



Report to the Audit and Risk Management Committee

BRIDGE HOUSE ESTATES

Audit Completion: year ended 31 March 2020

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We have pleasure in presenting our Audit Completion Report to the Audit Committee and Risk Management Committee (the “Committee”). This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2020, specific audit findings and areas requiring further discussion and/or the attention of the Committee. At the completion stage of the audit it is essential that we engage with the 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 Committee meeting on 1 October 2020, 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 Board as a whole. We expect that the Committee will refer such matters to the Board, 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.



Fiona Condron

18 September 2020

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 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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This summary provides an overview of the audit matters that we believe are important to the Committee in reviewing the results of the audit of the financial statements for the Charity for the year ended 31 March 2020.

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



Overview

Our audit work is substantially complete and subject to the successful resolution of outstanding matters we anticipate issuing an unmodified audit opinion on the Charity’s financial statements for the year ended 31 March 2020 in line with the agreed timetable as set out on page 27.

However whilst our opinion is not qualified, the enhanced disclosures relating to areas of estimation and uncertainty pertaining to the valuation of investment properties has resulted in a reference in our audit opinion as an “Emphasis of Matter” given the potential impact on the financial statements.

Outstanding matters are listed on page 30 in the appendices.

There were no significant changes to the planned audit approach however due to the impact of COVID-19, we have raised an additional risk over going concern. No other additional significant audit risks have been identified.

No restrictions were placed on our work.

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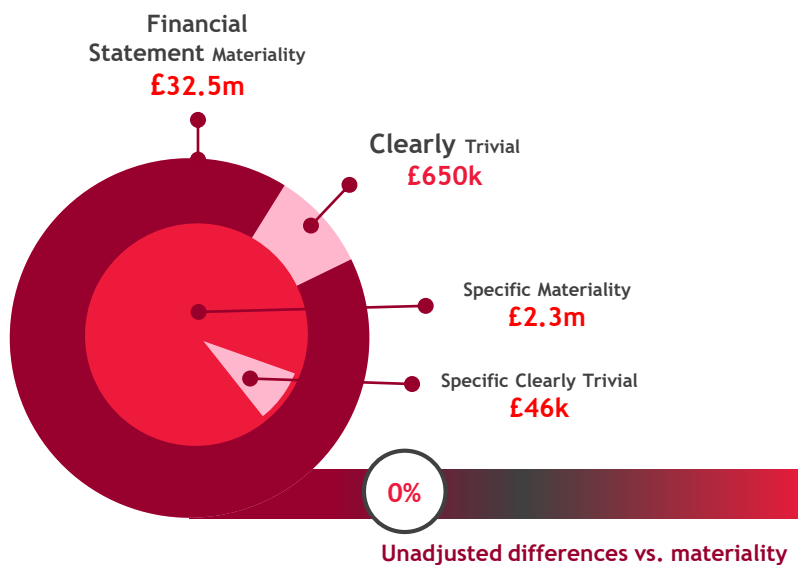
Final Materiality

Financial Statement Materiality was determined based upon 1% of total assets and Specific Materiality was determined based upon 2% 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 actual results for the year ended 31 March 2020.

Unadjusted audit differences

We have not identified any unadjusted audit differences. Details of adjusted differences can be found on page 20.



Audit scope

Our approach was designed to ensure we obtained the required level of assurance across the components of the group in accordance with ISA (UK) 600 (Audits of Group Financial Statements). This objective has been achieved.



OTHER MATTERS

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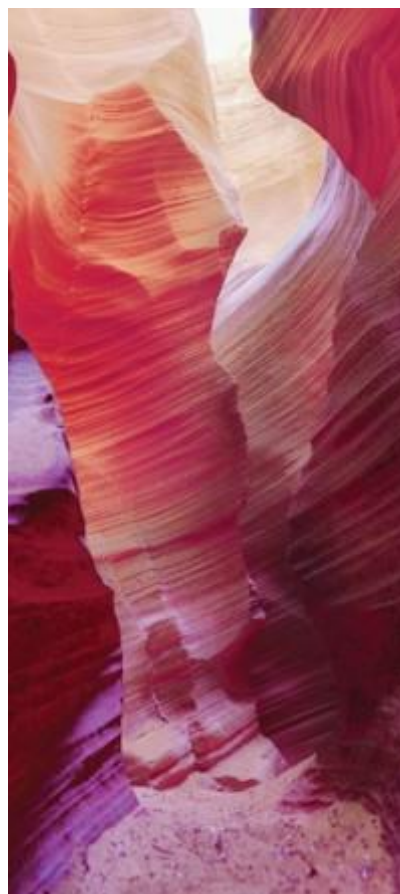
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Financial reporting

- 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.
- The draft Trustee's Report has been reviewed and the resulting comments have been considered by the management team and incorporated into subsequent drafts. Comments on significant disclosures are considered on page 23 of this report.



Other matters that require discussion or confirmation

- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation (see page 37).
- 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.


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OVERVIEW - SIGNIFICANT RISKS

As identified in our audit planning report dated 17 March 2020, 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 Completion report	Specific Letter of Representation Point	Discussion points for Audit Committee
1. Management Override of Controls	Yes	No	No	No	No	No
2. Fraud in income recognition	Yes	No	Yes	No	Yes	No
3. Investment Property Valuation	Yes	Yes	No	No	Yes	Yes - Material Uncertainty



 Areas requiring your attention

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

Control Finding

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

- We have worked closely with our IT team to gain an understanding of the financial systems in place and assess controls for potential scope for management override including the use of automated journals and administrator access accounts.
- We have used data analytics tools to inspect journals processed throughout the year and as part of the financial reporting closing process for any unusual transactions.
- We have also conducted a specific review of journals posted during the work-from-home period at the end of March, as well as journals posted by admin users.
- We have assessed and corroborated significant management estimates and judgements in following key areas:
 - Allocation of costs
 - Valuation of investment properties and financial investments - see page 11 for further detail
 - Estimation and allocation of the pension scheme liability
 - Going concern assumptions - see page 17 for further detail

Details (cont)

- We have performed a detail review of the cost allocation model including understanding the methods used to allocate costs between funds within the Corporation and testing of this allocation to ensure accuracy of the expenditure charged to the charity.

Results and conclusion

- Our audit work on both journals and estimates has not identified any instances of inappropriate management override.
- We have not noted any management bias in accounting estimates. Our detailed conclusions on significant estimates are set out within this report.
- We have identified no significant or unusual transactions that may be indicative of fraud in relation to management override of controls.
- We have not identified any issues with the allocation of costs.

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ISA (UK) 240 presumes that income recognition presents a fraud risk.

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Control Finding

Letter of Representation point

Risk description

- Under auditing standards there is a presumption that there is a risk of fraud in income 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, due to the cut-off risk around the year end.

Details

We have carried out audit procedures to gain an understanding of the internal control environment for the significant income streams, including how this operates to prevent loss of income and have ensured that income is recognised in the correct accounting period.

Our audit procedures included the following:

- We have agreed a sample of rental income to invoice and lease agreements. Where rental periods cross year-end, we have checked the split between years is correct.
- Rental information from the property management system has been reconciled to total rental revenue recognised.
- A sample grants has been tested to ensure recognition criteria have been met, the amount recorded is accurate and the classification (as restricted or unrestricted) is correct.

- We have selected a sample of days' tourism income at Tower Bridge to agree to daily reconciliations and receipt to bank.
- We have agreed Tower Bridge events income to monthly statements from Seasoned Events; BHE's partner for hosting events at this location.
- We have performed cut-off testing for all revenue streams by reviewing transactions around the year-end date.

Results and conclusion

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.

Our testing was completed satisfactorily, however one audit adjustment was identified, where a rent review had been signed pre-year end but the corresponding income had not been accrued (£97k). Management has adjusted for this item.

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**ISA (UK) 240 presumes
that income
recognition presents a
fraud risk.**

Significant management
judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Control Finding

Letter of Representation point

Results and conclusion cont.

Grant Income

We reviewed a sample of 5 grants received towards the end of the year as contributions towards the London Community Response Fund.

During our testing, management informed us of an error they had identified in the recognition of one grant, relating to the Cornerstone Fund, totalling £500k. This amount should have been recognised in the 2021 Financial Year and has been corrected in the draft accounts.

Whilst reviewing the income recognition policy, it was noted that the policy note had not been updated to include the treatment of grant income. The policy was included in subsequent versions of the accounts.

No other issues were noted.

Tourism Income

We have agreed a sample of 25 days' takings to till reconciliations and bank, including a sample of randomly selected days for completeness.

We have agreed in total the events and catering income from Tower Bridge to monthly statements issued by Seasoned Events. We have also checked to ensure that income relating to future events has been appropriately deferred.

No issues were noted.

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There is a risk over the valuation of investment properties where valuations are based on significant assumptions.

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Control Finding

Letter of Representation point

Risk description

- Bridge House Estates holds an extensive portfolio of investment properties, which are reported at fair value at the balance sheet date.
- The Corporation has appointed two valuers relevant to Bridge House Estates, who perform a year-end valuation based on data provided by the Surveyors Team at the Corporation.
- Due to the significant value of the 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 at the year-end.
- It is also noted that the impact of covid-19 increased the level of uncertainty around property valuations around the year end.

Details

As part of our audit work, we have performed procedures including the following:

- Assessed the qualifications and competence of the valuers used
- Reviewed the instructions provided to the valuers and reviewed the valuers; skills to determine whether we can rely on management's expert
- Verified a sample of data provided to the valuers (such as rental income) to use as inputs within the valuation process

- Confirmed that the basis of valuation for each asset is appropriate based on their usage
- Reviewed assumptions used by the valuers and movements in values relative to market indices, and challenged valuations lying outside our expectations with the corresponding valuer.
- Consulted extensively with both our Real Estate and BDO Valuation teams regarding the reasonableness of the assumptions and benchmarks used for specific properties where a higher degree of judgement has been applied (for example more unique properties or developments)
- Held meetings with the Surveyors Team and Valuers during the valuation process
- Compared movements in the valuation of assets year-on-year and investigated unusual movements.

Results and conclusion

- Our review of the instructions to the valuers and the valuers' skills and expertise did not identify any issues. We agreed that the basis of valuation for each property valued is appropriate.
- No issues were identified as a result of our work around the accuracy and completeness of the data provided by the Corporation to the valuers.
- Investment properties are valued by reference to highest and best use market value using an income based approach. Investment properties increased in value by £115.6 million to £854.9 million (13.5%) in 2019/20 driven by the addition of 4 Chiswell St (£41m) and the revaluation increment (£79m).

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There is a risk over the valuation of investment properties where valuations are based on significant assumptions.

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Control Finding

Letter of Representation point

Results and conclusion cont.

- We set yield expectations for the portfolio based on year-end market trends and property type (such as office, retail or industrial). These expectations also included consideration of a property's location and security of future income. We then compared the yields to our expectations, discussing properties outside of these further with the valuers.
- We consulted extensively with our Real Estate and Valuation teams, who confirmed that our base expectations and methodology were suitable for the portfolio of Bridge House Estates.
- We note that due to the ongoing impact of covid-19 as at the 31 March 2020, the valuers have included within their valuation reports, a "Material Valuation Uncertainty" clause in line with the guidance set out in the RICS Red Book Global. Due to a lack of comparable transactions around the year end they note that *"less certainty, and a higher degree of caution, should be attached to the valuations that would normally be the case."*
- Reference to this uncertainty is set out in the notes to the financial statements. We proposed some enhanced disclosure relating to the more specific considerations regarding the uncertainty in the context of the charity's portfolio. The draft accounts were subsequently updated.
- Furthermore, given the potential significance of this uncertainty in the context of the assets of the charity, our audit opinion draws reference to this uncertainty by way of an "Emphasis of Matter".
- We have noted no other issues during the course of our testing.

OVERVIEW

Other audit risks

As either identified in our audit planning report dated 17 March 2020 or reflecting the subsequent Covid-19 pandemic, we assessed the following matters as being normal risks of material misstatement in the financial statements but areas of audit focus.

Significant Audit Risk	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported in Completion report	Specific Letter of Representation Point	Discussion points for Audit Committee
4. Investment Valuations	Yes	Yes	Yes	No	No	No
5. Related Party Transactions	No	No	Yes	Yes	Yes	No
6. Going Concern Impact of Covid-19	Yes	No	No	No	Yes	No

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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	
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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 end 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 will include the following:

- For unquoted infrastructure and private equity investments, we obtained direct confirmation of investment valuations from the General Partner or fund manager and obtained copies, where applicable, of the audited report on internal controls / audited financial statements of the underlying partnerships (and member allocations). We also considered if appropriate adjustments had been made to the valuations in respect of additional contributions to and distributions from 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; and
- Agreed the allocation of amounts for each fund where there is pooling of investments across the funds.

INVESTMENT VALUATIONS (CONTINUED)

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

Control Finding

Letter of Representation point

Results and conclusion

We have agreed investments to confirmations received from investment managers.

We have confirmed the existence of a sample of the social investments held within the portfolio and a small sample of additions made during the year. No indicators of impairment have been identified.

We have confirmed a sample of listed investment balances to external published sources. We have also performed testing over purchases and sales of Investments.

Our testing of the private equity and other non listed elements of the portfolio identified that some investments were included in the initial draft accounts were based on the 31 December 2019 valuation, rather than as at 31 March 2020. This has subsequently been corrected by management in the final accounts (decreasing the value of investments by £2.3m).

Our review of the control environment of the investment managers noted that 3 fund managers received qualified audit reports on internal controls (Lindsell Train, Majedie and Aviva). The value of investments held by these fund managers across the City of London Corporation at the year end was £205 million.

We recommend the Financial Investment Board takes this into account when reviewing the performance of the individual fund managers.

Results and conclusion

We have one outstanding query with Ruffer over the unit price of a specific investment. Subject to the resolution of this matter, we are satisfied that the overall valuation of financial investments is materially correct.

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

Significant management
judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Control Finding

Letter of Representation point

Risk description

- Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud. Our audit approach includes the consideration of related party transactions throughout the audit including making enquiries of management and the Audit and Risk Management Committee.
- There is a risk that related party disclosures are not complete and accurate, and disclosed in accordance with the Charities SORP as required for Bridge House Estates.

Details

As part of our audit work, we have completed the following:

- Gained an understanding of the controls and processes around the identification and disclosure of related party transactions.
- Obtained and reviewed related party declarations for all members, and cross-referenced these to Companies House and Charity Commission searches for completeness.
- Performed a search of the complete payables and receivables listings for Bridge House Estates for identified potential related parties.

Results and conclusion

- During our review of declarations, it was noted that a number of declarations have not been completed accurately nor completely, with the member either leaving sections blank, or omitting to sign the forms. In a number of cases, subsequent online searches identified additional potential related parties which had not been declared on the forms. A control point has been raised regarding this matter.
- One error was noted during our review of the related parties disclosure, where transactions with The Guild of Freeman of the City of London were understated in the disclosure by £4k. This has been updated in the latest draft accounts.
- No additional issues have been noted, however we await the receipt of the remaining 11 declarations (specific to the audit of Bridge House Estates) to enable us to complete our testing.

GOING CONCERN - IMPACT OF COVID-19

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In an uncertain environment where business continuity plans have been activated, forecasting future cash flows with any degree of certainty is challenging.

Significant management judgement

Use of experts

Unadjusted error

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Additional disclosure required

Control Finding

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Risk description

It is the Trustee's responsibility to make an assessment of the Charity's ability to continue as a Going Concern to support the basis of preparation for the financial statements. This is a requirement of both Charities Act 2011 and accounting standards.

This assessment should be supported by detailed cash flow forecasts with clear details of the key underlying assumptions, consideration of available finance throughout the forecast period, and a consideration of the forecast's sensitivity to reasonably possible variations in those assumptions along with any other relevant factors.

The 2019 Novel Coronavirus infection ('coronavirus') or 'COVID-19' outbreak poses a serious public health threat. It has interrupted the movement of people and goods throughout the world, and many levels of government are instituting restrictions on individuals and businesses. The resulting impact on financial reporting will be significant.

Details

We have obtained an understanding of the business model, objectives, strategies and related business risk, the measurement and review of the entity's financial performance including forecasting and budgeting processes and the entity's risk assessment process. We have evaluated:

- The Trustee's method including the relevance and reliability of underlying data used to make the assessment, whether assumptions and changes to assumptions from prior years are appropriate and consistent with each other.
- The Trustee's plans for future actions in relation to the going concern assessment including whether such plans are feasible in the circumstances.
- We have considered management's response to Covid-19 and the assumptions that underpin this response.
- We have performed sensitivity analysis on key assumptions within the financial model
- The adequacy and appropriateness of disclosures in the financial statements regarding the going concern assessment and any material uncertainties that may exist.

Results and conclusion

We concur with management and the Trustee, that while there is uncertainty in relation to the impact of COVID-19 on the charity, this does not pose a material uncertainty and hence there is no impact on our audit opinion. We are content that there is adequate disclosure in the financial statements relating to going concern.

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Defined Benefit Pension Scheme

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.

As at 31 March 2020 the allocation of the total Corporation's defined benefit pension for BHE increased to 3% (2019, 2%).

The fund position at the year end is based on a complex calculation with the assumptions having a significant impact on the value of the reported surplus/deficit.

We have;

- 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);
- checked the accuracy of the calculations relating to the allocation of the share of the net assets across the funds in proportion to the employer's contribution's paid to the scheme

We note that due to the adjustment relating to the valuation of private equity funds, there is a potential flow through to the pension scheme assets and consequently the portion attributable to Bridge House Estates. We believe any adjustment would be trivial in the context of the charity's materiality and therefore do not propose to make any adjustment.

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.

See page 11

Going concern

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

See page 17

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Inappropriate assumptions may be used to value investments

See page 14

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Fraud

Whilst the Trustee has ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the audit plan on 17 March 2020.

Related parties

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

We identified the following significant matters in connection to related parties

- A number of declarations have been returned by members either incomplete or unsigned. This is likely to hinder management in the preparation of a complete and accurate related party disclosure.

Laws and regulations

The most significant general legislation for your charity are Charities Acts, Companies Act 2006, Corporate and VAT legislation, Employment Taxes, Health and Safety and the Bribery Act 2010. We made enquiries of management and reviewed correspondence with the relevant authorities.

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

Designated Funds

On the 18 February 2020 the Finance Committee approved the designation of £200m reserves from general reserves to grant making to be utilised over the next 3 years.

We have reviewed the minutes of the Finance Committee and noted the approval of the transfer. We have reviewed the funds transfers and presentation of general and designated funds as set out in Note 23.

Furthermore we have considered the disclosures relating to the free reserves of the charity as set out on the Trustee's report. We note that this is a positive development responding to our feedback on compliance with the Charities SORP in 18/19.

OVERVIEW: 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.

No unadjusted audit differences have been identified by our audit work.

Unadjusted financial reporting matters

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

No unadjusted financial reports matters have been identified by our audit work.

Adjusted audit differences

A small number of audit adjustment 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 21 and 22.

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 23.



ADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year



There were 4 audit differences identified by our audit work that were adjusted by Management. This decreased draft net expenditure by £2,695k and decreased draft net assets of by £2,695k.

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

Adjusted audit differences	Income and expenditure		Balance sheet	
	£'000	£'000	£'000	£'000
Adjustment 1: Reclassification of credit balances in Debtors listing to Creditors control account				
DR Debtors			242	
CR Creditors				(242)
Adjustment 2: To correctly accrue for the portion of Investment Property income in line with new rent review signed within the audit year				
DR Accrued Income			97	
CR Investment Property Income		(97)		
Adjustment 3: To correctly derecognise the Cornerstone grant as BHE identified it not meeting entitled criteria prior to year end				
DR Grant Income	500			
CR Accrued income				(500)
Adjustment 4: To correctly recognise the March 2020 year end valuations for Private Equity investments previously held at December 2019 valuation.				
DR Gain/Loss on investments	2,292			
CR Financial Investments				(2,292)
Total Adjusted audit differences	2,792	(97)	339	(3,034)

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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 & Risk Management Committee is required to consider.

We have made various suggestions to enhance the Trustee's report and financial statements with the primary focus of these comments relating to additional disclosures relating to Covid-19

Our comments have been taken into consideration by management and many have been incorporated into the subsequent versions of the Trustee's report.



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ADDITIONAL MATTERS

Details for the current year

We have comments on the following additional matters:

	Significant matter	Comment
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	We encountered some challenges with regards to obtaining hard copy supporting documentation and timeliness in our audit work due to remote working as a result of COVID-19 government lockdown.
3	Serious incident reporting	No serious incidents were reported in the year, and we have not identified any matters requiring reporting to the Charity Commission.
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.	See page 16 for detailed findings regarding related parties.
9	Any other significant matters arising relevant to the oversight of the financial reporting process	No matters noted.

CONTROL ENVIRONMENT: OBSERVATIONS NOTED

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 Committee.

We have not identified any significant deficiencies in internal control. One control observation is noted below.

As the purpose of the audit is for us to express an opinion on the 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
Related Party Transactions	During testing, it was noted that a number of related party declarations have been returned by members with sections missing. When performing our own checks, we have noted that these members do have potential related parties that they have not disclosed.	Not receiving complete declarations may lead to management not identifying related party transactions during the accounts preparation process, and may also influence financial decisions during the year if a related party is not included on a register of interest.	We recommend that the importance of the declarations is reinforced to all members, through training if necessary. These declarations should then be reviewed when returned to ensure all information is complete before they are then subject to our review and consideration.	We confirm that we will be reviewing the processes for related party transactions during the year.

CONTROL ENVIRONMENT: FOLLOW UP OF PRIOR YEAR DEFICIENCIES

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Area	Issue and impact	Original recommendation	Progress	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.	No new designated funds have been formed in the year. Evidence of discussion regarding the adjustment of existing funds has been noted as included within the minutes of the relevant committee.	N/A
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.	In 2020 we have not encountered a transaction of the significance of 1-5 London Wall from the 2019 audit. However we note that year end capital entries did not take place within the originally agreed audit timetable. We recommend that the year end close process be reviewed again to identify any efficiencies which could be implemented going forward.	We confirm agreement with the recommendation and will review the year end close process as stated.

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AUDIT REPORT OVERVIEW

Opinion on financial statements

We anticipate issuing an unmodified opinion on the financial statements.

However whilst our opinion is not qualified, the enhanced disclosures relating to areas of estimation and uncertainty pertaining to the valuation of investment properties has resulted in a reference in our audit opinion as an “Emphasis of Matter” given the potential impact on the financial statements.

Comments on the Trustee’s report and statutory other information

We have identified no material misstatements in the statutory other information accompanying the financial statements.

Other information

We have reviewed the other information accompanying the financial statements in the annual report. We have not identified any material misstatements that would need to be referred to in our report.

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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 2020.

Details of services, other than audit, provided by us to the Charity during the period and up to the date of this report were provided in our planning report. We understand that the provision of these services was approved by the Audit 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 confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC’s Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Charity.

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

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

FEES

Fees summary for year ended 31 March 2020

	£
Bridge House Estates Financial Statements	70,000
Total non-audit services	-
Total fees	70,000



OUTSTANDING MATTERS

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We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2020.

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

- A number of related party declarations are currently outstanding from members.
- Final review of financial statements
- Subsequent events review to date of signing the financial statements
- Receipt of signed letter of representation for all entities



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TRUSTEE'S RESPONSIBILITIES EXPLAINED

The Board'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
<ul style="list-style-type: none">Maintain adequate accounting records and maintain an appropriate system of internal control for the charityPrepare 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 and the Charities Act 2011Safeguard 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.
<p>To make available to us, as and when required, all the charity's accounting records and related financial information.</p> <p>To provide us with Board papers on key issues including but not limited to:</p> <ul style="list-style-type: none">Review of business risksGoing concern assessmentsImpairment reviewsAny key judgments and estimates.	
<p>Having made enquiries state in the Trustee's report that:</p> <ul style="list-style-type: none">So far as Members (on behalf of the Trustee) are aware, there is no relevant audit information of which the auditors are unawareMembers have taken all reasonable steps they ought to have taken on behalf of 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 board 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.

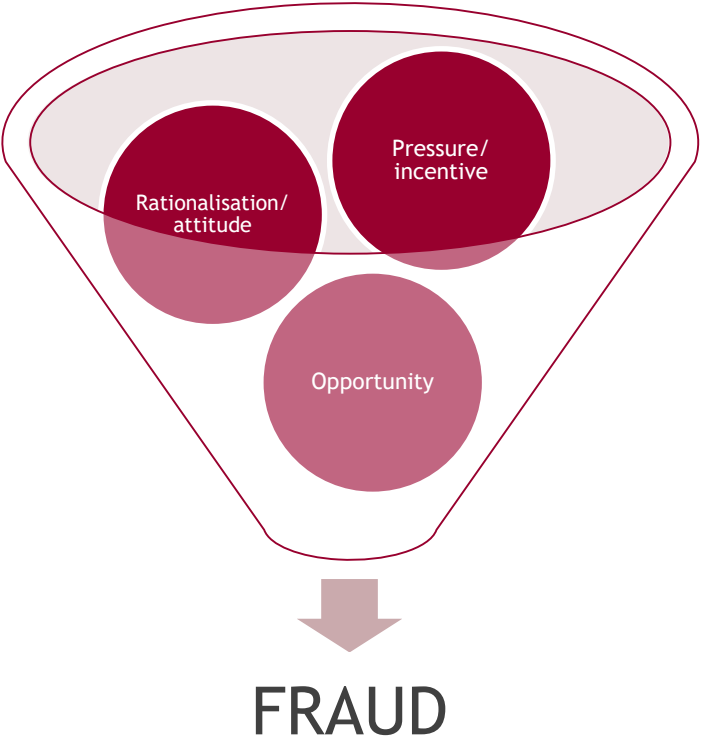
The auditor would also report to those charged with governance subject to “tipping-off” provisions under anti-money laundering legislation.

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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COMMUNICATION WITH YOU

Those Charged with Governance (TCWG)

References in this report to Those Charged With Governance are to the Audit & Risk Management Committee acting on behalf of the Trustee. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit and Risk Management Committee.

Communication, meetings and feedback

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

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

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BDO is totally committed to audit quality

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

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

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

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

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

LETTER OF REPRESENTATION

TO BE TYPED ON YOUR HEADED NOTEPAPER

BDO LLP
2 City Place
Beehive Ring Road
Gatwick
West Sussex, RH6 0PA

Dear Madams/Sirs

Financial Statements of Bridge House Estates for the year ended 31 March 2020

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 2020 are made to the best of our knowledge and belief, and after having made appropriate enquiries of Members and officials of the charity.

We have fulfilled our responsibilities as the Trustee 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 2020 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

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 considered the financial impact of Covid-19. We have appropriately disclosed the inherent uncertainty in our operating environment and its impact on our going concern assessment in our financial statements and narrative reports.

Having performed our assessment we were able to conclude 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.

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LETTER OF REPRESENTATION

Laws and regulation

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.

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 27 to the financial statements, there were no loans, transactions or arrangements between the charity and the charity's Trustee or their connected persons at any time in the year which were required to be disclosed.

In the opinion of the Trustee 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.

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Accounting estimates

1. Pension fund assumptions

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

- Rate of inflation (CPI): 1.9%
- Rate of inflation (RPI): 2.7%
- Rate of increase in salaries: 2.9%
- Rate of increase in pensions: 1.9%
- Rate of discounting scheme liabilities: 2.35%

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

2. Valuation of investment properties

The Charity's property investment portfolio has been valued by Cushman and Wakefield and Savills in accordance with the RICS Global Standards 2020 as at 31 March 2020, based on tenancy and rental information that was correct at that date. We acknowledge the material uncertainty that accompanied the valuations from Cushman and Savills, and confirm the disclosures given in the financial statements are sufficient to bring a readers attention to this.

3. Valuation of private equity investments

We confirm that private equity investments are valued based on the latest available information from the individual private investment fund managers as at 31 March 2020 and therefore represent fair value of the funds as at the balance sheet date.

We confirm that no subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements.

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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LETTER OF REPRESENTATION

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

Peter Kane

(Signed on behalf of the Trustee)

Date:

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LOOKING FORWARDS

Please note that we have issued a separate comprehensive publication : CHARITIES & COVID-19. This is available on our website <https://www.bdo.co.uk/en-gb/home>, and is updated regularly.

We have attached a copy of the latest version separately.

The following developments are therefore of general application to all larger charities, and are included because we recognise that trustees often have an interest in the wider sector. However, we particularly draw attention to the following paragraphs which are of particular relevance:

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FINANCIAL REPORTING AND GOVERNANCE

SORP Accounts

A second edition of the Charities SORP (FRS 102) (2019) was issued in December 2019. It is effective for reporting periods beginning on or after 1 January 2019, but picks up matters that have already been addressed through bulletins or information sheets. For completeness the second edition reflects the following points:

- the requirement for the preparation of a statement of cash flows by larger charities
- the requirement for comparative information to be provided for all amounts presented in the current period's financial statements, including the notes.
- the requirement for gift aid payments made by a subsidiary to its parent to be accounted for as distributions, akin to a dividend
- the requirement for major components of an item of property, plant and equipment that have significantly different useful economic lives to be depreciated separately over their useful economic life
- an accounting policy choice for entities that rent investment property to another group entity whereby they can choose to measure that investment property using the cost model or fair value
- the requirement for an entity to disclose a net debt reconciliation.

Annual Reports

With effect from accounting periods starting 1 January 2019, all large companies (2 out of 3 of the following: income over £36m, total assets over £18m, 250 employees) are required to make a new statement (s.172 statement). This addresses the need for directors to promote the success of the company with regard to their employees, business relationships, community and environment, standards of conduct, fairness and long-term decision making. Information Sheet 3: The Companies (Miscellaneous Reporting) Regulations 2018 and UK Company Charities - has been issued on behalf of the SORP setting bodies. The information sheet addresses three new requirements:

- How a company has acted to promote the success of the company - the information sheet equates success to achieving the charity's objects
- How directors have engaged with employees - the information sheet suggests that this should also cover volunteers
- How directors have engaged with suppliers and customers - the information sheet widens this to other stakeholders such as service users, beneficiaries, funders and the wider community

Other reporting requirements now include:

- Ratio comparing CEO pay to 25th, 50th and 75th percentile pay levels for UK employees (applies to all quoted companies with > 250 UK employees)
- Wates corporate governance principles (applies to all companies with more than 2,000 employees, or turnover over £200m, and a balance sheet of more than £2 billion - charitable companies are exempt from this requirement). We consider the Charity Governance Code is more appropriate for the sector.

Streamlined Energy and Carbon Reporting (SECR), SORP Information Sheet 5

Information Sheet 5 addresses how charities are to address the Streamlined Energy and Carbon Reporting requirements. Key points are as follows:

- The reporting requirements apply to charitable companies that meet the criteria of "large", i.e. if two or more of the following qualifying conditions are met for two years: Gross annual income of more than £36 million; Gross (total) assets of more than £18 million; More than 250 employees.
- The requirements apply to reporting periods starting on or after 1 April 2019.
- Companies are required to report their UK energy use and associated greenhouse gas emissions as a minimum relating to gas, electricity and transport fuel, as well as an intensity ratio and information relating to energy efficiency action, through their annual reports in the directors' report. This should be included in the "Achievements and Performance" section of the trustees' annual report, or the information could be reported in a separate environmental report provided it is clearly marked as the relevant part of the charitable companies' directors' report.
- The report should cover: UK energy use, associated greenhouse gas emissions, at least one intensity ratio, previous year's information, information about energy efficiency action, methodologies used in the calculation of disclosures. There are exemptions for companies with low energy use, or where disclosures are seriously prejudicial, or where it is not practicable to obtain the information.
- Associates are excluded from "group" definition for these reports.

The final Statutory Instrument introducing the changes (SI 2018/1155) is available on [legislation.gov.uk](https://www.legislation.gov.uk). In addition, the Department for Environment, Food and Rural Affairs (DEFRA) has issued [Environmental Reporting Guidelines](#) to assist companies preparing for the new requirements.

FINANCIAL REPORTING AND GOVERNANCE

Dealing with uncertainty

The Financial Reporting Council Lab has provided guidance on topics investors expect to see considered as elements of uncertainty over the next 12 months. We reproduce these below - they need adapting to individual charity's circumstances:

- Timing of resumption of operations.
- Further restrictions that limit the return to normal operations.
- Restrictions placed on government (or other) capital.
- Timing and continuation of government schemes and support packages.
- The outcome of capital raising actions, discussions with banks, and landlords(NB for charities consider major appeals)
- Short-term impacts of pricing changes to revenue and expenses.
- Impacts on human capital, the supply chain and customers.

Governance

In two reports published in March and June into major charities, the Charity Commission highlighted some key themes of general application:

- Poor workplace culture which let down complainants, staff and the wider public
- Handling of the complaints so poor that it amounted to mismanagement
- Failure to consistently follow own processes when staff members made allegations of inappropriate conduct
- Dealing with complaints informally, rather than to investigate them fully
- The whole trustee body not being made aware of important issues as early as it should be
- Over-dependence on committees without rigorous oversight
- Trustees' failure to understand and manage safeguarding risks or make this a key governance priority

The Charity Commission has also issued a regulatory alert to large service-delivery charities. Their recommendations include:

- Maintaining a strategy for regular communication with senior staff
- Identifying and managing risk
- Reviewing governance and management committees to ensure they provided the relevant skills and oversight
- Putting in place transparent and effective systems for handling complaints
- Having systems to report "significant incidents" to the board
- Monitoring contracts with suppliers to make sure the charity is confident about how third parties will carry out their work.

Internal audit

A new Code of Practice was issued by the Chartered Institute of Internal Auditors in January. The Code builds on existing Standards and seeks to increase the effectiveness of internal audit by clarifying expectations and requirements. A key development in the consultation phase was the growing recognition of the need for proportionality: this will be especially relevant to charities. The code is set out over 9 headings, covering such areas as scope, reporting, independence and relationships with boards and external auditors. This is the first Internal Audit Code produced for general application for private and third sector organisations.

FINANCIAL REPORTING AND GOVERNANCE

Going concern

The Financial Reporting Council (FRC) has issued a revised going concern standard in response to recent Enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. The new standard is effective for audits of financial statements for periods commencing on or after 15 December 2019.

The revised standard (ISA UK 570 Going Concern) follows concerns about the quality and rigour of audit and increases the work auditors are required to do when assessing whether an entity is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards.

The FRC hopes that UK experience will lead to further strengthening of requirements at the international level.

The revised standard requires:

- greater work on the part of the auditor to more robustly challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence and evaluate the risk of management bias;
- improved transparency with a new reporting requirement for the auditor of public interest entities, listed and large private companies to provide a clear, positive conclusion on whether management's assessment is appropriate, and to set out the work they have done in this respect; and
- a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when the auditor draws their conclusions on going concern.

Matters of Material Significance

The Charity Commission has revised its guidance on the auditors' duty to report on Matters of Material Significance. In particular they state that difficulties in undertaking an audit purely caused by the impact of COVID-19 do not constitute reportable events. They clarify that our reports should be made as soon as possible and, in the case of a modified opinion, at the time of signing and that we should refer to trustees' behaviour where it has impacted on the timing of our report. The guidance also makes clear that internal audit is not covered by this regime, except in the rare situation where the same firm is providing both internal and external services.

Draft amendments to FRS 105: COVID -19 related rent concessions

Our separate publication : CHARITIES & COVID-19 also covers this topic. FRED 76 proposes the accounting treatments for temporary rent concessions for operating leases occurring as a direct consequence of the COVID-19 pandemic, and within a limited timeframe. They shall be recognised over the period the concession is intended to compensate, reflecting the economic substance of the concessions and their temporary nature. The proposals in FRED 76 are expected to apply to accounting periods beginning on or after 1 January 2020. In both cases early application will be permitted.

TAX

Gift aid

It is possible to add Gift Aid to eligible donations via Facebook Donate. However, there has been some uncertainty as to whether HMRC would accept Gift Aid claims on donations received via Facebook due to concerns about the audit trail. For this reason HMRC has suggested that charities do not process claims Gift Aid claims on Facebook Donations at this time.

HMRC have previously suggested that gift aid declarations should include forenames of donors, rather than just initials. Originally that proposal would have been effective from April. Although the proposal has been dropped, HMRC are encouraging charities to provide them with full forenames wherever possible. This is so that they can trace donors and ensure there is enough “tax to cover”. Charities should review what information they hold and include this detail in their gift aid claims, and try to collect this information in future.

Off payroll labour

The changes to the off-payroll rules were due to come into effect on 6 April 2020. This has now been delayed until April 2021 because of the spread of the coronavirus (COVID-19) pandemic. The delay is to help businesses and individuals deal with the economic impact of COVID-19. The delay to the introduction of the changes is not a cancellation.

Any entity (aside from those regarded as small) engaging the services of workers via Personal Service Companies (PSC), or other intermediaries including partnerships and LLPs, is required to introduce processes for assessing whether the workers are ‘deemed employees’ and formally notify the workers of this assessment. Where the workers are regarded as ‘deemed employees’ the entity paying the PSC is required to operate PAYE and NIC (and Apprenticeship Levy if relevant) when processing payments. Recognising that this is a difficult area HMRC has published a self help guide and a communications guide.

Charities are reminded that the definition of “turnover”, one of the three tests to determine the size of an organisation, is intended to have the same meaning as provided for in the Companies Act (2006). This is for “turnover” to reflect trading income from which an organisation would report as a profit or a loss, or income and expenditure. HMRC has previously stated that for charities “turnover” does not include donations and other voluntary income which does not arise from the provision of goods and services.

Social Investment Tax Relief (SITR).

This relief was introduced to encourage individuals to invest in qualifying social enterprises. The relief is subject to a ‘sunset’ provision, such that without further legislation the relief will end for investments made after 5 April 2021. Due to the low take up of this relief, this appears to be likely. SITR offers a 30% upfront tax relief to investors in charities and other social enterprises. Charities may wish to explore this source of fundraising whilst it is available, and to encourage its use.

TAX

Employment taxes

HMRC has published a new version of “How to tax living accommodation given to employees”. This represents a consolidation of guidance, not a change in the rules. The contents are as follows:

- Basis of liability and exemptions
- Provision of living accommodation ‘by reason of employment’
- The cost of providing living accommodation
- Substitution of market value for cost
- Calculation of cash equivalent: accommodation costs £75,000 or less
- Calculation of cash equivalent: accommodation costs £75,000 or less: lease premiums
- Calculation of cash equivalent: accommodation costs over £75,000
- Annual value equal to open market rental value of the accommodation
- Accommodation provided to more than one employee
- Provision of benefits or facilities connected with living accommodation
- Deduction for business expenses
- Optional remuneration arrangements.

Reverse charge VAT for construction services

From 1 March 2021, a VAT-registered business, which supplies certain construction services to another VAT-registered business for onward sale, is required to issue a VAT invoice stating that the service is subject to the domestic reverse charge. However, it is the recipient that must account for the VAT due on that supply through its VAT return, instead of paying the VAT amount to the supplier. The recipient may recover that VAT amount as input tax, subject to the normal rules. These rules apply equally to charities who are involved in property transactions. Many Charities may also be asked by suppliers to certify whether they are deemed to be an ‘end user’ for the purposes of the legislation. We would recommend taking advice before completing any such certification.

VAT on electronic publications

With effect from 1 May 2020 the zero rate of VAT is applied to e-publications: e-books, e-newspapers, e-magazines and academic e-journals are entitled to the same VAT treatment as their physical equivalents. The Government expects suppliers to pass on the cost saving to their customers. However, supplies to EU consumers are still liable to VAT in the customer’s country. Until the UK leaves the EU VAT regime, UK suppliers can use the UK VAT MOSS to account for EU VAT, but after this they will have to use the VAT MOSS system of another EU country. Guidance was issued in August by HMRC on the VAT liability of supplies of certain electronic publications (e-publications) that became zero-rated from 1 May 2020. Guidance topics include: Determining what is an e-publication, determining whether an e-publication is “predominantly” devoted to advertising, audio or video content, E-audiobooks, subscriptions to access multiple e-publications, supply of intellectual property in e-publications, supplies of standalone digital music manuscripts maps and charts, and treatment of supplies of e-publications that span 1 May 2020.

Advertising relief changes

HMRC are taking a less restrictive stance on electronic charity advertising. Charities are able to buy in advertising free from VAT, but the relief is not available for direct mailing or advertising that is targeted to an individual. HMRC’s view originally was that any form of electronic profiling or targeting, such as that commonly used in social media, meant that the relief for charities was not available. HMRC now accept that their view was too restrictive and that it is necessary to review the detail of each type of advertising service when considering whether the relief can apply.

CHARITY FINANCIAL AND REGULATORY

Serious Incident and Event Reporting

Although the legislation has not changed on these requirements since last year, our dealings with the regulators indicates that this continues to be a major focus. Major charities, especially, are seen to be the exception if they are not reporting incidents. In England and Wales reporting is now conducted on line: this reduces the amount of detail that can be provided in an initial report but is designed to enable the regulator to begin to provide more useful feedback on reporting trends.

The Charity Commission has updated its guidance on serious incident reporting in to help trustees to decide if they need to report an incident that is related to Covid-19. Taking action to meet government rules should not normally be considered to be a significant incident in itself, neither are financial losses related to the pandemic. Trustees should instead focus on the significance of the impact of any actions or losses. Where trustees consider reporting an incident but decide not to report it, they should keep a brief record of their decision and the reasons for it

In January the Scottish Regulator also updated its guidance on reporting Significant Events. What constitutes a significant impact will depend on the size and nature of your charity. It will be up to the charity trustees to decide whether or not the event is serious enough to be reported. The OSCR's guidance explains what each of these events is, and gives one example of each.

Corporate Insolvency and Governance Act

This new legislation applies to charities that are limited companies or CIOs. It gives entities the right to apply for more time to avoid debt enforcement action, and limits the rights of contractors to terminate supply agreements with charities. The Act also temporarily suspends some provisions in order to reduce the risk that trustees are personally liable during the crisis, with a revision of the wrongful trading provisions and restrictions on winding up petitions where a charity cannot pay its bills as a result of the pandemic. It also introduces new procedures to help viable charities restructure if they are struggling with debt. There is no change in the position as relates to trustees of unincorporated charities - usually simply referred to as 'Trusts'. We have issued further guidance on this important topic which may be found: <https://www.bdo.co.uk/en-gb/insights/advisory/business-restructuring/trustee-duties-and-insolvency-law-new-options-charities>.

Regulating in the public interest

This report, produced by the Charity Commission and Populus in June, draws together the main findings of previous research to offer a better understanding of the public's and trustees' views on charities and the Charity Commission. It concludes that the public expect that:

- a high proportion of charities' money be used for charitable activity;
- charities make the impact they promise;
- charities go about making that impact in a way which is consistent with the spirit of 'charity'; and
- all charities understand their collective responsibility to uphold that spirit.

The report says that these demands are both reasonable and widely held. We believe that trustees should take them into account in their management of charities, and in reporting on their activities. We have produced a more comprehensive resume for trustees which also considers the implications for annual reports. The full report can be accessed here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/891221/Regulating_in_the_public_interest_research_report.pdf

CHARITY FINANCIAL AND REGULATORY

Fundraising Regulation

The Fundraising Regulator has published guidance to help charities fully comply with the fundraising reporting requirements in the Charities (Protection and Social Investment) Act 2016 (the Act).

Under the Act, registered charities which have their accounts audited (where gross income is over £1 million), are required to provide a statement on fundraising in their annual reports. The requirements are designed to reinforce responsibility and accountability for fundraising and encourages charities to demonstrate their commitment to protecting donors and the public, including people in vulnerable circumstances, from poor fundraising practices.

The new guidance has been published following a review of 106 annual reports filed with the Charity Commission which found that only 40% of charities included an adequate fundraising statement to meet the requirements in the Act.

The guidance includes information on:

- what the fundraising statement should consist of;
- examples of a fully compliant report;
- expectations from the Charity Commission; and
- what charities can expect from auditors and independent examiners.

To access the guidance - <https://www.fundraisingregulator.org.uk/more-from-us/resources/charities-protection-and-social-investment-act-2016-good-practice-guidance>

Complaints

The Charity Commission has published findings based on an analysis of 600 complaints received between April and June 2019. The key points arising were as follows:

- People who complain are usually people you know
- Lack of accountability increases the likelihood of a complaint to the regulator.
- Show conflicts of interest are managed - transparency is vital
- “How you do something is as important as what you do” - good practice, appropriate attitudes and behaviour need to be embedded, to become part of a charity’s expected norms.
- Handling a bad situation well does a lot to inspire trust
- When a charity does not have a good story, people rightly ask questions
- Don’t take charitable status and the public’s support, for granted
- True accountability means doing more than going through the motions

They cite accounts which are very basic, where a report contained minimal detail, and were identical every year as a poor example of accountability.

Cookie compliance

We have recently conducted research into larger charities’ compliance with the ICO’s guidance on website cookies. Taking into consideration all requirements relating to the use of cookie banners, preference areas, a proper distinction between essential and non essential cookies, we found that less than 10% of charities were fully compliant. We recommend that, as websites are often updated, trustees should ensure this matter is kept under review.

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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 Charity and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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