ANNEX 2

The City of London Corporation - City Fund

Report to the Audit and Risk Management Committee on the year ended 31 March 2013 Audit

DRAFT

[ ] July 2013

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The Chairman of the Audit and Risk Management Committee
City of London
PO Box 270
Guildhall
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[ ] July 2013

Dear Sir

We have pleasure in setting out in this document our report to the Audit and Risk Management Committee of the City of London Corporation for the year ended 31 March 2013 for discussion at the meeting of the Committee on 23 July 2013. This report covers the principal matters that have arisen from our audit of the City Fund of the City of London Corporation for the year ended 31 March 2013.

In summary:

- The major issues, which are summarised in the Executive Summary, have now been substantially addressed and our conclusions are set out in our report.
- Our work on areas of normal risk is ongoing, including certain internal review processes. We expect this to be substantially complete by the time of the Audit and Risk Management Committee meeting on 23 July and will provide an oral update at the meeting
- There are a number of judgemental areas to which we draw your attention in our report which you should consider carefully.
- We are not aware of any circumstances at this point which would cause us to issue a qualified opinion on the accounts or a qualified value for money conclusion.

We would like to take this opportunity to thank the Chamberlain, Chris Bilsland, Caroline Al-Beyerty and their team for their assistance and co-operation during the course of our audit work.

Heather Bygrave

Senior Statutory Auditor

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Executive summary

We have the pleasure in setting out in this document our report to the Audit and Risk Management Committee of the City of London Corporation on the audit of the City Fund ("the City") for the year ended 31 March 2013. This report summarises the principal matters that have arisen from our audit for the year ended 31 March 2013.

This summary is not intended to be exhaustive but highlights the most significant matters to which we would like to bring to your attention. It should, therefore, be read in conjunction with the report and the appendices thereto.

Status	Description	Detail
Completion of the audit		
We have completed our work on the areas of significant audit risk	Officers have again faced the challenge of needing to respond to audit queries at the same time as finalising the preparation of the financial statements and supporting working papers. We received the full draft of the financial statements on 1 July and our work is in progress at the time of writing. We have substantially completed our work on the areas of significant risk identified in our audit plan, although there are certain sample items where we are waiting for information to complete our work. Our work on areas of normal risk is ongoing, including certain internal review processes. We expect this to be substantially complete by the time of the Audit and Risk Management Committee meeting on 23 July and will provide an oral update at the meeting. There are no additional risks identified by our work to date.	n/a

Executive summary (continued)

Overall view		
We have not identified any matters through our work to date which would prevent us from issuing an unmodified audit opinion on the truth and fairness of the financial statements	We have not identified any matters through our work to date which would prevent us from issuing an unmodified audit opinion on the truth and fairness of the financial statements. The matters that we have taken into account in forming our overall view are described in the following sections of this report. Under the Audit Commission Act 1998, we issue a certificate 'when the audit of the accounts has been concluded'. The issue of the audit certificate marks the closure of the audit and the end of the exercise of the auditor's powers and duties in respect of that audit. The audit certificate can be issued as soon as all the work required to meet auditors' responsibilities under sections 2 and 3 of the Code has been completed. One of our statutory responsibilities is to issue an opinion on the City Fund's Whole of Government Accounts return. The deadline for the audited return is 5 October. The Audit Commission has not yet finalised its instructions to auditors due to delays caused by the implementation of a new reporting system for the WGA return. However, we do not need to delay the issue of our opinion on the accounts for this, but would not be able to issue our certificate until completion of our work and the issue of our opinion on the Whole of Government Accounts return.	n/a

Executive summary (continued)

Overview of risk	Description	Detail
Significant audit risks	**Status**	
There were no significant issues arising from our review of these audit risk areas	In our audit plan we identified a risk in relation to certain property transactions which we understood would be concluded during 2012/13. In the event, one of the two transactions, which was to involve more than one fund of the Corporation and was to be delivered through a joint venture agreement with a developer, was not completed in 2012/13. The other development project commenced before year end, but is at a very early stage and the accounting straight forward. As a result, we concluded, in the event, that these transactions do not represent a significant audit risk for the 2012/13 financial statements. The remaining audit risks which were communicated to you in our audit plan and the conclusion of our audit work thereon are set out below. Valuation of investment properties We focused on the key assumptions made, and the reasonableness of the valuations arrived at, by the City's valuers. We concluded satisfactorily. We are waiting for details of information provided by the City to the valuer to complete our work in this area. Grant income recognition We focused on the judgements made by officers in determining the basis of recognition for individual grants. We have not identified any exceptions to date, but await information to complete our testing of a small number of sample items. Police pension liability We focused on the key assumptions used by the actuary to calculate the provision. We concluded that the assumptions fell within a reasonable range around our benchmark assumption. Impairment allowance against sundry debtors We reviewed the reasonableness of the provision using past write-off experience and other indicators. We concluded satisfactorily. Management override of controls Auditing standards presume that there is always a risk of management override of controls. We did not identify any areas of concern from our work to date, but await information to complete our testing of a small number of items that forms part of our testing of this risk.	Section 1

Executive summary (continued)

Status	Description	Detail
Other issues		
We have provided a commentary on certain other transactions and disclosures	We provide our comments on the disclosure within this year's financial statements relating to the Crossrail commitment. We do not consider this represents a significant audit risk for our opinion on the 2012/13 financial statements.	Section 2
Value for money (VFM) conclusion		
We expect to issue an unqualified value for money conclusion	One of our responsibilities is to include in our audit report a conclusion on whether the City of London Corporation has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources in respect of the City Fund - this conclusion is known as "the VFM conclusion". The conclusion is given in relation to two criteria specified by the Audit Commission. On the basis of our work, we confirmed our preliminary assessment that there were no risks which required us to carry out other locally determined work and we propose to issue an unqualified VFM conclusion.	Section 3
Risk management and internal control systems		
We did not identify any significant deficiencies in the financial reporting systems	Our audit findings did not identify any significant deficiencies in the financial reporting systems. We draw your attention to two recommendations raised in 2011/12 where we have updated you on action taken.	Section 4
Identified misstatements and disclosure misstatements		
Based on our work to date, we have not identified any misstatements above the threshold for reporting to you. We report on one disclosure deficiency	Audit materiality was £3.9 million as set out in our Audit Plan. We have identified one uncorrected disclosure deficiency which was the date of last valuation of assets where we understand the information is not readily available. This has disclosure has been omitted in previous years. We have not identified any uncorrected misstatements to date which are above the threshold we have set for reporting to you. Our work is ongoing at the time of writing and we will provide an update on the position at the meeting.	Appendix 1

Executive summary (continued)

Significant representations		
We will request management representations	A copy of the draft representation letter to be signed on behalf of the City is included at Appendix 3. Non-standard representations have been highlighted in italics.	Appendix 3

Independence		
We confirm we comply with APB Revised Ethical Standards for Auditors	Our reporting requirements in respect of independence matters, including fees, are covered in Section 5.	Section 5

1. Significant audit risks

The results of our audit work on significant audit risks are set out below:

Investment properties

The valuations arrived at by the City's valuers were reasonable in material respects. We are waiting for details of information provided by the City to the valuer to complete our work in this area.

The City has a substantial portfolio of investment properties which are subject to annual revaluation. Some of the properties require the application of specialist valuation assumptions. The current and recent economic volatility has affected property values, generally, and the City has recorded significant gains and losses over the last 3 years.

All properties are valued in accordance with the Royal Institution of Chartered Surveyors Valuation and Appraisal Standards. The portfolio has been valued by Jones Lang LaSalle and BNP Paribas at 31 March 2013.

A summary of the portfolio is shown below:

At 1 April 2011 £m	Additions £m	Disposals £m	Revaluations £m	At 31 March 2013 £m
794	5	(56)	51	794

Deloitte response

We involve real estate specialists from Deloitte as part of the engagement team to assist us. We noted that the process followed in preparation of the valuations appears to be reasonable.

The Investment Property Databank ("IPD") index reports changes in capital values of various property types. Reported movements in Central London in the year to 31 March 2013 are summarised in the table below:

Property Type	Change in Capital Value
Central & Inner London offices	+4.43%
City offices	+1.39%
Central London standard shops	+8.48%

With like-for-like portfolio movements of +6.0% the City Fund investment property portfolio has increased in value broadly in line with the wider London property market.

We believe the internal and external valuations produced for the City Fund as at 31 March 2013 are a reasonable reflection of their market value.

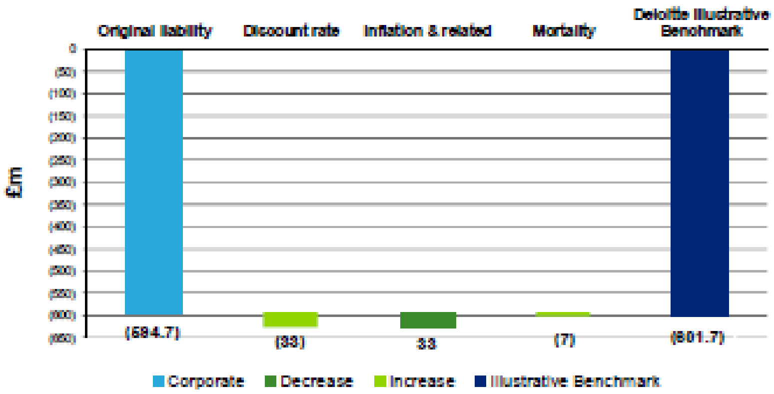
One of our normal procedures is to test the key data provided by the City to the valuer which is significant to the valuation. This procedure has not yet been completed as we are awaiting information. We will provide an update on this at the meeting.

1. Significant audit risks (continued)

Grant income recognition	
We focused on the judgements made by officers in determining the basis of recognition for individual grants. We have not identified any exceptions to date, but await information to complete our testing of a small number of sample items.	The City received grants and contributions totalling £64 million, excluding core funding. Accounting for grant income can be complex as the timing for recognising income in the accounts will depend on the scheme rules for each grant. Under the Code, income from grants is recognised as soon as all conditions have been met. We have retained this as a risk in view of the size of this income stream and some of the complexities around recognition of individual grants.
Deloitte response	We noted that the Corporate Accountancy Unit had sent out instructions to staff involved in the preparation of the accounts highlighting the accounting requirements for grants. We also carried out extended testing to check that recognition of income in 2012/13 properly reflects any conditions within the grant offer letter and accompanying documentation. Our work has not identified any exceptions to date but await information to test a small number of items.

1. Significant audit risks (continued)

Pension liability	
The assumptions made by the actuary fall within a reasonable range	This continues to be an audit risk in view of the size of the liability, complexity of judgements and sensitivity to comparatively small changes in assumptions made about future changes in salaries, price and pensions, mortality and other key variables.
Deloitte response	We considered the arrangements over the engagement of the independent actuary and concluded satisfactorily. We included our own experts from within our specialist pensions group to assist in the review of assumptions used to calculate the pension liability and related in year transactions. We concluded that the assumptions used to calculate the Police pension liability, individually fell within a reasonable range around our benchmark assumption. We also consider the assumptions in aggregate to determine the strength of the set of assumptions as a whole. An optimistic proposal for one assumption may be balanced by an offsetting prudent assumption for example. The chart below gives an indication of the broad impact on the pension liability if the main assumptions were set to be in line with the benchmarks we have used to assess the assumptions ("the Deloitte Illustrative Benchmark").



We also make the following observations about individual assumptions and methodologies:

- The assumptions adopted are those specified by Barnett Waddingham who use a standard assumption setting approach covering both LGPSs and police pension schemes, including, for example, assuming the same average retirement age.
- Although the financial assumptions reflect the duration (mean term) of the Scheme's liabilities (which the actuary estimates to be around 21 years) they do not reflect expected future cash flows (which is our preferred approach).
- In addition to what has been reflected in the table above, we note that the assumption adopted for salary increases of RPI +1.5% p.a., is prudent when compared to other public sector employers. Many such employers include an explicit allowance within the assumptions for pay constraints up to 2015, as well as including some allowance for the impact of such constraints in the actuary's roll-forward calculation of the year-end liability value. For the City, no allowance has been made for actual salary increases differing from those assumed since the previous full valuation at 31 March 2011. As a broad-brush estimate the potential impact of allowing, in the assumptions, for pay constraints from 2013 to 2015, for example, could be to decrease the liability value by £15 million. Also, if allowance were made for the (expected) experience impact of constraints from 2011 to 2013 the liability value could also fall by some £15 million.

This is not intended to imply that the deficit calculated by the actuary is inappropriate. Overall, we would characterise the assumptions as being centrally positioned within the reasonable range. At the previous year end, the assumptions were at the more prudent end of the reasonable range. We recommend the City consider the points raised above in estimating its pension liabilities going forwards.

1. Significant audit risks (continued)

Impairment allowance against sundry debtors	
We reviewed the reasonableness of the provision using past write-off experience and other indicators. We conclude satisfactorily	The challenging economic environment and its impact on debt recovery continue to create uncertainties in the estimation of provisions. The provision as a whole has moved from £3.4 million (20% of invoiced debt) last year to £3.7 million (23%).
Deloitte response	In evaluating the reasonableness of the amount provided, we have noted that: • the largest element of the provision (£2.1 million) is against outstanding penalty charge notices. The heavy level of provision (81%) against this category of debt is similar to what we see elsewhere and is consistent with management information on past collection experience; • the remaining provision of £1.3 million compares to invoiced debt over three months of £2.8 million, of which £0.9 million is over a year old. This represents reasonable level of cover against debts which are long past due; • our work comparing the provision made at 31 March 2012 to actual bad debt experience to date suggests that past provisions are accurate in material respects. • the proportion of write-offs to provisions suggests that, on average, irrecoverable debt is being written off between 3-4 years after having been raised. On this basis we have concluded that the amount of the impairment allowance is not unreasonable.

1. Significant audit risks (continued)

Management override of controls	
We did not identify any issues in relation to management bias. Some work on testing of journals is ongoing	Standards on auditing include a presumption of a risk of management override of key controls which cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to prevent inaccurate or even fraudulent financial reporting.
Deloitte response	Our work focused on testing of journals, significant accounting estimates and any unusual transactions, including those with related parties. In testing journals, we made use of computer assisted audit techniques to analyse the whole population of journals and to identify those which had features which could be indicators of possible fraud and to focus our testing on these. We did not identify any issues from the work carried out to date, although we await information to complete our work on certain sample items. Our consideration of key accounting estimates is discussed in the previous pages. We did not identify any bias in preparing these estimates. We did not identify any transactions through our testing where the business rationale was not clear.

2. Other issues

We provide our comments on other significant transactions and disclosures within this year's accounts but which do not represent significant audit risks.

The Crossrail commitment	
The City Fund has undertaken to contribute £200 million towards the cost of Crossrail	The notes to the accounts disclose a commitment made by the City to contribute £200 million towards the cost of Crossrail. The disclosure is the same as made in the previous three sets of financial statements.
Deloitte response	During our audit of the 2008/9 accounts we discussed with officers their assessment of the accounting treatment for this item. We concurred with officers that the agreement with the Government, contained within an exchange of letters between the Corporation and the Secretary of State, is an "executory contract" (contracts under which both parties are still to perform to an equal degree the actions promised by and required of them under the contract). As such it falls outside the scope of International Accounting Standard 37 Provisions, Contingent Liabilities and Contingent Assets (unless onerous). As a result, whilst the transaction has been disclosed as a commitment, a liability has not yet been recognised on the balance sheet pending performance of the undertakings made by the Secretary of State, which include completion of certain works in relation to Crossrail stations.

3. Value for money conclusion

Scope of our work

Under the Code of Audit Practice 2010 we are required to include in our audit report a conclusion on whether the City of London Corporation has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources in respect of the City Fund - this conclusion is known as "the VFM conclusion".

Our conclusion is given in relation to two criteria:

Specified criteria for auditors' VFM conclusion	Focus of the criteria for 2013
The organisation has proper arrangements in place for securing financial resilience.	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Approach to our work

We draw sources of assurance relating to our VFM responsibilities from:

- the audited body's system of internal control as reported on in its Annual Governance Statement;
- the results of the work of the Commission, other inspectorates and review agencies to the extent that the results come to our attention and have an impact on our responsibilities;
- any work mandated by the Commission – of which there was none in 2012/13; and
- any other locally determined risk-based VFM work that auditors consider necessary to discharge their responsibilities.

Risk assessment

Our preliminary assessment was that there were no risks in relation to our VFM responsibilities which required local work to be carried out and we therefore did not identify any risks or additional local studies in our audit plan.

We have subsequently carried out a risk assessment, carried out in the period after the year end to take account of the latest refresh of the Medium Term Financial Strategy, as well as the outturn financial and performance information for 2012/13. The risk assessment has involved consideration of common risk factors for local and police authorities identified by the Audit Commission, concluding on whether they represent actual risks for the purpose of our VFM conclusion on the City Fund. We undertook this work through review of relevant documentation, including committee papers and discussion with officers. We also considered whether there were other risks which might be specific to the City Fund. We did this principally through our consideration of what has been reported in the Annual Governance Statement, matters reported by regulators and other matters which have come to our attention from our work carried out in relation to our other Code responsibilities.

Overall conclusion

On the basis of that work, we confirmed our preliminary assessment that there were no risks which required us to carry out other locally determined work and we propose to issue an unqualified VFM conclusion.

We have noted the following matters in arriving at our assessment that there were no significant risks:

Annual governance statement and work of regulators

We have reviewed reports issued by HMIC, the Care Quality Commission and Ofsted during the year and noted reports on the City's response to these presented to members. We did not note any significant issues in the context of our value for money conclusion.

The Annual Governance Statement does not identify any significant control weaknesses.

3. Value for money conclusion (continued)

Financial resilience

The City has:

- Taken steps to maintain the capacity of its finance team during a period of reduced funding. It has reviewed the service it provides to the organisation and has continued with the restructuring started in 2011 aimed at enhancing its effectiveness.

- Responded to challenges posed by reductions in government funding and, before that, reductions in key sources of rental and investment income and has added to its reserves in successive years as follows:

	Unallocated reserve £m	Earmarked reserves £m	Total £m	Change over year £m
2013	70.9	105.3	176.2	+18.5
2012	63.7	94.0	157.7	+17.6
2011	52.9	87.2	140.1	+9.9
2010	48.5	81.7	130.2	+4.4

- Whilst not formalising a full longer term plan for the City Fund, the City has considered the impact of its £200 million Crossrail commitment, anticipated for 2016/17, on its financial position and members have received an update on the plan for its funding.

- Continued its track record of staying within its revenue budget, recording an underspend of £6.5 million in 2012/13. This follows an underspend of £13.7 million in the previous year. Recent underspends reflect both unforeseen, one-off windfalls as well as savings against operational budgets. The City will need to continue to make sure going forwards that it strikes an appropriate balance between prudent budgeting and forecasting which maintain continued financial resilience on the one hand and providing accurate information for decision making purposes on spending plans on the other.

- Pursued a number of longer term initiatives for efficiency savings, alongside the immediate savings programme implemented from 1 April 2011.

Economy, efficiency and effectiveness

The City has:

- Engaged members more closely throughout the process for agreeing its corporate plan refresh in 2011. This version informed the development of service and financial plans in the the period covered by the spending reductions and provided a means by which member views were incorporated, along with the work of service committees. We understand that the City has committed to repeating this process every third year.

- Established the Efficiency and Performance sub committee to oversee the development and delivery of savings initiatives and VFM more generally. The sub committee's work during 2012/13 has been re-focused on more thematic and cross cutting reviews.

- Remained outward looking with initiatives in the period since 2010 involving aspects of performance and efficiency including a partnering arrangement with a private sector provider focusing on procurement; a peer review of the Barbican Centre; quarterly benchmarking reports on performance utilising the London Authorities Performance Management Network hosted by London Councils; benchmarking of police back office operations; participation in the CIPFA benchmarking club for HR and legal services, as well as ongoing involvement in the finance club.

3. Value for money conclusion (continued)

- Established a number of longer term initiatives aimed at producing efficiency savings including the PP2P procurement programme – a 5 year partnering arrangement with Accenture which is targeting procurement savings of; has thought through shared service opportunities and is tracking action on this list and received reports on this during 2012/13; internal restructuring of central services including procurement, finance and HR teams; review of other resources including the Guildhall accommodation review to improve space utilisation with action on relocating certain City Police staff to the Guildhall agreed; and progressing the project on IT provision towards procurement stage.
- Analysed data on unit costs, although the position is mixed. There is not a suite of unit costs covering the range of the City's services which are routinely reported on – but this position is not significantly different to other local authorities. The City has not achieved its goal of establishing a balanced scorecard for all services, but the recently agreed programme of service reviews will incorporate the principles of this.
- Arrangements for agreeing savings programmes for the significant reductions initiated in 2011 included consideration of their impact. Reporting of progress to service committees against annual business plans provided a means for assessing the impact of budget reductions, together with the results of the triennial survey of stakeholders which are currently being analysed. The City judge that they have not had any material impact on service levels or performance. Savings plans are incorporated into budgets and are monitored through normal budget processes. The City Fund recorded a budget surplus in recent, successive years. We understand that the recently agreed programme of service reviews is intended to bring greater focus to the savings process, compared to the top slicing approach applied in recent budget setting rounds.

4. Risk management and internal control systems

Our audit approach in relation to internal control was set out in our 'Briefing on audit matters' and our planning report circulated to you in July 2011.

Risk management and control observations

We have not identified any material risk management and control observations during the course of our work. We note the emphasis placed on risk by the Audit and Risk Management Committee in the way in conducts its business. We provide below an update on relevant observations made in the prior year.

VAT	
Prior year observation	The City encountered difficulties in completing the VAT partial exemption claim to fit with the audit timetable, due to the death of the highly experienced VAT accountant. The calculation of the finalised claim for 2011-2012 was performed by a contractor and was received late in the audit process. We recommended the City should ensure that the knowledge gained from this temporary role is adequately captured and utilised in planning for future years and the timetable is again revisited.
Current year update	The City has made an appointment to the post of Group Accountant, VAT, Research, Technical and Projects, together with further appointments to provide additional support. Transitional arrangements have been put in place while the new team builds its experience. Officers propose to put in place simplified procedures to enable the position to be monitored on a quarterly basis as accurately as possible. The exempt input tax percentage has been calculated at 4.67% for 2012/13 which is within the HMRC threshold of 5%. Further details and a number of recommendations are contained in our report on the Bridge House Estates and Charities.

4. Risk management and internal control systems (continued)

Approval of journals	
Prior year observation	It has not been the City's policy in the past to approve journals that are entered into the main accounting records. This may mean that errors arising from inappropriate journals may go undetected. Journals can also be the means by which an individual might seek to hide fraud or commit fraud through manipulation of reported financial information. Officers had put in place an arrangement for the retrospective approval of journals lines over £100,000 during 2011/12.
Current year update	We note that testing on another fund identified instances where the required approval had not been obtained for journals within the limit described above, although we concluded from our testing that the journals were appropriate.

Counter terrorism grant	
Prior year observation	Our testing identified a grant to support expenditure on counter terrorism activities where the funder had stipulated a requirement that: the grant should be spent on meeting eligible expenditure; that detailed records of that expenditure should be maintained; and that any unspent funds should be repaid to the funder. The City had claimed and recognised within the Comprehensive Income and Expenditure Statement the full amount offered as the City Police believe that the City has incurred eligible expenditure of at least that amount. The current coding structure did not capture information in a form which facilitated the preparation of a detailed analysis of eligible expenditure and none was prepared to initially support the claim.
Current year update	We have completed our testing of the amount recorded in income for the purposes of our opinion on the financial statements and did not identify any exceptions.

5. Independence

As part of our obligations under International Standards on Auditing (UK & Ireland) and the Companies Act, we are required to report to you on the matters listed below.

Confirmation	
We confirm we comply with APB Revised Ethical Standards for Auditors	We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.

<table>
<tr><th colspan="2">Non-audit services</th></tr>
<tr><td>We confirm that our independence is not compromised by our provision of non audit services.</td><td>In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors, the Audit Commission’s additional instructions in relation to independence and non audit services provided.
We apply the following safeguards to eliminate identified threats to independence or reduce them to an acceptable level are as follows:
<table>
<tr><th>Service provided</th><th>Identified threats to independence</th><th>Safeguards applied</th></tr>
<tr><td>Advice provided by DJD in relation to lease advisory work</td><td>Potential threats to self-review and management threat</td><td>Non audit work is carried out by partners and staff who have no involvement in the audit.</td></tr>
</table>
</td></tr>
</table>

Fees	
The level of non audit fees is within appropriate guidelines.	An analysis of professional fees earned by Deloitte in the period from 1 April 2012 to 31 March 2013 is included in Appendix 2.

6. Responsibility statement

This report should be read in conjunction with the "Briefing on audit matters" circulated to you in July 2011 and sets out those audit matters of governance interest which came to our attention during the audit. Our audit was not designed to identify all matters that may be relevant to the board and this report is not necessarily a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for the members of the City of London Corporation, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

Deloitte LLP

Chartered Accountants

St Albans

[ ] July 2013

Appendix 1: Audit adjustments

Recorded audit adjustments

We have not identified any adjustments to the draft financial statements with from our work to date. We will provide an oral update to the meeting at which this report is considered.

Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements.

There are no significant disclosure misstatements that we consider require consideration by the committee except that, as last year, the date of the last valuation has not been given.

Appendix 2: Independence – fees charged during the period

The professional fees earned by Deloitte in respect of the period 1 April 2012 to 31 March 2013 are as follows:

	2013 £'000	2012 £'000
Fees payable in respect of our work under the Code of Audit Practice in respect of the City Fund	104	173
Fees payable in respect of the certification of grants	*24	48
Total fees payable in respect of our role as Appointed Auditor	128	221
Non audit fees		
Property advisory services	49	88
	177	309

*Note: Our work in respect of 2012/13 is ongoing and the amount shown above is an estimate only.

The 2012-13 scale fees that the Audit Commission has set include reductions of up to 40% on 2011-12 fees. These result from savings generated from the outsourcing of the Audit Commission's in-house Audit Practice and internal efficiency savings that the Commission is passing on to audited bodies. Under our new arrangements with the Audit Commission, Deloitte's net re-imbursement for external services provided remains unchanged from those previously agreed. The scale fee reductions do not therefore have an impact on our ability to continue offering a high quality service to you.

The fees receivable in respect of private and voluntary funds and in respect of the local government pension scheme are dealt with in separate reports to this meeting of the Audit and Risk Management Committee.

Appendix 3: Management representation letter

This representation letter is provided in connection with your audit of the financial statements of the City of London Corporation (City Fund) for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements present fairly the financial position of City of London Corporation (City Fund) at 31 March 2013 and of the results of its operations, other comprehensive income and expenditure and its cash flows for the year then ended in accordance with applicable accounting framework and Accounts and Audit Regulations 2010.

We acknowledge our responsibilities for preparing financial statements for the City of London Corporation (City Fund) ("the local authority") which present fairly and for making accurate representations to you. For the avoidance of doubt, references to the local authority should be taken as applying equally to the City of London Pension Scheme and references to the financial statements of the local authority, includes information in those financial statements dealing with the City of London Pension Scheme.

We confirm, to the best of our knowledge and belief, the following representations.

Financial statements

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the applicable financial reporting framework and the Accounts and Audit Regulations 2003 (as amended) which give a true and fair view.

2. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

3. The measurement processes, including related assumptions and models used to determine accounting estimates in the context of the applicable financial reporting framework are appropriate and have been applied consistently.

4. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of IAS24 "Related party disclosures".

5. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.

6. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to liquidate the Corporation or cease trading as we consider we have realistic alternatives to doing so. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Corporation's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.

7. [The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole. The uncorrected misstatements and disclosures are included in the appendix to this letter].

8. We are not aware of events or changes in circumstances occurring during the period which indicate that the carrying amount of fixed assets or goodwill may not be recoverable.

Information provided

9. We have provided you with all relevant information and access.

10. All minutes of member and management meetings during and since the financial year have been made available to you.

11. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.

12. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

13. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

14. We are not aware of any fraud or suspected fraud that affects the entity and involves:
    (i). management;
    (ii). employees who have significant roles in internal control; or
    (iii). others where the fraud could have a material effect on the financial statements.

15. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

16. We are not aware of any instances of non-compliance, or suspected non-compliance, with laws, regulations, and contractual agreements whose effects should be considered when preparing financial statements

17. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

18. No claims in connection with litigation have been or are expected to be received.

19. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.

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

21. We are not aware of any events or changes in circumstances occurring during the period which indicate that the carrying value of fixed assets may not be recoverable.

22. We have evaluated whether the restrictions, terms or conditions on grants have been fulfilled with and deferred income to the extent that they have not.

23. We confirm that:
    - all retirement benefits and schemes, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;
    - all settlements and curtailments have been identified and properly accounted for;
    - all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
    - the actuarial assumptions underlying the valuation of the scheme liabilities (including the discount rate used) accord with the the City's best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business;
    - the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and
    - the amounts included in the financial statements derived from the work of the actuary are appropriate.

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

Yours faithfully