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WELCOME

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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 and use of resources comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

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

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

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

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

[insert signature]

Leigh Lloyd-Thomas

22 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.

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This summary provides an overview of the audit matters that we believe are important to the Audit and Risk Management Committee in reviewing the results of the audit of the financial statements and use of resources of the City 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 and use of resources for the year ended 31 March 2020 in line with the statutory deadline of 30 November 2020.

Outstanding matters are listed on page 57 in the appendices.

The following changes were made to our planned audit approach:

- Enhanced audit procedures to address the material uncertainty reported in respect of Property, Plant and Equipment and Investment Property valuations;
- Elevated risk level from normal to significant in respect of impairment of receivables due to the impact of coronavirus;
- Additional risk identified in respect of going concern due to the impact of pandemic; and
- Additional risk identified in respect of accounting for lease premiums.

No restrictions were placed on our work.

Audit report

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

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

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

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Final overall materiality

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

This was revised upwards from £32.3 million reported in the audit planning report to £34 million based on the draft financial statements.

Specific materiality

Specific materiality for the Comprehensive Income and Expenditure Account was based on 1.5% of gross expenditure. We consider that a misstatement at a lower level through revenue expenditure would be material where this may impact on setting future council tax or HRA rent levels.

This was revised downwards from £7.2 million reported in the audit planning report to £6.9 million based on the draft financial statements.

Audit adjustments

We did not identify any material misstatements.

Management has adjusted the financial statements for:

- · Overstated grant income
- Valuation errors for the Guildhall complex and Barbican site
- Impact of the corrected misstatements in the pension fund relating to a reduction in asset values from revised private equity fund valuations.

These adjustments decreased the draft surplus on the provision of services of £86.8 (to £85.7 million) and decreased net assets of £1,592.9 million (to £1,591.8 million) by £1.15 million.

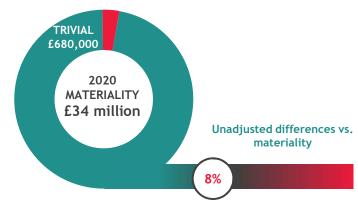
The City Fund balance decreased by £1.15 million as a result of these adjustments.

Unadjusted audit differences

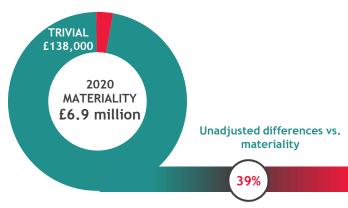
We identified audit adjustments that, if posted, would increase the surplus on the provision of services for the year of £85.7 million (to £88.4 million) and net assets of £1,591.8 million (to £1,594.5 million) by £2.69 million.

There is no impact on the City Fund balance of £177 million as these adjustments would be reversed to the collection fund adjustment account through the Movement in Reserves Statement.

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CIES specific materiality



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- 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 Narrative Report is consistent with the financial statements and our knowledge acquired in the course of the audit. We have suggested adding further detail into the financial summary section of the Narrative Report to improve the readers' understanding of the City Fund's outturn position.
- The Annual Governance Statement is not inconsistent or misleading with other information we are aware of.
- We will complete our review of the Whole of Government Accounts Data Collection Tool (DCT) after we have completed our audit of the financial statements.

Other matters that require discussion or confirmation

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

Independence

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



FINANCIAL OUTTURN

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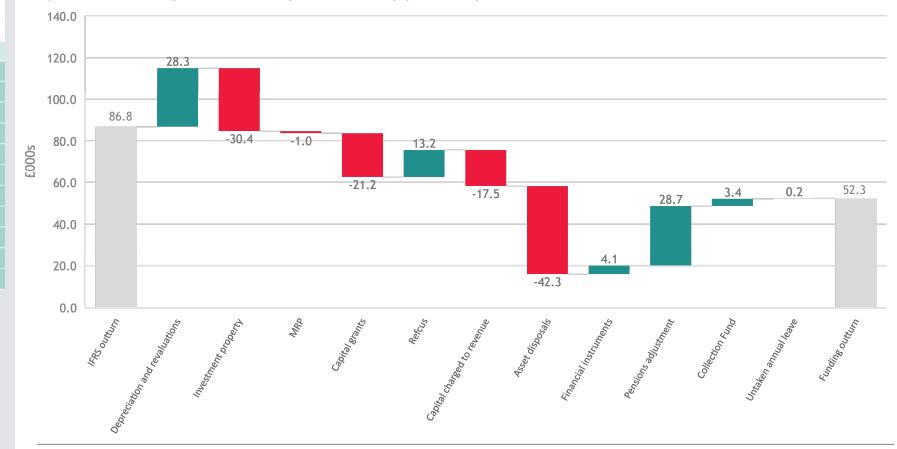
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Reconciliation of CIES accounting outturn to funding outturn

The chart below highlights the statutory adjustments made to the CIES reported 'surplus on the provision of services' of £86.8 million (based on IFRS financial reporting requirements), per the draft accounts and before any audit adjustment, to the funding outturn surplus of £52.3 million.

This includes adjustments to remove capital charges and gains (such as depreciation, revaluations and asset disposals) and replace with the statutory Minimum Revenue Provision, remove capital grants received and revenue funded from capital resources, include capital expenditure charged to revenue and replace the IAS 19 based pension costs for the year with amounts payable to the pension.



Coronavirus

CORONAVIRUS IMPACT

The effects on year-end reporting and auditing

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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 corporate 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 Chief Finance 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, sensitivity analysis (which may require additional and/or different potential variances to be included) and compliance with bank and other covenants 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 that the Chief Finance 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 Chief Finance Officer considers 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 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 Chief Finance 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. While our assessment is iterative, our current view is that management has a good understanding of the impacts of coronavirus on year end reporting and auditing and the budget requirement in the coming years.

Grant funding

Grant funding received before 31 March 2020 to fund expenditure related to the Coronavirus pandemic will need to be assessed for conditions and recognised in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

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.

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Subsequent events disclosure

Significant income and expenditure incurred as a result of the Coronavirus pandemic after 31 March 2020 and up to the date of signing may need to be disclosed as a non-adjusting post balance sheet event, if considered of such importance as to affect the ability of users of the financial statements to make proper evaluations.

Narrative reporting implications

The Annual Governance Statement should clearly set out the risks arising from Coronavirus.

Local authorities will need to monitor developments and ensure that they are providing up-to-date and meaningful disclosures when preparing their Statement of Accounts.

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, control environment and regularity of expenditure.

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.

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

Implications for auditors

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:

- Valuation and disclosure of financial and non-financial assets including property, plant and equipment (PPE), investment properties, intangibles, investments and accounts receivable
- Going concern and/or working capital assessment and disclosure
- Risk disclosures
- Subsequent event disclosures.

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
- Consider implications for the quality of audit evidence and reporting.

Valuers are also encouraged by updated RICS guidance to include caveats within valuation reports relating to potential material uncertainties in their assessed valuations. In these cases, such caveats should be included within the financial statements and may be referred to by the auditor in their opinion/report.

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AUDIT RISKS OVERVIEW

As identified in our Audit Planning Report dated March 2020 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. We have subsequently increased the impairment allowance for the non-collection of receivables risk from normal to significant. These include those risks which had the greatest effect on the overall audit strategy, 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	Error identified	Control findings	Discussion points / Letter of Representation
Management override of controls	Significant	No	No	No	No	No
Revenue (and expenditure) recognition Some work ongoing in this area	Significant	No	No	Yes, adjusted	No	No
Property, plant and equipment and investment property valuations Some work ongoing in this area	Significant	Yes	Yes	Yes, adjusted	No	Yes - confirm material assumptions used
Pension liability valuation Additional error on police pension liability to be agreed	Significant	Yes	Yes	Yes, adjusted	No	Yes - confirm material assumptions used
NDR appeals provision Some work ongoing in this area	Significant	Yes	Yes	Yes, not adjusted	No	Yes - confirm material assumptions used
Impairment allowance for non- collection of receivables	Significant	Yes	No	Yes, adjusted	Yes	Yes - confirm material assumptions used

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MANAGEMENT OVERRIDE OF CONTROLS

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:

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

Results

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

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

The remaining unadjusted audit differences do not indicate bias or deliberate misstatement.

Conclusion

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

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REVENUE (AND EXPENDITURE) RECOGNITION

Auditing standards presume that income recognition presents a fraud risk.

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

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

Work performed

We carried out the following planned audit procedures:

- Tested a sample of grants included in income to documentation from grant paying bodies and checked that the recognition criteria had been met;
- Tested a sample of fees and charges to ensure that income had been recorded in the correct period and that all income that should have been recorded had been;
- Tested a sample of property rental income and agreed to lease agreements and recalculations performed to confirm amounts are accurate and were recorded in the correct period; and
- Tested a sample of expenditure either side of year end, to confirm that expenditure had been recorded in the correct period and that all expenditure that should have been recorded at year end had been.

Results

Grant recognition testing

The vast majority of this testing has been completed however we are awaiting audit evidence to support a number of capital grants selected for testing.

To date our audit testing has identified that the Section 31 Business Rates grant had been overstated by £1.1 million due to a calculation error. Management has agreed to correct this in the final version of the financial statements.

Income fees and charges testing

Our audit testing has not identified any issues.

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REVENUE (AND EXPENDITURE) RECOGNITION

Auditing standards presume that income recognition presents a fraud risk.

Results (continued)

Property rental income testing

Our audit work has not identified any issues.

Expenditure cut-off testing

Audit testing has not identified any issues.

We are currently reviewing a number of purchase orders that have been raised after the date the invoice was received to understand the reason for this and to ensure the expenditure in the correct financial year.

Work outstanding

To complete the testing of the remaining samples noted above.

Conclusion

Work outstanding to be completed before we are able to conclude on this risk.

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PPE AND INVESTMENT PROPERTY

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

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 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 five years. The Corporation has appointed three different valuers for City Fund for investment property and other operational land and buildings. Internal valuers also carry out some valuations.

Due to the significant value of the land, buildings, dwellings and investment properties, the high degree of estimation uncertainty and material uncertainties over valuations of land and buildings due to prevailing market conditions as a result of the coronavirus pandemic, there is a significant 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.

Work performed

We carried out the following planned audit procedures:

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

Emphasis of matter in the audit report

Since issuing our audit planning report RICS issued guidance to valuers regarding material uncertainties over valuations of land and buildings due to prevailing market conditions as a result of the coronavirus pandemic. The City Fund valuers responsible for valuing land and building included material uncertainties over their valuations in their reports as at 31 March 2020.

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PPE AND INVESTMENT PROPERTY

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

Results

Management are considering the additional disclosures for the financial statements in order to clearly describe the types of assets that fall within the valuers material uncertainty. We will refer to these disclosures as an emphasis of matter in our audit report as the matter is of such importance that it is fundamental to users' understanding of the financial statements (albeit our opinion is not qualified).

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

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

Our review of the accuracy and completeness of the data inputs used by the valuers identified the following issues:

- Guildhall Complex we identified that yields and cost percentages had been incorrectly rolled forward from the prior year and the asset valuation has been understated by £520,000; and
- Barbican Estate we found an error in the hard coded formula calculation used in the valuation for the Barbican Estate that resulted in an understatement of assets of £1.3 million.

Management has agreed to correct the financial statements for both of these errors.

Our audit work in respect of the accuracy and completeness of data inputs for depreciated replacement cost (DRC) valued assets is still in progress.

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

Representations required

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

Work outstanding

To complete the testing of inputs used in the valuations (eg rents, rebuild cost location adjustments) for some assets as noted in the following pages.

To confirm that assets not specifically valued in the year have been assessed to ensure their reported values remain materially correct.

Conclusion

Work outstanding to be completed before we are able to conclude on this risk.

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PPE AND INVESTMENT PROPERTY

Significant estimate - Investment properties

Investment property valuation £1,622 million

< lower Impact of assumptions on the estimate

higher >



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

Investment properties increased in value by £35.3 million to £1,621.5 million (2.1%) in 2019/20 driven primarily by the revaluation increment (£30.2 million).

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

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

- City office space (EC1 to EC4) 3.00% to 4.00%
- City strategic estate (Bonhill and Worship St) 4.50% to 5.00%

In consultation with our Real Estate and Valuation teams, we compared the yields used by the valuers to our expectations (within a +/- 0.25% range) and discussed properties outside of these expectations with the valuer to assess the appropriateness of the yields used.

For those properties that were outside of the expected yields the valuers provided detailed information to support the valuations.

We are satisfied that the yields applied to the valuations of investment properties are reasonable.

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PPE AND INVESTMENT PROPERTY

Significant estimate - Non-specialised other land and buildings

Non-specialised other land and buildings (including Barbican Estate) net book value £269.3 million

< lower Impact of assumptions on the estimate

higher >



Non-specialised other land and buildings increased in value by £2.6 million (+0.94%) in 2019/20. These valuations may be based on:

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

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

Existing Use Value

We set detailed expectations for year on year valuation movements in asset values, taking into account various external sources of information tailored to the individual assets that were revalued. We compared the valuation movements to our expectations and three assets had valuation movements that fell outside of these expectations (Modern and Tradition Crematorium, The Haywood Centre and the Tower Hill car park).

The Tower Hill car park valuation reduced by £597,000 million due to fall in net profits as a result of another car park recently opening just outside of the congestion charge boundary. The inputs used in the valuation were agreed to income and expenditure data as per City Fund records. The reasonableness of the yield applied to the valuation was also tested by assessing against comparative data. The cost rate percentages applied were compared to expected estimates. Based on our work, we are satisfied that the valuation of Tower Hill car park is reasonable.

Detailed testing of the Crematorium and Haywood Centre valuation movements is still in progress.

Market Value

We set detailed expectations for year on year valuation movements in asset values and also checking the key inputs used in the valuations. This included Spitalfields Markets, Guildhall Complex, Barbican Residential Estate and HRA commercial property.

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

We agreed the floor size for the Guildhall Complex and compared the market value per square foot to market benchmark rates. Comparable properties for yield purposes were also assessed for reasonableness with no issues. However, we found an error in the formula used for the Capital Value of the Justice Rooms and the errors has been noted on page 15.

We agreed the lease and rent data used for a sample of assets from the Barbican Estate and assessed yields and cost rates against our expectations. Some small variances were noted but these were within tolerable thresholds. However, we found an error in the hard coded formula calculation used in the valuation for one lease and the errors has been noted on page 15.

We compared the estimated rental values and yields for the HRA commercial property portfolio to similar properties and market benchmarks and all were found to be within expectations. Some audit testing is in progress to agree rents to lease documentation for some properties.

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PPE AND INVESTMENT PROPERTY

Significant estimate - Specialised land and buildings

Specialised properties net book value £312,7 million

< lower Impact of assumptions on the estimate higher >

To be confirmed

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

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

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

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

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

Some work is in progress to agree inputs and rebuild costs.

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PPE AND INVESTMENT PROPERTY

Significant estimate - HRA dwellings

HRA dwellings net book value £221.4 million

< lower Impact of assumptions on the estimate

higher >



Dwellings decreased in value by £1.7 million (-0.76%) in 2019/20. HRA dwellings are valued at open market value and adjusted down by 70% to reflect the discounted social rents charged to tenants. The adjustment reflects information provided by DCLG in 2016 for regional (London) differences between market rents and social rents that estimated that across London the average reduction was 75% but may be adjusted +/-5% for local circumstances. Dwellings not within the HRA and let at market value do not have this adjustment applied.

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

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

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

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

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

The social housing discount applied has remained at 70% for some years and MHCLG update the national rates usually every 5 years. A refresh of the national and regional differences between market rents and social rents can therefore be expected in the next few years. The HRA discount rate applied by the Corporation was also last reviewed some years ago. We suggest that management review the local discount applied when MHCLG publish its updated guidance.

We have reported in recent years that the useful economic lives (UEL) of dwellings has been set at 125 years based on the usual term for leases granted. This is significantly longer than the UELs used by other local authorities where the main structure of a dwelling tends to range from 60 to 80 years. The City Surveyor has stated that this is due to the robust structure and ongoing repairs, maintenance and cyclical replacement works programmes in place for these properties. We consider this to be at the optimistic end for UELs but this would not result in a material difference in the annual depreciation charge had a UEL of 80 year been applied.

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PENSION LIABILITY

Risk description

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

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

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.

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;
- Checked the accuracy and completeness of the data set submitted to the actuary for the 2019 triennial valuation of the LGPS:
- Checked whether any significant changes in membership data had been communicated to the actuary;
- Discussed with the actuary the continuing impact of GMP equalisation and the McCloud judgement regarding age discrimination on the pension fund liability and impact on employer fund; and
- Reviewed the testing of the assets carried out as part of the LGPS audit and checked the accuracy of the
 calculations relating to the allocation of the share of the net assets across the funds in proportion to the
 employer's contribution's paid to the scheme.

Results

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

In our pension fund testing we confirmed that the 2019 LGPS membership data submission was complete and accurate. A similar review was undertaken in previous years for the 2017 police membership data submission. Management confirmed there has been no significant changes in the membership these funds during the year.

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PENSION LIABILITY

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.

Our testing of the LGPS pension fund assets also required an adjustment to reduce the private equity valuations by £5.2 million following receipt of the updated March 2020 valuations. The City Fund share of the reduction in scheme assets was £2.7 million. This re-measurement in the pension liability is a charged to other comprehensive income and expenditure (which does not impact the surplus on the provision of services in the comprehensive income and expenditure accounts) and the pension reserve. Management has confirmed that this will be corrected in the final version of the financial statements.

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

In respect of the Police pension scheme, our audit identified that the benefits payable information submitted to the actuary had incorrectly included advance pension payments. Management are currently liaising with the Actuary to understand what impact this will have on the Police pension liability disclosed in the financial statement.

In July, HM Treasury announced it would amend the Teachers Pension scheme to remove the differential in survivor pensions for same sex marriage or civil partnerships following the Goodwin case, and this will also apply to other public sector pension schemes. This is expected to result in lower survivor pensions although the actuary has not assessed the impact on the pension liability. Initial discussions 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 pages, and were found to fall within a reasonable range.

Representations required

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

Work in progress

In respect of Police pensions, awaiting confirmation of what the impact on the liability is going to be in relation to error identified in the information initially submitted to the actuary and why the current female mortality rate used by the actuary falls outside of the expected range.

Conclusion

Following the corrections above, the defined benefit obligation for the LGPS and Police pension schemes have been appropriately calculated and the assumptions used are reasonable.

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PENSION LIABILITY

Significant estimate - LGPS pension liabilities

City Fund LGPS share of pension liabilities £802 million

< lower Impact of assumptions on the estimate

higher >



The City Fund's share of the LGPS pension liability has reduced from £811 million to £802 million (before the adjustment noted on page 21) and it's share of the scheme assets reduced from £494.3 million to £480.5 million. The net deficit increased by £4.8 million to £321.5 million. The reduction in the liability includes £76 million gain arising from changes to financial assumptions including annual salaries increases of 2.9% (previously 3.9%), annual pension increases of 1.9% (previously 2.4%), and a change in the rate of discounting scheme liabilities to 1.9% (previously 2.4%). It also includes a gain on demographic assumptions of £5.9 million arising from reduced mortality assumptions of approximately 1.4 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 actuarial losses' by £41.5 million which has resulted in a 5% movement in the liability. We queried this with the actuary who confirmed that there was not one significant factor impacting this but several smaller factors, such as changes in the profile of members, member movements, and estimates and timings of some cashflows over the last three years. The movement is within a reasonable 'experience gain / loss' threshold following a triennial update of member data and therefore we have not undertaken any further work to confirm the actuary's responses.

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

	Actual used	Acceptable range	Comments
Financial:			
- RPI increase	2.7%	2.80-2.65%	Reasonable
- CPI increase	1.9%	1.95-1.85%	Reasonable
- Salary increase	2.9%	2.95-2.85%	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% im	provement rate)	Reasonable

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

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PENSION LIABILITY

Significant estimate - Police pension liabilities

Police pension liabilities £931.7 million

< lower Impact of assumptions on the estimate

The police pension liability has reduced from £998.1 million to £931.7 million. The reduction in the liability includes a £83 million gain arising from changes to financial assumptions including annual salaries increases of 3.4% (previously 3.9%), annual pension increases of 1.9% (previously 2.4%), and a change in the rate of discounting scheme liabilities to 1.9% (previously 2.4%). It also includes a loss on demographic assumptions of £6.7 million arising from increased mortality assumptions of approximately 0.3 years as increases in life expectancy have stalled in recent years.

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

	Actual used	Acceptable range	Comments
Financial:			
- RPI increase	2.7%	2.65 - 2.8%	Reasonable
- CPI increase	1.9%	1.85 - 1.95%	Reasonable
- Salary increase	3.4%	3.35 - 3.45%	Reasonable
- Pension increase	1.9%	1.85 - 1.95%	Reasonable
- Discount rate	2.4%	2.35- 2.45%	Reasonable
Commutation:	50%	50 - 60%	Reasonable (60% 1987 old scheme, 60% 2006 new scheme, 60% 2015 scheme)
Mortality:			
- Male current	22.8 years	22.6 - 23.6	Reasonable
- Female current	25.0 years	25.1 - 25.8	Reasonable Below the acceptable range - query with management
- Male retired	21.4 years	20.8 - 21.9	Reasonable
- Female retired	23.5 years	23.2 - 24	Reasonable
Mortality gains	CMI 2018 (+1.25% i	mprovement rate)	Reasonable

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

higher >

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NDR APPEALS PROVISION

There is a risk in relation to the estimation of the provision due to potential incomplete data and assumptions used in calculating the likely success rate of appeals.

Significant 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

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.

Work performed

We carried out the following planned audit procedures:

- Reviewed 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
- Reviewed the assumptions used in the preparation of the estimate including the historic success rates to confirm
 that the rates applied are appropriate to outstanding 2010 appeals and expected losses for the 2017 rating list.

Results

In previous years, management has estimated the appeals provision based on data provided by the VAO for 2010 appeals and refunds and for the 2017 rating list using the MHCLG guidance, but adjusted down where local evidence suggested that the appeal success rate is lower for the 2017 rating sit than the 2010 rating list. This year, management commissioned an expert (Analyse LOCAL) to calculate the 2019/20 appeals provision.

We have assessed the skills and competency of the management expert.

Work is in progress to understand the key assumptions used by Analyse LOCAL to estimate the likely success rates of appeals and amounts refundable. We note that provision has decreased from £113 million to £101.1 million this year. Under the change to the London Business Rate Pooling arrangements since last year, the City Fund share of the provision has reduced from £72.7 million to £49.2 million.

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

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NDR APPEALS PROVISION

There is a risk in relation to the estimation of the provision due to potential incomplete data and assumptions used in calculating the likely success rate of appeals.

Results (continued)

Analyse LOCAL note, in their method statement, that an estimation of appeals that could be withdrawn and mandatory and discretionary reliefs have not been taken into consideration in their calculation of the provision and state that management should consider adjusting the provision for these factors.

Our audit testing has found that the estimate for potential withdrawn appeals and mandatory and discretionary reliefs have not been factored into the calculation of the provision included in the accounts as management do not consider these to have a material impact.

We have estimated the impact on the City Fund share (48%) of the total provision liability to be an overstatement of £2.65 million (£150,000 in respect of the estimate for withdrawn appeals and £2.54 million in respect of mandatory and discretionary reliefs). We have included this as an unadjusted misstatement on page 36. The overall impact on the Collection Fund Revenue Account is purely disclosure and would reduce impairment of appeals for business rates, as described on the face of the collection fund account, by £5.61 million. We have included this as an unadjusted narrative misstatement on page 37.

Representations required

We expect to seek specific representations over material assumptions for appeals success rates once we have this information from Analyse LOCAL.

Work outstanding

To complete our review of the reasonableness of the assumptions used to calculate the estimate appeals provision.

Conclusion

Work outstanding to be completed before we are able to conclude on this risk.

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NDR APPEALS PROVISION

Significant estimate - Refunds for appealed business rates

City Fund share of NDR appears £49.2 million

< lower Impact of assumptions on the estimate

higher >

To be confirmed

Work is in progress to understand the key assumptions used by Analyse LOCAL to estimate the likely success rates of appeals and amounts refundable.

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NON-COLLECTION OF RECEIVABLES

Risk description

Significant risk

Use of experts

Adjusted error

be reported

Unadjusted error

Significant management

Additional disclosure required

Significant control findings to

Letter of representation point

estimate or judgement

Normal risk

The City Fund recognises an allowance for the non-collection 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.

Since issuing our audit planning report we have increased this risk from 'normal' to 'significant' given the likely increased estimation required to calculate impairment allowances for non-collection of receivables due to the impact of the coronavirus pandemic. There is a risk over the valuation of this allowance if incorrect assumptions or source data are used, or an inappropriate methodology is applied.

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

Work performed We carried out th

We carried out the following planned audit procedures:

- Reviewed 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
- Checked that information has been accurately extracted from systems to support the modelling of collection rates by age.

Results

Our review of the assumptions used to calculate the impairment allowance for non-collection of receivables is noted in the following pages, and were found to fall within a reasonable range based on the available data for historical collection rates. However, we noted that collection rates for NDR arrears, Barbican residential and HRA rents have not been refreshed for a number of years and management should undertake a refresh of the collection rates to ensure that impairment allowances used for NDR arrears remains appropriate.

We agreed the information used to calculate the impairment allowance for each type of receivables was correctly extracted from the underlying data. Our audit testing did identify that the overall PCN debt and impairment allowance had both been overstated by £3.08 million due to duplicated entries included in the debt listing, but the net collectable debt is correct. Management has confirmed that this will be corrected in the revised version of the financial statements.

Representations required

We have sought specific representations that:

- historic collection rates calculated in previous years for NDR arrears, Barbican residential and HRA rents remain consistent with collection rates in 2019/20; and
- historic collection rates are a reasonable basis for calculating expected credit losses and that enhanced forecasting
 of losses will not result in material differences in the impairment allowances.

Conclusion

Although the collection rates have not been updated for some types of receivables for a number of years and the expected credit loss estimate does not include any enhanced forecasting of losses, we are satisfied that the impairment allowance estimate is reasonable.

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NON-COLLECTION OF RECEIVABLES

Significant estimate - Expected losses on receivables

Impairment allowance £13.6 million

< lower Impact of assumptions on the estimate

higher >



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

Non-domestic rate arrears and cost provision

Arrears and provision as at 31 March were £28.1 million and £11 million respectively. Arrears of £5.4 million has been provided for in full (95-100%) as it is considered uncollectable or is due to be written off. We consider this reasonable given all stages of recoverability have been exhausted.

Debts that have entered the 'late demand' stage of recoverability total £10.5 million and 5% of this has been impaired. The impairment allowance is based on an analysis of debt collected against 31 March 2018 NDR arrears that was calculated to support the impairment allowance as at 31 March 2019. This analysis has not been updated to support the 5% allowance carried forward and applied to arrears as at 31 March 2020. However, debts classified in the 'late demand' category have been of a consistent value for the last three years so it is unlikely there would be a material change to this allowance.

The remainder of the debt totalling £12.1 million is in various stages of debt recovery and an impairment allowance of £5.1 million has been estimated by reference to different stages of recovery and non-collection of 25% to 49%. These impairment rates are based on historical collection rates that have been rolled forward for a number of years. Management has not undertaken a refresh of the collection rates to assess the appropriateness of the continued use of these impairment allowances although it is unlikely this would materially impact the impairment allowance as at 31 March 2020.

Rent arrears and cost provision

Arrears and provision as at 31 March 2020 were £6 million and £2.2 million respectively.

The arrears are analysed between current (£5.5 million) and former tenants (£500,000). The management surveyor reviews all individual arrears over £15,000, which accounts for 93% of the total debt, to determine the likely rent to be recovered. Collection rates for the past two years have been applied to the remaining debt.

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

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NON-COLLECTION OF RECEIVABLES

Impairment allowance £13.6 million (continued)

Penalty Charge Notices (PCN) arrears and cost provision

Arrears and provision as at 31 March 2020 were £11.3 million and £9.9 million respectively.

The cost provision covers debt from PCNs issued from 2012/13 to 2019/20. For each year, this is calculated as collectable debt for that year, less total cash received as at 31/03/2020, less debtors written off as at 31/03/2020, less forecast future collections.

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

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

Other sundry debt arrears and cost provision

Arrears and provision as at 31 March 2020 were £18.2 million and £1.3 million respectively. The vast majority of the sundry arrears relate to HRA, Barbican Centre and Police.

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

Our audit testing did identify that Barbican residential debt of £3.1 million with a corresponding impairment allowance of £139,000 and HRA rental debt of £260,000 with a corresponding impairment allowance of £33,000 used impairment allowance percentages that had been rolled forward for a number of years and could not be substantiated be reference to historic collection rates or similar types of evidence.

Given the value of the debt and a worst case scenario applied to any allowance this would not materially impact the financial statement in 2019/20.

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There is a risk leases may not be correctly accounted for.

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Normal risk

Significant management estimate or judgement

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Risk description

Since issuing our planning report we have added an additional risk in respect of accounting for lease premiums. This is because the City Fund received a total of £85.4 million in lease premiums in 2019/20 in respect of three assets where it is the lessor. The premiums and rents are apportioned between the land element, which will ordinarily be an operating lease recognised as revenue, and the building element which is likely to be a finance lease and recorded as a capital disposal. The element of the premium relating to the land is treated as deferred rental income and released to revenue over the term of the lease.

Given the complex calculations and significant judgements involved in the apportionment of the land and buildings there is a risk that lease premiums may not be accounted for correctly.

Work performed

We carried out the following planned audit procedures:

- We reviewed the reasonableness of the method used to apportion the lease premium received between land and buildings;
- Checked that the correct land apportionment had been accounted for as deferred rental income and that the land value had been correctly reflected in non-current assets; and
- Checked that the disposal proceeds for the apportioned share of the building had been correctly accounted for a capital receipt.

Work in progress

We are currently in the process of reviewing the reasonableness of the method used to apportion the lease premium received between land and buildings.

However, our initial review suggests that the allocation of the lease premium may have understated the amount attributable to the land (and taken to deferred income) and overstated the amount attributable to the buildings (and taken to disposal gains and usable capital receipts).

Conclusion

Work outstanding to be completed before we are able to conclude on this risk.

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

Significant risk

Normal risk

Significant management estimate or judgement

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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 properly disclosed.

Historically members 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 and Charity Commission searches for potential undisclosed interests.

Results

Our audit testing identified five related party transactions that were not disclosed in the financial statements, two related party disclosure where the receivable and payable values were not disclosed and one transaction value that had ben incorrectly disclosed. Management has confirmed that these will be corrected in the revised version of the financial statements.

During our review of declarations, it was noted that a number of declarations have not been completed accurately nor completely, with the member either leaving sections blank, or omitting to sign the forms. A control weakness has been raised regarding this matter on page 49.

Conclusion

Following the corrections above, the related party transactions disclosures are appropriate.

GOING CONCERN

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Current conditions and interruption of normal cash flows may result in a local authority having insufficient cash to meet liabilities as the fall due.

Significant risk	
Normal risk	
Significant management estimate or judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant control findings to	

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be reported

Risk description

Since issuing our audit planning report we have added an additional risk in respect of going concern disclosures. The assessment of going concern under the effects of the coronavirus outbreak will need to incorporate unprecedented shocks to forecasts. The increased demand on services, decline in income from services, deferrals of normal payment terms or impairment of debt, decreases in asset values and supply chain disruptions may be dissimilar to any previously encountered 'real world' scenario, making forecasting the precise results difficult.

The effects of the coronavirus are likely to affect the level of uncertainty that may exist in an assertion that the entity will be able to continue as a going concern. Regardless of the result of management's assessment, many entities will need to disclose key judgments and estimates it used to arrive at this conclusion.

Key areas in a going concern assessment may include: sources of assumed liquidity and cash flows, forecasts of future revenue or additional expenditure, and support from government.

If a material uncertainty does exist, this should be disclosed in terms that are specific to the City Fund as users of the financial statements will wish to know how and when the uncertainty might crystallise and its effects. 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).

Work performed

We have reviewed management's assessment and disclosures in respect of going concern, including sensitivities of the assumptions and impact on cash flows and available reserves.

Results

We have reviewed cash flow forecasts prepared by management and reasonable consideration has been made when incorporating key assumptions in relation to COVID-19 impacts, such as significantly reduced commercial property income and increased service expenditure as well as other assumptions around reduction in future government funding, changes to the business rate retention scheme and Brexit.

Whilst the impact of these assumptions could have a significant impact, management has recognised that the City Fund has a strong working capital position, with £817 million invested in short term investments and a further £178.1 million sitting with useable general reserves which would cover any cash flow shortfalls should they arise and hence do not consider there to be any material uncertainties in resect of going concern.

Conclusion

We are satisfied that the management's assessment and disclosures in respect of going concern are reasonable.

OTHER MATTERS

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

Audit area	Description of findings
Cash and short term investments misclassification	Cash balances of £1.1 million had been misclassified as short term investments. Management has confirmed that this will be corrected in the final version of the financial statements.
ank reconciliation differences	The Corporation bank reconciliation does not reconcile by £126,000. Management believe that £90,000 of this relates to an old fraud case and amounts have yet to be analysed to confirm if they should be written out. The remaining difference of £36,000 could not be fully explained by management.
	A bank reconciliation is a key internal control in order to confirm the accuracy of the cash balance on the balance sheet so we therefore recommend that the bank reconciliation differences are appropriately investigated and dealt with so that the bank reconciles.

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Fraud

Whilst the directors 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 in 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.

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

There are two unadjusted audit differences identified by our audit work which would increase the surplus on the provision of services for the year of £85.7 million (to £88.4 million) and net assets of £1,591.8 million (to £1,594.5 million) by £2.69 million.

There is no impact on the City Fund balance of £177 million as these adjustments would be reversed to the collection fund adjustment account through the Movement in Reserves Statement.

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and improvements

	Income and expenditure			E	Balance Sheet
Unadjusted audit differences	NET DR/(CR) £m	DR £m	(CR) £m	DR £m	(CR) £m
Surplus on the provision of services / net assets before adjustments	(85.7)			1,591.8	
1: Overstated NDR appeals provision - adjustment for manda	tory and discretionary rel	iefs (factual)			
Dr NDR appeals provision liability				2.54	
Cr NDR appeals provision expense	(2.54)		(2.54)		
2: Overstated NDR appeals provision - adjustment for withdra	awn appeals (judgementa	l)			
Dr NDR appeals provision liability				0.15	
Cr NDR appeals provision expense	(0.15)		(0.15)		
Total unadjusted audit differences	(2.69)		(2.69)	2.69	
Surplus on the provision of services / net assets if above issues adjusted	(88.4)			1,594.5	

Impact on the City Fund balance	City Fund balance £m
Balance before unadjusted audit differences	177.0
Impact on surplus on the provision of services above	2.69
Adjustments that would be reversed from the General Fund and through the Movement in Reserves Statement	(2.69)
Balances after the above adjustments	177.0

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

The following unadjusted disclosure matters were noted:

- Our audit testing has found that the estimate for potential withdrawn appeals and mandatory and discretionary reliefs have not been factored into the calculation of the NDR appeals provision included in the accounts as management do not consider these to have a material impact. The overall impact on the collection fund account disclosure and would reduce impairment of appeals for business rates, as described on the face of the collection fund account, by £5.61 million. We have included this as an unadjusted narrative misstatement on page 37. Whilst the impact on the City Fund share of this misstatement is described on page 25 and included as an adjusted misstatement on page 36.
- Capital commitments note 13 our audit testing has identified differences between the values of commitments disclosed in the financial statements and supporting audit evidence. The differences indicate that capital commitments have been overstated by £2.8 million. Management has confirmed that the disclosure will not be amended.



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There were six audit differences identified by our audit work that were adjusted by management.

These adjustments decreased the draft surplus on the provision of services of £86.8 (to £85.7 million) and decreased net assets of £1,592.9 million (to £1,591.8 million) by £1.15 million.

The City Fund balance decreased by £1.15 million as a result of these adjustments.

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and improvements

		income and ex	perialicale
Adjusted audit differences	NET DR/(CR) £m	DR £m	(CR) £m
Surplus on the provision of services / net assets before adjustments	(86.8)		
1: Overstatement of s31 NDR revenue grant			
Dr Taxation and non-specific grant income	1.1	1.1	
Cr Short-term debtors			
2: Understatement of IAS 19 pension liability - scheme assets	re-measurement		
Dr Pension liability			
Cr Pension reserve			
3: Overstatement of penalty charge notice (PCN) debt / allow	ance		
Dr PCN income	3.08	3.08	
Cr PCN debtors			
Dr PCN impairment allowance			
Cr PCN impairment expense	(3.03)		(3.03)
4: Misclassification of short term investments			
Dr Cash and cash equivalents			

Income and expenditure

Cr Short-term investments

Balance Sheet

(CR)

(1.1)

(2.7)

(3.08)

(1.1)

£m

DR

£m

2.7

3.03

1.1

1,592.9

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

		Income and ex	xpenditure	Balar	nce Sheet
Adjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
5: Understatement of the Guildhall Complex valuation					
DR PPE other land and buildings - Guildhall Complex asset				0.52	
CR Revaluation reserve					(0.52)
6: Understatement of the Barbican Residential Estate valuation					
DR PPE council dwellings - Barbican Residential Estate asset				1.3	
CR Revaluation reserve					(1.3)
Total Adjusted audit differences	1.15	4.18	(3.03)	8.65	(9.8)
Adjusted surplus on the provision of services / net assets	(85.7)			1,591.8	

Impact on the City Fund balance	City Fund balance £m
Balance before adjusted audit differences	178.1
Impact on surplus on the provision of services above	(1.15)
Adjustments that have be reversed from the General Fund and through the Movement in Reserves Statement	0
Balances after the above adjustments	177.0

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ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

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

The following adjusted disclosure matters were noted:

- Prior year future minimum lease payments amounts incorrectly stated for operating leases where City is the lessee and the lessor in note 30.
- Note 30 City as Lessor (Finance Lease) the overall gross investment in lease >5
 years should be reduced by £0.4 million to 39.4 million.
- Note 30 City as Lessee (Finance Lease) current year asset value table should be £16.3 million (OLAB), 2.8, £48.4 million (Investment Property), the lease liability table should include £2.8 million for cleansing vehicles and minimum lease payments have been incorrectly stated.
- Collection Fund Statement Impairment of NDR appeals needs to be netted down and income grossed up to be consistent with that reported in the prior year.
- Collection Fund note 1 current year mandatory and discretionary reliefs value should be £22.6 million and prior year figures do not agree to prior year accounts.
- Note 10 Audit Fee additional disclosure required to clearly show the additional audit fee charged for audit of the 2018/19 financial statements and certification of the housing benefits claim.
- Note 2 Assumptions Made About the Future and Other Major Sources of Estimation and Uncertainty - additional disclosure required in respect of estimates and assumptions applied.
- Note 18 Net loss on financial assets at fair value through profit and loss fair value movements on pooled investment vehicles must be debited or credited to a reserve used only for the purpose of pooled investment vehicle per the statutory instrument.
- Balance sheet amending the longer-term liability 'deferred credits' to 'rents received in advance' is considered more understandable to the reader of the financial statements.

Management has confirmed that the disclosures will be amended in the revised version of the financial statements.



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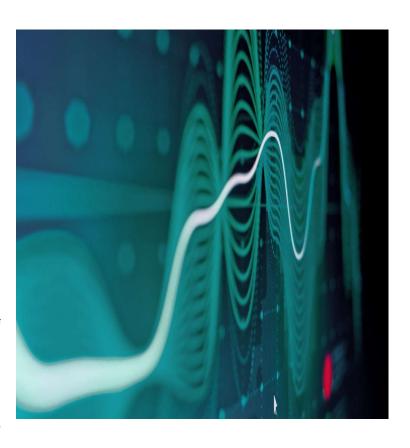
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We comment below on other reporting required to be considered in arriving at the final content of our audit report:

Matter	Comment
We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is	We are satisfied that other information in the Narrative Report is consistent with the financial statements and our knowledge.
consistent with the financial statements and the knowledge acquired by us in the course of our audit.	We have suggested adding further detail into the financial summary section of the Narrative Report to improve the readers understandability of the financial statements.
	Management has confirmed that these changes will be made to the revised version of the financial statements.
We are required to report by exception if the Annual Governance Statement is inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Corporation review of effectiveness and our knowledge of the Corporation.	We have no matters to report in relation to the consistency of the Annual Governance Statement with the financial statements and our knowledge.

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Matter Comment

For Whole of Government Accounts (WGA) component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure we are required to perform tests with regard to the Data Collection Tool (DCT) return prepared by the Corporation for use by the Ministry for Housing, Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level.

This work requires checking the consistency of the DCT return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.

Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 30 September 2020.

We will complete our review of the WGA Data Collection Tool (DCT), after we have completed our audit of the City Fund's financial statements.

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We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money) and report to you on an 'except for' basis. This is based on the following reporting criterion:

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

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

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

As identified in our Audit Planning Report we assessed the following matters as being the most significant risks regarding use of resources.

Audit Risk	Criterion	Risk Rating	Issues identified that impact on conclusion
Police financial management	Sustainable resource deployment	Significant	No
Sustainable finances	Sustainable resource deployment	Significant	No

POLICE FINANCIAL MANAGEMENT

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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

Significant risk

Normal risk

Sustainable resource deployment

Informed decision making

Working with partners and other third parties

Significant control findings to be reported

Risk description

The City Police are forecasting an underlying budget deficit of £11.1 million in 2020/21, rising to £16.8 million per annum by 2023/24. It is planned that the City Fund will provide £5.4 million of support in 2020/21, with City Police responsible for making necessary savings of £5.7 million in 2020/21 rising to £9.2 million 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 £5 million 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.

Work performed

We carried out the following planned audit procedures:

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

Results

In line with the budgeted forecast, City Police achieved a balance budget position in 2019/20 through budgeted cost savings, increased Home Office grant and the agreed allocation, from City Fund, of additional revenue raised from the increase in Business Rates Premium.

Reasonable assumptions in terms of cost pressures and grant income have been made to date but the MTFS does still show that significant savings need to be made in the medium term to close the financial gaps identified (£11.1 million in 2020/21 rising to £16.8 million in 2023/24). It has been agreed that the City Corporation would fund £5.4 million in 2020/21, with City Police responsible for making necessary savings to balance the budget. In 2020/21, the City measures to address the deficit include Transform savings of £5.7 million, rising to £9.2 million in 2023/24. City Police are reviewing further measures, such as extending shared service arrangements, in order to balance its budget over the medium term.

While we continue to note concerns over financial management, City Police and the Corporation are actively working to address the funding gap and provide additional funding where this is required.

Conclusion

We consider there to be appropriate arrangements in place with regard to sustainable finances for the City Fund.

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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

Significant risk

Normal risk

Sustainable resource deployment

Informed decision making

Working with partners and other third parties

Significant control findings to be reported

Risk description

The 2020/21 City Fund budget forecasts a surplus of £27.3 million. 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 £19.5 million, savings/resource reductions of £8.8 million and a £6.7 million 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 (£15.2 million) growing to a deficit of £31 million 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.

Work performed

We carried out the following planned audit procedures:

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

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Significant risk

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Working with partners and other third parties

Significant control findings to be reported

Results

The City Fund achieved a better than budget position in 2019/20 by spending £6 million less than originally planned. This was achieved through reductions in operating costs (including employee costs), higher than expected income and slippage in repairs and maintenance programmes, and therefore not needing to draw on central contingencies. After taking in account a transfer from the City Fund to Police pension reserve and funding from taxation and non-specific grants the total underspend amounted to £43.4 million which has been transferred to the City Fund balance.

The 2020/21 budget and the MTFS includes reasonable measures to address cost pressures as identified through the fundamental review as well as reasonable assumptions in relation to income generation measures, including tax / premium increases and containing the cost of major projects and other programmes. The MTFS shows that the City Fund faces substantial growing deficits over the medium term starting in 2021/22 (£15.2 million) growing to a deficit of £31 million by the end of 2023/24. 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 therefore options, such as phasing the projects, joint ventures and re-classification of projects to other funds, are now being considered in order to manage these cost pressures and deficits going forward.

The City Fund has been monitoring the financial impact of the coronavirus pandemic on the fund since April 2020 and immediate financial pressures have been incorporated into the 2020/21 budget. Given the healthy budgeted position for 2020/21, the financial implications of the pandemic do not give rise to any material uncertainties over this budget position. Financial implications are being considered and will be incorporated into the refreshed MTFS. The refreshed MTFS is also likely to include updated assumptions in respect of the reform of business rates as it is likely that the current retention level of rates will be maintained until 2022/23 rather than 2021/22. This should help to ease the pressure of a growing deficit in the medium term.

The full extent of the financial gap over the medium term has not yet been identified through savings plans however the City Fund is in a position to call on reserves, should it need to, in order to close the current financial gaps identified in the MTFS.

Conclusion

We consider there to be appropriate arrangements in place with regard to sustainable finances for the City Fund.

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We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Audit and Risk Management Committee.

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

Area	Observation & implication	Recommendation	Management response
Bank reconciliations	Our audit testing has found that the Corporation bank reconciliation does not reconcile by £126,000. Management believe that circa £90,000 of this relates to an old fraud case and amounts have yet to be analysed to confirm if they should be written out. The remaining difference of £36,000 could not be fully explained by management.	The bank reconciliation differences are appropriately investigated and dealt with.	[xx]
	A bank reconciliation is a key internal control in order to confirm the accuracy of the cash balance on the balance sheet.		

OTHER DEFICIENCIES

We also bring to your attention other deficiencies noted during the audit.

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Area	Observation & implication	Recommendation	Management response
Impairment allowance	A proportion of NDR, Barbican residential and HRA rental arrears are impaired using impairment allowance percentages that have been rolled forward for a number of years and could not be substantiated by reference to historic collection rates or similar types of evidence.	These debts are impaired using appropriate rates that are consistent with historic collection rates or similar type of evidence.	[xx]
Related party transactions	During our review of declarations, it was noted that a number of declarations have not been completed accurately nor completely, with the member either leaving sections blank, or omitting to sign the forms. Not receiving complete declarations may lead to management not identifying related party transactions during the accounts preparation process, and may also influence financial decisions during the year if a related party is not included on a register of interest.	The importance of the declarations is reinforced to all members, through training if necessary. These declarations should then be reviewed when returned to ensure all information is complete before they are then subject to our review and consideration.	[xx]
Capital commitments	Our audit testing has identified differences between the values of commitments disclosed in the financial statements and supporting audit evidence. The differences indicate that capital commitments have been overstated by £2.8 million.	Detailed audit working papers are produced and sufficient and appropriate audit evidence are retained when producing the disclosure in order to demonstrate a clear audit trail back to the figures in the financial statements.	[xx]

Audit report

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Opinion on financial statements

Subject the matters outstanding on page 56, we anticipate issuing an unmodified opinion on the financial statements.

We wish to draw attention to the 'emphasis of matter' that we will be including in our audit report in respect of the material uncertainly in relation to PPE and Investment Property valuations. See page 15 for further details in respect of this emphasis of matter.

Conclusion on use of resources

We are proposing to issue an unqualified use of resources conclusion.

Conclusion relating to going concern

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

Annual Governance Statement

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

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

our independence.

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

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

Details of services, other than audit, provided by us to the Corporation during the period and up to the date of this report are set out on the following page and were provided in our Audit Planning Report. We understand that the provision of these services was approved by the Audit and Risk Management Committee in advance in accordance with the Corporation's policy on this matter.

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

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Fees summary	2019/20	2019/20	2018/19
	Actual Planned		Actual
	£	£	£
Audit fee			
Code audit fee: financial statements and use of resources	TBC	108,000	128,000
Non-audit assurance services			
Fees for reporting on government grants:			
Housing benefits subsidy claim	Work not started	18,000	23,000
Pooling of housing capital receipts return	Work not started	2,000	2,000
Teachers' pensions return	Work not started	2,000	2,000
Fees for other non-audit services			
ICF China Green Finance Programme reasonable assurance report	7,000	7,000	7,000
Total fees	ТВС	137,000	162,000





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Our responsibilities and reporting

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

We read and consider the 'other information' contained in the Statement of Accounts such as the Narrative 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.

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

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

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

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

COMMUNICATION WITH YOU

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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	March 2020	Audit and Risk Management Committee
Audit completion report	November 2020	Audit and Risk Management Committee
Annual Audit Letter	December 2020 / January 2021	Audit and Risk Management Committee

OUTSTANDING MATTERS

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

The following key 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:

- Awaiting audit evidence to support a number of capital grants selected for testing.
- Finalising the review of a number of purchase orders that have been raised after the date the invoice was received to understand the reason for this and to ensure the expenditure in the correct financial year.
- Responses to queries and outstanding information from the valuer in respect of PPE valuations.
- We need to confirm that assets not specifically valued in the year have been assessed to ensure their reported values remain materially correct.
- Awaiting a response from management to understand why benefits paid in respect of police pensions differs from that information submitted to the Actuary.
- Awaiting a response from management in relation to our queries in respect of the methodology used to apportion the lease premium between operating and finance leases.
- Awaiting audit evidence to support three creditor transactions.
- Awaiting Police income transaction breakdowns to carry out income completeness testing.

- Awaiting audit evidence to support one exit package in relation to the Barbican Centre.
- Awaiting audit evidence to support one asset under construction transaction.
- Finalisation of financial instrument and investment interest income audit testing.
- Manager, Partner and Quality Control review, and clearance of review points.
- Technical clearance.
- Subsequent events review.
- Final review and approval by you of the Statement of Accounts.
- Management letter of representation to be approved and signed.

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To be drafted and agreed once outstanding testing has been completed.

Future of Audit, Regulation and Market Competition

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A number of corporate governance, financial reporting and audit failures since the 'financial crises' have led to auditing being the focus of the BEIS Select Committee and the commissioning of three separate, but related, independent reviews scrutinising audit, auditors and the corporate and audit regulatory environment. Although these independent reviews started at various times since 2018, none have yet fully concluded upon and further consultations on precisely what the implementation will look like is expected to take place during 2020. However, that is not to say that changes have not already begun: There are already a number of changes being made by the market participants themselves such as increased operational separation of audit from consulting and voluntary restriction of non-audit services. There have also been a number of changes arise through regulation such as the further restriction on non-audit services introduced with the new ethical standard in December 2019. Other expected changes will be implemented via a suite of consultations expected in 2020. Detailed below is a summary of the current reports issued and their status with a summary of the contents.

Initiative	Timeline 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Status
BEIS Select Committee	'Carillion' report issued 5/2018	'Future of audit' report issued 24/4/2019	Government response issued 7/6/2019			It is a priority area for the Committee which has a watching brief
Competition and Markets Authority (CMA) Report 'Statutory Audit Services Market Study'	Launch of Market study 9/10/2018	Responses to consultation 21/1/2019	Report and recommendations published 18/4/2019	First BEIS consultation on implementation ended 13/9/2019		Further consultations expected in 2020
'Report of the Independent Review in to the quality and Effectiveness of Audit' - Sir Donald Brydon		Team appointed to undertake review 2/2019	Consultation ended 7/6/2019		Brydon report issued 9/12/2019	Further consultations expected in 2020
'Independent Review of the FRC' by Sir John Kingman	published - 83 announces plans recommendations for a new		48 recommendations to be implemented by FRC			Further consultations expected in 2020
		regulator (ARGA) 11/3/2019	BEIS first implementation consultation ended 11/6/2019			

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Report	Topic	Key points
'Independent Review of the FRC' by Sir John Kingman	December 2018 - Future of regulation and the FRC - requested by the Secretary of State	 Highlighted deficiencies in FRC and its operating effectiveness New regulator to replace FRC 'Audit, Reporting and Governance Authority' Reconsideration of which entities are classed as 'public interest' A number of changes require legislation changes but the FRC is working on implementation where possible.
Related BEIS consultation	BEIS consultation - independent review of the FRC - March 2019 - Recommends adopting a significant number of the Kingman proposals without further consultation - ended June 2019	 The proposals being classed as: FRC and BEIS will implement as soon as possible Can be implemented once considered, in advance of legislation Primary legislation required Further consultations are expected and will form part of the 2020 suite of consultations undertaken.
Competition and Markets Authority (CMA) Report 'Statutory Audit Services Market Study'	April 2019 - Future of market competition	 Report 18 April 2019 - suggestions include Increased accountability of audit committees including a focus on how they select auditors and their consideration of audit quality Mandatory joint audits for largest companies including one member not from the big 4 and peer reviews An operational split between the audit and non audit practices of the big 4 A 5 year review of progress by the new regulator Further consultations are expected and will form part of the 2020 suite of consultations undertaken.

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Report	Topic	Key points
BEIS (Business, Energy and Industrial Strategy	Consideration of 2 reports - CMA and Kingman - to ensure they will lead to coherent framework	This report considers the CMA and Kingman reports and supports their recommendations and encourages implementation. In particular:
Committee) Report 'The Future of Audit' - 24 April		Implement Kingman recommendations as soon as possible
·		 Endorsement of CMAs suggestion to split firms operations between audit and non- audit
		Segmented market cap and joint audits for FTSE 100
		Detecting fraud a priority
		Tightening of dividend regime
		Make audit more forward looking
		 Welcomes introduction of ARGA - deal with failures more quickly and more stringently
		Published June 2019.

Brydon

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In December 2019 Sir Donald Brydon published his "Report of the Independent Review in to the quality and Effectiveness of Audit". This report proposes a fundamental changes to the audit profession, the scope of audit and how the Audit Committee interacts with auditors and shareholders. The report introduces over 100 actions in a number of areas including:

- · Audit Purpose, Audit Profession and Auditor reporting;
- Directors' Reporting;
- Role of Shareholders;
- Other stakeholders;
- Internal Controls;
- Fraud:
- Transparency;
- Technology;
- Auditor Liability:
- · Audit and Risk Committees;
- KPIs and APMs (Alternative Performance Measures); and
- ARGA the new regulator.

Key considerations for Audit Firms

- A new definition of audit: "The purpose of an audit is to help establish and maintain deserved confidence in a company, in its directors and in the information for which they have responsibility to report, including the financial statements."
- Recognition of other stakeholders alongside the company's shareholders;
- Creation of a standalone audit profession as opposed to an extension of the accounting profession;
- Introduce the need for 'professional suspicion' alongside 'professional scepticism';

- Replace 'true and fair' with 'present fairly, in all material respects';
- Retain binary audit opinion but create continuity between reports, increase transparency further, have regard to other public information;
- Report specifically on the directors' statement in relation to fraud;
- Audit firms ensure a clear separation between the team which negotiates the audit fees, and the team which carries out the audit.

Key considerations for Audit Committees are as follows

- Recommendations for Directors to present to shareholders a three year audit and assurance policy dealing with auditors appointment, assurance budget and risks;
- Directors to present an annual Public Interest Statement and Resilience Statement (replacing the going concern and viability statements) in the annual report;
- Directors to present an annual statement on the actions they have taken to prevent fraud;
- CEO and CFO to provide an annual attestation to the board of directors as to the effectiveness of the company's internal controls over financial reporting:
- Directors be required to disclose when any material failure of their internal controls has taken place;
- Any Alternative Performance Measures reported by a company, and any use of Key Performance Indicators to underpin executive remuneration, should be subject to audit; and
- Publication by the directors of a risk report in advance of the audit with shareholders to be given a formal opportunity to propose matters to be covered in the audit and also permitted to question the Audit Committee Chair and the auditor.

Redmond

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On 8 September 2020, Sir Tony Redmond published his Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting

The Report includes a number of key recommendations, including:

- The establishment of new body, the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit, taking on certain responsibilities from Public Sector Audit Appointments (PSAA), Institute of Chartered Accountants in England and Wales (ICAEW), FRC/ARGA, and the Comptroller and Auditor General (C&AG)
- The governance arrangements within local authorities be reviewed by local councils with the purpose of:
 - an annual report being submitted to Full Council by the external auditor;
 - consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and
 - formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually
- The current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements.
- Quality be consistent with the highest standards of audit within the revised fee structure. In cases where there are serious or persistent breaches of
 expected quality standards, OLAR has the scope to apply proportionate sanctions.
- The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.
- The external auditor be required to present an Annual Audit Report to the first Full Council meeting after 30 September each year, irrespective of whether the accounts have been certified; OLAR to decide the framework for this report.

FRC ETHICAL STANDARD

Issued in December 2019

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Audit quality

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

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

FRC PRACTICE AID FOR AUDIT COMMITTEES

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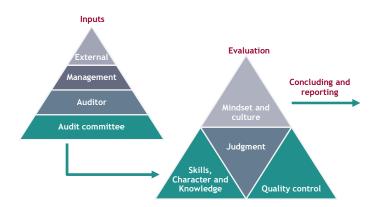
Audit quality

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

It gives guidance for Audit Committees in the following areas:

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



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

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

LETTER OF REPRESENTATION

[Client name and Letter headed paper]

BDO LLP 55 Baker Street London WIU 7EU

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Dear Sirs

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

We confirm that the following representations given to you in connection with your audit of the City Fund's financial statements for the year ended 31 March 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 City 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 Corporation, in respect of the City Fund, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Corporation's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

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

Going concern

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

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

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

Laws and regulations

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

Post balance sheet events

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

Fraud and error

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

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

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

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

Misstatements

We attach a schedule showing uncorrected misstatements that you have identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

Related party transactions

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

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

Carrying value and classification of assets and liabilities

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

Accounting estimates

a) Pension fund assumptions

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

- Rate of inflation (CPI): 1.9%
- Rate of increase in salaries: LGPS 2.9% / Police 3.4%
- Rate of increase in pensions: 1.9%
- Rate of discounting scheme liabilities: LGP 2.35% / Police 2.4%
- Commutation take up option: LPGS 50% / Police 50%

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

b) Valuation of housing, other land and buildings and investment properties

We are satisfied that the useful economic lives of the housing stock and other land and buildings, and their constituent components, used in the valuation of the housing stock and other land and buildings, and the calculation of the depreciation charge for the year, are reasonable.

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

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

- City office space (EC1 to EC4) 3.00% to 4.00%
- City strategic estate (Bonhill and Worship St) 4.50% to 5.00%

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

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

c) Non domestic rates appeals provision

We are satisfied that the provision recognised for non-domestic rates appeals is materially correct, and the calculation of historical appeals are consistent with those advised to me by the Valuation Office Agency. We confirm that the successful rates applied to outstanding appeals as at 31 March 2020 are consistent with our knowledge of the business.

[To insert key assumptions when provided by Analyse LOCAL]

d) Allowance for non-collection of receivables

We are satisfied that the impairment allowances for non-domestic rates, housing rent and sundry debt arrears are reasonable. The historic collection rates calculated in previous years for NDR arrears, Barbican residential and HRA rents remain consistent with collection rates in 2019/20.

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

Litigation and claims

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

Confirmation

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

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

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

Yours faithfully

Peter Kane

Chamberlain

Date:

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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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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.

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