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# WELCOME

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Welcome

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We have pleasure in presenting our final Report to the Audit and Risk Management 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 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.

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 24 September 2019, and to receiving your input.

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.



12 September 2019



Fiona Condron Partner

t: +44(0)1293 591 102 m: +44(0)7979 706 565 e: Fiona.Condron@bdo.co.uk



Zarine Manekshaw Audit Manager

t: +44(0)207 983 2559 m: +44(0)7854 304 099 e: Zarine.Manekshaw@bdo.co.uk



James Hay Audit Manager

t:+44(0)207 893 2934 m: +44(0)7855 517 028 e: james.hay@bdo.co.uk

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.

# **OVERVIEW**

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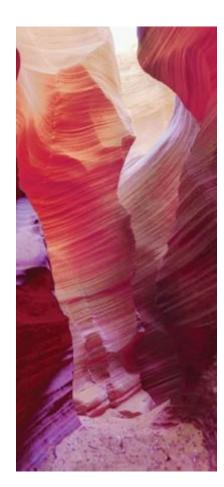
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This summary provides an overview of the audit matters that we believe are important to the Audit and Risk Management Committee in reviewing the results of the audit of the financial statements for Bridge House Estates for the year ended 31 March 2019.

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 now complete 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.

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.

# THE NUMBERS

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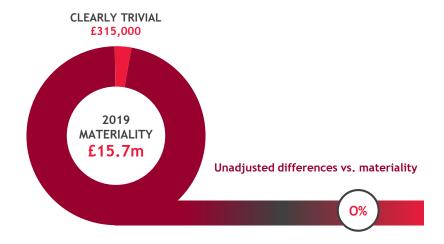
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### **Final Materiality**

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.

We have identified audit adjustments that, if posted, would increase the reported surplus by £0.03m and net assets by £0.03m.

# **OTHER MATTERS**

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### Financial reporting

- We have not identified any noncompliance 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.

### **AUDIT RISKS**

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Audit risks

# **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	No	No	No	No
Revenue recognition	Yes	No	Yes	No	Yes	No
Investment property valuations	Yes	Yes	No	No	Yes	Yes
Pension liability valuation	Yes	Yes	No	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 included 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 determined key risk characteristics to filter the population of journals. We used our IT team to assist with the journal extraction; and
- Considered unadjusted audit differences for indications of bias or deliberate misstatement.

### Results

Our audit work on journals and estimates did not identify any issues.

We have not found any indication of management bias in accounting estimates. Our views on significant management estimates are set out in this report.

We have identified no significant or unusual transactions to date which we consider to be indicative of fraud in relation to management override of controls.



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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 Mgmnt letter

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### 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. Audit procedures 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.
- We selected a sample of properties from the property management system and agreed these to the general ledger and supporting leases to ensure completeness.

### **Results**

### **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.

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Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

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Letter of Representation point

### **Results Continued**

### Financial Investment Income

We selected a sample of investments income and agreed these through to investment manager reports. No issues were noted.

### 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.

### 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 investment properties where valuations are based on significant assumptions.

Significant management judgement

Use of experts

Unadjusted error

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Letter of Representation point

### Risk description

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

The Corporation applies an annual revaluation process for investment properties to provide assurance that carrying values are not materially misstated. The Corporation has appointed four different valuers for investment property - two of which are used specifically to value the portfolio of 72 properties held by Bridge House Estates.

Due to the significant value of 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 the BDO specialist Real Estate Team the reasonableness of assumptions on benchmark and yields range for investment properties;
- Compared movements in the valuation of assets year-on-year and investigated unusual movements; and

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### Results

- Our review of instructions to the valuer including the valuer's skills and expertise did not identify any issues. We also confirmed the basis of valuation for assets valued in year is appropriate.
- No issues were identified in respect of our work carried out on the accuracy and completeness of asset information used as the basis of valuations.
- We reviewed the final accounting treatment for the sale of 1-5 London Wall for £97.125 million on a long lease which occurred in December 2018. We are comfortable with the accounting treatment proposed by management following their extensive review and consideration of the options.
- Investment properties are valued by reference to highest and best use market value using an income based approach. Investment properties decreased in value by £27.0 million to £739.3 million (-3.5%) in 2018/19 due to the sale of 1-5 London Wall.

- We set investment property yield expectations, based on market evidence, for office, retail and mixed commercial space as well as residential properties. To support the valuations, we agreed a sample of rental amounts used in the valuation to the lease or rent agreements and reviewed the data for properties where the movement in value appeared unusual compared to expectations.
- Based on our work, we are satisfied that the valuations of investment properties are reasonable.

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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 Mgmnt 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 undertaken as part of the Pension Fund audit and reviewed for the purposes of the BHE audit included the following:

 Assessed the qualifications and competence of the actuary through the use of PwC consulting actuary (auditor's expert);

- Reviewed 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 contribution's paid to the scheme;
- 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 have agreed the disclosures to the information provided by the actuary and identified no issues.

We have taken assurance from the work undertaken on the Pension Fund audit regarding the review of the controls to ensure data provided to the actuary is complete and accurate.

The allocation of the Corporation's share of LGPS assets and liabilities as 2% Bridge House Estates is reasonable based on the proportion of payroll costs for each Fund.

A full assessment of the pension scheme assumptions is set out in the BDO report to the Committee on the City's Fund. These are also set out in the representation letter.

From the review of the BHE Annual Report, we queried the reference relating to the valuation of the pension scheme under IFRS as opposed to FRS102 (which is the accounting standard under which all UK registered charities must prepare their accounts). 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 charity.

### **AUDIT RISKS**

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# **OVERVIEW - OTHER RISKS**

As identified in our audit planning report dated 28 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	No	No	Yes	No
	1		X	X		

Areas requiring your attention

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There is a risk leases may not be correctly accounted.

Significant management judgement

Use of experts

Unadjusted error

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Additional disclosure required

Significant Control Findings to be reported in Mgmnt letter

Letter of Representation point

### **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

No issues were noted from our testing.

# **FUND ACCOUNTING**

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Use of experts

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### 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 review of an early draft of the financial statements highlighted a new designated fund of £38m which 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 corrected in the final draft of the financial statements.
- 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. Please refer to slide 26 for recommendation.
- We also note that the final draft of the financial statements there is reference to ongoing considerations regarding an appropriate level of free reserves for the charity. 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.

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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

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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 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 did not identify any issues.

In conjunction with the City Fund auditors, we have reviewed the control reports for the investment managers.

A reclassification of cash held within the investment portfolio was identified during our work and has been amended in both the current year and prior year presentation of the investments funds.

# **RELATED PARTIES TRANSACTIONS**

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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

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Additional disclosure required

Significant Control Findings to be reported in Mgmnt letter

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 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

Through our testing of leases we identified 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 have performed 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. However notwithstanding this, we note that many of the items disclosed as related party transactions do not, strictly speaking, fall within the definition and therefore the voluntary disclosures are designed to provide enhanced transparency regarding relationships between Members of the Corporation and organisations that interact with BHE.

# PENSION CONTRIBUTIONS

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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.

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**

- 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, carried out as part of the Pension Fund audit and reviewed for the purposes of the BHE audit, 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 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.

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

### Discussion

 Whilst a wider review of reserves continues to be an ongoing project for the Charity, given the significant value of unrestricted assets held as at the year end we have not identified any issues regarding Going Concern.

### **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 • No significant issues noted life of the assets

### Discussion

# MATTERS REQUIRING ADDITIONAL CONSIDERATION

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Adjusted audit differences: Detail Adjusted disclosure omissions and

	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

# OVERVIEW: UNADJUSTED AUDIT DIFFERENCES AND DISCLOSURES

# Summary for the current year

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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 are five 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.

Two prior year presentational adjustments were identified during the audit which have been adjusted by management.

The first related to the split of grant creditors due within, and after more than one year. The second related to the split of financial investment additions and disposals. Cash held by fund managers is now disclosed within cash investments.

Details of the adjusted audit differences for the current year 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**

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		Income and expenditure		Balan	Balance sheet	
Unadjusted audit differences	£m	£m Dr	£m Cr	£m Dr	£m Cr	
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	
2: Adjustment to overstated rates creditors						
DR Creditors				0.03		
CR Expenditure			0.03			
3: Adjustment to credit balances in debtors and debit balances in creditors (net)						
DR Debtors				0.39		
CR Creditors					0.39	
4: Adjustment to account for potential interest due to HMRC						
DR Expenditure			0.03			
CR Creditors					0.03	
5: Cut off adjustment relating to rental income receivable pre year end						
DR Debtors				0.04		
CR Income			0.04			
Net income for the year if adjustments accounted for	99.0	0.013	0.10	0.46	0.433	

# **ADJUSTED AUDIT DIFFERENCES: DETAIL**

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		Income and expenditure		Balance sheet	
Adjusted audit differences	£m	£m Dr	£m Cr	£m Dr	£m Cr
Net income for the year before adjustments	98.9				
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				

# ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

# Disclosure omissions and improvements

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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:

- Management had initially presented the draft accounts incorporating a
  new designated fund. It was however not possible to obtain evidence that
  this had been minuted by any of the Committees of the charity prior to
  the year end. Therefore the new designated fund was 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 (as defined under the standard) should be disclosed.



### CONTROL ENVIRONMENT

# **CONTROL ENVIRONMENT: OBSERVATIONS NOTED**

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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 yearend.
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

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

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 Trustee's Annual report and fed back comments to management on the drafts which have subsequently been incorporated.
- We have identified no material misstatements in the statutory other information accompanying the financial statements.

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

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

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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 mangers 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 summary for year ended 31 March 2019

	£			
Audit fee for year ending 31 March 2019				
Bridge House Estates financial statements	40,000			
Total fees	40,000			



### **OUTSTANDING MATTERS**

# **OUTSTANDING MATTERS**

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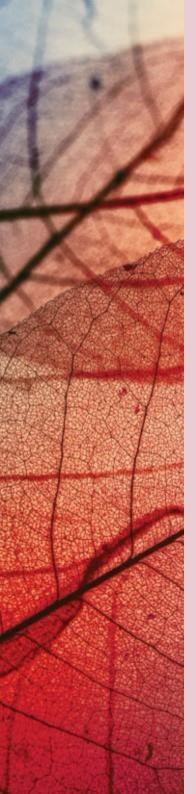
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The following matters are outstanding at the date of the issue of this report.

- Subsequent events procedures up until the date of signing on 24 September
- Completion of internal review processes of the final signed accounts (to be completed on 24/25 September)
- Receipt of the signed 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.

# Trustees' responsibilities explained Our responsibilities FRAUD RISK Letter of representation

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### 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.

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

Trustee responsibilities

- Going concern assessments
- Impairment reviews
- Any key judgments and estimates.

Having made enquiries of fellow Members of the Corporation, 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.

Further information regarding these responsibilities is provided in the

engagement. We are happy to explain these in more detail to you.

# **OUR RESPONSIBILITIES**

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### 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.

# 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 Trustee, management, and the Auditor with regards to fraud:

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

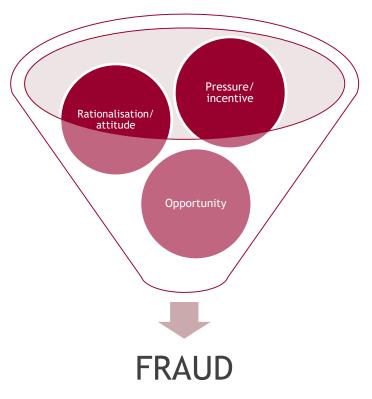
### Management's Responsibility

- 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 & Risk Management 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?

### LETTER OF REPRESENTATION

BDO LLP 2 City Place Beehive Ring Road Gatwick West Sussex RH6 OPA

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.

### **Accounting estimates**

### a) 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): 2.4%
- Rate of increase in salaries: 3.9%
- Rate of increase in pensions: 2.4%
- Rate of discounting scheme liabilities: 2.4%
- Commutation take up option: LPGS 50%

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

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### b) Valuation of investment properties

We are satisfied that investment properties have been appropriately valued at fair value at the reporting date.

### 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.

### Confirmation

Yours faithfully

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.

Caroline Al-Beyerty
(Signed on behalf of the Trustee)
Date:

### FOR MORE INFORMATION:

### Fiona Condron

t: 01293 591 102 m: 07979 706 565

e: 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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