Report to the Audit and Risk Management Committee

CITY OF LONDON CORPORATION CITY FUND

Audit Completion Report: year ended 31 March 2021

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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 2021, specific audit findings and areas requiring further discussion and/or the attention of the Audit and Risk Management Committee. At the completion stage of the audit it is essential that we engage with the Audit and Management Committee on the results of audit work on key risk areas, including significant estimates and judgements made by Management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit and Risk Management Committee meeting on 30 November 2021, and to receiving your input.

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

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

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

25 November 2021

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

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

Overview

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

Outstanding matters are listed on page 67 in the appendices.

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

No restrictions were placed on our work.

Audit report

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

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

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

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

THE NUMBERS

Executive summary

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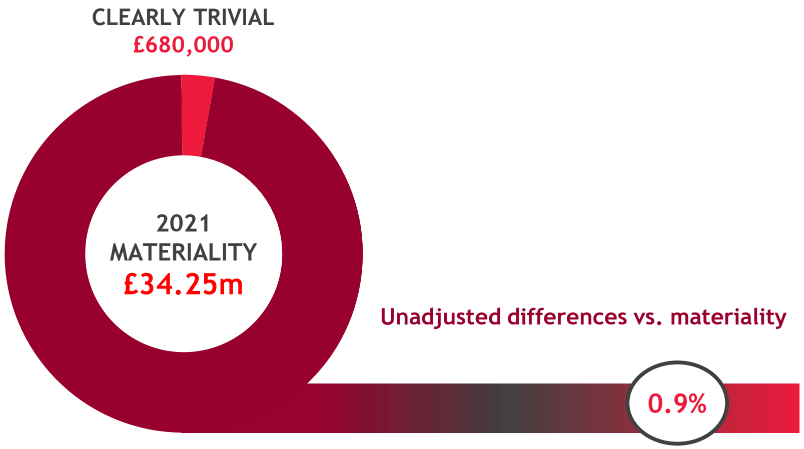
Final Materiality

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

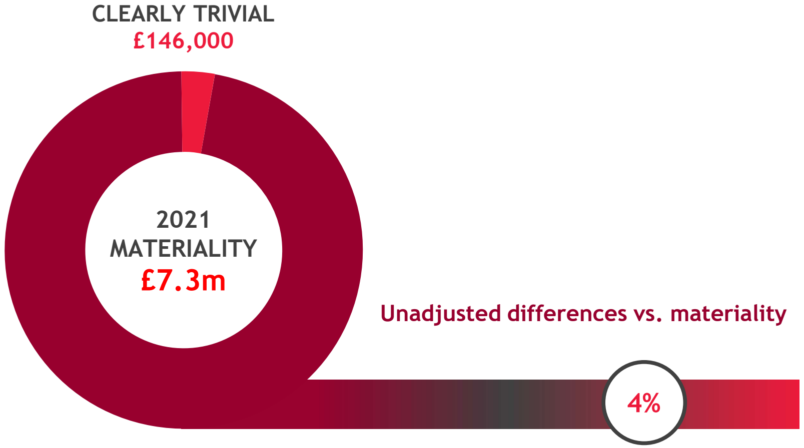
This was revised upwards from £34 million reported in the audit planning report to £34.25 million based on the draft financial statements.



Specific materiality

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

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



Unadjusted audit differences

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

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Financial reporting

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

Other matters that require discussion or confirmation

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

Independence

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

AUDIT RISKS OVERVIEW

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

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

Areas requiring your attention

MANAGEMENT OVERRIDE OF CONTROLS

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

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

Risk description

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

Details

We carried out the following planned audit procedures:

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

Results

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

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

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

Conclusion

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

REVENUE RECOGNITION

Auditing standards presume that income recognition presents a fraud risk.

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

Risk description

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

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

Details

We carried out the following planned audit procedures:

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

Results

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

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

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

Conclusion

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

EXPENDITURE CUT OFF

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

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

Risk description

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

Details

We carried out the following planned audit procedures:

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

Results

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

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

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

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

Work outstanding

To complete the testing of the remaining samples noted above.

Conclusion

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

VALUATION OF NON-CURRENT ASSETS

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

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

Risk description

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

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

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

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

Details

We carried out the following planned audit procedures:

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

VALUATION OF NON-CURRENT ASSETS

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

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

Results

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

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

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

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

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

Work outstanding

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

Representations required

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

Conclusion

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

VALUATION OF NON-CURRENT ASSETS

Significant estimate – Investment properties

Estimates: Investment property £1,601.0 million

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

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

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

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

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

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

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

Work outstanding

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

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VALUATION OF NON-CURRENT ASSETS

Significant estimate – Non-specialised other land and buildings

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

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

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

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

Existing Use Value

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

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

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

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

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

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

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

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

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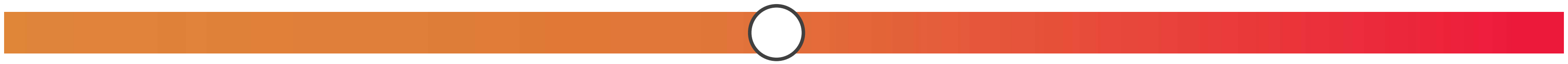

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VALUATION OF NON-CURRENT ASSETS

Significant estimate – Specialised other land and buildings

Estimates: Specialised land and buildings £315.7 million

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

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

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

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

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

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

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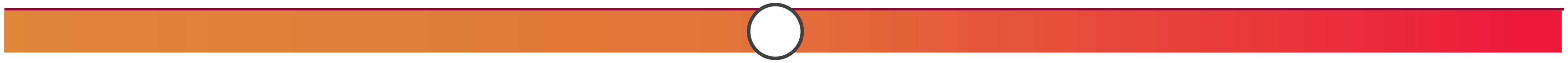

VALUATION OF NON-CURRENT ASSETS

Significant estimate – HRA dwellings

Estimates: HRA dwellings £184.1 million

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

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

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

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

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

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

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

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

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

Work outstanding

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

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VALUATION OF PENSION LIABILITY

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

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

Risk description

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

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

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

Details

We carried out the following planned audit procedures:

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

VALUATION OF PENSION LIABILITY

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

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

Results

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

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

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

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

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

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

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

Representations required

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

Conclusion

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

VALUATION OF PENSION LIABILITY

Significant estimate – LGPS pension liabilities

Estimates: LGPS pension liabilities £1,073.2 million

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

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

Financial:

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

Mortality:

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

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

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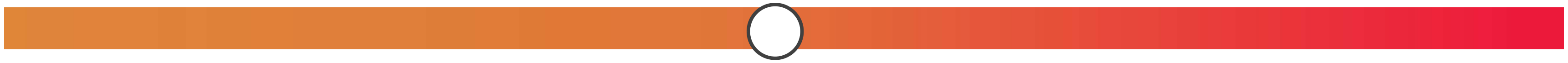

VALUATION OF PENSION LIABILITY

Significant estimate – Police pension liabilities

Estimates: Police pension liabilities £1,139.3 million

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

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

Financial:

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

Mortality:

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

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

Impact

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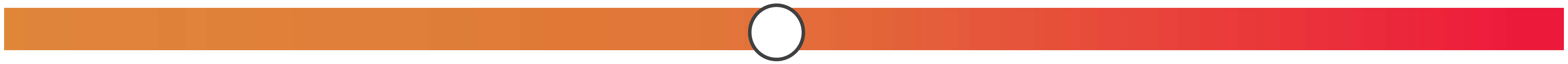

NON-DOMESTIC RATES APPEALS PROVISION

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

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

Risk description

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

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

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

Details

We carried out the following planned audit procedures:

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

Results

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

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

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

Representations required

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

Conclusion

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

NON-DOMESTIC RATES APPEALS PROVISION

Significant estimate – Non-Domestic Rates appeals provision

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

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

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

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

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

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

Impact

ALLOWANCES FOR NON-COLLECTION OF RECEIVABLES AND DEBT

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

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

Risk description

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

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

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

Details

We carried out the following planned audit procedures:

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

ALLOWANCES FOR NON-COLLECTION OF RECEIVABLES AND DEBT

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

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

Results

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

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

Representations required

We have sought specific representations that:

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

Conclusion

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

ALLOWANCES FOR NON-COLLECTION OF RECEIVABLES AND DEBT

Significant estimate – Allowance for non-collection

Estimates: Allowances for non-collection £11.9 million

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

Non-domestic rate arrears and cost provision

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

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

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

Rent arrears and cost provision

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

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

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

Impact

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ALLOWANCES FOR NON-COLLECTION OF RECEIVABLES AND DEBT

Significant estimate – Allowance for non-collection

Estimates: Allowances for non-collection £11.9 million

Penalty Charge Notices (PCN) arrears and cost provision

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

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

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

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

Other sundry debt arrears and cost provision

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

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

We consider these to be reasonable for estimating future losses.

Impact

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RELATED PARTY TRANSACTIONS

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

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

Risk description

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

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

Details

We carried out the following planned audit procedures:

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

Results

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

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

Conclusion

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

GOING CONCERN

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

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

Management's assessment of going concern

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

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

Discussion and conclusion

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

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

OTHER MATTERS

Contents

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

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

MATTERS REQUIRING ADDITIONAL CONSIDERATION

Fraud

Whilst the Council's directors and officers have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds that have come to your attention since we last enquired when presenting the audit plan on 14 March 2021.

Laws and regulations

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

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

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

Related parties

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

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

UNADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

Contents

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

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

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

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

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

Contents

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

UNADJUSTED AUDIT DIFFERENCES: DETAIL 2

Details for the current year

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

UNADJUSTED AUDIT DIFFERENCES: DETAIL 3

Details for the current year

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

UNADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

Contents

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

The following unadjusted disclosure matters were noted:

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

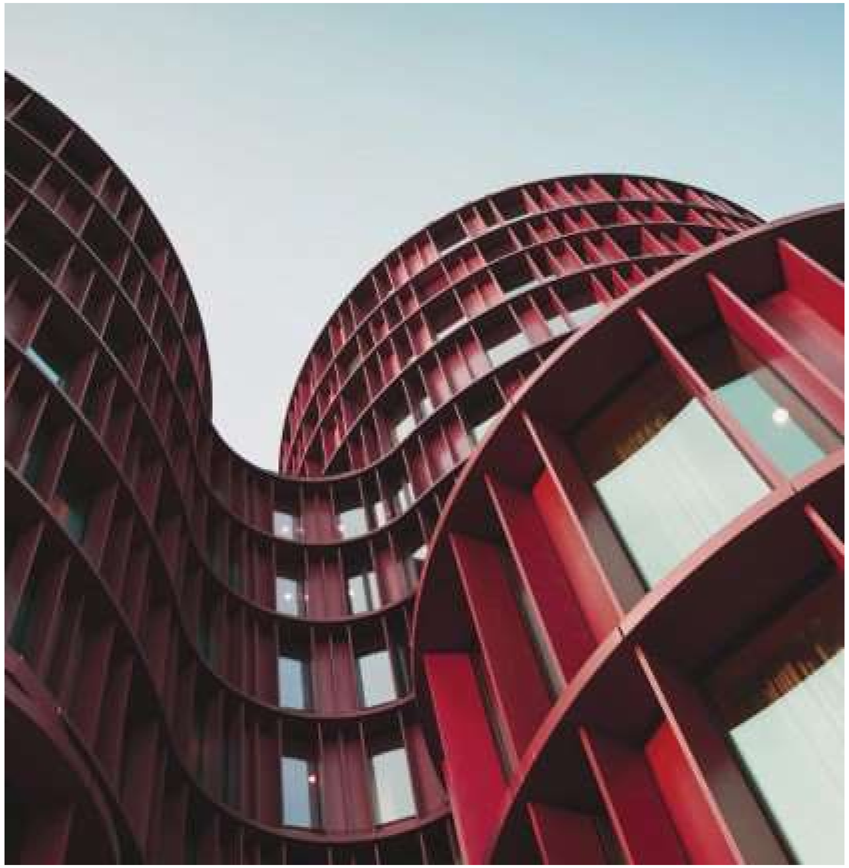
  We discussed this with management. In line with the approach taken last year, the EFA presents the general and earmarked reserve balances together whereas the front end focuses on the general reserve position and links to how the City Fund reports in year and at outturn. On this basis, the segmental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

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

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

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

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



UNADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS 2

Disclosure omissions and improvements

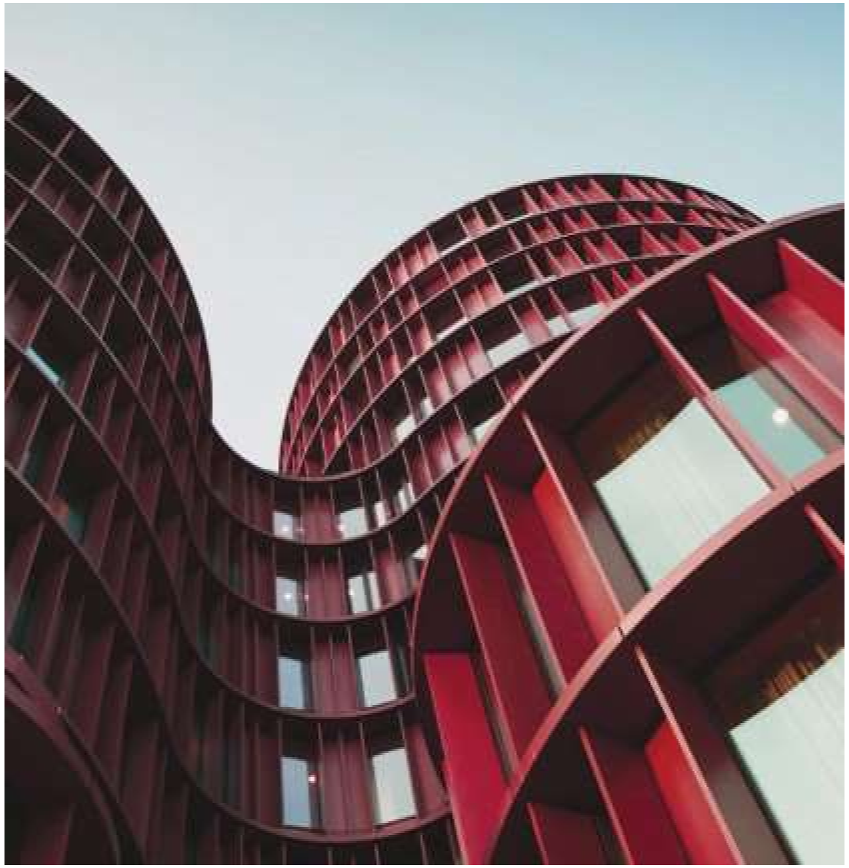
Contents

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

The following unadjusted disclosure matters were noted:

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

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



ADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

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

There was no impact on the general fund balance

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Contents

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

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

ADJUSTED AUDIT DIFFERENCES: DETAIL 2

Details for the current year

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

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

ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

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

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

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

REPORTING ON OTHER INFORMATION

Contents

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

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

SPECIAL REPORTING POWERS AND DUTIES

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

WHOLE OF GOVERNMENT ACCOUNTS

Contents

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

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

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

In the prior year, the threshold was £500 million and we were therefore required to perform tests on the DCT. This work included checking the consistency of the DCT return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.

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

USE OF RESOURCES OVERVIEW

Contents

New Code of Audit Practice ("Code")

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

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

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

Risk of Significant Weakness

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

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

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

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

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

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

Contents

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

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

Risk description

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

Work performed

We carried out the following planned audit procedures:

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

Results

Our audit work did not identify any issues.

Discussion and conclusion

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

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

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

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

USE OF RESOURCES OVERVIEW - LIMITED ASSURANCE REPORTS SUMMARY FINDINGS

Contents

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

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

Risk description

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

Work performed

We carried out the following planned audit procedures:

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

Results

Our audit work did not identify any issues.

Discussion and conclusion

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

CONTROL ENVIRONMENT: OTHER DEFICIENCIES

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

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

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

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

CONTROL ENVIRONMENT: OTHER DEFICIENCIES

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

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CONTROL ENVIRONMENT: IT DEFICIENCIES

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

CONTROL ENVIRONMENT: IT DEFICIENCIES

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

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CONTROL ENVIRONMENT: FOLLOW UP OF PRIOR YEAR DEFICIENCIES

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

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CONTROL ENVIRONMENT: FOLLOW UP OF PRIOR YEAR DEFICIENCIES

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

CONTROL ENVIRONMENT: FOLLOW UP OF PRIOR YEAR DEFICIENCIES

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

CONTROL ENVIRONMENT: FOLLOW UP OF PRIOR YEAR DEFICIENCIES

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

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AUDIT REPORT OVERVIEW

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

Opinion on financial statements

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

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

Conclusion relating to going concern

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

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

Irregularities, including fraud

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

Other information

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

Annual Governance Statement

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

Use of resources

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

INDEPENDENCE

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

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

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2021.

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

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

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

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

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

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

FEES

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

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

APPENDICES CONTENTS

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RESTORING TRUST IN AUDIT AND CORPORATE GOVERNANCE

BEIS consultation issued March 2021

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

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

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

HISTORIC CONSULTATIONS TIMELINE

2018

2019

Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb

Jan 2018	Collapse of Carillion
Apr 2018	Launch of Kingman review
Oct 2018	Statutory audit market study by the CMA
Nov 2018	BEIS committee launch of an inquiry into ‘the future of audit’
Feb 2019	Sir Donald Brydon review into the quality and effectiveness of audit

BEIS CONSULTATION AT A GLANCE

Issued March 2021

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

BEIS CONSULTATION AT A GLANCE 2

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

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FRC ETHICAL STANDARD

Issued in December 2019

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.

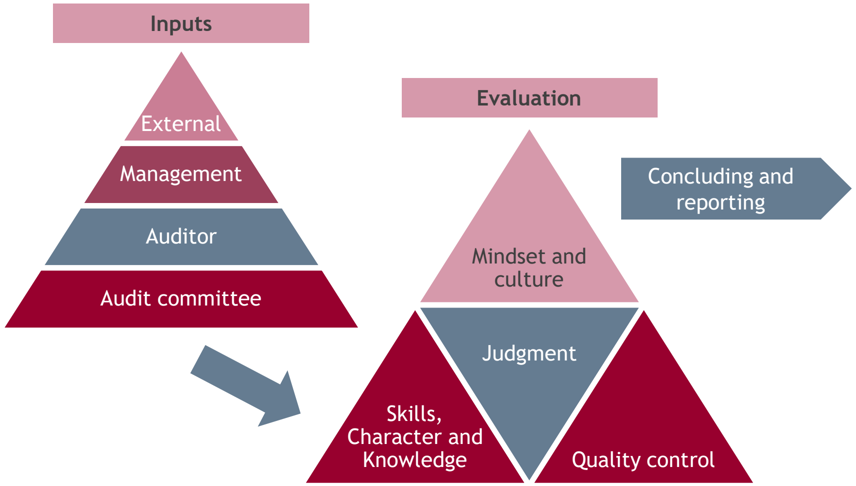
FRC PRACTICE AID FOR AUDIT COMMITTEES

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

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

It gives guidance for Audit Committees in the following areas:

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



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

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

OUR RESPONSIBILITIES

Responsibilities and reporting

Contents

Our responsibilities and reporting

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

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

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

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

We are additionally required to include in our report:

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

What we don't report

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

ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

Contents

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

COMMUNICATION WITH YOU

Contents

Those Charged with Governance (TCWG)

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

Communication, meetings and feedback

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

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

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

OUTSTANDING MATTERS

Contents

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

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

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

AUDIT QUALITY

Contents

BDO is totally committed to audit quality

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

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

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

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

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

LETTER OF REPRESENTATION

Contents

[City of London Letter headed paper]

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
IP3 9SJ

Dear Madam

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

We confirm that the following representations given to you in connection with your audit of the City Fund's financial statements for the year ended 31 March 2021 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Corporation.

The Chamberlain has fulfilled our responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the City Fund as of 31 March 2021 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

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

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

Going concern

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

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

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

Laws and regulations

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

Post balance sheet events

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

Fraud and error

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

LETTER OF REPRESENTATION 2

[City of London Letter headed paper]

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
IP3 9SJ

Contents

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

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

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

Misstatements

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

Related party transactions

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

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

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

Carrying value and classification of assets and liabilities

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

Accounting estimates

a) Pension fund assumptions

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

- Rate of increase in salaries: LGPS 3.85% / Police 3.80%
- Rate of increase in pensions: LGPS 2.85%/ Police 2.80%
- Rate of discounting scheme liabilities: LGP 2.00% / Police 2.00%
- Commutation take up option: LPGS 50% / Police 50%

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

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

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

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

We confirm that the assumptions used in calculating the social housing discount factor of 75% applied to HRA dwelling valuations is reasonable.

LETTER OF REPRESENTATION 3

[City of London Letter headed paper]

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
IP3 9SJ

Contents

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

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

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

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

c) Non domestic rates appeals provision

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

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

d) Allowance for non-collection of receivables

We are satisfied that the impairment allowances for non-domestic rates, housing rent and sundry debt arrears are reasonable. The historic collection rates calculated in previous years for NDR arrears, Barbican residential and HRA rents remain consistent with collection rates in 2020/21.

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

Litigation and claims

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

Confirmation

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

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

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

Yours faithfully

Caroline Al-Beyerty - Chamberlain

Date: ……………………

FOR MORE INFORMATION:

David Eagles, Partner

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e: David.Eagles@bdo.co.uk

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

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