Report to the Audit and Risk Management Committee

CITY OF LONDON CORPORATION PENSION FUND

Audit Completion Report:

Year ended 31 March 2020

IDEAS | PEOPLE | TRUST

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WELCOME
Introduction

Contents

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

It summarises the results of completing the planned audit approach for the year ended 31 March 2020, specific audit findings and areas requiring further discussion and/or the attention of the Audit and Risk Management Committee. At the completion stage of the audit it is essential that we engage with the Audit and Risk Management Committee on the results of our audit of the financial statements comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

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

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

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

Leigh Lloyd-Thomas

20 October 2020

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and use of resources. This report has been prepared solely for the use of the Audit and Risk Management Committee and Those Charged with Governance 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.

Contents

This summary provides an overview of the audit matters that we believe are important to the Audit and Risk Management Committee in reviewing the results of the audit of the financial statements of the Pension Fund for the year ended 31 March 2020.

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

Overview

Our audit work is substantially complete and subject to the successful resolution of outstanding matters, we anticipate issuing our opinion on the financial statements for the year ended 31 March 2020 in line with the agreed timetable.

Outstanding matters are listed on page 33 in the appendices.

The following change was made to the planned audit approach as a result of Covid-19 where we revised the risk from normal to significant in relation to the valuation of private equity, infrastructure and property fund investments at March 2020.

No restrictions were placed on our work.

Audit report

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

THE NUMBERS

Executive summary

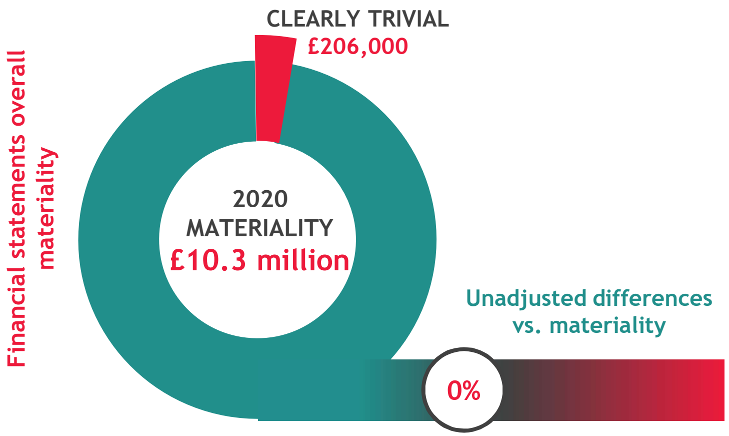
Contents

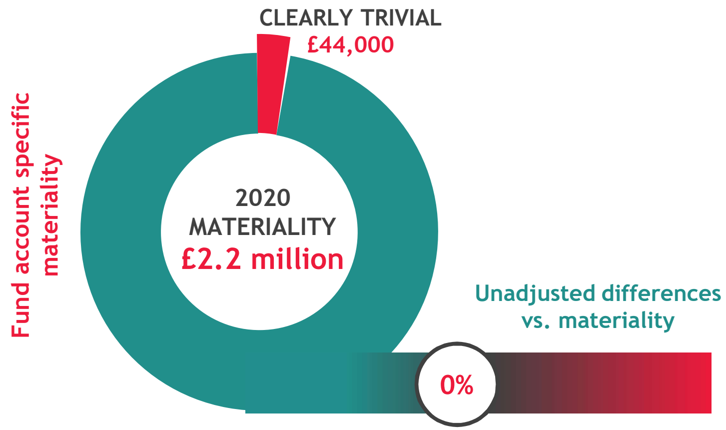
Final materiality

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

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

We decreased our materiality from the planning Materiality of £10.6 million to £10.3 million as a result of the decrease in the valuations of investment assets at year end.





Audit adjustments

Management has adjusted the financial statements to reduce the valuation of private equity investments by £3.1 million following receipt of updated valuations at 31 March 2020 after the draft financial statements had been prepared.

The pension liability was increased by £6.0 million as a result of incorrect contributions income estimated by the actuary based on inaccurate cash flow information provided by the Corporation.

Unadjusted audit differences

There are no remaining audit differences based on the work completed to date.

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Financial reporting

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

Other matters that require discussion or confirmation

- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation.

Independence

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

CORONAVIRUS IMPACT

The effects on year-end reporting and auditing

Contents

The emergence and spread of Coronavirus has had an effect on business and markets around the world. Guidance is now available to assist in identifying the potential corporate reporting and auditing issues and consequences of the virus, and there have been a number of local government specific issues, including relaxations to accounts preparation and audit timetables.

However, given the fast moving and ever changing nature of the situation, aspects of this guidance will change over time. The outbreak is an in-year event and will impact the valuations, estimations and disclosures reflected in the financial statements for periods ending on or after 31 March 2020.

Going concern

In respect of going concern, the s151 Officer is required to consider events that have occurred both before and after the balance sheet date when determining whether there is a material uncertainty over the ability to continue as a going concern. Consequently, forecast financial information and sensitivity analysis (which may require additional and/or different potential variances to be included) will need to factor in the estimated effects of the Coronavirus pandemic.

A common approach that is developing, and which BDO is encouraging, in relation to each set of financial statements that is prepared for audit is:

- The assessment of going concern the s151 Officer is required to undertake needs to explicitly consider the impact of Coronavirus to accommodate the uncertainty prevailing and must cover the period of at least 12 months from the date of signing the financial statements. The assessment may not be limited to this period if there are foreseen events or conditions beyond this period which may influence the economic decisions of users.
- The assessment needs to consider the entity's resilience through three lenses - operational capability (closed locations, reduced workforce through illness, breakdown in supply chain), demand for services (effect on income and expenditure) and structural finance (liquidity and access to committed facilities).
- If the s151 Officer consider that there are material uncertainties, this will need to be referenced in the relevant disclosure and will result in a material uncertainty reference in the audit report (albeit the audit opinion is not qualified).
- The going concern disclosures in the basis of preparation note in the financial statements will also need to be enhanced.

Within local government, the Government's commitment to ensure that local authorities are adequately compensated for additional expenditure incurred or income lost directly as a result of the Coronavirus pandemic, removes some of the uncertainty faced by non-public sector entities. However, the assessment of going concern, and associated disclosures in the financial statements, are still expected to fully consider and record the impact of Coronavirus.

The auditor's review of s151 Officer's assessments must be greater than normal, will require more evidence, and will continue to be performed through to the point of signing the audit report.

Valuations of financial and non-financial assets and liabilities

Data used in valuations of financial and non-financial assets and liabilities should be based on forecasts, projections and assumptions that were reasonable and supportable at the balance sheet date. For 31 March 2020 year ends, given that the significant development and spread of Coronavirus occurred within the financial year and that the World Health Organisation announced a global health emergency on 31 January 2020, the estimated impact of the Coronavirus pandemic will need to be factored into this data.

Pension Fund Annual Report

Pension Funds will need to monitor developments and ensure that they are providing up-to-date and meaningful disclosures when preparing their Annual Reports.

CORONAVIRUS IMPACT

The effects on year-end reporting and auditing

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Other guidance

The National Audit Office (NAO) has published a Guide for Audit Committees on financial reporting and management during the Cornavirus pandemic. This guide aims to help Audit Committee members support and challenge the organisations they work with in the following areas:

- Annual reports
- Financial reporting
- The control environment
- Regularity of expenditure.

In each section of the guide, the NAO has set out some questions to help audit committee members understand and challenge activities. Each section can be used on its own, although the NAO would recommend that audit committee members consider the whole guide, as the questions in other sections may be interrelated.

The guide may also be used as organisations and audit committees consider reporting in the 2020/21 period when more specific and detailed reporting on the outbreak will be required.

The guide is available through the following link:

https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/

Implications for auditors

The impact of Coronavirus on going concern is a risk focus area for the audit, and in some cases may be a significant risk. As part of our on-going risk assessment procedures, we need to think about other specific areas and balances where Coronavirus might cause an issue and if this presents an additional risk. This includes the specific considerations in relation to the risks of having services in an affected area and supply chain issues in relation to items coming from these locations.

Personnel from audited entities may be unable to carry out their roles on site and/or be available to meet physically with our audit teams. Likewise, our people may be unable to work at audited entity sites or to travel to our offices, thereby potentially affecting the performance, review and supervision of the engagement team, including that of component or other auditors. We need to:

- Consider the impact on the audited entity
- Consider alternative ways of working including the use of our technology tools
- Consider implications for the quality of audit evidence and reporting.

AUDIT RISKS OVERVIEW

Contents

As identified in our Audit Planning Report dated 17 March 2020 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. We have subsequently revised the risk from normal to significant on the valuation of private equity, infrastructure and property funds investments. These include those risks which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant management estimate or judgement	Use of experts required	Error Identified	Significant control findings	Discussion points / Letter of Representation
Management override of controls	Significant	No	No	No	No	No
Pension liability valuation	Significant	Yes	Yes	Yes	No	No
Valuation of investments (Private equity, infrastructure and property funds)	Significant	No	No	Yes	No	No
Valuation of investments (Pooled investment vehicles and other investments)	Normal	No	No	No	No	No
Pension Contributions	Normal	No	No	No	No	No
Pension Benefits payable	Normal	No	No	No	No	No
Related party transactions	Normal	No	No	No	No	No

Areas requiring your attention

MANAGEMENT OVERRIDE OF CONTROLS

Contents

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

Significant risk	■
Normal risk	
Significant management estimate or judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

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.

Work performed

We carried out the following planned audit procedures:

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

Results

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

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

Conclusion

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

PENSION LIABILITY VALUATION

Contents

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

Significant risk	■
Normal risk	
Significant management estimate or judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	■
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

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

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

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

The estimate is based on the submission of membership data from the 2019 triennial valuation exercise, 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.

Work performed

We carried out the following planned audit procedures:

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

PENSION LIABILITY VALUATION

Contents

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

Results

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

Our review of the accuracy and completeness of the data provided to the actuary for the roll forward valuation at 31 March 2019 is complete. We identified one error in the value of the final pensionable pay for a deferred member in the pension database when checking to source payroll data. We extended our sample by a further 15 deferred pensioners and found no further errors. The error found, when extrapolated over the balance of deferred pensioner liability, is trivial and therefore no further action has been taken.

We identified that incorrect cashflow information was sent to the actuary for employer and employee contributions. The actuary uses this information to estimate the current service costs and accrued benefits for the year and amounts received to fund future benefits. The resubmitted information has resulted in the defined benefit obligation for the pension fund increasing by £6.0 million. This disclosure has been corrected by management.

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

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

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

In July, HM Treasury announced that it would be amending the Teachers Pension scheme to remove the differential in survivor pensions for same sex marriage or civil partnerships following the Goodwin case, and that this will also apply to other public sector pension schemes. This is expected to result in lower survivor pensions although the actuary has not yet assessed the impact on the pension liability. Initial discussions with actuaries suggests that the impact will not be material.

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

Conclusion

The defined benefit obligation has been corrected as a result of incorrect cash flow information being sent to the actuary.

PENSION LIABILITY VALUATION

Significant estimate – LGPS pension liabilities

Scheme pension liabilities (£1,697.4m)

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

The pension liability has decreased from £1,733.5 million to £1,697.4 million (before the adjustment noted on page 12). This includes a reduction of £167.4 million arising from changes to financial assumptions for salary increases of 2.9% (previously 3.9%), pension increases of 1.9% (previously 2.4%), and a change in the rate of discounting scheme liabilities to 2.35% (previously 2.4%). It also includes a gain on demographic assumptions of £12.3 million arising from reduced mortality assumptions of approximately 1.3 years for males and 0.2 years for females as increases in life expectancy have stalled in recent years. The impact of updating membership data from the triennial valuation has increased the liability for 'experience gains and losses' by £81.2 million.

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

Financials:	**Actual used**	**Acceptable range**	**Comments**
- RPI increase	2.7%	2.80-2.65%	Reasonable
- CPI increase	1.9%	1.95-1.85%	Reasonable
- Salary increase	2.9%	2.9%	Reasonable
- Pension increase	1.9%	1.95-1.85%	Reasonable
- Discount rate	2.35%	2.35%	Reasonable
Commutation:	50%	50%	Reasonable
Mortality:			
- Male current	23.2 years	22.8-24.7 years	Reasonable
- Female current	25.8 years	25.2-26.2 years	Reasonable
- Male retired	21.8 years	21.4-23.3 years	Reasonable
- Female retired	24.4 years	23.7-24.7 years	Reasonable
Mortality gains	CMI 2018 (+1.5% improvement rate)		Reasonable

We consider that the assumptions and methodology used by the actuary are appropriate and will result in an estimate of the net pension liability which falls within a reasonable range. Our actuary has provided an estimate of the overall strength of assumptions and this indicates that the estimate has tended towards a prudent (higher) liability mainly due to using the CMI 2018 mortality gains rather than the latest available CMI 2019 tables.

VALUATION OF INVESTMENT ASSETS

Private equity, infrastructure and property funds

There is a risk that private equity infrastructure and property fund investment valuations may not take into account the impact of Covid-19 at 31 March 2020.

Significant risk	■
Normal risk	
Significant management estimate or judgement	
Use of experts	
Unadjusted error	
Adjusted error	■
Additional disclosure required	■
Significant control findings to be reported	
Letter of representation point	

Risk description

Private equity £38.4 million, infrastructure £61.7 million and property funds £66.1 million valuations are provided by the General Partner or fund manager using valuations based on techniques such as enterprise value or discounted cash flows. Market values have risen by £4.6 million in the year.

Audited valuations for private equity are provided at dates that are not coterminous with the accounting year end and need to be updated to reflect cash transactions up to 31 March.

There is also a risk that valuations provided at 31 March 2020 may not have taken into account the impact of Covid-19, especially where the valuations are simply rolled forward from the last audited valuation.

Work performed

We carried out the following planned audit procedures:

- Obtained direct confirmation of valuations from General Partners or fund managers and requested copies of the audited financial statements of the partnerships (and member allocations). We confirmed that appropriate adjustments have been made to the valuations in respect of additional contributions and distributions with the funds;
- Where available, obtained independent assurance reports over the controls operated by the General Partners (private equity) or fund managers for valuations and existence of investments;
- Reviewed updated valuations at 31 March 2020 to assess the impact of Covid-19 and whether valuations are subject to any material uncertainties; and
- Agreed the allocation of amounts for each fund where there is pooling of investments across the Corporation.

Results

Management included private equity valuations based on the December 2019 valuations provided by the General Partners. However, these were subsequently updated at 31 March 2020 after the draft financial statements had been prepared and reduced the valuations by £3.1 million.

We obtained direct confirmation of investment valuations from the General Partners or fund managers. We obtained assurance reports over the controls operated by General Partners or fund managers for valuations. Where these are not commissioned we agreed the December valuations to audited accounts.

We reviewed published information over property funds and noted that the Aviva Lime fund of £28.8 million suspended activity in the fund to preserve liquidity although continued to provide daily pricing. The fund also reported that the underlying property valuations were subject material uncertainty due to market conditions and lack of activity in the sector, and that investors could not redeem their units at the published prices. This uncertainty has been disclosed in the valuation notes. We do not propose reporting an emphasis of matter in the audit report as we consider this is not a material uncertainty against the overall total investment assets.

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

Conclusion

Private equity valuations have been reduced to reflect the updated valuations provided by the General Partners at 31 March 2020.

VALUATION OF INVESTMENT ASSETS

Pooled investment vehicles and other investments

Contents

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

Significant risk	
Normal risk	■
Significant management estimate or judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

The valuation of other investments (pooled investment vehicles) are provided by fund managers and reported on a monthly basis.

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

Work performed

We carried out the following planned audit procedures:

- We obtained direct confirmation of investment valuations from the fund managers and agreed independent valuations, where available, provided by the custodian;
- Obtained independent assurance reports over the controls operated by both the fund managers and custodian for valuations and existence of underlying investments in the funds; and
- Agreed the allocation of amounts for each fund where there is pooling of investments across the funds.

Results

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

We reviewed the independent assurance reports over controls including valuations and noted that there were three fund managers where the reports had been qualified. We reviewed the exceptions and considered the potential impact over the existence of the assets and valuations, and we are comfortable that the gaps in controls or where compliance with the controls could not be evidenced would not resulted in the potential for material misstatement of the valuation of the investments held.

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

Conclusion

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

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

Significant risk	
Normal risk	■
Significant management estimate or judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

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

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

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

Work performed

We carried out the following planned audit procedures:

- Tested amounts payable by employers / receivable by the pension fund for normal contributions including checking to employer payroll records;
- Ensured that income is recognised in the correct accounting period where the employer is making payments in the following month;
- Performed tests over pension strain contributions due from employers for early retirements with undiscounted pensions;
- Agreed total contributions payable by the Corporation (as employer) to the amounts received in the pension fund; and
- Reviewed contributions income in accordance with the Actuary’s Rates and Adjustments Certificate, including specified increased rates to cover the minimum contributions to be paid as set out in the Certificate.

Results

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

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

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

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

Conclusion

Our audit work did not identify any issues.

PENSION BENEFITS PAYABLE

Contents

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

Significant risk	
Normal risk	■
Significant management estimate or judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to be reported	
Letter of representation point	

Risk description

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

Work performed

We carried out the following planned audit procedures:

- For members leaving the scheme and deferring their pension and members becoming entitled to receive pension during the year, we checked a sample of calculations of pension entitlement;
- Checked the correct application of annual pension uplift for members in receipt of benefits;
- Tested a sample of pensioners in receipt of pensions to underlying records to confirm the existence of the member and also reviewed the results of the checks undertaken by ATMOS on the existence of pensioners;
- Cross check payments to movements in the membership statistics.

Results

Annual pension uplifts have been correctly applied at 3% and we did not identify any issues regarding the existence of pensioners.

We checked payments to movements in the membership statistics. Our testing did not identify any payments to deceased members.

We checked calculations of benefit entitlements. Our testing did not identify any issues.

Conclusion

Our audit work did not identified any issues.

RELATED PARTY TRANSACTIONS

Contents

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

- Significant risk
- Normal risk
- Significant management estimate or judgement
- Use of experts
- Unadjusted error
- Adjusted error
- Additional disclosure required
- Significant control findings to be reported
- Letter of representation point

Risk description

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

There is a risk that related party disclosures are not complete and accurate, and disclosed in accordance with the applicable reporting framework for each fund / entity.

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

Work performed

We carried out the following planned audit procedures:

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

Results

Our testing did not identify any undisclosed related party transactions and amounts disclosed in the financial statements were agreed to transaction data and breakdowns of staff costs. Two members had failed to provide declaration of interest returns.

Conclusion

Our audit work did not identify any issues.

OTHER MATTERS

Contents

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

Issue	Comment
Technology Risk Assurance review	We have carried out a review of IT controls across all funds this year and will present a separate report with recommendations to address control deficiencies once the audit for each fund is concluded.
Annual report	We reviewed the annual report and compared it to the CIPFA guidance and checklist. We noted that there are a number of areas were the 'must do' disclosures had not been complied with. Management has updated the report to ensure that these are included and indicated that they will work towards full compliance with the CIPFA requirements.
Audit fees incorrectly disclosed in the financial statements.	We noted that 2018/19 audit fees was incorrectly disclosed in the financial statements. Management has amended the financial statements.
Presentation and missing disclosures in the financial statements	Our review of the draft financial statements identified a number of presentational and other missing/ incorrect disclosures. Management has amended the financial statements.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

Contents

Fraud

Whilst the Chamberlain and Members have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud.

We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Planning Report on 31 March 2020.

Laws and regulations

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

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

ADJUSTED AUDIT DIFFERENCES

Summary for the current year

Contents

There was one audit difference identified by our audit work that was adjusted by management. This decreased net assets by £3.1 million, from £1,031.8 million to £1,028.7 million.

	Fund Account			Net Assets Statement	
Adjusted audit differences	NET DR/(CR) £m	DR £m	(CR) £m	DR £m	(CR) £m
Decrease in net assets / net assets of the fund before adjustments	31.3			1,031.8	
Alternative investments valuation update to March 2020					
DR Change in Market value		3.1			
CR Investment asset valuation					3.1
Decrease in net assets / net assets of the fund after adjustments	34.4			1,028.7	

ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

Contents

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

The following adjusted disclosure matters were noted:

- The pension liability disclosure was corrected to increase the liability by £6.0 million to £1,703.4 million
- Narrative amendments made to the annual report and accounts to improve disclosures as a result of the completion of the annual report checklist and accounts disclosure checklist.

REPORTING ON OTHER INFORMATION

Contents

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

Matter	Comment
We are required to report on whether the financial and non-financial information in the Pension Fund Annual Report is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	We are satisfied that the other information in the Pension Fund Annual Report is consistent with the financial statements and our knowledge.

OTHER DEFICIENCIES

Area	Observation & implication	Recommendation	Management response
Other deficiency	No evidence is retained of management review of the data submitted to the actuary for the triennial valuation.	Evidence of the review of the data submitted to the actuary should be retained.	Evidence will be retained of management's review of the data submitted to the actuary for the triennial valuation.

FOLLOW UP OF PRIOR YEAR DEFICIENCIES

Contents

Area	Issue and impact	Original recommendation	Progress	Management response
Prior year deficiency	Our prior year audit work identified that there was no complete bank reconciliation at year end. We identified that an overpayment of £426,000 relating to recharges by the Corporation to the pension fund was not accounted for in the ledger. A bank reconciliation is a key internal control in order to confirm the accuracy of the cash balance on the balance sheet.	Management should review processes for preparing cash and bank analyses and supporting bank reconciliations. Balances within clearing codes should be cleared down with equal and opposite entries and the total population of reconciling items should be identified, in order to appropriately prepare the bank reconciliations.	The 2020 bank reconciliation has been appropriately prepared. [Closed]	N/A

OVERVIEW

Contents

Opinion on financial statements

We anticipate issuing an unmodified opinion on the financial statements.

Conclusion relating to going concern

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

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

Other information

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

INDEPENDENCE

Contents

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

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

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2020.

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

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

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

We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit that they 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.

FEES

Contents

Fees summary	2019/20 Actual £	2019/20 Planned £	2018/19 Actual £
Audit fee			
Code audit fee	22,000	22,000	22,000
Total fees	**22,000**	**22,000**	**22,000**

APPENDICES CONTENTS

OUR RESPONSIBILITIES

Responsibilities and reporting

Contents

Our responsibilities and reporting

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

We read and consider the 'other information' contained in the Pension Fund Annual report. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

What we don't report

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

ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

Contents

Issue	Comments
Significant difficulties encountered during the audit.	The audit has been very challenging as a result of the Covid-19 lockdown. This has meant that staff on both sides are working from home and therefore the face to face communication/ review of files has not been possible resulting in increased time being spent by both sides in relation to the audit. In addition hard copy files held in the London Metropolitan Archive were not available until later in the audit which has also resulted in delays.
Written representations which we seek.	We enclose a copy of our draft representation letter.
Any fraud or suspected fraud issues.	No exceptions to note.
Any suspected non-compliance with laws or regulations.	No exceptions to note.
Significant matters in connection with related parties.	No exceptions to note.

COMMUNICATION WITH YOU

Contents

Those Charged with Governance (TCWG)

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

Communication, meetings and feedback

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

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

Communication	Date (to be) communicated	To whom
Audit Planning Report	31 March 2020	Audit and Risk Management Committee
Audit completion report	3 November 2020	Audit and Risk Management Committee

OUTSTANDING MATTERS

Contents

We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2020.

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

- Completion of internal quality reviews.
- Receipt of signed letter of representation

AUDIT REPORT

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

Opinion on pension fund financial statements

We have audited the pension fund financial statements of City of London Corporation Pension Fund ("the pension fund") for the year ended 31 March 2020 which comprise the fund account, the net assets statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The framework that has been applied in the preparation of the pension fund financial statements is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and the amount and disposition of the fund's assets and liabilities as at 31 March 2020, other than the liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion on the financial statements

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), the Code of Audit Practice issued by the National Audit Office in April 2015 ("Code of Audit Practice") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the pension fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Other information

The Chamberlain is responsible for the other information. The other information comprises the Narrative report together with all other information included in the Statement of Accounts, other than the pension fund financial statements and our auditor's report thereon. Our opinion on the pension fund financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

AUDIT REPORT

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In connection with our audit of the pension fund financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Chamberlain and City of London Corporation ("the Corporation") as administering authority of the pension fund

As explained more fully in the Statement of the Chamberlain's Responsibilities, the Chamberlain's is responsible for the preparation of the Statement of Accounts, which comprises the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that the financial statements give a true and fair view.

In preparing the pension fund financial statements, the Chamberlain's is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Corporation intends to wind up the scheme or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

AUDIT REPORT

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Use of our report

This report is made solely to the members of City of London Corporation Pension Fund, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in the Responsibilities of the Audited Body and Responsibility of the Auditor within Chapter 2 of the Code of Audit Practice published by the National Audit Office in April 2015. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the City of London and the Corporation's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Leigh Lloyd-Thomas

For and on behalf of BDO LLP, Appointed Auditor

London, UK

[Insert date]

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

FRC PRACTICE AID FOR AUDIT COMMITTEES

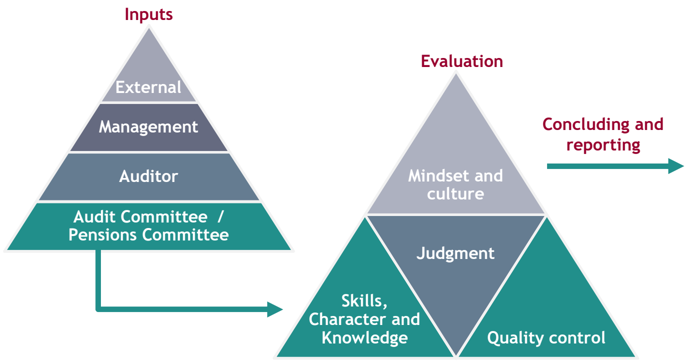
Contents

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

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

It gives guidance for audit committee in the following areas:

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



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

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

LETTER OF REPRESENTATION

[Fund name and Letter headed paper]

BDO LLP
55 Baker Street
London
WIU 7EU

Dear Sir / Madam

Financial statements of City of London Pension Fund for the year ended 31 March 2020

We confirm that the following representations given to you in connection with your audit of the Pension Fund's financial statements for the year ended 31 March 2020 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Corporation.

The Chamberlain has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Pension Fund as of 31 March 2020 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

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

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

Going concern

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

As a result of our assessment we consider that the Pension Fund is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis. Furthermore, we confirm that the disclosures included in note 2 to the financial statements are sufficient.

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

Laws and regulations

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

Post balance sheet events

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

Fraud and error

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

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

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

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LETTER OF REPRESENTATION

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

Misstatements

You have not advised us of any remaining unadjusted misstatements in the financial statements or other information in the Annual Report.

Related party transactions

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

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

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

Carrying value and classification of assets and liabilities

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

Accounting estimates

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

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

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

- Rate of inflation (CPI): 1.9%
- Rate of increase in salaries: 2.9%
- Rate of increase in pensions: 1.9%
- Rate of discounting scheme liabilities: 2.35%
- Commutation take up option: 50%

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

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

Litigation and claims

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

Confirmation

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

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

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each officer and member has taken all the steps that they ought to have taken as an officer or member of the Corporation in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Peter Kane - Chamberlain of London

[date]

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AUDIT QUALITY

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BDO is totally committed to audit quality

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing a necessary actions to address their findings.

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

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

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

FOR MORE INFORMATION:

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