

Report to the Audit and Risk Management Committee  
**BRIDGE HOUSE ESTATES**  
Audit for the year ending 31 March 2019 - Status report

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# WELCOME

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We have pleasure in presenting our Report to the Audit and Risk Management Committee where we provide a progress report on the audit for the year ended 31 March 2019. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results, to date, of work undertaken in respect of the planned audit approach for the year ended 31 March 2019, specific audit findings and areas requiring further discussion and/or the attention of the Audit and Risk Management Committee.

Due to the current status of our work, the Audit Panel review of Bridge House Estates has been postponed and a verbal update on this will be provided to the Committee.

As we approach the completion stage of the audit it is essential that we engage with the Audit and Risk Management Committee on the results of audit work on key risk areas, including significant estimates and judgements made by Management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit and Risk Management Committee meeting on 16 July 2019, and to receiving your input.

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

This report contains matters which should properly be considered by the City of London Corporation. We expect that the Audit and Risk Management Committee will refer such matters to the appropriate Committees within the Corporation together with any recommendations, as it considers appropriate.

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

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. This report has been prepared solely for the use of the Audit and Risk Management Committee and Those Charged with Governance and should not be shown to any other person without our express permission in writing. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.



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# OVERVIEW

## Executive summary

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This summary provides an overview of the audit matters that we believe are important to the Audit and Risk Management Committee in reviewing the results of the audit of the financial statements for Bridge House Estates for the year ended 31 March 2019.

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



### Overview

Our audit work is in progress and subject to the successful resolution of outstanding matters we anticipate being in a position to issue an unmodified audit opinion on the Charity’s financial statements for the year ended 31 March 2019 in line with the agreed timetable.

Outstanding matters are listed on page 30 in the appendices.

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

Recommendations regarding systems and internal controls are detailed on page 26.

Adjusted and unadjusted audit differences are listed on pages 22, 23 and 24.

No restrictions were placed on our work.

### Audit report

We are currently unaware of any matters which would prevent us from issuing an unmodified audit opinion on the financial statements of the Charity as set out on page X.

We will update and issue a final report to the Committee at the point the financial statements are to be approved in order to provide the Committee with further detail relating to our final conclusions and whether any further discussions with the Committee are required.

If anything material comes to attention post the issue of this report, we will liaise with Management to ensure that there is appropriate communication through to the Chair of the Committee.

# THE NUMBERS

## Executive summary

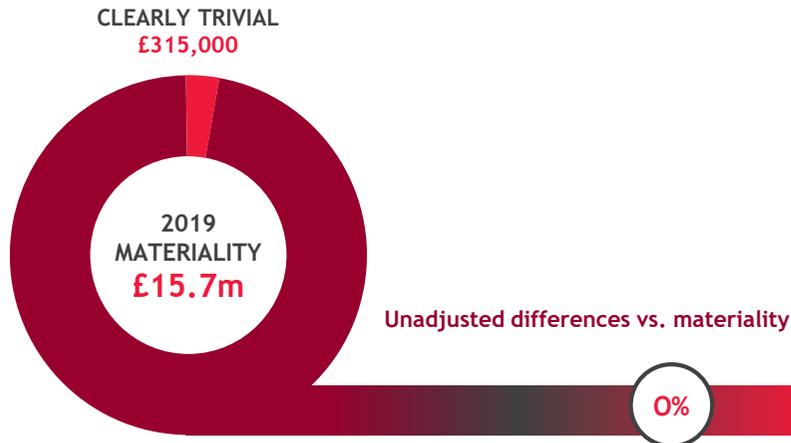
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### Final Materiality

Materiality was determined as follows:

- Financial statement materiality: 1% of gross assets
- Specific materiality for items impacting the Statement of Financial Activities: 1% of total income

There were no changes to final materiality and triviality from that reported in our planning report other than being updated for the results for the year ended 31 March 2019.



### Unadjusted audit differences

Clearly trivial was set at 2% of financial statement materiality (£315k) and specific materiality (£9k). It is only unadjusted differences that are above clearly trivial that we report to the Board on the unadjusted differences summary.

To date, we have identified audit adjustments that, if posted, would reduce the reported surplus by £13k, and net assets by £13k.

At the time of writing we are aware of one further potential adjustment relating to the valuation of a property which is expected to be sold post year end. This could result in an increase in the valuation of £1.1 million. We will verbally update the Committee on the conclusions of our work in this area on 16 July.

# OTHER MATTERS

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### Financial reporting

- We have not identified any non-compliance with accounting policies or applicable accounting framework.
- No significant accounting policy changes have been identified impacting the current year.



### Other matters that require discussion or confirmation

- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation.
- Completion of post balance sheet event review up to point of signing the financial statements.

### Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Charity in accordance with the FRC's Ethical Standard.

# OVERVIEW - SIGNIFICANT RISKS

As identified in our audit planning report dated 28 February 2019 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the directing of the efforts of the engagement team.

Significant Audit Risk	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported in Management letter	Specific Letter of Representation Point	Discussion points for Audit and Risk Management Committee
Management override of controls	Yes	Yes	TBC	No	No	TBC
Revenue recognition	Yes	No	Yes	No	Yes	No
Property, plant & equipment and investment property valuations	Yes	Yes	TBC	No	Yes	Yes
Pension liability valuation	Yes	Yes	TBC	No	Yes	Yes



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# MANAGEMENT OVERRIDE OF CONTROLS

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**ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud.**

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

## Risk description

- ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements requires us to presume that the risk of management override of controls is present and significant in all entities.

## Details

Our audit procedures will include the following:

- Consideration of estimates and judgements applied in the financial statements to assess their appropriateness and the existence of any systematic bias;
- Review and checking of unusual journal entries made in the year, agreeing the journals to supporting documentation. We will determine key risk characteristics to filter the population of journals. We will use our IT team to assist with the journal extraction; and
- Consideration of unadjusted audit differences for indications of bias or deliberate misstatement.

## Results

At present, our testing of journals is in progress. We will provide the Committee with a verbal update at the meeting on 16 July 2019.

Please refer to page 13 for our review of estimates.



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

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

## Risk description

- Under auditing standards there is a presumption that there is a risk of fraud in revenue recognition.
- For Bridge House Estates, we consider there to be a significant risk in respect of the completeness of investment property income which accounts for approximately 75% of total income.

## Details

Our audit procedures included the following:

- Carried out audit procedures to gain an understanding of the charities 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. This included substantive testing on the material income streams and cut off testing to ensure income is recognised in the correct period and appropriately classified as restricted or unrestricted funds;
- Tested a sample of fees and charges to ensure that income has been recorded in the correct period and that all income that should have been recorded has been;

- We selected a sample of grants and donations to ensure completeness, accuracy, existence and classification (as restricted or unrestricted) in the financial statements;
- We selected a sample of investment income and confirmed to third party investment manager reports;
- A sample of property rental income was agreed to lease agreements and recalculations performed to determine whether the amounts are accurate and recorded in the correct period.

## Results

### Tower Bridge Income

Tower Bridge income was tested substantively by selecting a sample of 34 days from the nominal ledger and agreeing these back to G4S reports. For completeness we selected 21 random days' reports and ensured these had been recorded in the general ledger. No issues were noted.

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

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

## Results Continued

### Investment Property Income

We traced a sample of rental income amounts through to lease agreements. We also obtained a report from the tenant system and developed an expectation of the rental income for the year and compared this to the general ledger.

Testing was completed satisfactorily however we identified two audit adjustments;

- £70k was included within financial investment income however it related to investment property income. This has been adjusted.
- £13k of income was not deferred correctly. On the basis of materiality this has not been adjusted.

### Financial Investment Income

We selected a sample of investments income and agreed these through to investment manager reports. At the time of writing we are still awaiting 3 investment managers reports.

### Interest Receivable

Testing is in progress in this area.

## Other Income

We traced a sample of other income through to supporting documentation. No issues were noted.

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

<b>Significant management judgement</b>
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant Control Findings to be reported in Mgmt letter
Letter of Representation point

## Risk description

Land, buildings and dwellings are reported at fair value / carrying value. For Bridge House Estates, operational assets are carried at cost.

Investment properties are reported at fair value at the balance sheet date.

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

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

## Details

Our audit procedures included the following:

- Assessed the qualifications and competence of the valuers used;

- Reviewed the instructions provided to the valuers and review the values' skills and expertise in order to determine if we can rely on the management expert;
- Confirmed that the basis of valuation for assets valued in year is appropriate based on their usage;
- Reviewed accuracy and completeness of asset information provided to the valuer such as rental agreements and land plot / building sizes;
- Reviewed assumptions used by the valuers and movements against relevant indices for similar classes of assets and follow up valuation movements that appear unusual;
- Discussed with our Real Estate Team the reasonableness of assumptions on benchmark and yields range for investment properties;
- We compared movements in the valuation of assets year-on-year and investigate unusual movements; and
- Completed disclosure checklist.

# PPE AND INVESTMENT PROPERTY VALUATION 2

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

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

## Results

Our testing is still in progress however we have identified the following;

- We attended the second of three meetings between the City's surveyor team and their appointed valuation expert, Cushman & Wakefield. The purpose of our attendance at this meeting was to observe the discussions and challenge between management and their advisers to ensure there was no obvious bias applied to deriving the basis for the property valuations and that consistency was applied across properties with similar characteristics. We took detailed notes on each property however, at this stage we did not seek to determine our own expectations of the appropriate year end valuations.
- At the final audit visit, we performed a review of the yields for investment properties and identified a number of these which are outside of our expected range (based on a range of external sources and benchmarks). Where the notes of our meeting notes above provided relevant details to support the valuation we considered those explanations. For the remainder of the differences we are meeting with the Surveyors team to corroborate these variances.
- We reviewed the accounting treatment for the sale of 1-5 London Wall which occurred in January 2019. While we are awaiting supporting information for elements of the calculation of the Depreciated Replacement Cost (DRC) (against which the lease premium is compared to determine whether the premium relates exclusively to the property and not the land) we are broadly comfortable with the accounting treatment proposed by management following their extensive review and consideration of the options.
- Similarly, we are aware of two other leases held by BHE (Leith House and Salisbury House) where, given the agreement of the accounting for London Wall, management are reviewing the previous treatment adopted to ensure that treatment was appropriate.

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# PENSION LIABILITY VALUATION

**There is a risk the membership data and cash flows used by the actuary in the roll-forward valuation may not be correct, or the valuation uses inappropriate assumptions to value the liability.**

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

## Risk description

The LGPS pension fund is required to report the pension liability for estimated promised future benefits for the whole fund. The Corporation's share of the net liability, including its share of the assets held in the pension fund, is allocated across the funds in proportion to the payroll cost for each fund. This is currently 2% for Bridge House Estates.

An actuarial estimate of the liability is calculated by an independent firm of actuaries. The estimate is based on the roll forward of membership data from the 2016 triennial valuation exercise for the LGPS and the 2017 triennial valuation for the police pension, updated at 31 March 2019 for factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability. There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.

The proportion of the Pension Fund that relates to Bridge House Estates is not separately identifiable and therefore the share of pension contributions paid to the scheme by the Trust is calculated pro rata to employer's contributions paid by each of the Corporation contributors to the scheme. The risk is therefore also focussed on the accuracy of this calculation.

## Details

Our audit procedures included the following:

- Assessed the qualifications and competence of the actuary through the use of PwC consulting actuary (auditor's expert);
- Reviewing the inputs into the calculation;
- Reviewed the reasonableness of the assumptions used by Barnett Waddingham (management's expert) for the calculation of the liability against other local government and police pension actuaries' assumptions and other observable data using the benchmark range of acceptable assumptions provided by PwC consulting actuary (auditor's expert);
- Reviewed the controls for providing accurate membership data to the actuary;
- Checked whether any significant changes in membership data have been communicated to the actuary;
- Checked the accuracy of the calculations relating to the allocation of the share of the net assets across the funds in proportion to the employer's contributions paid to the scheme; and
- Reviewed the reasonableness of the relevant disclosures in Bridge House Estates relating to the basis of apportioning the net pension liability of the Corporation.

## Results

We are awaiting the results of the Pension audit which is in progress. We understand this is pending the impact of the McCloud decision which will result in an increase in the liability currently allocated to Bridge House Estates.

From the review of the BHE Annual Report, we raised a question relating to the valuation of the pension scheme under IFRS as opposed to FRS102. BHE's actuary confirmed that the value of the assets and liabilities measured under the two accounting standards (IAS19 and FRS102) would be exactly the same for the City of London and, by extension, exactly the same for BHE.

# OVERVIEW - OTHER RISKS

As identified in our audit planning report dated 28<sup>th</sup> February 2019 we assessed the following matters as being normal risks of material misstatement in the financial statements.

Other Audit Risk	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported in Management letter	Specific Letter of Representation Point	Discussion points for Audit and Risk Management Committee
Accounting for leases	No	No	Yes, adjusted	No	No	No
Fund accounting	No	No	Yes, adjusted	No	No	Yes
Investment valuations	No	Yes	No	No	No	No
Related Party transactions disclosure	No	No	Yes, adjusted	No	Yes	No
Pension contributions	No	Yes	TBC	No	Yes	No



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# ACCOUNTING FOR LEASES

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

## Risk description

Bridge House Estates have a significant number of leases i.e. 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. There is also likely to be complex calculations relating to the recognition of rental income, rent free calculations, lease extension/ lease premiums, dilapidations and the relevant disclosures.

## Details

- Lease income was tested substantively by selecting a sample of leases, obtaining the relevant agreements, calculating the expected income and agreeing it to the accounts, including any amounts of deferred income, rent free calculations, lease extension/ lease premiums, dilapidations and the relevant disclosures.
- We checked the disclosures to ensure that these are in line with the relevant accounting standard.

## Results

Our testing is in progress - refer to slide 10 & 12.

Significant management judgement  
Use of experts  
Unadjusted error  
Adjusted error  
Additional disclosure required  
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# FUND ACCOUNTING

**There is a risk that fund accounting is not being correctly applied**

## Risk description

Bridge House Estates had a significant prior year restatement of funds associated with endowment funds having not been correctly identified and accounted for historically. We therefore consider as a risk, the accuracy and presentation of the closing funds position and the net assets by fund.

We have committed to reviewing the prior year adjustment and rationale early to ensure any feedback can be considered by management.

## Details

We have:

- reviewed in detail the papers documenting the issue as prepared by management and the previous auditor
- Reviewed the opening balances
- Reviewed the allocation of income, expenditure and investment gains/ losses to restricted/endowment funds as this may require some judgement.
- Reviewed the disclosure of the net assets by fund for each entity as this will need consideration of the evidence available to support the disclosure.

## Results

- We are content that the opening balance position, for the purposes of the FY19 financial statements is not materially misstated.
- Our testing of funds is in progress. However, we identified through our reading of the annual report that a new designated fund of £38m had been created in the year. Further investigation confirmed that this new designated fund had not been formally minuted before the year end and as such should be accounted for as a non adjusting post balance sheet event and not a designated fund as at 31 March 2019.
- This has been adjusted by management. We recommend that the creation of a designated fund post year end is noted in the reserves policy as a ring-fencing of future funds and note that the decision should be minuted during FY20. Through our discussions with management we recommended that, going forward the establishment of any new designated fund is documented pre year end in order to be included in the financial statements. However the amount(s) of funds to be transferred into the new designated fund can be agreed subsequently. Refer to slide 26 for recommendation.
- We note that in Draft 3 of the financial statements there is reference to ongoing considerations regarding an appropriate level of free reserves. In the context of the requirements for all charities to disclose the free reserves policy and position at the reporting date, we would encourage the Trustee to conclude this review prior to the issue of the March 2020 financial statements.

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

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# INVESTMENT VALUATIONS

**There is a risk that investment valuations may not be corrected reported at year end.**

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

## Risk description

- The investment portfolio within BHE includes unquoted infrastructure, private equity holdings and pooled investment vehicle (held through unit trust). The unquoted infrastructure funds and private equity funds are valued by the General Partner or fund manager using valuations obtained from the underlying partnerships and investments. The valuation of other funds are provided by individual fund managers and reported on a monthly basis.
- Valuations for private equity are provided at dates that are not coterminous with the year for Bridge House Estates and need to be updated to reflect cash transactions (additional contributions or distributions received) up to 31 March. There is a risk that private equity investments valuations may not be appropriately adjusted to include additional contributions or distributions at the year end.
- There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements

## Details

Our audit procedures include the following:

- For unquoted infrastructure and private equity investments, obtained direct confirmation of investment valuations from the General Partner or fund manager and request copies, where applicable, of the audited financial statements of the underlying partnerships (and member allocations). We confirmed that appropriate adjustments have been made to the valuations in respect of additional contributions and distributions with the funds.

- For pooled investments, obtained direct confirmation of investment valuations from the fund managers and agreed independent valuations, where available, provided by the custodian.
- Obtained independent assurance reports over the controls operated by both the fund managers and custodian for valuations and existence of underlying investments in the funds.
- Agreed the allocation of amounts for each fund where there is pooling of investments across the funds to supporting information.

## Results

We have agreed investments to confirmations received from investment managers. We have three investment managers reports outstanding - see page 30.

We have confirmed the existence of the social investments held within the portfolio and are in the process of considering whether there are any further indicators of impairment.

We are in the process of confirming a sample of listed investment balances to external published sources. We have also performed testing over purchases and sales on Investments.

Our testing of the private equity and other non listed elements of the portfolio is ongoing.

In conjunction with the City Fund auditors, we are in the process of reviewing the control reports for the investment managers.

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# RELATED PARTIES TRANSACTIONS

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

## Risk description

- Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud. Our audit approach includes the consideration of related party transactions throughout the audit including making enquiries of management and the Audit and Risk Management Committee.
- There is a risk that related party disclosures are not complete and accurate, and disclosed in accordance with the applicable reporting framework for each fund/entity.
- Historically members / trustees of each entity have provided year end declarations but the requirements to consider other connected parties (including family and business connections) may not have been explicitly considered.

## Details

Our audit procedures included the following:

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

## Results

Our work is in progress. However we identified through our testing of leases that BHE had one transaction with City's Cash during the year for the rental of archways under Southwark Bridge. This has now been disclosed as a related party transaction. We will perform additional work around completeness of Related Parties to ensure all transactions are included.

In addition, we noted that related parties below £10k were not being disclosed in the financial statements. As related party transactions are material by nature, this has been corrected in the financial statements.

Significant management judgement  
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# PENSION CONTRIBUTIONS

**There is a risk that the Corporation or other admitted and scheduled employers may not be calculating contributions correctly or paying over the full amount due to the pension fund.**

## Risk description

- Employers are required to deduct amounts from employee pay based on tiered pay rates and to make employer contributions in accordance with rates agreed with the actuary. Additional contributions are also required against pension strain for early retirements.
- There is a risk that the Corporation or other admitted and scheduled employers may not be calculating contributions correctly or paying over the full amount due to the pension fund.

## Details

Our audit procedures included the following:

- Tested amounts payable by employers / receivable by the pension fund for normal contributions including checking to employer payroll records;
- Ensured that income is recognised in the correct accounting period where the employer is making payments in the following month;
- We performed tests over pension strain contributions due from employers;
- Agreed total contributions payable by the Charity (as employer) to the amounts received in the pension fund;
- Reviewed contributions income in accordance with the Actuary's Rates and Adjustments Certificate, including specified increased rates to cover the minimum contributions to be paid as set out in the Certificate; and
- Discussed with the actuary the potential impact on GMP equalisation on the charity.

## Results

Please refer to page 13

Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings to be reported in Mgmnt letter	
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# SIGNIFICANT JUDGEMENTS, KEY ASSUMPTIONS & ESTIMATES

The Members are required to make a number of significant judgements, key assumptions and estimates when compiling the entities financial statements.

The judgements, assumptions and estimates that have the most significant effect on the financial statements are detailed in the notes of the draft financial statements. We have detailed below our work and conclusions in relation to the key items. While the valuation of the investment properties and defined benefit pension scheme are deemed to be a significant risks, we do not consider the other judgements to give rise to a significant audit risk.

## Judgements

### Fair Value of investment properties

The fair value of investment property is determined by the valuers to be the estimated amount for which a property should exchange on the date of the valuation in an arm's length transaction.

### Discussion

- The valuations have been prepared in accordance with the Royal Institution of Chartered Surveyors ("RICS") Valuation - Professional Standards January 2018 ("the Red Book").
- Factors reflected include current market conditions, annual rentals, operating costs and location.
- Refer to page 11 for conclusion on investment property valuations.

### Defined benefit pension scheme

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

### Discussion

- Refer to page 13

### Going concern

Management and Trustees are required to consider at least the 12 month period from date of sign off in assessing the going concern assumption

### Discussion

- The documentation of our work is in progress however given the significant assets held by BHE we are not anticipating any issues in concluding this area.

### Investment Valuations

Inappropriate assumptions may be used to value investments

### Discussion

- Refer to page 17

### Depreciation and amortisation

Depreciation is charged on a straight line basis based on the useful economic life of the assets

### Discussion

- No significant issues noted

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# MATTERS REQUIRING ADDITIONAL CONSIDERATION

	Significant matter	Comment based on progress to date
1	Significant difficulties encountered during the audit	No exceptions to note
2	Significant matters that arose during the audit that were discussed or were subject to correspondence with management	No exceptions to note
3	Serious incident reporting	No serious incident reports have been communicated to us
4	Written representations which we seek	We enclose a copy of our draft representation letter
5	Any fraud or suspected fraud issues	No exceptions to note
6	Any suspected non-compliance with laws or regulations	No exceptions to note
7	Any misstatements in opening balances that exist in the current period financial statements	No exceptions to note
8	Significant matters in connection with related parties	No exceptions to note
9	Any other significant matters arising relevant to the oversight of the financial reporting process	No exceptions to note
10	Any material misstatements effecting prior period financial statements on which a predecessor auditor had previously reporting	No exceptions to note

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# OVERVIEW: UNADJUSTED AUDIT DIFFERENCES AND DISCLOSURES

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### Unadjusted audit differences:

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

There is one unadjusted audit differences identified by our audit work to date which would decrease draft income of £98.9m by £13k and would decrease draft net assets of £1,495m by £13k. Management consider the differences to be immaterial in the context of the financial statements as a whole. We request that the reason for not correcting is included in the letter of representation.

Details of the unadjusted audit differences can be found on page 23.

### Unadjusted financial reporting matters

We are required to bring to your attention financial reporting disclosure omissions and improvements that the Audit and Risk Management Committee is required to consider.

There are no unadjusted financial reporting matters.

### Adjusted audit differences

A small number of audit adjustments have been posted through the accounts by the finance team subsequent to the draft accounts presented for audit.

Details of the adjusted audit differences can be found on page 24.

### Adjusted financial reporting matters

A small number of disclosure omissions were identified and have been corrected in the draft accounts presented for audit.

These are detailed on page 25.

# UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance sheet	
	£m	£m Dr	£m Cr	£m Dr	£m Cr
<b>Unadjusted audit differences</b>					
Net income for the year before adjustments	98.9				
Adjustment 1: Deferral of investment income					
DR Investment Property income		0.013			
CR Deferred income					0.013
Net income for the year if adjustments accounted for	98.9				

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# ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

	Income and expenditure			Balance sheet	
	£m	£m Dr	£m Cr	£m Dr	£m Cr
<b>Adjusted audit differences</b>					
Net income for the year before adjustments	98.9				
Adjustment 1: Adjustment to correctly allocate investment property income					
DR Investment Income		0.07			
CR Investment Property Income			0.07		
Adjusted net income for the year	98.9				

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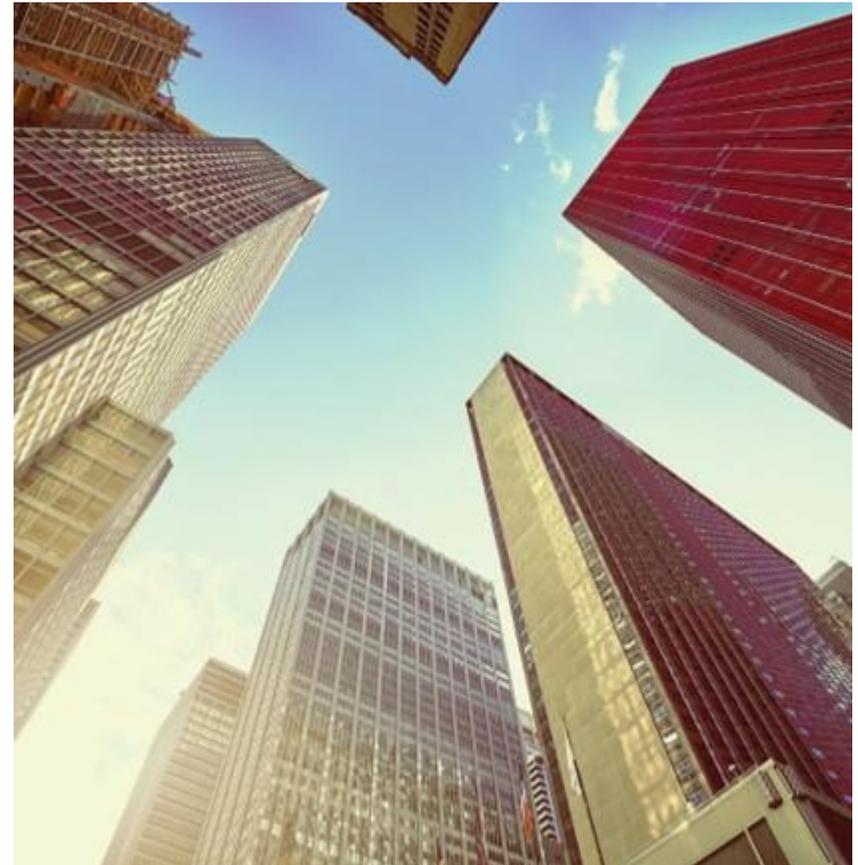
# ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

## Disclosure omissions and improvements

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

The following adjusted disclosure matters were noted:

- BHE initially had included a new designated fund however this had not been minuted prior to the year end. Therefore the new designated fund needed to be removed and the amount included within general funds.
- We noted that BHE had included a disclosure threshold for related parties transactions of £10k. In accordance with FRS 102 all related party transactions should be disclosed.



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

We have not identified any significant deficiencies in internal control.

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

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

Area	Observation & implication	Recommendation	Management response
Designated Funds	BHE determined to include an amount of general reserves in a designated fund however this decision was not formally minuted before the year end.	We recommend that going forward BHE should ensure that any intention to designate funds is minuted prior to the year end in line with the Charities SORP.	We confirm that any new designated funds will be approved by the appropriate Committee prior to year-end.
Accounting Treatment of large, one off or complex transactions	We noted that key accounting treatments (e.g. for 1-5 London Wall) were not determined until the accounts were prepared.	We recommend that management engage with us throughout the year so that we can agree and confirm the accounting treatment of large, one off or complex transactions well in advance of the year end audit. Prior to this, management should ensure that these are considered fully in terms of the accounting treatment at the time the transaction is completed rather than at the year end.	We confirm that the accounting treatment of large, one off or complex transactions will be discussed with our auditors in advance of the year end audit, with full consideration of these made at the time the transaction is made in a timely manner.

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### Opinion on financial statements

Whilst our work is progressing, at the time of writing we are not aware of any matters which would prevent us being able to issue an unmodified opinion on the financial statements.

There are no matters that we wish to draw attention to by way of ‘emphasis of matter’.

### Going concern

The documentation of our work in regards to going concern is currently in progress although given the level of assets held by the charity we currently have no concerns.

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

### Comments on the Annual report and statutory other information

- We have reviewed the Annual report and fed back comments to management. We are in the process of reviewing draft 2 though we expect management to have incorporated our comments from draft 1.
- Our review of the other information accompanying the financial statements is not yet complete but we expect any misstatements, material or otherwise, to be corrected by management. We will confirm this as part of our final review of the financial statements.

# INDEPENDENCE

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

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

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2019.

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

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

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence. We note that Leigh Lloyd-Thomas is on the Audit Panel but is not involved in reviewing our work not signing the opinion on these accounts.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Group.

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

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# FEES

## Fees summary for year ended 31 March 2019

	£	£
Audit fee for year ending 31 March 2019		
• Charity financial statements	40,000	
<b>Total fees</b>		<b>40,000</b>



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Our audit work is in progress in respect of the financial statements for the year ended 31 March 2019.

The following matters are outstanding at the date of this report. We will provide you with a verbal update on their current status at the Audit and Risk Management Committee meeting on 16 July 2019:

- Journal testing
- Certain investment managers confirmations
- Cash flow forecast and going concern
- Supporting information for the 1-5 London Wall insurance valuation and the additional lease transactions
- We have audit fieldwork to be completed in the following areas; Investment properties, Investments, Cash, Receivables. Creditors, Funds, Payroll, Commitments and Investment income. Some information to complete has been received and yet to be fully reviewed while other items remain outstanding
- Completion of internal review processes
- Final review of the financial statements. We have reviewed drafts 1 and 3 and have fed back comments to management
- Finalisation of audit for ‘other information’
- Subsequent events procedures up until the date of signing
- Receipt of the letter of representation



# APPENDICES



# TRUSTEE'S RESPONSIBILITIES EXPLAINED

## The Trustee's Responsibilities and Reporting

The Trustee is responsible for preparing and filing an Annual Report and financial statements which show a true and fair view, comply with the Charities SORP, prepared in accordance with UK GAAP.

Our audit of the financial statements does not relieve Management nor those charged with governance of their responsibilities for the preparation of the financial statements.

Further information regarding these responsibilities is provided in the engagement letter.

### Trustee responsibilities

### What this means

- Maintain adequate accounting records and maintain an appropriate system of internal control for the charity
- Prepare the annual report and the financial statements which give a true and fair view and which are prepared in accordance with UK Generally Accepted Accounting Practice.
- Safeguard the assets of the charity and take reasonable steps for the prevention and detection of fraud and other irregularities.

Further information regarding these responsibilities is provided in the engagement. We are happy to explain these in more detail to you.

To make available to us, as and when required, all the charity's accounting records and related financial information.

To provide us with Committee papers on key issues including but not limited to:

- Review of business risks
- Going concern assessments
- Impairment reviews
- Any key judgments and estimates.

Having made enquiries of fellow Trustees state in the Annual report that:

- So far as they are aware, there is no relevant audit information of which the charity's auditors are unaware
- They have taken all reasonable steps they ought to have taken as the Trustee in order to make themselves aware of any relevant audit information and to establish that the charity's auditors are aware of that information.

In addition to answering our queries, this requires proactive behaviour in order to make us aware of any relevant information. Relevant information is very broad and includes any information needed in connection with our report.

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# OUR RESPONSIBILITIES

## Responsibilities and reporting

### Our responsibilities and reporting

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

We report only those matters which come to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements.

We are also required to report on the consistency of the Annual report with the Financial Statements and our knowledge of the charity and their environment obtained in the course of the audit and whether they have been prepared in accordance with the requirements of the Charities SORP.

### What we don't report

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

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# FRAUD RISK

## Respective responsibilities

In accordance with the International Standards on Auditing (UK) we are required to discuss with you the possibility of material misstatement, due to fraud or error. Below is a summary of the respective responsibilities of the Board of Trustees, management, and the Auditor with regards to fraud:

### Trustees' Responsibility

- To evaluate management's identification of fraud risk, and implementation of anti-fraud measures; and
- To investigate any alleged or suspected instances of fraud brought to their attention.

### Management's Responsibility

- To design and implement systems and controls that enables the organisation to prevent and detect fraud;
- To ensure that the organisation's culture promotes ethical behaviour; and
- To perform a risk assessment that specifically includes the risk of fraud, and consideration of whether having a whistleblowing policy in place.

### Auditor's Responsibility

- To evaluate and obtain sufficient appropriate audit evidence regarding the assessed risk of material misstatement due to fraud;
- To identify and assess the risks of material misstatement of the financial statements due to fraud; and
- To report fraud to an appropriate authority outside the entity where there is a suspected or actual instance suggesting dishonesty or fraud.

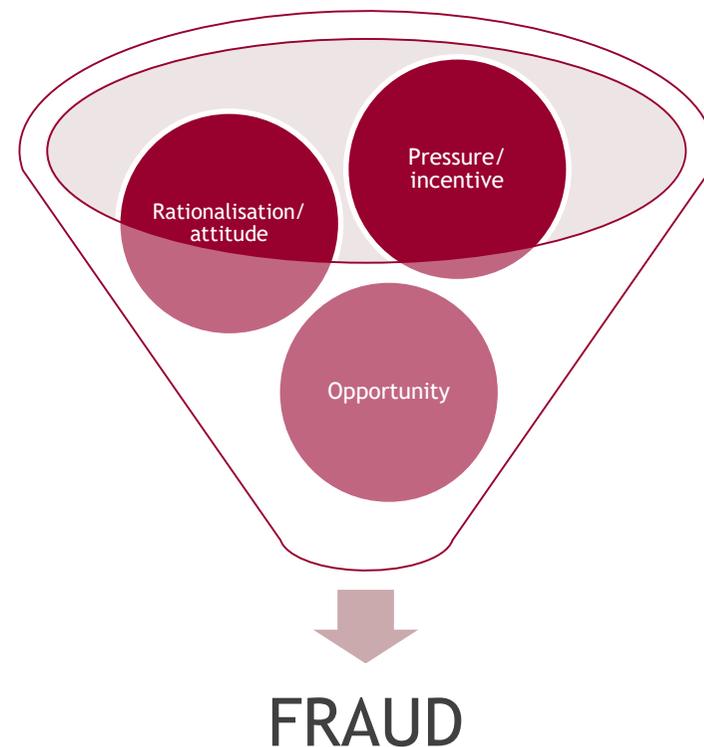
The auditor would also report to those charged with governance subject to "tipping-off" provisions under anti-money laundering legislation.

We will continue to consider fraud throughout the audit process and will discuss with the Audit Committee. We will liaise with management to determine any actual, suspected or alleged fraud known to them. We will discuss with management any knowledge they have of suspected or alleged fraud.

We will consider management's process for identifying and responding to the risks of fraud, including the nature, extent and frequency of such assessments. We ask that Board members advise us if they do not concur with the assessment made by management in your management representation letter to us.

The key questions we are required to ask the trustees are as follows:

- Are you aware of any instances of actual, suspected or alleged fraud?;
- What are your processes for identifying and responding to the risk of fraud?; and
- What communication is made with the Audit Committee and the Board with regards to processes for identifying and responding to the risk of fraud?



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Dear Madams/Sirs

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**Financial Statements of Bridge House Estates for the year ended 31 March 2019**

We confirm that the following representations given to you in connection with your audit of the charity's financial statements (the "financial statements") for the year ended 31 March 2019 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other trustees and officials of the charity.

We have fulfilled our responsibilities as trustees for the preparation and presentation of the financial statements as set out in the terms of the audit engagement letter, and in particular that the financial statements give a true and fair view of the financial position of charity as at 31 March 2019 and of the results of the charity's operations and cash flows for the year then ended in accordance with the applicable financial reporting framework and for making accurate representations to you.

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

**Going concern**

We have made an assessment of the charity's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the charity is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

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

**Laws and regulations**

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

**Post balance sheet events**

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

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**Fraud and error**

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

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

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

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

**Misstatements**

We attach a schedule showing uncorrected misstatements that you identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below.

In our opinion, the effects of not correcting such identified misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

**Related party transactions**

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

Other than as disclosed in note 26 to the financial statements, there were no loans, transactions or arrangements between the charity and the charity's trustees or their connected persons at any time in the year which were required to be disclosed.

In the opinion of the trustees the charity has no controlling party.

**Carrying value and classification of assets and liabilities**

[We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the financial statements.] [NB this representation will be considered at the conclusion of the audit.]

**Accounting estimates**

[Pensions and investment property estimates and assumptions to be included in final version]

**Litigation and claims**

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

**Serious incident reports**

We confirm that no serious incident reports have been made to the Charity Commission during the period or since the end of the period.

**Charity income**

All grants, donations and other income, the receipt of which is subject to specific terms or conditions, have been notified to you. There have been no breaches of terms or conditions during the period in the application of such income.

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**Confirmation**

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

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

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

Yours faithfully

(Signed on behalf of the board of trustees)

Date: .....

FOR MORE INFORMATION:

**Fiona Condron**

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m: 07979 706 565

e: [Fiona.Condron@bdo.co.uk](mailto:Fiona.Condron@bdo.co.uk)

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

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