



CITY OF LONDON - CITY FUND

PLANNING REPORT TO THE AUDIT AND RISK MANAGEMENT COMMITTEE
Audit for the year ending 31 March 2016

26 February 2016

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INTRODUCTION

PURPOSE AND USE OF OUR REPORT

The purpose of this report is to highlight and explain the key issues which we believe to be relevant to the audit of the financial statements and use of resources of the Corporation City Fund for the year ending 31 March 2016. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process. Planning is an iterative process and our plans, reflected in this report, will be reviewed and updated as our audit progresses.

This report has been prepared solely for the use of the Audit and Risk Management Committee and should not be shown to any other person without our express permission in writing.

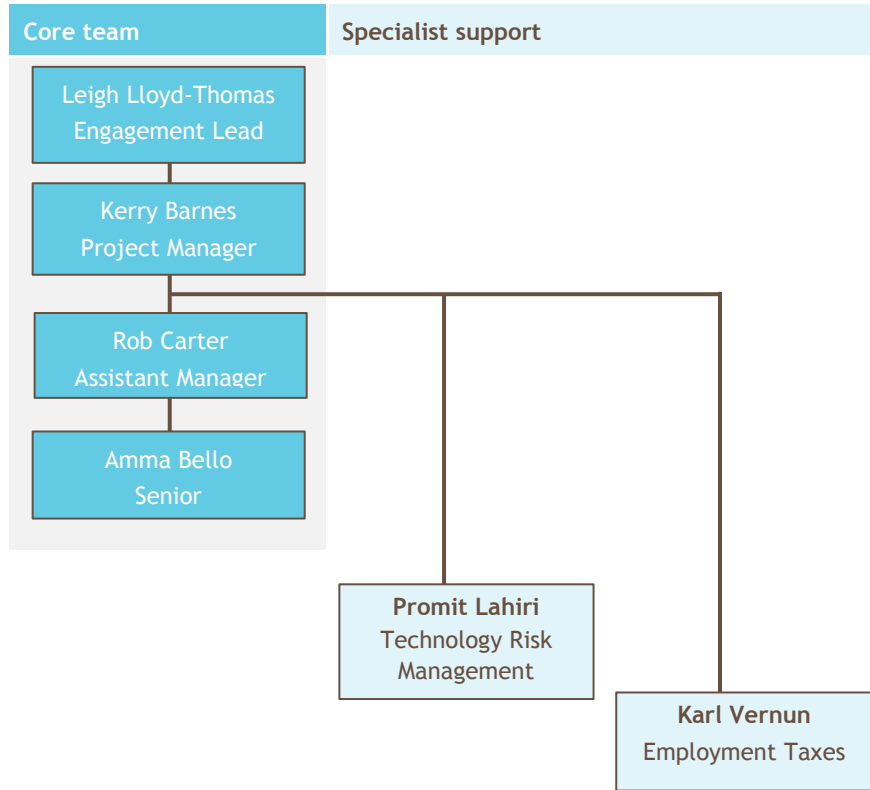
In preparing this report, we do not accept or assume responsibility for any other purpose, or to any other person to whom it is shown or into whose hands it may come, except when expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so entirely at their own risk.

CONTENT OF OUR REPORT

In this report, we set out the following:

- Our team and responsibilities for this year's audit
 - Our client service commitment
 - An overview of the audit timetable with key dates and deliverables
 - The audit scope and objectives
 - Our preliminary evaluation of materiality
 - Our overall audit strategy
 - Our initial assessment of the key audit risks and other relevant matters along with our planned audit approach
 - Confirmation of independence and consideration of any independence related matters
 - Our proposed fees for the audit.
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YOUR BDO TEAM



Name	Contact details	Key responsibilities
Leigh Lloyd-Thomas Engagement Lead	Tel: 020 7893 2616 leigh.lloyd-thomas@bdo.co.uk	Oversee the audit and sign the audit report
Kerry Barnes Project Manager	Tel: 020 7893 3837 kerry.barnes@bdo.co.uk	Management of the audit
Rob Carter Assistant Manager	Tel: 01473 320 736 robert.carter@bdo.co.uk	Day to day management and supervision of the audit
Amma Bello Senior	Tel: 020 7893 3155 amma.bello@bdo.co.uk	Day to day supervision of the on-site audit
Promit Lahiri Technology Risk Manager	Tel: 020 7893 3526 promit.lahiri@bdo.co.uk	Manage IT review for audit purposes
Karl Vernun Employment Tax Manager	Tel: 0207 893 3549 karl.vernum@bdo.co.uk	Manage employment tax review for audit purposes

Leigh Lloyd-Thomas is the engagement lead and has the primary responsibility to ensure that the appropriate audit opinion is given on the financial statements and use of resources.

In meeting this responsibility, he will ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that:

- the financial statements are free from material misstatement, whether due to fraud or error
- the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Leigh is responsible for the overall quality of the engagement.

OUR CLIENT SERVICE COMMITMENT TO YOU

CLIENT SERVICE EXPECTATIONS

1

High quality audit service at a reasonable cost.

2

A quality team, with relevant expertise.

3

Clear communication.

4

Concentrating our work on areas of higher risk.

5

Avoiding surprises through timely reporting of issues.

6

Consulting with management to resolve matters early.

7

Meeting deadlines.

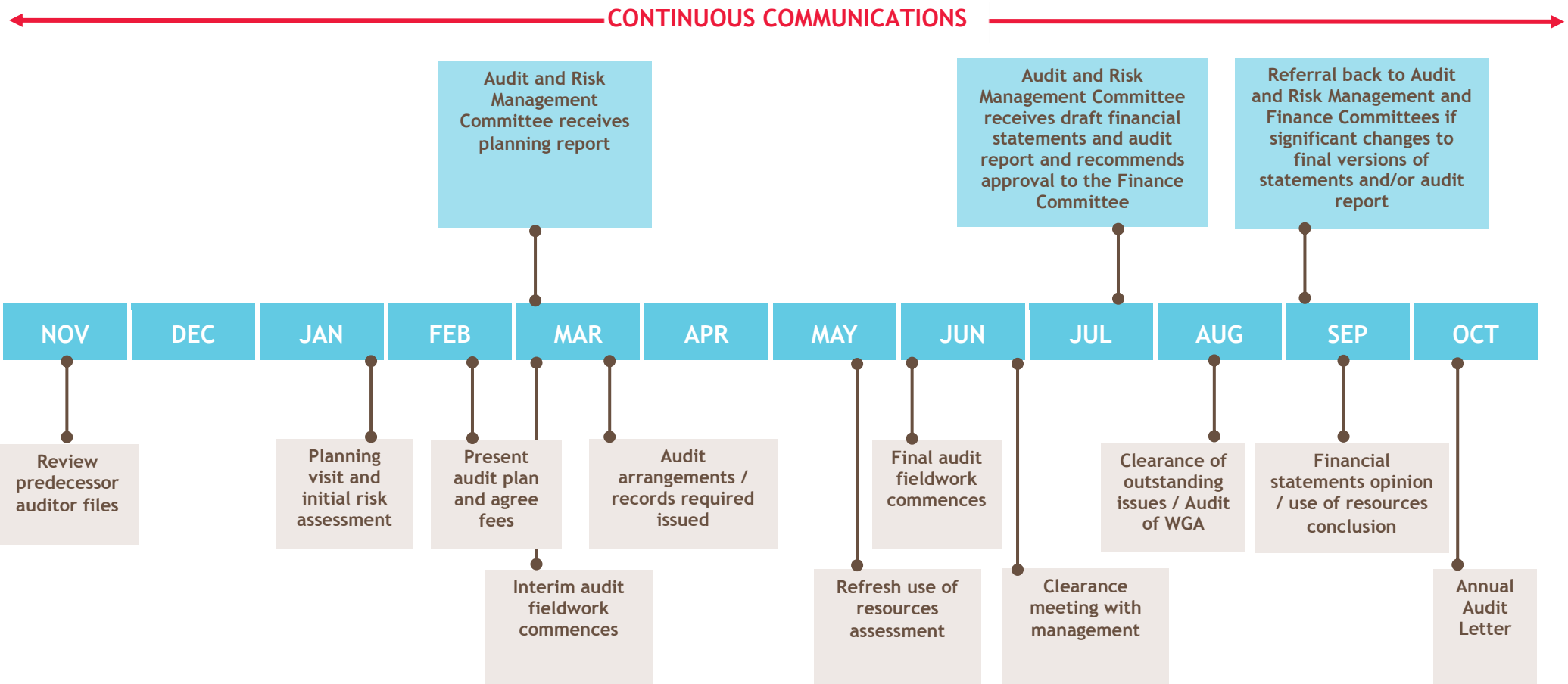
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Identifying shortcomings in controls and processes.

ENGAGEMENT TIMETABLE

TIMETABLE

The timeline below identifies the key dates and anticipated meetings for the production and approval of the audited financial statements and completion of the use of resources audit.



AUDIT SCOPE AND OBJECTIVES

SCOPE AND OBJECTIVES

Our audit scope covers the audit in accordance with the NAO Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the NAO.

To form an opinion on whether:

FINANCIAL STATEMENTS		OTHER INFORMATION	WGA CONSOLIDATION	USE OF RESOURCES
<p>1 The financial statements give a true and fair view of the financial position of the authority and its expenditure and income for the period in question.</p>	<p>2 The financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.</p>	<p>3 Other information published together with the audited financial statements is consistent with the financial statements (including the governance statement).</p>	<p>4 The return required to facilitate the preparation of WGA consolidated accounts is consistent with the audited financial statements.</p>	<p>5 The authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p>

ADDITIONAL POWERS AND DUTIES

6 To consider the issue of a report in the public interest.
To make a written recommendation to the authority.

7 To allow electors to raise questions about the accounts and consider objections.
To apply to the court for a declaration that an item of account is contrary to law.
To consider whether to issue an advisory notice or to make an application for judicial review.

MATERIALITY

AUTHORITY MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Corporation City Fund	£5,300,000	£100,000

Please see Appendix I for detailed definitions of materiality and triviality.

Planning materiality for the Council has been based on 1.5% of the prior year gross expenditure. This will be revisited when the draft financial statements are received for audit.

The clearly trivial amount is based on 2% of the materiality level.

OVERALL AUDIT STRATEGY

We will perform a risk based audit on the authority's financial statements and use of resources

This enables us to focus our work on key audit areas.

Our starting point is to document our understanding of the Corporation City Fund's business and the specific risks it faces. We discussed the changes to the business and management's own view of potential audit risk during our planning visit in order to gain an understanding of the activities and to determine which risks impact on our audit. We will continue to update this assessment throughout the audit.

For the financial statements audit, we also confirm our understanding of the accounting systems in order to ensure their adequacy as a basis for the preparation of the financial statements and that proper accounting records have been maintained.

For the use of resources audit, we consider the significance of business and operational risks insofar as they relate to 'proper arrangements', including risks at both sector and authority-specific level, and draw on relevant cost and performance information as appropriate.

We then carry out our audit procedures in responses to risks.

Risks and planned audit responses

For the financial statements audit, under International Standard on Auditing 315 "Identifying and assessing the risks of material misstatement through understanding the entity and its environment", we are required to consider significant risks that require special audit attention.

In assessing a risk as significant, we exclude the effects of identified controls related to the risk. The ISA requires us at least to consider:

- Whether the risk is a risk of fraud
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention
- The complexity of transactions
- Whether the risk involves significant transactions with related parties

- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

For the use of resources audit, the NAO has provided information on potential significant risks such as:

- Organisational change and transformation
- Significant funding gaps in financial planning
- Legislative or policy changes
- Repeated financial difficulties or persistently poor performance
- Information from other inspectorates and review agencies suggesting governance issues or poor service performance.

We consider the relevance of these risks to the Corporation City Fund in forming our risk assessment and audit strategy.

Internal audit

We will ensure that we maximise the benefit of the overall audit effort carried out by internal audit and ourselves, whilst retaining the necessary independence of view.

We understand that internal audit reviews have been undertaken across a range of accounting systems and governance subjects. We will consider these reports as part of our audit planning and consider whether we are able to place any reliance on internal audit work as evidence of the soundness of the control environment.

KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk ■ Other issue

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Management override	<p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.</p> <p>Under International Standards on Auditing (UK and Ireland) 240, there is a presumed significant risk of management override of the system of internal controls.</p>	<p>Our audit is designed to provide reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent. We consider the manipulation of financial results through the use of journals and management estimates as a significant fraud risk.</p> <p>In every organisation, management may be in a position to override routine day to day financial controls. Accordingly, our audit has been designed to consider this risk and adapt procedures accordingly.</p>	Not applicable.
Revenue recognition	<p>Under International Standard on Auditing 240 “The Auditor’s responsibility to consider fraud in an audit of financial statements” there is a presumption that income recognition presents a fraud risk. For local authorities, the risks can be identified as affecting the completeness, accuracy and existence of income.</p> <p>In particular, we consider there to be a significant risk in respect of the existence (recognition) and accuracy of the revenue and capital of grants that are subject to performance and / or conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES).</p> <p>We also consider there to be a significant risk in relation to the completeness and existence of fees and charges and investment rental income recorded in the CIES.</p>	<p>We will carry out audit procedures to gain an understanding of the authority’s internal control environment for the significant income streams, including how this operates to prevent loss of income and ensure that income is recognised in the correct accounting period.</p> <p>We will test a sample of grants subject to performance and / or conditions to confirm that conditions of the grant have been met before the income is recognised in the CIES.</p> <p>We will test a sample of fees and charges and investment rental income to ensure income has been recorded in the correct period and that all income that should have been recorded has been recorded.</p>	Government grant funding will be agreed to information published by the sponsoring Department.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Investment property valuations	<p>The Code has introduced a change in the basis of valuation of investment properties (IFRS 13), from a market value to a 'highest and best use' valuation. There is a possibility that valuations may be significantly different in certain circumstances particularly where an investment property could be developed for use with alternative consents, such as residential conversion, or where a current lease term is coming to an end and the property could be developed to enhance rental amounts.</p> <p>The Council will instruct JLL to carry out the annual valuation of the City Fund investment property portfolio having regard to the possibility of significant change in valuations under the highest and best use approach.</p> <p>This is not considered to be a change in accounting policy but a change in estimation technique that should be applied prospectively from 1 April 2015.</p> <p>Due to the significant carrying value of investment properties and inherent uncertainty that this new valuation basis could introduce, there is a risk that investment properties may not be appropriately valued as at 31 March 2015 and 31 March 2016.</p>	<p>We will review the instructions provided to the valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert.</p> <p>We will confirm that the basis of valuation for assets valued in year is appropriate based on their usage and relevant observable inputs.</p>	<p>We will review independent data that shows indices and price movements for investment properties in central London.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Property, plant and equipment valuations</p>	<p>Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the fair value at the balance sheet date. The fair value for housing dwellings, land and buildings included in PPE is a management estimate based on market values or depreciated replacement cost (DRC).</p> <p>Management use external valuation data to assess whether there has been a material change in the value of classes of assets and periodically (minimum of every five years) employs an external expert (valuer) to undertake a full valuation.</p> <p>The indices available to management to assess valuation changes are produced independently and are based on observable data (asset sales and building contract prices). The valuation expert is independent of management and will use its sector knowledge of local sales to estimate the fair values and remaining useful economic lives of assets.</p> <p>We consider there to be a risk over the valuation of housing dwellings, land and buildings where valuations are based on assumptions or where updated valuations have not been provided for a class of asset at year-end.</p>	<p>We will review the instructions provided to the valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert.</p> <p>We will confirm that the basis of valuation for assets valued in year is appropriate based on their usage. We will confirm that an instant build modern equivalent asset basis has been used for assets valued at DRC.</p> <p>We will review valuation movements against indices of price movements for similar classes of assets and follow up valuation movements that appear unusual against indices.</p>	<p>We will review independent data that shows indices and price movements for classes of assets against the percentage movement applied by the Corporation City Fund.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Crossrail commitment	<p>The Corporation City Fund has committed to contribute £200 million towards the costs of constructing Crossrail. The payment is dependent on achievement of a number of conditions, primarily completion of certain works in relation to Crossrail stations. Management has reported that the commitment conditions are crystallised only upon completion of these works and continue to report this as a commitment rather than a liability in the financial statements. The original project plan had assumed that the required works would be completed by March 2016, but there appears to be slippage with completion forecast in March 2017.</p> <p>There is a risk around the appropriate date for recognition of the liability to pay amounts based on the crystallisation events in the agreement, and appropriate disclosures in the financial statements.</p>	We will review the progress of the Crossrail works against the agreement commitments required to crystallise the payment and review the disclosures in the financial statements.	Contract works notices from Crossrail.
Lease premiums and MRP charge	<p>The Corporation City Fund is party to a significant number of lease arrangements as lessor. The premiums and rents are apportioned between the land element, which will ordinarily be an operating lease recognised as revenue, and the building element which is likely to be a finance lease and recorded as a capital disposal. The element of the premium relating to the land is treated as deferred income and released to revenue over the term of the lease. The apportionment between the land and building elements is a complex accounting estimate and there is a risk that the value of the split applied may not be appropriate.</p>	We will review the process applied for apportioning lease premiums between land (revenue) and buildings (capital) including reviewing the work of external valuer to confirm if this is appropriate. We will also select a sample of leases and confirm that the allocations have been accurately calculated.	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Lease premiums and MRP charge (continued)	<p>The funding of capital expenditure from cash received from long lease premiums which are deferred is expected to result in internal borrowing and a positive capital financing requirement for the first time on 31 March 2017. This internal borrowing requires the City to make a prudent annual repayment from revenue known as the Minimum Revenue Provision (MRP). At its meeting on 16 February, the Finance Committee agreed that the MRP is to be equal to the amount of deferred income released, resulting in an overall neutral impact on the bottom line.</p>	<p>Although a MRP is not anticipated to be required until 2017/18, following a positive capital financing requirement on 31 March 2017, we will review the MRP policy and confirm that the arrangements for matching the MRP to the release of deferred income are appropriate.</p>	

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Pension liability assumptions	<p>The net pension liability comprises the Corporation City Fund's share of the market value of assets held in the City of London Pension Fund and the estimated future liability to pay pensions. An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p>	<p>We will agree the disclosures to the information provided by the pension fund actuary.</p> <p>As the auditors of the City of London Pension Fund, we will review the controls for providing accurate membership data to the actuary.</p> <p>We will review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.</p>	<p>We will agree the disclosures to the report received from the actuary.</p> <p>We will use the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions.</p>
Non-domestic rates appeals provision	<p>Billing authorities are required to estimate the value of potential refund of business rates arising from rate appeals, including backdated appeals. The Valuation Office Agency (VOA) provides information regarding the appeals currently being assessed and settled. Management use this information to calculate a success rate for specific business types for settled appeals, and applies an appropriate rate to each type of business appeal still outstanding at year end.</p> <p>We consider there to be a risk in relation to the estimation of the provision due to potential incomplete data and assumptions used in calculating the likely success rate of appeals.</p> <p>We are aware that some NHS organisations are also appealing their business rate charge and are seeking to obtain charitable status to claim mandatory rate relief.</p>	<p>We will review the accuracy of the appeals data to confirm that it is complete based on the VOA list, and that settled appeals are removed.</p> <p>We will review the assumptions used in the preparation of the estimate including the historic success rates to confirm if the rates applied are appropriate.</p> <p>We will monitor progress with the potential rate relief claims from NHS organisations and the potential impact on the collection fund account.</p>	<p>We will compare the listing of current appeals to listings from the VOA.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Allowances for non-collection of receivables	<p>The Corporation City Fund includes a material amount in respect of provision for non-collection of council tax and NDR arrears. The provision is based on management assumptions in relation to the collection of the debt.</p> <p>There is a risk that the provisions may not accurately reflect collection rates based on age or debt recovery rates.</p>	We will review the provision model for significant income streams and debtor balances to assess whether it appropriately reflects historical collection rates by age of debt or arrears.	Not applicable.
Consideration of related party transactions	<p>We consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of the accounting standards.</p> <p>There is a risk that related party transactions disclosures are omitted from the financial statements, or do not accurately reflect the underlying related party transaction, resulting in material misstatement.</p>	We will document the related party transactions identification procedures in place and review relevant information concerning any such identified transactions. We will discuss with management and review member's and Senior Management declarations to ensure there are no potential related party transactions which have not been disclosed. This is something we will require you to include in your management representation letter to us.	Companies House searches for undisclosed interests.
Highways network assets	The Code will adopt the revised basis for valuations of highways network assets from 2016/17 (depreciated historic cost to depreciated replacement cost), and this will require implementation from 1 April 2016 but with no restatement for 2015/16.	We will review the 'new standards adopted but not yet implemented' disclosure note to ensure that the potential impact (where quantified) on the 2016/17 financial statements on the valuation of the highways network asset is disclosed.	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Narrative reporting	The Corporation City Fund will be required to produce a 'Narrative Report' replacing the Explanatory Foreword in the financial statements.	We will compare the narrative report against the Code requirements to ensure that all elements of the narrative report are correctly included.	Not applicable.
	The Narrative Report includes additional information not previously included in the Explanatory Foreword.	We will review the narrative report to ensure consistency with our understanding of the entity and the financial statements.	
Fraud and error	We are required to discuss with you the possibility of material misstatement, due to fraud or error.	We will continue to consider throughout the audit process and discuss with management.	Not applicable.
	We are informed by management that there have not been any cases of material fraud or error, to their knowledge.		

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - USE OF RESOURCES			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Sustainable finances (City Police)	Whilst the recently released revenue allocations from the Policing Minister up to 2018/19 were better than expected, City Police is still facing significant challenges in ensuring that it has sustainable finances.	We will review the assumptions used in the City Police Medium Term Financial Strategy and assess the reasonableness of the cost pressures and grant funding amounts.	Not applicable.
	The update to the Medium Term Financial Strategy (MTFS) to 2018/19 has forecast current budget gaps for City Police in 2017/18 (£2.9 million) and 2018/19 (£4.8 million) which includes current earmarked reserves being exhausted during 2018. Management is currently reviewing plans to address the resource gaps identified in the MTFS.	We will monitor the delivery of the budgeted savings in 2015/16 as part of its new “City First” operating model and assess the reasonableness of the planned savings schemes in future years.	
	Identifying the required level of savings from 2016/17 will be a challenge and is likely to require difficult decisions around service provision and increases in business rate premium or contributions from City Fund.		
Sustainable finances (City Fund)	The City Fund’s MTFS is currently forecasting a surplus position over the next four years, including a surplus of £5.9 million in 2016/17 reducing to £1 million by 2019/20. This position is healthier than originally planned as the anticipated RSG settlement was predicted to fall from £12 million in 2015/16 to £nil by 2019/20. However, the recent budget announcement indicates that City Fund should still receive £6 million RSG in 2019/20.	We will undertake a high level review of the assumptions in the City Fund Medium Term Financial Strategy, including benchmarking key variable such as inflationary pressures and grant income, and savings schemes.	Not applicable.
	The MTFS is based on key income and expenditure assumptions as well as saving/income generation proposals where service budgets include savings of £3.8 million in 2015/16 increasing to £10.8 million in 2018/19. If key assumptions and savings plans have not been based on reliable data or have been overly optimistic the financial position could deteriorate over the medium term.		

INDEPENDENCE

INDEPENDENCE

Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to 'those charged with governance'. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate Audit and Risk Management Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to have a bearing on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that engagement leads are made aware of any matters which may reasonably be thought to bear on the firm's independence and the objectivity of the engagement lead and the audit staff. This document considers such matters in the context of our audit for the period ended 31 March 2016.

We have not identified any potential threats to our independence as auditors.

We have confirmed that we have not provided any non audit services.

We confirm that the firm complies with the Financial Reporting Council's Ethical Standards for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired. These policies include partner and manager rotation. The table in appendix II sets out the length of involvement of key members of the audit team and the planned year of rotation.

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

FEES

FEES SUMMARY

Our proposed fees, excluding VAT, for the year ending 31 March 2016 are:

	£
Audit fee	86,383
Certification fee (Housing benefits subsidy)	11,396
Total audit and certification fees:	97,779
Fees for audit related services	TBC
Fees for non audit services	0
TOTAL FEES	97,779

OTHER FEES ANALYSIS

Audit related services (other certification fees):

Teachers' Pension (local education authority)	TBC
Teachers' Pension (Centre for Young Musicians (City's Cash))	TBC
Pooling of Housing Capital Receipts	TBC

Fee invoices will be raised as set out below, following which our firm's standard terms of business state that full payment is due within 14 days of receipt of invoice:

- Instalment 1 £43,191.50 in July 2015
- Instalment 2 £21,595.75 in March 2016
- Instalment 3 £21,595.75 in June 2016
- Certification fees will be billed on completion of the work.

Our fee is based on the following assumptions

The complete draft financial statements and supporting work papers will be prepared to a standard suitable for audit. All balances will be reconciled to underlying accounting records.

Key dates will be met, including receipt of draft accounts and working papers prior to commencement of the final audit fieldwork.

We will receive only one draft of the Statement of Accounts prior to receiving the final versions for signing.

Within reason, personnel we require to hold discussions with will be available during the period of our on-site work (we will set up meetings with key staff in advance).

APPENDIX I: MATERIALITY

CONCEPT AND DEFINITION

- The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.
- We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.
- Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):
 - Narrative disclosure e.g. accounting policies, going concern
 - Statutory performance targets
 - Instances when greater precision is required (e.g. senior management remuneration disclosures).
- International Standards on Auditing (UK & Ireland) also allow the auditor to set a lower level of materiality for particular classes of transaction, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

CALCULATION AND DETERMINATION

- We have determined materiality based on professional judgement in the context of our knowledge of the authority, including consideration of factors such as sector developments, financial stability and reporting requirements for the financial statements.
 - We determine materiality in order to:
 - Assist in establishing the scope of our audit engagement and audit tests
 - Calculate sample sizes
 - Assist in evaluating the effect of known and likely misstatements on the financial statements.
-

APPENDIX I: MATERIALITY

Continued

REASSESSMENT OF MATERIALITY


- We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.
- Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope. If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.
- You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

UNADJUSTED ERRORS

- In accordance with auditing standards, we will communicate to the Audit and Risk Management Committee all uncorrected misstatements identified during our audit, other than those which we believe are 'clearly trivial'.
 - Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.
 - We will obtain written representations from the Audit and Risk Management Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.
 - There are a number of areas where we would strongly recommend/request any misstatements identified during the audit process being adjusted. These include:
 - Clear cut errors whose correction would cause non-compliance with statutory performance targets, management remuneration, other contractual obligations or governmental regulations that we consider are significant.
 - Other misstatements that we believe are material or clearly wrong.
-

APPENDIX II: INDEPENDENCE

INDEPENDENCE - ENGAGEMENT TEAM ROTATION		
SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDED
LEIGH LLOYD-THOMAS - Engagement lead	1 st year	31 March 2021
KERRY BARNES - Project manager	1 st year	31 March 2026
Engagement Quality Control Reviewer	1 st year	31 March 2021



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

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