost savings and therefore a risk to the sustainability of the MTFS.

Identifying the required savings in the medium-term will be a challenge and is likely to require difficult decisions around service provision.

#### Planned audit approach

- Review the assumptions used in the Medium Term
  Financial Strategy and assess the reasonableness of
  the cost pressures, the level of Government grant and
  business rates applied and income generation
  proposals;
- Monitor the delivery of the budgeted savings in 2019/20 and the plans to reduce costs from 2020/21; and
- Review the strategies and any transformation programmes to close any budget gap after 2020/21.

#### Other matters

# OTHER MATTERS REQUIRING FURTHER DISCUSSION

#### CONTENTS

Introduction

Executive summary

Audit scope and objectives

Audit risks

Use of resources risks

#### Other ma

Other matters requiring further discussion

IT general controls

Independence

Appendices contents

#### Fraud

Whilst the Chamberlain and the Court of Common Council have ultimate responsibility for the prevention and detection of fraud, and the Audit and Risk Management Committee has oversight of the Anti-Fraud and Corruption strategy as those charged with governance, 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 approach includes the consideration of fraud throughout the audit and includes making enquiries of management and those charged with governance.

For City Fund, we have been made aware of a number of low value actual, alleged or suspected incidences of fraud committed by users of the Corporation's services (misuse of blue badges, benefits fraud, RTB discounts, sublet of housing, claiming of council tax or NDR reliefs etc.). We request confirmation from the Audit and Risk Management Committee on fraud and a discussion on the controls and processes in place to ensure timely identification and action.

We have not been made aware of any instances of actual/ suspected fraud at the other entities.

We will review the fraud register and liaise with internal audit 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. In particular, we will make enquiries of management outside of the finance function where the risk of fraud could originate.

#### Significant estimates

We will report to you on significant estimates. We will seek to understand and perform audit testing procedures on accounting estimates and judgements including consideration of the outcome of historic judgements and estimates. We will report to you our consideration of whether management estimates and judgements are within an acceptable range.

#### Laws and regulations

We will consider compliance with laws and regulations. The most significant of these for your business includes VAT legislation and Employment Taxes. We will make enquiries of management and review correspondence with the relevant authorities.

#### Internal audit

We will ensure that we maximise the benefit of the overall audit effort carried out by internal audit and ourselves, whilst retaining the necessary independence of view.

We understand that internal audit reviews have been undertaken across a range of accounting systems and governance subjects. We will review relevant reports as part of our audit and consider whether to place any reliance on internal audit work as evidence of the soundness of the control environment.

#### **Accounting policies**

We will report to you on significant qualitative aspects of your chosen accounting policies. We will consider the consistency and application of the policies and we will report to you where accounting policies are inconsistent with the applicable financial reporting framework for each fund, relevant accounting standards or other direction under the circumstances.

#### Financial statement disclosures

We will report to you on the sufficiency and content of your financial statement disclosures.

#### Any other matters

We will report to you on any other matters relevant to the overseeing of the financial reporting process. Where applicable this includes why we consider a significant accounting practice that is acceptable under the financial reporting framework not to be the most appropriate.

# IT GENERAL CONTROLS

CONTENTS

Introduction

Executive summary

Audit scope and objectives

Audit risks

Use of resources risks

ther matte

Other matters requiring further discussion

IT general controls

Independence

Appendices contents

IT General Controls (ITGCs) are the policies and procedures that relate to many IT applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. They commonly include controls over data centre and network operations; system software acquisition, change and maintenance; access security; and application system acquisition, development, and maintenance.

ITGCs are an important component in systems of internal control, and sometimes have a direct impact on the reliability of other controls.

IT assurance is embedded in our audit strategy to ensure the IT systems provide a suitable platform for the control environment and is undertaken in conjunction with our IT Assurance team. Our testing strategy, supported by our Technology Risk Assurance specialists, includes a tailored range of data analytics, system configuration and IT environment testing.

We will also obtain an understanding of the information system, including the related business processes relevant to financial reporting, to include:

- Oracle
- Paris
- iTrent
- Northgate (City Fund only)
- Capita (City Fund only)
- Altair (Pension Fund only)
- Blackbaud Grant Making (BHE only)



# Independence

# **INDEPENDENCE**

**CONTENTS** 

Introduction

Executive summary

Audit scope and objectives

Audit risks

Use of resources risks

Other matters

Independence

Appendices contents

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 ending 31 March 2020.

#### Non-audit services

Details of services and fees other than audit, provided by us to the Corporation during the period and up to the date of this report are set out in the appendices. Details of rotation arrangements for key members of the audit team and others involved in the engagement are set out in the appendices.

Details of other threats and safeguards applied are given in the appendices.

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

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

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

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



# **APPENDICES CONTENTS**

| Α | Responsibilities                        | 38 |
|---|---|----|
|   | Corporation's responsibilities          | 38 |
|   | Our responsibilities                    | 40 |
|   | Communication with you                  | 41 |
|   | Audit timeline                          | 42 |
| В | Independence                            | 43 |
|   | Team Member rotation                    | 43 |
| С | Materiality                             | 44 |
|   | Materiality: Definition and application | 44 |

|   | Materiality: Principal entities | 46 |
|---|---------------------------------|----|
|   | Materiality: Other entities     | 47 |
| D | Audit quality                   | 51 |
|   | AQR results 2018/19             | 51 |
|   | Cycle of continuous improvement | 52 |

## Responsibilities

## CORPORATION'S RESPONSIBILITIES

## The Corporation's responsibilities and reporting

#### **CONTENTS**

#### Responsibilities

Corporation's responsibilities 2

Our responsibilities

Communication with you

Audit timeline

Independence

Materiality

Materiality: Definition and application

Materiality: Principal entities

Materiality: Other entities

Materiality: Other entities 2

Materiality: Other entities 3

Materiality: Other entities 4

Audit quality

Cycle of continuous improvement

## Financial reporting

The Corporation is expected to have effective governance arrangements to deliver its objectives. To this end, the publication of the financial statements is an essential means by which the Corporation accounts for its stewardship and use of the public and charitable money at its disposal.

The form and content of the Corporation's financial statements for each fund/entity should reflect the requirements of the relevant accounting and reporting framework in place and any applicable accounting standards or other direction under the circumstances.

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.

## City Fund and Pension Fund

The Chamberlain (as Section 151 Officer) is responsible for preparing and publishing a Statement of Accounts and financial statements which show a true and fair view in accordance with CIPFA Code of Practice on Local Authority Accounting 2019/20, applicable accounting standards or other direction under the circumstances.

The Corporation is also required to prepare schedules or returns to facilitate the preparation of consolidated accounts such as HM Treasury's Whole of Government Accounts for the City Fund.

## City's Cash

The Corporation is responsible for preparing the annual report and financial statements for City's Cash. The Corporation has elected to prepare the financial statements in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102).

## Bridge House Estates and the Sundry Trusts

The Trustee is responsible for preparing and filing an annual report and financial statements which show a true and fair view and are prepared in accordance with the Charities Act 2011, FRS 102, the Charities SORP (2<sup>nd</sup> Edition) and the provisions of the charities' governing documents.

## Guildhall School of Music and Drama

The Trustee is responsible for preparing an Income and Expenditure report in accordance with the Further and Higher Education SORP 2015.

### Use of resources - City Fund

Local authorities are required to maintain an effective system of internal control that supports the achievement of their policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at their disposal.

As part of the material published with its financial statements, the City Fund is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement.

In preparing its governance statement, the Corporation will tailor the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on their arrangements for securing value for money from their use of resources.

# **CORPORATION'S RESPONSIBILITIES 2**

# Responsibilities Corporation's responsibilities 2 Our responsibilities Communication with you Audit timeline Independence Materiality Materiality: Definition and application Materiality: Other entities Materiality: Other entities 2 Materiality: Other entities 3 Materiality: Other entities 4

Audit quality

| Corporation's responsibilities   | What this means  |
|--|--|
| Maintain adequate accounting records and maintain an appropriate system of internal control for the organisation   | Further information regarding these responsibilities is provided in the engagement letters.  |
| • Prepare the annual report and the financial statements which give a true and fair view   | We are happy to explain these in more detail to you.   |
| <ul> <li>Safeguard the assets of the organisation and take reasonable steps for<br/>the prevention and detection of fraud and other irregularities.</li> </ul>   |  |
| To make available to us, as and when required, all the organisation's accounting records and related financial information.  | This includes information required from subsidiary companies incorporated in the UK and officers, employees or auditors of those subsidiary companies.   |
| To provide us with relevant committee 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 of fellow members of the Corporation and the organisation's auditors, state that:  | In addition to answering our queries, this requires proactive behaviour in order to make us aware of any relevant information. Relevant information is   |
| • So far as they are aware, there is no relevant audit information of which the organisation's auditors are unaware  | very broad and includes any information needed in connection with our report.  |
| They have taken all reasonable steps they ought to have taken in order to make themselves aware of any relevant audit information and to establish that the organisation's auditors are aware of that information. | It would, for example, include (but clearly not be limited to) the details of any contracts and agreements (including side contracts and agreements), or any matters that could affect our assessment of your going concern review such as any matters that you are aware of that might affect future trading or any special arrangements with HRMC or your inclusion in a Banks 'special lending division' or equivalent. |

## **OUR RESPONSIBILITIES**

## Responsibilities and reporting

#### **CONTENTS**

Responsibilities

Corporation's responsibilities 2

Our responsibilities

Communication with you

Audit timeline

Independence

Materiality

Materiality: Definition and

application

Materiality: Principal entities

Materiality: Other entities

Materiality: Other entities 2

Materiality: Other entities 3

Materiality: Other entities 4

Audit quality

Cycle of continuous improvement

## Our responsibilities and reporting - financial statements

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on the financial statements of each fund of the Corporation. 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 for each fund 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.

For statutory other information (defined by the Charities SORP) for the charities 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 legal requirements.

## Our responsibilities and reporting - use of resources

We are required to satisfy ourselves that the Corporation, in respect of the activities of the City Fund, has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

This means that we have regard to relevant guidance issued by the NAO and undertake sufficient work to be able to satisfy ourselves as to whether the Council has put arrangements in place that support the achievement of value for money.

## What we don't report

Our audit is not designed to identify all matters that may be relevant to the Corporation and 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.



## **COMMUNICATION WITH YOU**

#### **CONTENTS**

Responsibilities

Corporation's responsibilities 2

Our responsibilities

#### Communication with you

Audit timeline

Independence

Materiality

Materiality: Definition and application

Materiality: Principal entities

Materiality: Other entities

Materiality: Other entities 2

Materiality: Other entities 3

Materiality: Other entities 4

Audit quality

Cycle of continuous improvement

## Those charged with governance

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.

In communicating with the Corporation, we consider those charged with governance of the other entities within the scope of this report to be informed about matters relevant to their charity, company or fund. Please let us know if this is not appropriate.

## 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 will meet with management throughout the audit process. We will issue regular updates and drive the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

## **Planning Report**

The Planning Report sets out all planning matters which we want to draw to your attention including audit scope, our assessment of audit risks and materiality.

#### Internal Controls

We will consider internal controls relevant to the preparation of financial statements in order to design our audit procedures and complete our work. This is not for the purpose of expressing an opinion on the effectiveness of internal control.

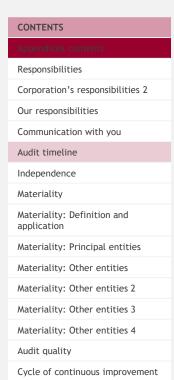
## **Audit Completion Report**

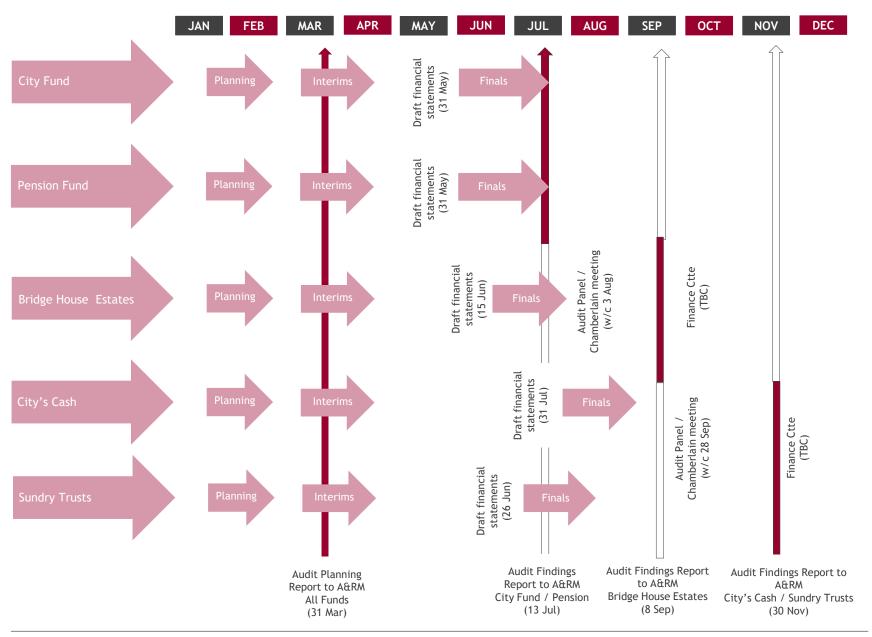
At the conclusion of the audit, we will issue an Audit Completion Report for each fund to communicate to you key audit findings before concluding our audit opinion. We will include any significant deficiencies in internal controls which we identify as a result of performing audit procedures. We will meet with you to discuss the findings and in particular to receive your input on areas of the financial statements involving significant estimates and judgements and critical accounting policies.

Once we have discussed the contents of the Audit Completion Report with you and having resolved all outstanding matters we will issue a final version of the Report.

# **AUDIT TIMELINE**

# An overview of the key dates





## Independence

# **TEAM MEMBER ROTATION**

These tables indicate the latest rotation periods normally permitted under the FRC's Ethical Standards for independence.

In order to safeguard audit quality we will employ a policy of gradual rotation covering the team members below as well as other senior members of the engagement team to ensure a certain level of continuity from year to year.

| Senior team members                        | City Fund | Pension Fund | City's Cash | Bridge House<br>Estates | Sundry Trusts | GSM&D | Rotation to take place before                 |
|--|-----------|--------------|-------------|-------------------------|---------------|-------|---|
| Leigh Lloyd-Thomas - Engagement Lead       | 5         | 5            |             |                         |               |       | 10 years (5 years if direct PSAA appointment) |
| Fiona Condron - Engagement Lead            |           |              | 2           | 2                       | 2             | 2     | 10 years                                      |
| Kerry Barnes - Senior Manager (1)          | 3         |              |             |                         |               |       | 10 years                                      |
| Peter Lewis - Senior Manager               |           |              | 2           | 2                       | 2             | 2     | 10 years                                      |
| Francesca Palmer - Audit Manager           |           | 1            |             |                         |               |       | 10 years                                      |
| James Hay - Audit Manager                  |           |              | 2           | 2                       | 2             | 2     | 10 years                                      |
| Grace Emson - Audit Assistant Manager      |           |              | 1           | 1                       | 1             | 1     | 10 years                                      |
| Independence - audit quality control       |           |              |             |                         |               |       |   |
| Engagement Quality Control Reviewer (EQCR) | 2         | 2            |             |                         |               |       |   |

<sup>(1)</sup> Kerry Barnes was the Audit Manager for 2015/16 and 2016/17, this is Kerry's third year overall. Francesca Palmer was the Audit Manager for the City Fund for 2017/18 and 2018/19.

## City Fund and Pension Fund

Regulations prescribe that any local public body with gross income or expenditure greater than £500 million, or maintains a pension fund with gross assets greater than £1 billion or more than 20,000 members, is classified as a 'major local audit'. A major local audit is subject to enhanced independent quality control review. It also falls within the scope of the Financial Reporting Council's Audit Quality Review Team.

In 2018/19, the City Fund and pension fund exceeded the thresholds above and became a 'major local audit' as the pension fund had gross assets greater than £1 billion. The engagement therefore required the appointment of an Engagement Quality Control Review to provide an additional independent review of the audit. This is expected to continue for 2019/20, as is the fact that gross expenditure is expected to be over £500m.

Cycle of continuous improvement

Audit quality

## Materiality

## MATERIALITY: DEFINITION AND APPLICATION

#### **CONTENTS**

Responsibilities

Corporation's responsibilities 2

Our responsibilities

Communication with you

Audit timeline

Independence

## Materiality

Materiality: Definition and application

Materiality: Principal entities

Materiality: Other entities

Materiality: Other entities 2

Materiality: Other entities 3

Materiality: Other entities 4

Audit quality

Cycle of continuous improvement

## Concept and definition

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):

- Narrative disclosure e.g. accounting policies, going concern
- Instances when greater precision is required (e.g. senior managers remuneration and related party transactions).

International Standards on Auditing (UK) also allow the auditor to set a lower level of materiality for particular classes of transaction, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

#### Calculation and determination

We have determined materiality based on professional judgement in the context of our knowledge of the Corporation, including consideration of factors such as industry developments, financial stability and reporting requirements for the financial statements.

We determine materiality in order to:

- Assist in establishing the scope of our audit engagement and audit tests
- Calculate sample sizes
- Assist in evaluating the effect of known and likely misstatements on the financial statements.

## Reassessment of materiality

We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.

Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope.

## MATERIALITY: DEFINITION AND APPLICATION

#### **CONTENTS**

Responsibilities

Corporation's responsibilities 2

Our responsibilities

Communication with you

Audit timeline

Independence

Materiality

Materiality: Definition and application

Materiality: Principal entities

Materiality: Other entities

Materiality: Other entities 2

Materiality: Other entities 3

Materiality: Other entities 4

Audit quality

Cycle of continuous improvement



If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.

You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

#### **Unadjusted errors**

We will communicate to you all uncorrected misstatements identified during our audit, other than those which we believe are 'clearly trivial'.

Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.

We will obtain written representations from the Audit and Risk Management Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.

We will request that you correct all uncorrected misstatements. In particular we would strongly recommend correction of errors whose correction would affect compliance contractual obligations or governmental regulations. Where you choose not to correct all identified misstatements we will request a written representation from you setting out your reasons for not doing so and confirming that in your view the effects of any uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as whole.

# **MATERIALITY: PRINCIPAL 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.

|                      |             | 2019     | 9/20                    | 2018/19             |             |                      |          |
|----------------------|-------------|----------|-------------------------|---------------------|-------------|----------------------|----------|
|                      | Materiality | Trivial  | Specific<br>materiality | Specific triviality | Materiality | Specific materiality | Trivial  |
| City Fund            | £32.3m      | £646,000 | £7.2m                   | £144,000            | £32.7m      | £7.2m                | £654,000 |
| Pension Fund         | £10.6m      | £212,000 | £2.09m                  | £42,000             | £10.6m      | £2.09m               | £210,000 |
| Bridge House Estates | £31m        | £625,000 | £2.15m                  | £43,000             | £14.5m      | £425,000             | £290,000 |
| City's Cash          | £65.5m      | £1.3m    | £8.34m                  | £167,000            | £32.8m      | £1.6m                | £657,000 |

| CONTENTS                                |
|---|
| Appendices contents                     |
| Responsibilities                        |
| Corporation's responsibilities 2        |
| Our responsibilities                    |
| Communication with you                  |
| Audit timeline                          |
| Independence                            |
| Materiality                             |
| Materiality: Definition and application |
| Materiality: Principal entities         |
| Materiality: Other entities             |
| Materiality: Other entities 2           |
| Materiality: Other entities 3           |
| Materiality: Other entities 4           |
| Audit quality                           |

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. Specific materiality is applied to those areas of the financial statements where a misstatement would normally affect net income before investment gains and losses.

|  | 2019/20     |        |                         |             |  |
|--|-------------|--------|-------------------------|-------------|--|
|  | Materiality | СТ     | Specific<br>materiality | Specific CT |  |
|  | £           | £      | £                       | £           |  |
| Ashtead Common Preservation of the common at Ashtead   | 11,000      | 1,000  | -                       | -           |  |
| Burnham Beeches<br>Preservation of the open space known as Burnham<br>Beeches                                      | 21,500      | 1,000  | -                       | -           |  |
| <b>Epping Forest</b> Preservation of Epping Forest in perpetuity   | 156,000     | 3,000  | -                       | -           |  |
| Hampstead Heath (consolidated) Preservation of Hampstead Heath for the recreation and enjoyment of the public      | 1,050,000   | 21,000 | 480,000                 | 9,000       |  |
| Highgate Wood & Queens Park Kilburn Preservation of Hampstead Heath for the recreation and enjoyment of the public | 28,000      | 1,000  | -                       | -           |  |
| West Ham Park To maintain and preserve the Open Space known as West Ham Park                                       | 30,000      | 1,000  | -                       | -           |  |

In accordance with BDO audit methodology, clearly trivial should be set at 2% of materiality for both financial statement and specific materiality. For many of the smaller charities, this results in a very small value in absolute terms.

We therefore seek the Committee's approval to report to you individual clearly trivial items of a value greater than £1,000. Our audit procedures will however consider any items at the lower levels of clearly trivial both individually and in aggregate.

## **CONTENTS** Responsibilities Corporation's responsibilities 2 Our responsibilities Communication with you Audit timeline Independence Materiality Materiality: Definition and application Materiality: Principal entities Materiality: Other entities Materiality: Other entities 2 Materiality: Other entities 3 Materiality: Other entities 4 Audit quality

| CONTENTS                                |
|---|
| Appendices contents                     |
| Responsibilities                        |
| Corporation's responsibilities 2        |
| Our responsibilities                    |
| Communication with you                  |
| Audit timeline                          |
| Independence                            |
| Materiality                             |
| Materiality: Definition and application |
| Materiality: Principal entities         |
| Materiality: Other entities             |
| Materiality: Other entities 2           |
| Materiality: Other entities 3           |
| Materiality: Other entities 4           |
| Audit quality                           |

|   | 2019/20     |        |                         |             |  |
|---|-------------|--------|-------------------------|-------------|--|
|   | Materiality | СТ     | Specific<br>materiality | Specific CT |  |
|   | £           | £      | £                       | £           |  |
| West Wickham Common and Spring Park Coulsdon & Other Commons Preservation of West Wickham Common and Spring Park Coulsdon & Other Commons | 28,000      | 1,000  | -                       | -           |  |
| Hampstead Heath Trust To meet a proportion of the maintenance cost of Hampstead Heath   | 665,000     | 13,000 | 67,500                  | 1,000       |  |
| Keats House<br>Maintenance of Keats House   | 7,000       | 1,000  | -                       | -           |  |
| Sir Thomas Gresham Charity * To provide a programme of public lectures  | 1,000       | -      | -                       | -           |  |
| Charities Administered ICW the City of London<br>Freemen's School<br>Promotion of education through prizes                                | 4,000       | 1,000  | -                       | -           |  |
| City Educational Trust Fund<br>Advancement of education through grants  | 77,000      | 1,500  | 12,500                  | 1,000       |  |
| City of London Almshouses<br>Almshouses for poor or aged people   | 63,500      | 1,000  | 18,500                  | 1,000       |  |

<sup>\*</sup> Given the low volume and value of transactions a de-minimus level of £1,000 is proposed for materiality.

| CONTENTS                                |
|---|
| Appendices contents                     |
| Responsibilities                        |
| Corporation's responsibilities 2        |
| Our responsibilities                    |
| Communication with you                  |
| Audit timeline                          |
| Independence                            |
| Materiality                             |
| Materiality: Definition and application |
| Materiality: Principal entities         |
| Materiality: Other entities             |
| Materiality: Other entities 2           |
| Materiality: Other entities 3           |
| Materiality: Other entities 4           |
| Audit quality                           |

|  | 2019/20     |       |                         |                |
|--|-------------|-------|-------------------------|----------------|
|  | Materiality | СТ    | Specific<br>materiality | Specific<br>CT |
| City of London Corporation Combined Education Charity<br>Advancing education by the provision of grants and<br>financial assistance              | 23,000      | 1,000 | -                       | -              |
| City of London Corporation Relief of Poverty Charity<br>Relief of poverty for widows, widowers or children of a<br>Freemen of the City of London | 10,000      | 1,000 | -                       | -              |
| City of London Freemen's School Bursary Fund<br>Promotion of education through bursaries   | 19,500      | 1,000 | -                       | -              |
| City of London School Bursary Fund<br>Promotion of education through bursaries, scholarships and<br>prizes                                       | 80,500      | 1,500 | -                       | -              |
| City of London School Education Trust * Advancing education  | 1,000       | -     | -                       | -              |
| City of London School for Girls Bursary Fund<br>Promotion of education through bursaries, scholarships and<br>prizes                             | 94,500      | 1,500 | 36,000                  | 1,000          |
| Corporation of London Charities Pool<br>Investments pool for Sundry Trusts   | 434,000     | 8,500 | 66,000                  | 1,000          |
| Emmanuel Hospital Payment of pensions and financial assistance to poor persons   | 54,000      | 1,000 | -                       | -              |
| Guildhall Library Centenary Fund * Provision of education and training in library, archives, museum, and gallery services                        | 1,000       | -     | -                       | -              |

<sup>\*</sup> Given the low volume and value of transactions a de-minimus level of £1,000 is proposed for materiality.

| CONTENTS                                |
|---|
| Appendices contents                     |
| Responsibilities                        |
| Corporation's responsibilities 2        |
| Our responsibilities                    |
| Communication with you                  |
| Audit timeline                          |
| Independence                            |
| Materiality                             |
| Materiality: Definition and application |
| Materiality: Principal entities         |
| Materiality: Other entities             |
| Materiality: Other entities 2           |
| Materiality: Other entities 3           |
| Materiality: Other entities 4           |
| Audit quality                           |

|  |             | 2019/20 | )                       |                |
|--|-------------|---------|-------------------------|----------------|
|  | Materiality | СТ      | Specific<br>materiality | Specific<br>CT |
| King George's Field Open space for sports, games and recreation  | 1,000       | -       | -                       | -              |
| Samuel Wilson's Loan Trust Granting of low interest loans to young people who have or are about to set up in business  | 51,000      | 1,000   | 4,000                   | 1,000          |
| Sir William Coxen Trust Fund<br>Granting of assistance to eligible charitable trusts in the<br>form of donations   | 53,000      | 1,000   | -                       | -              |
| Vickers Dunfee Memorial Benevolent Fund<br>Financial assistance to distressed past and present members<br>of the City of London Special Constabulary and their<br>dependents | 4,500       | 1,000   | -                       | -              |
| Guildhall School of Music and Drama A Higher Education Institution offering professional training in music, acting and technical theatre arts                                | 665,000     | 13,000  | -                       | -              |

<sup>\*</sup> Given the low volume and value of transactions a de-minimus level of £1,000 is proposed for materiality.

## Audit quality

# AQR RESULTS 2018/19

## **BDO** performance

#### **CONTENTS**

Responsibilities

Corporation's responsibilities 2

Our responsibilities

Communication with you

Audit timeline

Independence

Materiality

Materiality: Definition and application

Materiality: Principal entities

Materiality: Other entities

Materiality: Other entities 2

Materiality: Other entities 3

Materiality: Other entities 4

Audit quality

Cycle of continuous improvement

#### Overview

The FRC released their Audit Quality Review (AQR) results for the 7 largest accountancy firms in July 2019 for the review period 2018/19. A copy of all of the reports can be found on the FRC Website. We are very proud of our results in this review period where, for the second year running, 7 of the 8 files reviewed were assessed as either good or requiring only limited improvements.

## Firm's results

The graphs demonstrates our performance in relation to the other 6 largest firms and our continuous improvements and maintenance of that improvement over the last 6 review periods .

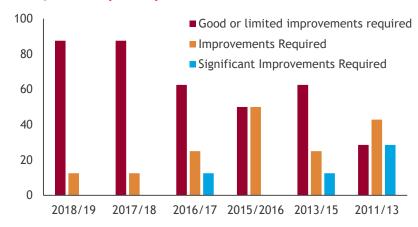
We include details of our model 'The Cycle of Continuous Improvement' on the next page. We acknowledge that the firm has performed well over the last few years however we are not complacent and need a strong process in place to maintain this high level of audit quality and deal rapidly and effectively with issues as they arise. This also highlights how our program of root cause analysis plays an important role in high audit quality.

We would encourage you to read our report which includes:

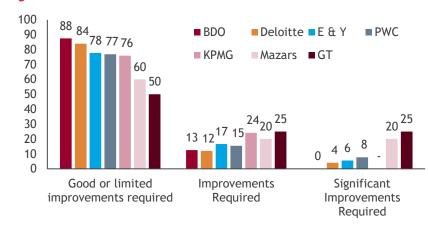
- Details of the root cause analysis we have been undertaking to address issues raised;
- The actions we have/are undertaking to address the issues raised by the AQR; and
- A number of areas of good practice the AQR review team identified whilst undertaking their review.

More details is included in our Transparency Report available on www.bdo.co.uk.

## BDO AQR Results - year on year



## Big 7 Firms - Results 2019



## CYCLE OF CONTINUOUS IMPROVEMENT

#### **CONTENTS**

Responsibilities

Corporation's responsibilities 2

Our responsibilities

Communication with you

Audit timeline

Independence

Materiality

Materiality: Definition and application

Materiality: Principal entities

Materiality: Other entities

Materiality: Other entities 2

Materiality: Other entities 3

Materiality: Other entities 4

Audit quality

Cycle of continuous improvement

Live files require:

Review of audit quality by senior team members

#### and may require:

- Hot review of financial statements
- Technical support for audit work
- Appointment of engagement quality control reviewer

Completed files may be subject to:

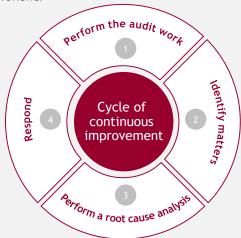
- Internal Audit Quality Assurance
   Review
  - External review from AQR or QAD

Considerations of how to address:

- Behavioural matters
- · Operational changes required
- Cultural matters to be escalated

#### Responses may include:

- Updating operational practices
- Embedding matter into performance review and development process for staff
- Staff coaching
- Amending audit approach firm-wide or for specific assignments
- Targeted messaging to relevant audiences (e.g. grades, ranks or sector specialists)
- Updated guidance material Responses inform training plans



Nature of matters may be:

- Client/assignment specific issues
- Common findings/repeating issues that have need to be tracked and/or escalated
- Firm-wide matters
- "Best practice" examples

May be at Individual assignment or 'whole-firm' level:

- Identification and assessment of root cause
- Productive process to learn from matters and improve quality
- "Best practice" examples treated in the same way as "issues"
- Consideration of appropriate responses to issues identified, proposed and escalated as appropriate

FOR MORE INFORMATION:

Leigh Lloyd-Thomas

t: 020 7983 2616

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

Fiona Condron

t: 01293 591 102

e: fiona.condron@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.

© 2020 BDO LLP. All rights reserved.

www.bdo.co.uk