

The City of London Corporation  
City's Cash

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

The Audit and Risk Management Committee  
City of London  
PO Box 270  
Guildhall  
London EC2P 2EJ

7 October 2013

Dear Sirs

We have pleasure in setting out in this document our report on City's Cash to the Audit and Risk Management Committee of the City of London for the year ended 31 March 2013, for discussion at the meeting scheduled for 15 October 2013. This report covers the principal matters that have arisen from our audit of City's Cash for the year ended 31 March 2013.

In summary:

- The major issues, which are summarised in the Executive Summary, have now been addressed and our conclusions are set out in our report.
- Our review of the annual report is continuing, however, we have made some initial observations in Section 3 of our report.
- City's Cash implemented United Kingdom Generally Accepted Accounting Practice ("UK GAAP") for the first time this financial year. This was an area of key audit focus due to the complex and technical nature of this exercise, alongside the increased constraints on Officer's time.
- There are a number of judgemental areas to which we draw your attention in our report which you should consider carefully.
- In the absence of unforeseen difficulties, officers and Deloitte expect to meet the agreed audit and financial reporting timetable.

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.

Yours faithfully,



Heather Bygrave

Senior Statutory Auditor

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# Executive summary

We have pleasure in setting out in this document our report to the Audit and Risk Management Committee on the audit of City's Cash 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 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
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## Completion of the audit

### The status of the audit is as expected at this stage of the timetable

The status of the audit is as expected at this stage of the timetable agreed in our audit plan. n/a

Items which remain outstanding at the date of this report include:

- We received a draft of the Balance Sheets and Income and Expenditure Account on 4 September followed by the rest of the financial statements (annual report, accounting policies and notes) on 20 September. We continue to work through these with officers and are finalising our procedures in relation to:
  - Completion of our detailed review of the annual report and disclosures;
  - Finalisation of the procedures on the consolidation, reserves and cash flow;
  - Review of certain recommendations made to date, e.g. a note on restatement and description of "direct services";
- Completion of internal quality review assurance procedures;
- Meeting of the Audit Panel;
- Review of post balance sheet events; and
- Receipt of the signed letter of representation.

## Overall view

### We anticipate issuing an unmodified audit opinion on the truth and fairness of the financial statements

On satisfactory completion of the outstanding matters, we anticipate issuing an unmodified audit opinion on the truth and fairness of the financial statements. n/a

The matters that we have taken into account in forming our overall view are described in the following sections.

# Executive summary (continued)

Status	Description		Detail
● Risk appropriately addressed <b>G</b>	● Risk satisfactorily addressed but with unadjusted errors identified <b>A</b>	● Material unresolved matter <b>R</b>	

## Significant audit risks

**There were no significant issues arising from our review of these audit areas**

The audit risks which were communicated to you in our audit plan and the conclusion of our audit work thereon are set out below.

Section 1

### Implementation of United Kingdom Generally Accepted Accounting Practice ("UK GAAP")

● G

We have worked closely with officers throughout all stages of the UK GAAP implementation process from planning through to reporting. The key impact of this change to the financial statements includes the recognition of the carrying value of the following assets on the Balance Sheet:

- Investment properties £958.5m (2012: £903.3m);
- Heritage assets £182.2m (2012: £181.9m); and
- Operational assets £116.5m (2012: £106.8m).

In addition to the above, we also considered the implication of the accounting for leases and consolidation. In terms of leases, whilst there will be additional disclosures required around operating leases, the financial impact of finance leases was below de minimis hence no adjustments were made in respect of the accounting for finance leases. For the purposes of consolidation, a new subsidiary, City Re Ltd, is now consolidated within City's Cash.

Our assessment included a review of the implementation process, performing audit procedures to test the transactions, balances and adjustments following the adoption of full UK GAAP and reviewing the financial statements. We are satisfied that the financial statements have been properly prepared in accordance with UK GAAP.

### Revaluation of investment properties

● G

We have reviewed the adopted valuations in conjunction with our internal specialists and believe the valuations produced for City's Cash as at 31 March 2011, 2012 and 2013 representing an increase of £87.9m or 11.3% to £903.3m in 2011-12 and £43.7m or 5.0% to £958.5m in 2012-13 are a reasonable reflection of their market value.

# Executive summary (continued)

Status	Description	Detail
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## Significant audit risks (continued)

There were no significant issues arising from our review of these audit areas

### Revenue recognition

We have audited the revenue recognised during the year with a specific focus on the completeness of rental income and service charges. We note that rental income decreased during the year from £54.7 million in 2011-12 to £52.2 million in 2012-13. However, the number of leases increased from 366 leases in 2011-12 to 431 leases in 2012-13. This is primarily attributable to the expiry of whole building leases such as Guildhall House, Talis House and Audit House which generated higher rental income mitigated by the increase in the number of lettings of smaller units with lower rental income. We have not identified any issues with the recognition of revenue.

● G Section 1

### Management override of controls

We have focused our work on testing of journals (including the use of computer assisted audit techniques), significant accounting estimates and any unusual transactions, including those with related parties. Our testing did not identify any issues in relation to management override of controls, or the assumptions which have been adopted in determining key accounting judgements.

● G

## Other issues

There were no significant issues arising from our review of these audit areas

### Major Capital Project

We consider that the amounts accrued for in the financial statements of City's Cash in relation a major capital project are appropriate.

We are also of the opinion that the contingent liability disclosed in the financial statements is appropriate.

Section 2

### Crossrail funding

We have gained appropriate assurance as to why the City does not consider a contingent liability note necessary in relation to potential funding for Crossrail from City's Cash. We have included a specific representation on this.

### VAT

The City can recover input tax directly attributable to its exempt business activities where HMRC consider it to be an 'insignificant' proportion (less than 5%) of the total VAT incurred on all goods and services purchased for both business and non-business activities.

Officers of the City have completed the calculation for the 2012-13 VAT partial exemption return which indicates that there is no breach of the 5% threshold.

# Executive summary (continued)

Status	Description	Detail
<b>Our observations on the “front half” of your annual report</b>		
<b>Our review of your annual report is still on-going</b>	<p>Overall the annual report provides adequate detail to assist the readers in their understanding of the financial performance.</p> <p>Our review of the annual report is continuing, however, we have made some initial observations in Section 3.</p>	Section 3
<b>Risk management and internal control systems</b>		
<b>We did not identify any significant deficiencies in the financial reporting systems</b>	<p>Our audit findings did not identify any significant deficiencies in the financial reporting systems.</p> <p>Section 4 sets out the risk management and internal control observations arising from our audit procedures.</p>	Section 4
<b>Identified misstatements and disclosure misstatements</b>		
<b>There are no unagreed / unadjusted misstatements or disclosure deficiencies</b>	<p>Audit materiality for City's Cash was £15.0 million and de minimis was £300,000. We have determined audit materiality based on net assets. The quantum has increased from the prior year due to the recognition of the significant asset base as part of the transition to UK GAAP compliance. To provide further context, the prior year restated net assets as at 31 March 2012 following the recognition of all UK GAAP adjustments is £1.7bn compared to the actual reported net assets as at 31 March 2012 of £0.5bn.</p>	Section 5
<b>Significant Representations</b>		
<b>We will request management representations</b>	<p>A copy of the representation letter to be signed on behalf of the City is included at Appendix 3.</p> <p>Non-standard representations have been highlighted.</p>	Appendix 3
<b>Independence</b>		
<b>We confirm we comply with APB Revised Ethical Standards for Auditors</b>	<p>Our reporting requirements in respect of independence matters, including fees, are covered in Section 5.</p>	Section 5

# 1. Significant audit risks

## Implementation of UK GAAP

### ● G

**The key impact to the financial statements as a result of the implementation of UK GAAP is the recognition of the following carrying values of fixed assets on the Balance Sheet:**

- **Investment properties £958.5m (2012: £903.3m);**
- **Heritage assets £182.2m (2012: £181.9m); and**
- **Operational assets £116.5m (2012: £106.8m).**

Until the financial year ended 31 March 2012, the City's Cash financial statements were prepared following the general format of the Statement of Recommended Practice Accounting and Reporting by Charities (Revised 2005) but with a number of exceptions that were disclosed within the accounting policies of the financial statements. Our auditor's opinion therefore confirmed that the financial statements were properly prepared in accordance with the accounting policies stated in the notes' rather than confirming that the financial statements 'give a true and fair view'.

In the current year, the City of London Corporation have prepared the City's Cash financial statements in compliance with UK GAAP, and accordingly our audit opinion on the financial statements is on the basis of a true and fair view.

This has been a significant undertaking, and has resulted in a fundamental change in both the presentation of the annual report, and the assets recognised on the balance sheet. The Chamberlain's department has communicated this exercise to the Chief Officers within the City and engaged with the right personnel including short term assistance from two officers who were hired specifically to focus on information gathering for the following key risk areas of the UK GAAP implementation task. UK GAAP has resulted in recognition or a change in the following key areas:

- Investment properties – £958.5m (2012: £903.3m);
- Heritage assets – £182.2m (2012: £181.9m);
- Operational properties – £116.5m (2012: £106.8m);
- Finance and operating leases;
- Consolidation – evaluation of whether certain entities should be consolidated based upon whether control can be exerted (predominantly through the requirement to fund the annual deficits);
- Restatement of comparatives – the comparative figures have been restated and an opening balance sheet as at 1 April 2011 created to enable the restatement of the 2012 Income and Expenditure account; and
- Presentation and disclosure in the financial statements.

### Deloitte response

We have been involved in the UK GAAP implementation process from the planning stage through to completion. We focused on up-front planning with officers whereby a considerable amount of audit senior management level time including the audit engagement partner and a technical director was invested in the planning of this major exercise.

We performed detailed audit procedures on key processes, transactions and account balances impacted by the implementation of UK GAAP as summarised below:

- Reviewed the key control activities surrounding officers' UK GAAP implementation process;
- Audited the impact to current period and prior period comparatives including opening balances as at 1 April 2011;
- Performed substantive audit procedures on the initial recognition of fixed assets on the Balance Sheet including investment properties, heritage assets and operational assets. This included an audit of the carrying value and physical verification.



# 1. Significant audit risks (continued)

## Implementation of UK GAAP (continued)

### Deloitte response

- Valuations of heritage assets were based on a combination of art market intelligence and indexation, insurance and some individual valuations from recognised experts. Given the age and unique nature of some assets such as the Magna Carta, these could not be valued and are included in the heritage asset disclosure but not within the balance sheet. Operational assets are recognised at cost and depreciated over their estimated useful lives. Given the significance of the investment property portfolio, we have included this as a separate risk;
- Audited officers' assessment of the accounting for operating and finance leases. Whilst there will be additional disclosures required around operating leases, the financial impact of finance leases was below de minimis hence no adjustments were made in respect of the accounting for finance leases;
- Reviewed and concur with officers' assessment of the criteria for consolidation and the determination of the entities to be consolidated. As a result of the consolidation of the non-UK resident subsidiary company, City Re Limited, it is advised that the growth of the City Re business and its profit levels are monitored and the application of the Controlled Foreign Company (CFC) taxation rules be considered for future periods; and
- Our review of the adjustments arising from UK GAAP compliance and disclosures in the financial statements is continuing.

As part of this re-iterative process, we identified a number of items which needed to be reclassified from revenue to capital and vice versa and the resulting depreciation implications. However, given the quantum of these were immaterial and have been adjusted by Officers; we have not included all of such adjustments in Appendix 1.

Accounting standards require that where there is prior year restatement this is clearly disclosed in the financial statements. Whilst normal practice would be to mark each prior year heading "restated" we have agreed with management that a disclosure note in the accounting policies clearly explaining the restatement will suffice. This is because of the purpose of the restatement and potential change in the users of the financial statements.

Following the performance of the procedures above, except for the uncorrected misstatements as noted in Appendix 1, we did not identify any issues as a result of our testing.

# 1. Significant audit risks (continued)

## Revaluation of investment properties

### ● G

**We believe the internal and external valuations produced for City's Cash as at 31 March 2013 are a reasonable reflection of their market value**

City's Cash has a substantial portfolio of investment properties which are subject to annual revaluation. However in line with full UK GAAP compliance these are being brought onto the balance sheet for the first time. These properties require the application of specialist valuation assumptions. The current and recent economic volatility has affected property values generally, and City's Cash has recorded significant gains and losses over the last 3 years.

All properties are valued in accordance with the Royal Institution of Chartered Surveyors ("RICS") Appraisal and Valuation Manual ("the Red Book"). In March 2013, 37% by number (45% by value) of City's Cash portfolio by capital value was valued externally by Montagu Evans (compared to 20% in March 2012). The remainder of the portfolio was valued by the City Surveyors' Office.

A summary of the portfolio is shown below:

Year	Market value at 1 April	Additions	Disposals	Revaluations	Market value at 31 March
2011/12	£813.7m	£9.9m	£(1.5)m	£81.2m	£903.3m
2012/13	£903.3m	£6.8m	£(8.3)m	£56.7m	£958.5m

The value of investment properties has increased by £43.7million from 2011-12, representing a like-for-like movement of +5.0%.

### Deloitte response

#### Central London Office Market Commentary

Conditions within the London property market continue to improve. Leasing take-up rose by 2.6m sq ft, boosted by Google's 800,000 sq ft purchase at King's Cross Central. Availability rose by 8% to 17.9m sq ft, which remains at 9% below the long-term average. There is 9.0m sq ft under construction, one-third of which is already pre-let. Prime yields remained stable as investors continued to focus on Central London opportunities.

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<sup>st</sup> March 2013 are summarised in the table below, and demonstrate that the performance of the City's Cash estate (like for like movement of 5.0%) is broadly in line with the London property market as City's Cash estate is spread across these 5 locations / property types:

Property Type	Change in Capital Value
City offices	+1.4%
Midtown offices	+4.6%
Inner London offices	+2.8%
City and Mid Town retail	+7.3%
Retail West End	+8.5%

# 1. Significant audit risks (continued)

## Revaluation of investment properties (continued)

### Deloitte response

The City's Cash Estate shows capital growth of +5.0% in the year to March 2013 which is in line with or ahead of the indices for London office growth over the same period.

There have been a range of valuation increases across the portfolio for various reasons including improved market conditions since March 2012 for prime assets and value gains derived via the pursuit of active asset management opportunities, which have in many instances, increased capital values.

Certain investments have outperformed IPD and increased in value, due to active asset management by the long leaseholder, a good example of which is demonstrated by 26 – 31 Shoreditch High Street. In this instance the increased underlying hope value for future conversion to residential use has increased the capital value of the ground lease interest by c. 43%.

#### Work performed:

We have evaluated City's Cash arrangements for updating valuations, including the operation of its rolling programme of reviews and the qualifications, relevant experience and independence of the specialists utilised to carry out the valuations.

We involved valuation specialists from Deloitte as part of the engagement team to assist in our review of the valuation of investment properties in view of the size of this portfolio. We noted that the process followed in preparation of the valuations appears to be reasonable.

We believe the internal and external valuations produced for City's Cash as at 31 March 2013 are a reasonable reflection of their market value, and are correctly recognised in the Annual Report.

# 1. Significant audit risks (continued)

## Revenue recognition



**Our testing has not identified any issues with the recognition of revenue**

Under International Standard on Auditing 240 (UK and Ireland) there is a presumption that each audit should recognise that potential fraud in revenue recognition is a significant risk. For City's Cash this has been identified as the completeness of rental income and service charges given its large property portfolio.

Rental income decreased during the year from £54.7 million in 2011-12 to £52.2 million in 2012-13. However, the number of leases increased from 366 leases in 2011-12 to 431 leases in 2012-13. This is primarily attributable to the expiry of whole building leases such as Guildhall House, Talis House and Audit House which generated higher rental income mitigated by the increase in the number of lettings of smaller units with lower rental income.

### Deloitte response

We have held discussions with officers to refresh our understanding of the process for recording rental income and service charges.

We reviewed the completeness of rental income and service charges given City Cash's large property portfolio by performing the following procedures:

- Substantive analytical procedures have been performed on the investment property income balance with expectations based upon original budget figures which would reflect all leases signed prior to 2012-13;
- We selected all new leases entered into in 2012-13 above our clearly trivial threshold, tracing from original lease documentation through to the general ledger to verify that rental and service charge amounts had been billed in accordance with the terms of the lease and these amounts were accurately recorded in the correct period. We deem our focus on new leases appropriate as we have not identified any history of errors on recognising income for leases that commenced prior to 12/13 and we also expect the existing leases to be accurately taken into account in the budget which was used in our substantive analytical procedures performed as the annual rental terms are stipulated in lease agreements and not subject to change annually; and
- We have also performed detailed testing of the rent free period adjustment made to rental income.

No issues were noted with our testing.

# 1. Significant audit risks (continued)

## Management override of controls

● G

**Our testing did not identify any issues with management bias**

Under auditing standards the risk of management override is explicitly identified as a non-rebuttable significant risk. Therefore specific procedures are required to evaluate officers' processes for addressing estimation uncertainty, unusual transactions, related party transactions and the use of journals.

**Deloitte response**

We have focused our work on testing of journals, significant accounting estimates and any unusual transactions, including those with related parties.

We have used computer assisted audit techniques to select our samples for testing of journals covering both manual and automated journals. We placed particular focus on manual journals which exhibit certain key identifying characteristics such as large revenue entries reversed after quarter end, entries with round numbers or recurring ending digits and large income statement entries posted before quarter end to name a few. We did not identify any issues around journals.

Our consideration of key accounting estimates focused on the significant judgements identified separately above as areas of audit risk.

We considered through our detailed planning procedures and substantive procedures whether there were any transactions where the business rationale was not clear. We did not identify any such transactions.

## 2. Other issues

We identified the following issues in our planning document, in addition to the significant risks detailed in Section 1:

### Major Capital Project

● G

**We consider that the amounts recognised in the City's Cash financial statements along with the contingent liability disclosed is appropriate**

Since practical completion a few years ago on a major capital project there has been intermittent communication from a contractor to substantiate their initial claim for costs incurred. We understand the contractor is currently doing rectification work, and the final account will be reviewed in November.

A consultant quantity surveyor has been engaged to provide an assessment of the final costs, and the City has accrued for the additional expenditure in line with the estimate provided by them. We highlight this area under other issues as final negotiations could have a material impact on the financial statements.

**Deloitte response**

We have discussed with officers the background and rationale for the amounts recognised in the financial statements of City's Cash as at 31 March 2013.

We corroborated these discussions through examination of supporting documentation.

We consider that the amounts recognised in City's Cash financial statements as an accrual along with the contingent liability disclosed are appropriate.

They will, however, require regular review and reconsideration to ensure that they remain materially correct.

### Crossrail funding

● G

**City's Cash has an exposure due to potential Crossrail funding**

During 2008/09 the City of London Corporation offered to seek voluntary contributions from large businesses subject to the full active support of Government. The target was £150m with City's Cash underwriting the first £50m. This was in addition to the £200m commitment from City Fund.

Officers have informed us that at recent meetings with Government Departments there has not been an expectation of any additional funding. As such, the City does not consider that a contingent liability note in the financial statements is appropriate.

**Deloitte response**

We have discussed the position with officers and understand that there is no current obligation to fund the £50 million. We will request a specific management representation on the current position.

We recommend that management continue to monitor the situation to ensure that no contribution will be required.

## 2. Other issues (continued)

### VAT

#### Background

The City can recover input tax directly attributable to its exempt business activities where HMRC consider it to be an 'insignificant' proportion of the total VAT incurred ('insignificant' means that this input tax is less than 5% of the total VAT incurred on all goods and services purchased for both business and non-business activities).

The City is required to undertake a calculation for the VAT year ending 31 March 2013 to confirm that its input tax relating to exempt supplies did not exceed the 5% de minimis limit. The exempt input tax percentage has been calculated at 4.67%.

Officers have confirmed that they are satisfied with the calculation and that they do not expect a breach of the 5% de minimis level; however a number of errors were identified and corrected by the City during preparation of the 2012-13 calculation.

#### Deloitte response

We have reviewed the City's partial exemption calculation for 2012-13 in conjunction with our internal VAT specialists. The calculation of the 2012-13 VAT partial exemption return shows that the input tax relating to exempt supplies did not exceed the 5% de minimis limit.

We conclude that the methodology applied to the partial exemption calculation for 2012-13 is reasonable in establishing that a breach of the 5% de minimis level has not occurred.

Whilst we consider the calculation to be reasonable, we have not undertaken a detailed line-by-line review of the calculation. However, we have performed a review of the calculation on a sample basis and no errors were noted on the samples tested.

Confirmation that the calculation is accurate is included as a non-standard representation in the management representation letter. In addition, we have also raised the following recommendations.

To assist the City in its VAT compliance and to reduce the potential for errors or a breach of the 5% de minimis level occurring in future years, we recommend the following:

- The procedures for in-year monitoring continue to be developed;
- The development of partial exemption forecasting for future years is explored although it is recognised that the significant and unpredictable nature of some of the City's property transactions could compromise the accuracy of forecasts;
- Continuing to liaise with and instruct finance personnel, to minimise the likelihood of errors in VAT treatment – particularly in relation to income;
- In addition to the Group Accountant and the graduate trainee, one other individual be involved in the preparation and oversight of the City's partial exemption calculations to provide resilience; and
- Subscriptions to VAT technical updates to be maintained for all personnel in the City involved in VAT accounting.

# 3. Our observations on the “front half” of your annual report

We are required to read the “front half” of your annual report to consider consistency with the financial statements and any apparent misstatements. The following financial reporting presentational and disclosure matters are key areas of focus for bodies such as the Financial Reporting Council and the Department for Business, Innovation and Skills. Whilst these are not regulatory bodies for City’s Cash, we have benchmarked the new UK GAAP financial statements against relevant best practice recommendations. Whilst our review of the accounts is on-going we have summarised our initial observations to these areas:

## Risk disclosures

*“Boards who retreat behind boilerplate give the impression that they have not themselves understood the risks they face.”*

Bill Knight, FRRP Chairman, February 2011

Whilst the governance and management structure surrounding risk management is included in the annual report, this disclosure could be further enhanced by including further details in respect of the following matters:

- focus on strategic risks and the major operational risks inherent in the City;
- specific risk descriptions, providing sufficient information for the reader to understand the potential impact of the risk on City’s Cash; and
- a clear description of the mitigating activities for each risk.

## Key performance indicators

*“The review of the company’s business must, to the extent necessary for an understanding of the development, performance or position of the company’s business, include analysis using key performance indicators.”*

s417 Companies Act 2006

The financial review section summarises the financial performance of City’s Cash during the year and provides an overview of the performance of its investment properties and investments with fund managers which are the main income generating sources to allow City’s Cash to fulfill its objectives and strategy.

## Description of the business model

*“The directors should include in the annual report an explanation of the basis on which the company generates or preserves value over the longer term.”*

Provision C.1.2 of the UK Corporate Governance Code

There is a section detailing the activities of City’s Cash which provides useful background to the readers of the strategy and objectives of the entity. However, this can be further enhanced to provide more clarity over the plans in place to generate or preserve value over the longer term.

## Going concern

*“The purpose of the going concern assessment and disclosures should be to provide information to stakeholders about these matters and they should be designed to encourage appropriate business behaviours.”*

Lord Sharman November 2011

The annual report refers to the notes to the financial statements for details of going concern and provides details of the key reasons City’s Cash remains a going concern for the foreseeable future.



# 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 December 2012.

## Risk management and control observations

We have not identified any 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 it 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 recruited a Group Accountant for VAT, Research, Technical and Projects, and he is rapidly gaining knowledge and experience from the VAT Consultant. In addition, the City has recruited a Graduate Trainee assistant for the Group Accountant to assist on the VAT matters and is also recruiting a Senior Accountant to his team. The City decided to retain the services of the VAT consultant to ensure a smooth handover of duties and the consultant is currently still part of the team. The consultant undertook the Partial Exemption calculation this year, passing on his experience to the Group Accountant along the way. The calculation has been performed in a very precise manner, drawing on last year's experience and advice from PwC. The exempt input tax percentage has been calculated at 4.67%. Officers have confirmed that they are satisfied with the calculation and that they do not expect a breach of the 5% de minimis level.

The consultant also proposes to set up simplified procedures so that the Group Accountant can monitor the position on a quarterly basis as accurately as possible, thereby enabling him to advise officers of any concerns he may have at an early stage. However, we appreciate that it is difficult to accurately forecast future periods, given the City's perspective on property issues and management. The City's resilience with regard to VAT matters is thus enhanced this year.

Please see page 12 for recommendations.

The officers concur with the recommendations set out on page 10, most of which are already being progressed.

## 4. Risk management and internal control systems (continued)

### Approval of journals

#### Prior year observation

The City introduced a new system in 2011-12 whereby all journal lines that have a value over £100,000 are retrospectively reviewed by a more senior member of staff. This was introduced following recommendations in previous years, to reduce the risk of errors arising from inappropriate journals going undetected. In the past we also noted that journals can be the means by which an individual might seek to hide fraud or commit fraud through manipulation of reported financial information. We reviewed the authorisation process in 2011-12 as part of our journals testing and no issues were noted.

#### Current year update

Current year testing of City's Cash journals identified that the authorisation process was put in place.

# 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	
<b>We confirm we comply with APB Revised Ethical Standards for Auditors</b>	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.

Non-audit services							
<b>We confirm that our independence is not compromised by our provision of non-audit services</b>	<p>In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the company's policy for the supply of non-audit services or of any apparent breach of that policy.</p> <p>We apply the following safeguards to eliminate identified threats to independence or reduce them to an acceptable level are as follows:</p> <table border="1"> <thead> <tr> <th>Service provided</th> <th>Identified threats to independence</th> <th>Safeguards applied</th> </tr> </thead> <tbody> <tr> <td>Advice provided by Deloitte Real Estate (DRE) in relation to leasing matters</td> <td>Self-review and management threat</td> <td>We have discussed independence issues with officers in the current year. This work is performed by an independent partner and does not form the basis of the valuations recorded in the financial statement. Officers are responsible for the implementation and acceptance of the advice received.</td> </tr> </tbody> </table>	Service provided	Identified threats to independence	Safeguards applied	Advice provided by Deloitte Real Estate (DRE) in relation to leasing matters	Self-review and management threat	We have discussed independence issues with officers in the current year. This work is performed by an independent partner and does not form the basis of the valuations recorded in the financial statement. Officers are responsible for the implementation and acceptance of the advice received.
Service provided	Identified threats to independence	Safeguards applied					
Advice provided by Deloitte Real Estate (DRE) in relation to leasing matters	Self-review and management threat	We have discussed independence issues with officers in the current year. This work is performed by an independent partner and does not form the basis of the valuations recorded in the financial statement. Officers are responsible for the implementation and acceptance of the advice received.					

Fees	
<b>The level of non-audit fees is within appropriate guidelines</b>	An analysis of professional fees earned by Deloitte in the period from 1 April 2012 to 31 March 2013 is included in Appendix 3.

## 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 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.

A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, slightly slanted style.

### **Deloitte LLP**

Chartered Accountants

St Albans

7 October 2013

# Appendix 1: Audit adjustments

## Uncorrected misstatements

No uncorrected misstatements have been identified up to the date of this report.

## Recorded audit adjustments

Officers have adjusted all misstatements identified in excess of our clearly trivial threshold (set at 2% of materiality). We report all individual identified recorded audit adjustments in excess of £300,000 for City's Cash and other identified misstatements in aggregate adjusted by officers in the table below.

		Credit/ (charge) to current year income statement £'000	Increase/ (decrease) in net assets £'000	Increase/ (decrease) total funds £'000	Increase/ (decrease) in turnover £'000
<b>Factual misstatements</b>					
<b>City's Cash</b>					
Recognition of operational asset – Business Management System at Sundial Court	[1]	-	348	348	-

[1] This adjustment relates to the recognition of a capital expenditure as an operational asset.

## 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 through our work to date. If any disclosure misstatements are identified through the finalisation of our procedures we will communicate these to you separately.

# Appendix 2: Independence – fees charged during the year

The professional fees earned by Deloitte in the year ended 31 March 2013 in respect of City's Cash are as follows.

We have not included those fees earned by Deloitte in respect of the Corporation of London Bridge House Estates, the Sundry Trusts and City Fund entities, as these will be separately reported to the Audit and Risk Management Committee:

	Current year £	Prior year £
Audit of City's Cash (including UK GAAP conversion)	133,216	88,216
<b>Total audit</b>	<b>133,216</b>	<b>88,216</b>
<b>Audit related assurance services</b>		
GSMD HEFCE Audit	6,150	6,150
GSMD – US Loans	-	2,180
<b>Other services</b>		
Deloitte Real Estate services*:	227,559	44,500
<b>Total non-audit services</b>	<b>233,709</b>	<b>52,830</b>
<b>Total fees</b>	<b>366,925</b>	<b>141,046</b>

\* The Deloitte Real Estate services relate to advise on negotiations and dispute resolution between existing landlords and tenants – e.g. rent reviews, lease renewals, arbitration, etc. These services arose prior to the merger of Drivers Jonas and Deloitte and appropriate procedures have been put in place to safeguard the independence of the audit engagement team.

# Appendix 3: Management representation letter

## City's Cash

*Note: Non-standard representations have been included in points 6 and 13 to 18 and are consistent with the prior year. These are highlighted in yellow for reference. Appendix 1 & 2 are not shown as the information is provided elsewhere within this document.*

Deloitte LLP  
3 Victoria Square  
Victoria Street  
St. Albans  
Hertfordshire  
AL1 3TF

Date: [xx] October 2013

Our Ref: HAB/SRC/LCK

Dear Sirs

The representation letter is provided in connection with your audit of the financial statements of City's Cash and its consolidated financial statements for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of City's Cash and of the results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with the applicable accounting framework. We acknowledge as trustees our responsibilities for preparing financial statements for City's Cash and for making accurate representations to you.

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 which give a true and fair view, as set out in the terms of the audit engagement letter.
2. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of FRS8 "Related party disclosures".
4. 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.
5. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements and disclosure deficiencies is detailed in Appendix 1 to this letter.

# Appendix 3: Management representation letter (continued)

6. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to liquidate City's Cash 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 City's Cash 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. Having considered our income streams and based on management's close monitoring of donations, response rates and appeals for funds we are satisfied that the total value of income as reported is not materially misstated.
8. All grants, donations and other incoming resources, the receipt of which is subject to specific restrictions, terms or conditions, have been notified to you. There have been no breaches of terms or conditions in the application of such incoming resources.
9. All constructive obligations for grants meeting the conditions set out in FRS 12 "Provisions, Contingent Liabilities and Contingent Assets" have been recognised in the financial statements.
10. We have drawn to your attention all correspondence and notes of meetings with regulators, including, any serious incident reports.
11. We consider there to be appropriate controls in place to ensure overseas payments are applied for charitable purposes.
12. City's Cash have satisfactory title to all assets and there are no liens or encumbrances on the assets.
13. Except as disclosed in Note 18 to the City's Cash financial statements, as at 31 March 2013 there were no other significant capital commitments contracted for. We confirm that we have accrued the final payment due on a major capital project based upon an external experts report, and this represents a reliable estimate.
14. We are of the opinion that the property valuations at 31 March 2013, 31 March 2012 and 31 March 2011 are not materially misstated. It is our opinion that the property listing provided by the City of London is complete and includes all properties owned by the City of London. Furthermore, we are not aware of any current disputes regarding ownership of any properties within our current portfolio.
15. We confirm that all heritage assets have been accounted for and disclosed in the financial statements.
16. In our professional opinion, the input tax relating to exempt supplies is not expected to exceed the 5% de minimis limit for the years ended 31 March 2011, 31 March 2012, 31 March 2013 and as such, the City expects to be able to recover any of the input tax relating to exempt supplies.
17. That the split of venture capital investments recognised in City's Cash financial statements, being 35% of the fund held by City's Cash, BHE and the Pension Fund, represents an accurate allocation to City's Cash.
18. We confirm that based upon our current understanding of the situation on Crossrail Funding a contingent liability note is not required.



# Appendix 3: Management representation letter (continued)

## *Information provided*

19. We have provided you with:
- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.
20. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
21. 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.
22. 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.
23. We are not aware of any material fraud or suspected fraud that affects the entity or group 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.
24. 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.
25. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.
26. We have disclosed to you the identity of City's Cash related parties and all the related party relationships and transactions of which we are aware.
27. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the applicable financial reporting framework. On the basis of legal advice we have set them out in the attachment with our estimates of their potential effect. No other claims in connection with litigation have been or are expected to be received.
28. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

# Appendix 3: Management representation letter (continued)

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

Signed on behalf of the City of London Corporation

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