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### WELCOME

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#### Introduction

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We have pleasure in presenting our Draft Audit Planning Report to the Audit and Risk Management Committee. This report forms a key part of our communication strategy with you, a strategy which is designed to promote effective two way communication throughout the audit process with those charged with governance.

It summarises the planned audit strategy for the year ending 31 March 2021, comprising materiality; key audit risks and the planned approach to these; together with timetable and the BDO team.

The planned audit strategy has been discussed with Management to ensure that it incorporates developments in the business during the year under review, the results for the year to date and other required scope changes.

This report contains matters which should properly be considered by the Board as a whole. We expect that the Audit and Risk Management Committee will refer such matters to the Board, together with any recommendations, as it considers appropriate.

We look forward to discussing this plan with you at the Audit and Risk Management Committee meeting on 23 March 2021 and to receiving your input on the scope and approach.

In the meantime if you would like to discuss any aspects in advance of the meeting please contact one of the team.

Fiona Condron

4 March 2021



Fiona Condron Partner

t: +44(0)1293 591 102 m: +44(0)7979 706 565

e: fiona.condron@bdo.co.uk



Peter Lewis
Senior Audit Manager

t: +44(0)1293 848 969 m: +44(0)7800 682 390 E: peter.lewis@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



James Badman Audit Assistant Manager t: +44 (0) 20 7893 3360

m: +44 (0) 7583 021 177 e: james.badman@bdo.co.uk

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.

### **SCOPE AND MATERIALITY**

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This summary provides an overview of the key audit matters that we believe are important to the Audit and Risk Management Committee in reviewing the planned audit strategy for the Group for the year ending 31 March 2021.

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

### Audit scope

Our approach is designed to ensure we obtain the requisite level of assurance in accordance with applicable laws and appropriate standards.

### **Draft Materiality**

In line with prior year the planning materiality threshold has been based on 2% of total assets ('Financial Statement Materiality'). Given the relative significance of the assets held by Bridge House Estates, materiality has been set at 2% of gross assets.

We have also assigned a specific materiality of 5% of total income (£2.3m) to non-investment related items in the Statement of Financial Activities as we consider this to be an area of key focus for the users of the accounts.

Although materiality is the judgement of the audit partner, the Audit and Risk Management Committee is obliged to satisfy themselves that the materiality chosen is appropriate for the scope of the audit.

Draft planning materiality has been calculated on prior year audited accounts and will be updated following the completion of our risk assessment and other planning procedures. We will communicate any changes to the committee. Final materiality will be updated upon receipt of the draft financial statements for 31 March 2021.



### **AUDIT STRATEGY**

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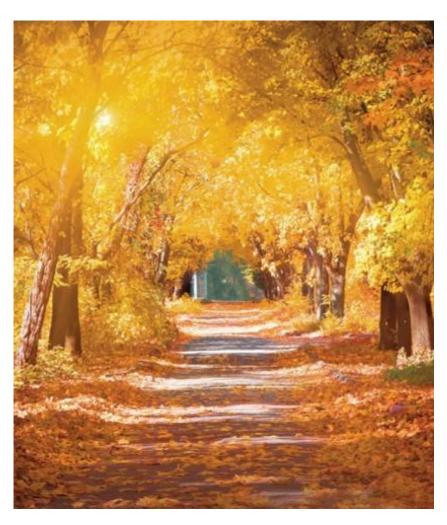
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Our Audit Strategy is predicated on a risk based approach, so that audit work is focused on the areas of the financial statements where the risk of material misstatement is assessed to be higher.

We are in the process of discussing the changes to the business, systems and controls in the year with Management and obtaining their own view of potential audit risk in order to update our understanding of the Group's and Trusts activities and to determine which risks impact on the numbers and disclosures in the financial statements. We will continue to update this assessment throughout the audit.

The table on the next page summarises our planned approach to audit risks identified.

There has been no significant change to audit risks identified, their classification or the planned approach as compared to the prior year.

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Risk identified	Risk rating	Fraud risk present	Testing approach	Impact of significant judgements and estimates
Management Override of Controls	Significant	Yes	Substantive	High
Fraud in income recognition	Significant	Yes	Substantive	High
Investment Property Valuations	Significant	No	Substantive	High
Investment Valuations	Normal	No	Substantive	Medium
Completeness of Grant Commitments	Normal	No	Substantive	Low



### INDEPENDENCE AND FEES

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### Independence

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

### **Fees**

	2021	2020
	£'000	£'000
Bridge House Estates <sup>1</sup>	78	70
Additional audit fee: overruns <sup>2</sup>	-	14
Additional audit fee: Covid related costs <sup>3</sup>	12	-
Total audit fees	90	84
Total non-audit services	-	-
Total proposed fees	90	84

### Fee variances

<sup>1</sup> This reflects an inflationary increase in addition to the risk assessment and increased estimates work linked to the revised Auditing Standards.

### <sup>2</sup>2019/20 overruns

These have now been agreed with Management in conjunction with the overruns for City's Cash and the Sundry Trusts although the allocation of costs between funds is yet to be finalised.

### <sup>3</sup>Covid related costs

This represents an estimate of the additional resource time and costs necessary when audits are undertaken remotely. The 15% is at the lowest end of the 15-20% range experienced by BDO and the other audit firms. If we are able to undertake some key work on site, the time reflected here should reduce and the fee level decrease accordingly. Management has agreed to ring fence this element of our proposal to review at an appropriate time taking into account our actual experience of working remotely and/or being able to access relevant staff if working on site at Guildhall.

### Amendments to the proposed fees

If we need to propose any amendments to the fees during the course of the audit, where our assessment of risk and complexity are significantly different from those reflected in the proposed fee or where we are required to carry out work in exercising our duties, we will first discuss this with Management and then discuss this with the Audit and Risk Management Committee.

# AUDIT SCOPE AND OBJECTIVES

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Key components of our audit objectives and strategy for the	Reporting	Objectives
Group are highlighted and explained on the following pages.	Auditing standards	We will perform our audit in accordance with International Standards on Auditing UK (ISAs (UK)).
Audit planning is a collaborative and continuous process and our audit strategy, as reflected here,	Financial statements	We will express an opinion on the Charity financial statements, prepared in accordance with UK GAAP and applicable law including the Charities Act 2011.
will be reviewed and updated as our audit progresses.	Trustee's Annual report	In addition to our objectives regarding the financial statements, we will also:
We will communicate any significant changes to our audit strategy, should the need for such		<ul> <li>Read and consider the 'other information' contained in the Annual Report such as the additional narrative reports. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.</li> </ul>
change arise.		<ul> <li>For statutory other information such as the Trustee's Report, we will form an opinion on whether the information given in the other information is consistent with the financial statements and our knowledge obtained in the audit and whether the reports have been</li> </ul>

Report to the Audit and Risk Management Committee

Audit report -

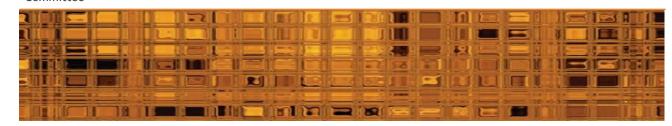
going concern

Prior to the approval of the financial statements, we will discuss our significant findings with the Audit and Risk Management Committee. We will highlight key accounting and audit issues as well as internal control findings and any other significant matters arising from the audit.

· We will report our conclusion on whether management's use of the going concern basis of

accounting is appropriate and will either report our conclusion that there is no material

uncertainty related to going concern or draw attention to any material uncertainty identified



prepared in accordance with applicable legal requirements.

by the Trustee and disclosed in the financial statements.

# **AUDIT TIMELINE**

### An overview of the key dates

The timetable below includes dates which have been proposed by management. We are currently unable to confirm our commitment to this timetable as we require visibility of the overall timetable for each individual Fund and how these interact with each other. Since our ability to complete the audit of any individual Fund is subject to the satisfactory completion of a number of areas of cross working (including, but not limited to, IT audit, payroll, financial investments, cross charges and pensions), our ability to meet this timetable can only be agreed in conjunction with the timetables for all other Funds.

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Timing	Event	Key objective and outcome
12 March 2021	Audit Planning meeting with Financial Management	To discuss developments during the year and our audit approach.
TBC*	Audit planning and interim work	Documentation of systems and assess the design and implementation of controls. Carry out preliminary analytical review using the latest management accounts. Carry out any interim testing as agreed with management.
23 March 2021	Audit and Risk Management Committee meeting	Presentation and discussion of our proposed audit plan.
March 2021	Meetings with CoL Surveyors and External Valuers	Attendance at meetings with the internal CoL Surveyors team and external valuers to discuss investment property valuations for 31 March 2021.
25 June 2021	Receipt of draft financial statements, Trustee's Annual Report and audit deliverables.	Carry out preliminary analytical review, off-site testing and final planning.
[28 June 2021]	Final audit fieldwork	Testing of year-end balances and transactions. This will include the clearance of routine accounting and audit points and preparation of a draft management letter.
[16 July 2021]	Audit Clearance meeting with management	Review draft financial statements for all entities. Discuss and agree any adjustments. Review draft management letter.
[28 July 2021]	Audit Completion report date	Finalise and approve auditors' report.
[2 August 2021]	Audit Panel review	Audit Panel to review audit files and report back to BDO and CoL.
TBC*	Audit and Risk Management Committee meeting	Presentation of our management letter. This will address key issues arising from the audit and include qualitative matters as well as the appropriateness of significant accounting policies an estimates, noting any changes therein.
TBC*	BHE Board Meeting	Formal approval of the financial statements and the letter of representation.

<sup>\*</sup>Please note we are awaiting management at CoL to provide proposed dates for the planning and interim visit, the A&RMC and BHE Board Meeting

### **AUDIT RISKS**

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# **OVERVIEW**

We have assessed the following as audit risks. These are matters assessed as most likely to cause a material misstatement in the financial statements and include those that will have the greatest effect on audit strategy, the allocation of audit resources and the amount of audit focus by the engagement team.

Description of risk	Significant risk	Normal risk	Overview of risk
1. Management override of controls			ISA (UK) 240 notes that Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
2. Fraud in income recognition			ISA (UK) 240 presumes that income recognition presents a fraud risk.
3. Investment Property Valuations			There is a risk over the valuation of investment properties where valuations are based on significant assumptions.
4. Financial investment Valuations			There is a risk that financial investment valuations may not be correctly reported at year end.
5. Completeness of Grant Commitments			The recognition of grant commitments is an audit risk due to the existence of multi-year grants which can, under certain circumstances, be cancelled or refunded in future periods.

### MANAGEMENT OVERRIDE OF CONTROLS

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ISA (UK) 240 notes that Management is in a unique position to perpetrate fraud.

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### Risk detail

International Standards on Auditing (UK) 240 sets out the auditor's responsibilities relating to fraud in an audit of financial statements and requires us to presume that the risk of management override of controls is present and significant in all entities.

Our understanding is that the most susceptible areas of the accounting records, where management override could take place, are the posting of journals and the judgements involved in accounting estimates within the financial statements.

Accounting estimates reviewed in previous years have been appropriate in terms of their thought process and calculation, however we will review accounting estimates and judgement to ensure they remain appropriate.

The key areas of estimate and judgement identified by management are:

- The assumptions used in the calculation of, and the disclosures in relation to the pension scheme
- · The assumptions used in the valuation of investments
- The allocation of costs between Funds/entities
- The assumptions used in the valuation of investment properties
- · The useful life of assets
- · Management's assessment of impairments

### Planned audit approach

Our audit procedures will include the following:

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

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#### Risk detail

Under International Standard on Auditing 240 "The Auditor's responsibility to consider fraud in an audit of financial statements" there is a presumption that income recognition presents a fraud risk.

For 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.

The income streams of the Bridge House Estates and their forecast for the year to March 2021 percentage of total income are as follows:

- Voluntary Income 31%
- Charitable Activities (Tourism) 4%
- Investment Property 58%
- Financial Investments 5%
- Other 2%

Source: March 2021 latest forecast as at Feb 2021

### Planned audit approach

Our audit procedures will include the following:

- We carry out audit procedures to gain an understanding of the Charity's internal control environment for the significant income streams, including how this operates to prevent loss of income and ensure that income is recognised in the correct accounting period.
- We evaluate the accounting policies for income recognition to ensure current practice is in accordance with the stated policy and, if applicable, is line with the detailed guidance in the Charities SORP;
- We perform cut-off testing (including a review of amounts being deferred to future years) to ensure that a sample of income recognised either side of year-end has been correctly treated.
- See the pages that follow for more detail on the identified risks and audit testing response for each income stream.
- All other material income streams, such as, investment property income, tourism income and investment income will be audited substantively. We will perform cut-off testing, completeness and valuation testing to ensure that income has been recorded in the correct period and accurately valued. We will also review material receipts to the date of sign off to ensure income is correctly recorded in the correct period.

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### Risk detail

### **Investment Property Income**

Investment property income is the primary revenue stream for Bridge House Estates, comprising primarily of rental, service charge and insurance income generated from the extensive investment property portfolio.

A significant risk is deemed to lie over the completeness of this revenue stream, primarily over cut-off at year-end as income is usually invoiced quarterly and therefore requiring a partial deferral.

### Charitable Activities (Tourism) Income

Tourism income consists primarily of admissions and event income from Tower Bridge. The primary risk over this revenue stream lies over completeness, both in regards to income received during the year due to the volume of cash handled, and cut-off over year-end. Given the level of activity in the year and this stream's nature of being a high volume of low value transactions, we deem there to be a normal risk over this balance rather than significant.

We understand that Tower Bridge has been closed or open with restrictions on capacity for the full year to date, therefore we will review this revenue stream at year-end to determine if this revenue stream is material for testing.

### Planned audit approach

### **Investment Property Income**

#### We will:

- Agree a sample of investment property income to invoice, supporting documentation (such as tenancy agreement) and receipt to bank.
- Reconcile the total income expected per the tenancy schedule to the income posted in the nominal ledger, agreeing reconciling items as appropriate.
- Review rent concessions granted during the Covid-19 pandemic and consider the impact of this in relation to amendments to FRS102 in October 2020 -Covid-19 related rent concessions
- Review income posted either side of year-end to ensure it is recognised in the correct period.

### Charitable Activities (Tourism) Income

If material, we will:

- Test a sample of days' admissions income posted in the year, tracing income recognised back to cashing up sheets and bank.
- Agree events income to statements from the third party hospitality manager; Seasoned Events.
- Agree a sample of other tourism income to support.
- Review the suspense account on the trial balance to ensure it has been cleared at year-end.
- Review income posted either side of year-end to ensure it is recognised in the correct period.

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### Risk detail

### Financial investment income

Specific risk over cut off and a risk that investment income is misstated either due to being offset against investment manager fees or reinvested and included within the movement on valuation.

### Planned audit approach

### Financial investment income

### We will:

- Test a sample of investment income to external information;
- Review investment manager reports to ensure that the correct income accrual has been recognised in the accounts; and
- Review the arrangements in place with the fund manager to ensure the appropriate recognition of investment management fees.

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

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### Risk detail

Bridge House Estates holds a portfolio of 76 primarily office/retail investment properties, which are reported at fair value at the balance sheet date. As at 31 March 2020 the value of this properties was £854.9m.

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.

### Planned audit approach

As part of our audit work, we will perform procedures including the following:

- Assess the qualifications and competence of the valuers used
- Review the instructions provided to the valuers and reviewed the valuers; skills to determine whether we can rely on management's expert
- Verify a sample of data provided to the valuers (such as rental income) to use as inputs within the valuation process
- Confirm that the basis of valuation for each asset is appropriate based on their usage
- Review assumptions used by the valuers and movements in values relative to market indices, and challenged valuations lying outside our expectations with the corresponding valuer.
- Consult 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
- Be involved in meetings with the Surveyors Team and Valuers during the valuation process
- Compare movements in the valuation of assets yearon-year and investigated unusual movements.

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### Risk detail

The financial investment portfolio within Bridge House Estates 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 or movements in market value.

There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements

### Planned audit approach

Our audit procedures will include the following:

- For a sample of unquoted infrastructure and private equity investments, we obtain direct confirmation of investment valuations from the General Partner or fund manager and obtain copies, where applicable, of the audited report on internal controls / audited financial statements of the underlying partnerships (and member allocations). We also consider if appropriate adjustments are made to the valuations in respect of additional contributions to, and distributions from, the funds. We will also consider if the valuations used by management take account of the March 2021 quarterly valuation statements;
- For a sample of pooled investments, we obtain direct confirmation of investment valuations from the fund managers and agreed independent valuations, where available, provided by the global custodian;
- For the investments sampled, we obtain independent assurance reports over the controls operated by both the fund managers and custodian. This review will not only consider the overall audit opinion given on the control environment, but also the specific tests carried out which provide assurance over the valuations and existence of the investments; and
- We agree the allocation of amounts for each fund where there is pooling of investments across the funds.

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The recognition of grant commitments is an audit risk due to the existence of multi-year grants which can, under certain circumstances, be cancelled or refunded in future periods.

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### Risk detail

We understand that, in response to the Covid-19 pandemic, Bridge House Estates, (City Bridge Trust) has significantly increased the level of grant making activities in 20/21.

The recognition of grant commitments is an audit risk due to the existence of multi-year grants which can, under certain circumstances, be cancelled or refunded in future periods.

### Planned audit approach

#### We will:

- Review the systems and procedures in place for recording and monitoring grant commitments;
- Test the controls in place over the approval of grants and payment of funds.
- Review a sample of grant agreements and the standard grant agreement wording, to ensure that a liability existed at year end and that the total grant expenditure was correctly recognised;
- We will review the overall grant liability calculation:
- We will agree a sample of grant commitments to the underlying agreements and, where appropriate, payments made and ensure that expenditure has been appropriately classified between restricted and unrestricted funds; and
- We will consider the completeness of grant expenditure through review of the board minutes.

### **GOING CONCERN**

The Trustee is required

to make an assessment

of the Charity's ability

to continue as a going

concern.

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### Trustee's responsibilities with respect to Going Concern

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 Companies Act 2006 and accounting standards.

This assessment should be supported by detailed cash flow forecasts with clear details of the key underlying assumptions and the basis for those assumptions, consideration of available finance and covenant compliance 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 going concern assessment should cover a minimum of 12 months from the date of the trustee's approval of the financial statements. However, consideration should also be given to any major events or circumstances that may fall outside this period.

The assessment should also identify any material uncertainties relating to the charity's ability to continue as a going concern.

### **Audit responsibilities**

Our responsibilities in respect of going concern are:

- a. To obtain sufficient appropriate audit evidence regarding, and conclude on, i) whether a material uncertainty related to going concern exists; and ii) the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements; and
- b. To report in accordance with ISA (UK) 570

We will obtain 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 will evaluate:

- a. 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.
- c. The adequacy and appropriateness of disclosures in the financial statements regarding the going concern assessment and any material uncertainties that may exist.

### **ACCOUNTING ESTIMATES**

Revision to ISA (UK)

540 means that we

need to update our

approach the audit of

accounting estimates -

including confirmation

and documentation of

the charity's estimation

our understanding of

process.

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We will need to obtain an understanding of how you control your estimation process including not only the design and implementation of the process, but also the policies and procedures you put in place to satisfy yourself that each step in the process is properly applied, and that the resulting accounting estimates are reasonable.

For significant accounting estimates, particularly those that are complex or where there is a high degree of estimation uncertainty we will also make enquiries about how you:

- make those responsible for deriving or changing your accounting estimates aware of relevant significant transactions, conditions or events
- review the outcome(s) of previous accounting estimates and respond to the results of that review
- identify and comply with the relevant requirements in the applicable financial reporting framework regarding your accounting estimates and related disclosures including how they are affected by complexity and your judgment
- account for regulatory factors relevant to the entity's accounting estimates, including, when applicable, regulatory frameworks related to prudential supervision
- identify the need for, and apply, specialized skills or knowledge related to accounting estimates, including with respect to the use of a management's expert
- identify and address risks related to accounting estimates through your risk assessment process

- identify relevant methods (including models).
   Assumptions and data and the need for changes in them and from those identified, select those to apply
- address the degree of estimation uncertainty in selecting your final point estimates
- describe in your financial statements matters related to your process for deriving your accounting estimates, and matters related to the degrees of estimation uncertainty underlying your accounting estimates
- ensure there is oversight and governance in place over management's financial reporting process relevant to accounting estimates.

Under ISA (UK) 540 (revised) our audit approach will involve a more granular risk assessment relating to each significant estimate and separate consideration of the methods (or models) applied in calculating the estimate, the nature, source and reliability of data used and the significance, consistency and appropriateness of assumptions made.

We will also request written representations from you regarding the reasonableness of the methods, significant assumptions and the data used in determining the monetary amounts of accounting estimates, including the related disclosures, in accordance with the applicable financial reporting framework.

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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 approach includes the consideration of fraud throughout the audit and includes making enquiries of Management and those charged with governance.

We have not been made aware of any actual alleged or suspected incidences of fraud. We request confirmation from the Committee on fraud and a discussion on the controls and processes in place to ensure timely identification and action.

### Internal audit

We plan to review the audit work of the Charity's internal audit function but we do not anticipate placing reliance on their work.

### **Accounting policies**

We will report to you on significant qualitative aspects of your chosen accounting policies. We will consider the consistency and application of the policies and we will report to you where accounting policies are inconsistent with UK GAAP under the circumstances.

### Significant accounting estimates and judgements

We will report to you on significant accounting estimates and judgements. We will seek to understand and perform audit testing procedures on accounting estimates and judgements including consideration of the outcome of historical judgements and estimates. We will report to you our consideration of whether Management estimates and judgements are within an acceptable range.

### Laws and regulations

We will consider compliance with laws and regulations. The most significant of these for your business includes Charities Act, Charities SORP (FRS 102) Corporate and VAT legislation, Employment Taxes, Health Safety and the Bribery Act 2010. We will make enquiries of Management and review correspondence with the relevant authorities.

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### 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 of fraud. Our audit approach includes the consideration of related party transactions throughout the audit including making enquiries of Management and the Board. We will also consider the adequacy of the procedures you have in place to identify such transactions and assess completeness and accuracy inline with the requirements.

Under Charities SORP (FRS 102), the following information must be provided for each individual trustee who received remuneration or other benefits in the reporting period:

- the legal authority under which the payment was made (for example a provision in the governing document of the charity, an Order of the Court, or the charity regulator for the jurisdiction(s) of registration);
- the name of the remunerated trustee:
- details of why the remuneration or other employment benefits were paid;
- the amount of remuneration paid;
- the amount of any pension contributions paid by the charity for the reporting period; and
- the amount of any other benefit, for example any termination benefits, private health cover or the provision of a vehicle.

The definition of related party also includes 'an officer, agent or member of key management personnel of the charity' and 'de facto' trustees.

All charities must report the total amount of employee benefits received by trustees and its key management personnel for their services to the charity.

The charity is also required to maintain a register of interests and hospitality for the Members of the City of London Corporation and Senior Management Team.

### Related parties (cont)

We note from the prior year audit that historically the Charity has opted to disclose relationships which, technically, do not constitute related party relationships under FRS 102 and the Charity SORP. To simplify the disclosures and to allow more focus on any transactions which <u>are</u> actual related party transactions we would encourage Management of Bridge House Estates to relook at this area again for the March 2021 audit.

### Serious incident reports

We have requested copies of any serious incident reports filed during the year to be available for review during our interim audit. We will discuss with management any material impact (such as provisions) on the financial statements.

We will obtain an update on any further reports made during our final audit.

### Financial statement disclosures

We will report to you on the sufficiency and content of your financial statement disclosures.

### Contingencies

We request input from the Audit and Risk Management Committee on recent claims.

### Any other matters

We will report to you on any other matters relevant to the overseeing of the financial reporting process. Where applicable this includes why we consider a significant accounting practice that is acceptable under the financial reporting framework not to be the most appropriate.

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### Irregularities including fraud

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We are required to include in our auditor's report an explanation of the extent to which the audit is considered capable of detecting irregularities (non compliance with laws and regulations), including fraud.

Our audit is designed to provide reasonable assurance about whether the financial statements as whole a free from material misstatement whether due to fraud or error. We design audit procedures to respond to the risk of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and that irregularities that result from fraud might be inherently more difficult to detect than irregularities that result from error.

Our audit work will focus on laws and regulations that could give rise to a material misstatement in the charity financial statements and may include, where appropriate:

- obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- enquiries of management, those charged with governance and the entity's legal advisers;
- agreement of the financial statement disclosures to underlying supporting documentation;
- review of minutes of board meetings throughout the year and of correspondence with the regulators; and
- · written representations.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.



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IT General Controls (ITGCs) are the policies and procedures that relate to many IT applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. They commonly include controls over data center and network operations; system software acquisition, change and maintenance; access security; and application system acquisition, development, and maintenance.

ITGCs are an important component in systems of internal control, and sometimes have a direct impact on the reliability of other controls.

IT assurance is embedded in our audit strategy to ensure the IT systems provide a suitable platform for the control environment and is undertaken in conjunction with our IT Assurance team. Our testing strategy includes a tailored range of data analytics, system configuration and IT environment testing.

We have engaged IT audit specialists with BDO who commenced work to update our knowledge of the IT systems and controls that related to audit areas through discussions with key team members. At this time, no audit risks arising from the IT environment have been identified from our work to date.

### Performance of data analytics

We are required to perform specific audit procedures that are a response to the risks of fraud and management override of controls including the testing of journal entries throughout the year. Our audit strategy is to obtain a full extract of all nominal ledger activity, reconcile to the trial balance movements and then to perform computer assisted auditing procedures using our BDO Advantage Analytics suite to analyse and assess journal activity.

In addition to testing of manual adjustments, we will also use this download to conduct a review of all transactions posted to the general ledger relating to other cycles. We will establish posting patterns, duplicates, occurrence of key words, in-depth analysis of manual entries, unusual accounting combinations contained within transactions and notable items detected by our artificial intelligence routines. We will also review users active within the general ledger, and their posting trends, to evaluate whether they are only posting to areas relevant to their roles.

### FINANCIAL REPORTING

# NEW ACCOUNTING STANDARDS, AUDITING STANDARDS AND OTHER FINANCIAL REPORTING DEVELOPMENTS

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We would like to draw to your attention the following summary of key changes to standards, regulations and other financing reporting developments, their effective dates and an indication, based on preliminary discussions with management and our sector understanding, of their possible effect on the annual report.

New Accounting Standards, Auditing Standards and Other Financial Reporting Developments		Expected effect			Effective for periods beginning on or after 1 January		
		None	Low	Medium	High	2019	2020
Auditing standard - audit of accounting estimates							
Increased emphasis on understanding management's processes, systems and controls estimation uncertainty and financial statement disclosures	21			•			•
Auditing standard - going concern							
Increased emphasis on evaluation of management's assessment of the entity's ability to continue as a going concern	20			•			•
Auditing standard - audit reports							
New audit report format with updated conclusion on going concern and reference to irregularities, including fraud	-			•			•

# NEW ACCOUNTING STANDARDS, AUDITING STANDARDS AND OTHER FINANCIAL REPORTING DEVELOPMENTS

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### Annual Reports - Streamlined Energy and Carbon Reporting (SECR)

We note that whilst the following information is not a requirement for Bridge House Estates, SECR is still regarded as best practice for large charities.

Management has already indicated that whilst the aim of BHE is to support these disclosures in the future, at present they are unable to provide these solely for BHE due to the nature of reporting within the Corporation. Presenting current figures that cover all activities undertaken by the Trustee would therefore be misleading in the context of BHE.

For periods beginning on or after 1 April 2019, large charitable companies will need to provide new or enhanced disclosures on greenhouse gas emissions and energy consumption.

These disclosure requirements will be considered "statutory other information" for the purposes of the audit.

The final Statutory Instrument introducing the changes (SI 2018/1155) is available on <a href="legislation.gov.uk">legislation.gov.uk</a>. In addition, the Department for Environment, Food and Rural Affairs (DEFRA) has issued <a href="mailto:Environmental Reporting Guidelines">Environmental Reporting Guidelines</a> to assist companies preparing for the new requirements.

Broadly, companies within the scope of these new rules that consume more than 40,000 kWh of energy annually must:

- Disclose the annual quantity of emissions, in tonnes of carbon dioxide equivalents, for which it is directly or indirectly responsible, together with the annual quantity of energy consumed in kilowatt hours (kWh). In all cases, this information need only be in relation to emissions made and energy consumed within the UK.
- Describe the calculation methods used in determining the amounts of emissions and energy consumption disclosed and provide narrative disclosures on any energy efficiency improvement measures undertaken in the year.

- Present at least one ratio that expresses the company's annual emissions in relation to a quantifiable factor associated with the company's activities.
- Comparatives must be provided after the first year of application of these new rules.

Companies consuming less than 40,000 kWh of energy need only state that fact.



### CORONAVIRUS AND FINANCIAL REPORTING IMPACTS

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### **Financial Reporting Implications**

### Impairment testing

Models used in impairment testing should be based on forecasts, projections and assumptions that were reasonable and supportable at the balance sheet date. For 31 March 2021 year ends any impairment calculations will need to consider both the disruption that the coronavirus pandemic has caused to operations in the current and short term as well as any longer term changes to business plans caused by adopting any of the learnings from working in the "new normal" during the pandemic. In the context of the BHE we are aware that some tenants were granted rental deferrals during the pandemic.

### Narrative reporting implications

### Principal risks and uncertainties:

In February 2020, the Financial Reporting Council wrote to large corporate Audit Committee chairs to remind them that entities should consider whether to refer to the possible effects of Coronavirus on their businesses, for example in their reporting of principal risks and uncertainties. The FRC highlighted that, where mitigating actions can be taken, these should also be reported alongside the description of the risk itself. The FRC also note that, given the potential for rapid spread of the virus, required disclosures will likely change over time as more information about the epidemic arises. As a result, entities will need to monitor developments and ensure that they are providing up-to-date and meaningful disclosures when preparing their annual reports.

### Sufficient and appropriate audit evidence:

Personnel may be unable to carry out their roles on site and/or be available to meet physically with our audit teams. We note that this may be a particular issue around areas relying on paper documentation.

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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 ending 31 March 2021.

Details of rotation arrangements for key members of the audit team and others involved in the engagement are set out in the appendices.

Details of other threats and safeguards applied are given in the appendices.

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.



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# TRUSTEE'S RESPONSIBILITIES

### TRUSTEE'S RESPONSIBILITIES

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### The City of London Corporation's Responsibilities and Reporting

The City of London Corporation, in its role as Trustee of Bridge House Estates, is responsible for preparing and filing an Annual Report and financial statements which show a true and fair view, comply with the Charities Act 2011, prepared in accordance with UK GAAP and the Charities SORP.

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 will be provided in our engagement letters. Our engagement letters are being updated for the year ending 31 March 2021 and will be issued in due course.



# TRUSTEE'S RESPONSIBILITIES EXPLAINED

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Trustee responsibilities	What this means	
Maintain adequate accounting records and maintain an appropriate system of internal control for the Charity	Further information regarding these responsibilities will be provided in our engagement letters. Our engagement letters are being updated for the year ending 31 March 2021 and will be issued in due course.	
<ul> <li>Prepare the annual report and the financial statements which give a true and fair view and which are prepared in accordance with the Companies Act</li> </ul>		
<ul> <li>Safeguard the assets of the Charity and take reasonable steps for the prevention and detection of fraud and other irregularities.</li> </ul>		
Having made enquiries of fellow Members of the City of London Corporation and the Charity's auditors, state in the Trustee's report that:	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.	
• So far as they are aware, there is no relevant audit information of which the Charity's auditors are unaware		
<ul> <li>They have taken all reasonable steps they ought to have taken as Members of the City of London Corporation in order to make themselves aware of any relevant audit information and to establish that the Charity's auditors are aware of that information.</li> </ul>		

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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 Charity financial statements. We report our opinion on the financial statements to the members.

We read and consider the 'other information' contained in the Annual Report such as the additional narrative reports. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

For statutory other information such as the Trustee's report, we will form an opinion on whether the information given in the other information is consistent with the financial statements and our knowledge obtained in the audit and whether the reports have been prepared in accordance with applicable legal requirements.

We are additionally required to include in our report:

- Where we conclude there is no material uncertainty in relation to going concern, a statement to that effect
- A conclusion that management's use of the going concern basis of account is appropriate.
- An explanation of the extent to which the audit was capable of detecting irregularities, including fraud

### 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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### Those Charged with Governance

References in this report to Those Charged With Governance are to the Members of the Common Council of the City of London Corporation as a whole. 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 will meet with Management throughout the audit process. We will issue regular updates and drive the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

### **Planning Report**

The Planning Report sets out all planning matters which we want to draw to your attention including audit scope, our assessment of audit risks and materiality.

#### Internal Controls

We will consider internal controls relevant to the preparation of financial statements in order to design our audit procedures and complete our work. This is not for the purpose of expressing an opinion on the effectiveness of internal control.

### **Audit Completion Report**

At the conclusion of the audit, we will issue an Audit Completion Report to communicate to you key audit findings before concluding our audit opinion. We will include any significant deficiencies in internal controls which we identify as a result of performing audit procedures. We will meet with you to discuss the findings and in particular to receive your input on areas of the financial statements involving significant estimates and judgements and critical accounting policies.

Once we have discussed the contents of the Audit Completion Report with you and having resolved all outstanding matters we will issue a final version of the Report.

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These tables indicate the latest rotation periods normally permitted under the independence rules of the FRC's Ethical Standard.

In order to safeguard audit quality we will employ a policy of gradual rotation covering the team members below as well as other senior members of the engagement team to ensure a certain level of continuity from year to year.

### Independence - engagement team rotation

Senior team members	Number of years involved	Rotation to take place before
Fiona Condron	3	2029
Partner		
Peter Lewis Senior Manager	2	N/A
James Hay Manager	3	N/A

### Independence - audit quality control

Role	Number of years involved	Rotation to take place before
Engagement Quality Control Reviewer	1	2031

### MATERIALITY

### MATERIALITY: DEFINITION AND APPLICATION

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### Concept and definition

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):

- Narrative disclosure e.g. accounting policies, going concern
- · Compliance with loan covenants
- Instances when greater precision is required (e.g. Trustee/Members emoluments and related party transactions).

International Standards on Auditing (UK) also allow the auditor to set a lower level of materiality for particular classes of transaction, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

### Calculation and determination

We have determined materiality based on professional judgement in the context of our knowledge of the Charity, including consideration of factors such as industry developments, financial stability and reporting requirements for the financial statements.

We determine materiality in order to:

- · Assist in establishing the scope of our audit engagement and audit tests
- Calculate sample sizes
- Assist in evaluating the effect of known and likely misstatements on the financial statements.

### Reassessment of materiality

We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.

Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope.

### Definition of materiality under FRS 102

Information is material - and therefore has relevance - if its omission or misstatement, individually or collectively, could influence the economic decisions of users taken on the basis of the financial statements.

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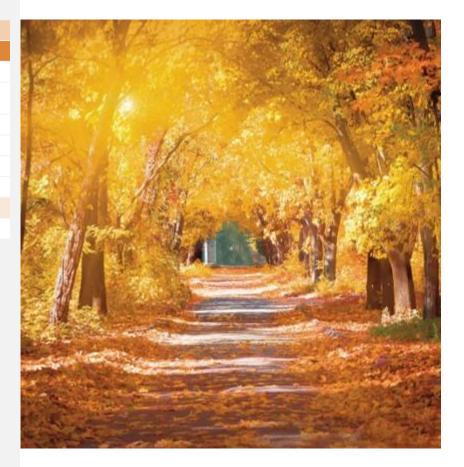
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If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.

You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

### **Unadjusted errors**

We will communicate to you all uncorrected misstatements identified during our audit, other than those which we believe are 'clearly trivial'.

Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.

We will obtain written representations from the Audit and Risk Management Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.

We will request that you correct all uncorrected misstatements. In particular we would strongly recommend correction of errors whose correction would affect compliance with loan covenants, management compensation agreements, other contractual obligations or governmental regulations. Where you choose not to correct all identified misstatements we will request a written representation from you setting out your reasons for not doing so and confirming that in your view the effects of any uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as whole.

### **AUDIT QUALITY**

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Audit Quality

# BDO's audit quality cornerstones underpin the firm's definition of audit quality.

BDO is committed to audit quality. It is a standing item on the agenda of the Leadership Team, who in conjunction with the Audit Stream Executive, monitors the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. We welcome feedback from external bodies and are committed to implementing 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 regulators, the firm undertakes a thorough annual internal Audit Quality Assurance Review and as a member firm of 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 entities.

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

### **MINDSET** KNOWLEDGEABLE, **SKILLED PEOPLE** Scepticism Independent Knowledge of the business · Focus on the • Intelligent application shareholder as user of auditing standards · Robustness and • Intelligent application moral courage. of accounting · Understanding of the control **AUDIT QUALITY CORNERSTONES** How to assess Audit reports Where to focus risk-based approach Management letter How to test - audit strategy Audit Committee Reports What to test - materiality and Top quality financial statement. **DILIGENT PROFESSIONAL HIGH QUALITY JUDGEMENTS AUDIT OUTPUTS**

### FOR MORE INFORMATION:

Fiona Condron

t: 01293 591 102 m: 07583 022 125

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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