



Final Report to the Audit and Risk Management Committee

# BRIDGE HOUSE ESTATES

Audit Completion: year ended 31 March 2021

*Updated at date of audit report approval  
see page 45*



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# WELCOME

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

It summarises the results of performing the planned audit approach for the year ended 31 March 2021, specific audit findings and 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 discussed these matters with you at the Audit Committee meeting on 30 November 2021.

If you would like to discuss any aspects we would be happy to do so.

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

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



Heather Wheelhouse

22 December 2021



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



# OVERVIEW

## Executive summary

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This summary provides an overview of the audit matters that we believe are important to the Committee in reviewing the results of the audit of the financial statements for the Charity for the year ended 31 March 2021.

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



### Overview

Our audit work is substantially complete and we anticipate issuing an unmodified audit opinion on the Charity’s financial statements for the year ended 31 March 2021.

Heather Wheelhouse took on the audit partner responsibility as a result of Fiona Condrón's illness. This combined with other illness within our senior team has led to a delay in the completion of our work. We apologise for any inconvenience this may have caused.

There were no significant changes to the planned audit approach.

No restrictions were placed on our work.



# THE NUMBERS

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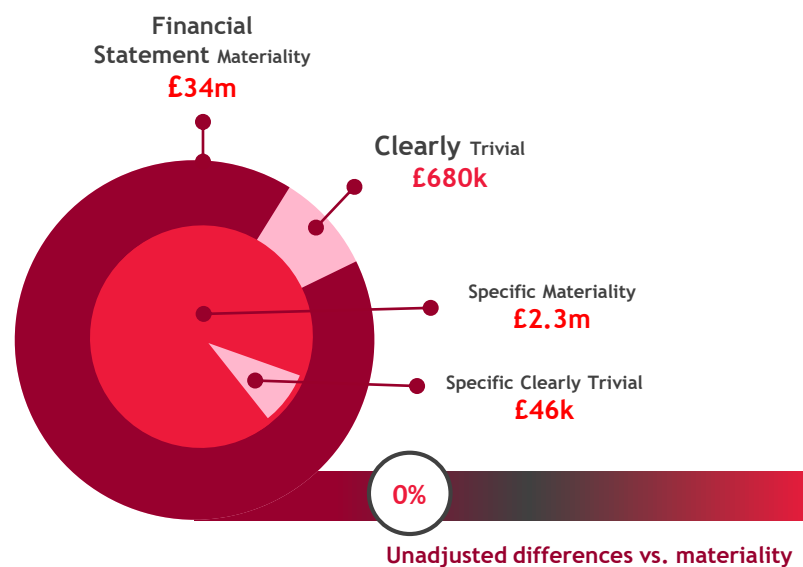
### Final Materiality

Financial Statement Materiality was determined based upon 2% of total assets and Specific Materiality was determined based upon 5% of Total income

There were no changes to final materiality and triviality from that reported in our planning report other than being updated for the actual results for the year ended 31 March 2021.

### Unadjusted audit differences

Unadjusted audit differences - refer to pages 18 & 19.



### Audit scope

Our approach was designed to ensure we obtained the required level of assurance in accordance with International Standards on Auditing (UK). This objective has been achieved.





# OTHER MATTERS

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### Financial reporting

- We have not identified any non-compliance with accounting policies or applicable accounting framework.
- The prior year numbers in the cash flow statement have been amended to better present the nature of rental income arising from investment properties. Apart from this, no significant accounting policy changes have been identified impacting the current year.
- The draft Trustee's Report has been reviewed and the resulting comments have been considered by the management team. Recommendations which have not been taken on board by management are set out on page 19 of this report.



### Other matters that required discussion or confirmation

- Confirmation on fraud, contingent liabilities and subsequent events. Confirmed
- Letter of Representation (see page 31). Received
- Completion of post balance sheet event review up to point of signing the financial statements. Completed

### Independence

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




# OVERVIEW - SIGNIFICANT RISKS

As identified in our audit planning report dated 4 March 2021, we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the directing of the efforts of the engagement team.

Significant Audit Risk	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported in Completion report	Specific Letter of Representation Point	Discussion points for Audit Committee
1. Management Override of Controls	Yes	No	No	No	No	No
2. Fraud in income recognition		No	No	No	Yes	No
3. Investment Property Valuation		Yes	No	No		No



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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  
Control Finding  
Letter of Representation point

## Risk description

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

## Details

- We have worked closely with our IT team to gain an understanding of the financial systems in place and assess controls for potential scope for management override including the use of automated journals and administrator access accounts.
- We have used data analytics tools to inspect journals processed throughout the year and as part of the financial reporting closing process for any unusual transactions.
- We have also conducted a specific review of journals posted by admin users.
- We have assessed and corroborated significant management estimates and judgements in following key areas:
  - Allocation of costs
  - Valuation of investment properties and financial investments - see pages 10 and 13 respectively for further detail
  - Estimation and allocation of the pension scheme liability

## Details (cont)

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

## Results and conclusion

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



# FRAUD IN INCOME RECOGNITION

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

Significant management judgement  
Use of experts  
Unadjusted error  
Adjusted error  
Additional disclosure required  
Control Finding  
Letter of Representation point

## Risk description

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

## Details

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

Our audit procedures included the following:

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

- We have performed cut-off testing for all revenue streams by reviewing transactions around the year-end date.

## Results and conclusion

### Investment Property Income

Testing within this area has been completed as outlined above, with no issues noted in this area.

### Grant Income

Testing of this balance has been completed with no issues noted.

### Tourism Income

Due to COVID 19 restrictions, Tower Bridge as a visitor attraction was closed for most of the year, including at the year end. As a result, tourism income was greatly reduced for the year (£0.5m compared to £6.7m the previous year).

The reduction in income is in line with our expectations given the actual number of days the experience was open during the year.

As this income was not material, nor expected to be, no further testing was carried out.



# INVESTMENT PROPERTY VALUATION

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

Significant management judgement  
Use of experts  
Unadjusted error  
Adjusted error  
Additional disclosure required  
Control Finding  
Letter of Representation point

## Risk description

- Bridge House Estates holds an extensive portfolio of investment properties, which are reported at fair value at the balance sheet date.
- The Corporation has appointed two valuers relevant to Bridge House Estates, who perform a year-end valuation based on data provided by the Surveyors Team at the Corporation.
- Due to the significant value of the investment properties and the high degree of estimation uncertainty, there is a risk over the valuation of these assets where valuations are based on assumptions, or where updated valuations have not been provided at the year-end.

## Details

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

- Assessed the qualifications and competence of the valuers used
- Reviewed the instructions provided to the valuers and reviewed the valuers' skills to determine whether we can rely on management's expert

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

## Results and conclusion

- Our review of the instructions to the valuers and the valuers' skills and expertise did not identify any issues. We agreed that the basis of valuation for each property valued is appropriate.
- Investment properties are valued by reference to highest and best use market value using an income based approach. Investment properties reduced in value by £11.1 million to £843.8 million (1.3%) in 2020/21 driven by the net additions of £11.8m offset by the revaluation loss of £22.9m.



# INVESTMENT PROPERTY VALUATION (CONTINUED)

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

Significant management judgement  
Use of experts  
Unadjusted error  
Adjusted error  
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## Results and conclusion cont.

- We set yield expectations for the portfolio based on year-end market trends and property type (such as office, retail or industrial). These expectations also included consideration of a property's location and security of future income. We then compared the yields to our expectations, discussing properties outside of these further with the valuers.
- We consulted extensively with our Real Estate and Valuation teams, who confirmed that our base expectations and methodology were suitable for the portfolio of Bridge House Estates.
- We note that due to the ongoing impact of covid-19 as at the 31 March 2021, the valuers have included within their valuation reports, a "Material Valuation Uncertainty" clause in line with the guidance set out in the RICS Red Book Global in respect of pubs held within the investment property portfolio.
- BHE holds one pub as an investment property, with a valuation that is not material (£1m). As a result, management do not consider it necessary to raise attention to this in the financial statements. We concur with this view.



# OVERVIEW

## Other audit risks

As identified in our audit planning report dated 4 March 2021, we assessed the following matters as being normal risks of material misstatement in the financial statements but areas of audit focus.

Significant Audit Risk	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported in Completion report	Specific Letter of Representation Point	Discussion points for Audit Committee
4. Financial Investment Valuations	Yes	Yes	No	No	No	No
5. Completeness of grant commitments	No	No	No	No	No	No

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# INVESTMENT VALUATIONS

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

**Significant management judgement**

**Use of experts**

**Unadjusted error**

**Adjusted error**

**Additional disclosure required**

**Control Finding**

**Letter of Representation point**

## Risk description

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

## Details

Our audit procedures will included the following:

- For unquoted infrastructure and private equity investments, we obtained direct confirmation of investment valuations from the General Partner or fund manager and obtained copies, where applicable, of the audited report on internal controls / audited financial statements of the underlying partnerships (and member allocations);
- For pooled investments, obtained direct confirmation of investment valuations from the fund managers and agreed independent valuations, where available, provided by the custodian;
- Obtained independent assurance reports over the controls operated by both the fund managers and custodian for valuations and existence of underlying investments in the funds; and
- Agreed the allocation of amounts for each fund where there is pooling of investments across the City of London.



# INVESTMENT VALUATIONS (CONTINUED)

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

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Control Finding

Letter of Representation point

## Results and conclusion

We have agreed investments within the financial statements 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 valuations to external published sources. We have also performed testing over purchases and sales of Investments.

Our testing of the private equity and other non listed elements of the portfolio identified that all of the investments were correctly valued based on the 31 March 2021 valuations.

Our review of the control environment of the investment managers we sampled noted that all firms received clean audit reports on internal controls. Furthermore, the specific controls related to the valuation and existence of investments did not highlight any anomalies with the testing performed by the associated auditors.

## Results and conclusion

We are satisfied that the overall valuation of financial investments is materially correct.



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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.**

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Control Finding

Letter of Representation point

## Risk description

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.

## Details

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

- Reviewed the systems and procedures in place for recording and monitoring grant commitments;
- Tested the controls in place over the approval of grants and payment of funds.
- Reviewed 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;
- Reviewed the overall grant liability calculation;
- Agreed 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
- Considered the completeness of grant expenditure through review of the board minutes.

## Results and conclusion

- Our testing is complete. No issues have been noted.



# ESTIMATES

## Key Estimates

### Defined Benefit Pension Scheme

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

As at 31 March 2021 the allocation of the total Corporation's defined benefit pension for BHE remained at 3% (2020: 3%).

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

We have;

- reviewed the reasonableness of the assumptions used by Barnett Waddingham (management's expert) for the calculation of the liability against other local government and police pension actuaries' assumptions and other observable data using the benchmark range of acceptable assumptions provided by PwC consulting actuary (auditor's expert);
- checked the accuracy of the calculations relating to the allocation of the share of the net assets across the funds in proportion to the employer's contribution's paid to the scheme

No issues have arisen from our work.

### Fair Value of investment properties

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

See page 10

### 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

We have considered the projections produced by management for the 2 years ending 31 March 2023. We concur with management's view that the BHE financial statements should be produced on a going concern basis.

### Investment Valuations

Inappropriate assumptions may be used to value investments

See page 13



# MATTERS REQUIRING ADDITIONAL CONSIDERATION

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## Fraud

Whilst the Trustee has ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We obtained confirmation from you whether you were aware of any known, suspected or alleged frauds since we last enquired when presenting the audit plan on 23 March 2021.

Further information on how our audit work has addressed the risk of fraud has been included within this year's audit report. We have included a copy of this report within the appendices, on page 34.

## Related parties

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

We did not identify any significant matters in connection with related parties.

## Laws and regulations

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

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



# OVERVIEW: AUDIT DIFFERENCES AND DISCLOSURES

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### Unadjusted audit differences:

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

One small unadjusted audit difference was identified by our audit work, as shown below:

Reallocation of credit balances in debtors: Dr Debtors £153k; Cr Creditors £153k.

### Unadjusted financial reporting matters

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

A number of suggested improvements to the disclosures in the financial statements have been made to management, but not reflected in the latest financial statements. Further details of these is set out on page 19.

### Adjusted audit differences

A number of narrative adjustments were made to the financial statements, following our review, but no numerical adjusted audit differences have arisen from our work.

### Adjusted financial reporting matters

Some disclosure improvements were identified and have been corrected in the draft accounts presented to the Committee.





# UNADJUSTED FINANCIAL REPORTING MATTERS

## Disclosure omissions and improvements

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

We have made various suggestions to enhance the Trustee's report and financial statements. While some of these have been taken into account, we bring your attention to the following matters that have not been addressed:

### Amendments suggested to ensure full compliance with FRS102:

#### Accounting policies - Basis of preparation and related notes

- The basis of preparation note could be further enhanced to better explain the nature of allocation of assets, liabilities and transactions.
- Given how fundamental this is in light of the nature of some of the assets, liabilities and transactions allocated to it (e.g. having no direct stake in an investment property, or financial investment portfolio of the size that it holds), we recommend the disclosure in the financial statements is reviewed and enhanced to explain more specifically, in relation to all material assets and liabilities, and transactions, why they are presented within the BHE accounts, and how they are ring fenced etc. These matters should be quantified in the disclosures, explaining the detailed assumptions that have gone into them.

#### Accounting policies - investment property

- The disclosure around the accounting estimates and other details in relation to the investment property should be reviewed, with a view to providing a more detailed in-depth commentary on these items, commensurate with the significance of the investment property portfolio to the entity. This might include matters such as yield assumptions applied, lease duration assumptions, analysis of the portfolio by nature of property, and sensitivity analysis explaining what the change in the valuation would be dependent upon changing certain inputs (e.g. a 0.5% change in the yield assumption).
- Disclosure has not been given in the notes to the accounts of the future minimum lease payments receivable under operating leases (para 20.30 of FRS102). We understand management intend to address this point in next year's financial statements.

#### Other notes

- Note 18 should give a breakdown of the categories, and amounts, of debtors due in more than one year (at present, it just gives the total amount due after one year).

- Note 12 staff costs - salaries and wages disclosed at £5.0 million should be disclosed at £5.4 million (accordingly total staff costs disclosed at £6.4 million should be disclosed at £6.8 million).
- Note 26 commitments - capital works authorised commitment of £3.9 million should be stated at an amount of £4.4 million.

#### Financial investments - cash investments

- Greater disclosure of movement in cash investments should be given to show the individual movements in the year (similar to that given for Investments held by fund manager).
- Within the Statement of Cash Flows, the "Cash deducted from short term deposits" is shown on a net basis. Whilst some of the gross cash flow movements which take place are expected to qualify for presentation on a net basis (FRS 102 7.10), some gross cash flow movements, which management have determined as being immaterial in total, should be shown on a gross basis.

#### Proposed amendments to help make the accounts easier to understand for a general reader

- Page 2 of the trustees report talks about the Climate Action Strategy, but does not tell a reader where this strategy can be obtained from.
- Page 7 of the trustees report sets out the various committees which had responsibility for directly managing matters related to the charity. It would be helpful for some readers of the accounts to understand where they can find details of the people who serve on these committees.
- Page 38 sets out the accounting policy applied to the recognition of income (note 1d). Expectations have increased in recent years to the level of disclosure given in this policy, and we recommend being more transparent on when income is recognised for each key income stream.
- Page 40 sets out the accounting policy for recognising the pension deficit in the balance sheet. The disclosures could be enhanced by being clear on whether the ratio of contributions paid by BHE compared to total contributions is assessed annually or over a different period of time.
- Lease premiums on investment properties - improved disclosure could be provided to explain the accounting policy and treatment applied, e.g. explaining the trustee considers land to have an indefinite life, and lease premiums related to land are classified as operating leases and treated as deferred income released to revenue over the lease lives which range from 150 - 200 years (for example). And an explanation could be provided to explain that the investment property valuation includes £61.3m in relation to lease premiums that were received in connection with land operating leases (for example).

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# ADDITIONAL MATTERS

## Details for the current year

We have comments on the following additional matters:

	Significant matter	Comment
1	Significant difficulties encountered during the audit.	No exceptions to note.
2	Significant matters that arose during the audit that were discussed or were subject to correspondence with management	No exceptions to note in relation to audit work, though we note the change of Audit Partner due to illness as a significant event during the course of the audit.
3	Serious incident reporting	No serious incidents were reported in the year, and we have not identified any matters requiring reporting to the Charity Commission.
4	Written representations which we seek.	We enclose a copy of our draft representation letter
5	Any fraud or suspected fraud issues.	No exceptions to note.
6	Any suspected non-compliance with laws or regulations	No exceptions to note.
7	Any misstatements in opening balances that exist in the current period financial statements	No exceptions to note.
8	Significant matters in connection with related parties.	No exceptions to note.
9	Any other significant matters arising relevant to the oversight of the financial reporting process	No matters noted.

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# CONTROL ENVIRONMENT: OBSERVATIONS NOTED

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

The table below sets out the deficiencies noted in the course of this year's audit. A number of IT control environment observations have also been separately fed back to central management in detail for their consideration; these apply to all entities across the City of London using these systems.

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

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

Area	Observation & implication	Recommendation	Management response
Payroll Contract	During our sample testing of the City of London payroll, we have noted 6 out of 40 contracts has not been signed by the employees.	Signed contract ensures both parties (employer and employee) are in agreement to the terms and conditions of the employment and will serve to reduce the chance that one party will have grounds for legal action in future.	The recommendation is accepted.  The Corporation are currently reviewing processes within HR and will seek to address this as part of that review.
Related party transactions	During our review of declarations, it was noted that a number of declarations had not been completed accurately nor completely, with the member either leaving sections blank, or omitting to sign the forms.  Not receiving complete declarations may lead to management not identifying related party transactions during the accounts preparation process, and may also influence financial decisions during the year if a related party is not included on a register of interests.	The importance of completed declarations should be reinforced to all members, through training if necessary. These declarations should then be reviewed when returned to ensure all information is complete before they are then subject to our review and consideration.	The recommendation is accepted. Further work will be carried out between the Chamberlains and Town Clerk departments to ensure Members are aware of and comply with the requirements.
Cashier suspense account	Following a review of the trial balance, we note that TB a credit balance of £1.3 million (£0.8 million prior year) exists on the cashier suspense account. We understand this relates to mostly cash received during the year that, at year end, is yet to be allocated to the ledger against creditors, because CoL / CC / BHE could not at year end, identify what creditor it related to.	We understand there are regular (2-3 times / week) documented and reviewed reconciliations around the cashier suspense account, with a view to keeping the balance to a minimum. On sample testing 3 of these, the full supporting information for 1 of them was not available at the time of asking, although we were able to review the Receipt and Payment Cash book for that day, which is used to balance each afternoon.	Management response to be confirmed.

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Area	Issue and impact	Original recommendation	Progress	Management response
Related party transactions	<p>During testing, it was noted that a number of related party declarations have been returned by members with sections missing. When performing our own checks, we have noted that these members do have potential related parties that they have not disclosed.</p> <p>This may lead to management not identifying related party transactions during the accounts preparation process, and may also influence financial decisions during the year if a related party is not included on a register of interest.</p>	We recommend that the importance of the declarations is reinforced to all members, through training if necessary. These declarations should then be reviewed when returned to ensure all information is complete before they are then subject to our review and consideration.	A similar issue has been noted this year, with a number of related party declarations from members not being returned. As such, this deficiency remains applicable this year.	The recommendation is accepted. Further work will be carried out between the Chamberlains and Town Clerk departments to ensure Members are aware of and comply with the requirements.



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**Opinion on financial statements**

We anticipate issuing an unmodified opinion on the financial statements. Please see page 34 for a copy of our audit opinion.

**Comments on the Trustee’s report and statutory other information**

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

**Other information**

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



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# INDEPENDENCE

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

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

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2021.

Details of services, other than audit, provided by us to the Charity during the period and up to the date of this report were provided in our planning report. We understand that the provision of any services would be approved by the Audit Committee in advance in accordance with the Charity’s policy on this matter.

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

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC’s Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Charity.

We also confirm that we have obtained confirmation of independence from any 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 EXPLAINED

## The Board's Responsibilities and Reporting

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

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

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

Trustee responsibilities	What this means
<ul style="list-style-type: none"><li>Maintain adequate accounting records and maintain an appropriate system of internal control for the charity</li><li>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 and the Charities Act 2011</li><li>Safeguard the assets of the charity and take reasonable steps for the prevention and detection of fraud and other irregularities.</li></ul>	Further information regarding these responsibilities is provided in the engagement. We are happy to explain these in more detail to you.
<p>To make available to us, as and when required, all the charity's accounting records and related financial information.</p> <p>To provide us with Board papers on key issues including but not limited to:</p> <ul style="list-style-type: none"><li>Review of business risks</li><li>Going concern assessments</li><li>Impairment reviews</li><li>Any key judgments and estimates.</li></ul>	
<p>Having made enquiries state in the Trustee's report that:</p> <ul style="list-style-type: none"><li>So far as Members (on behalf of the Trustee) are aware, there is no relevant audit information of which the auditors are unaware</li><li>Members have taken all reasonable steps they ought to have taken on behalf of the Trustee in order to make themselves aware of any relevant audit information and to establish that the charity's auditors are aware of that information.</li></ul>	In addition to answering our queries, this requires proactive behaviour in order to make us aware of any relevant information. Relevant information is very broad and includes any information needed in connection with our report.



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# OUR RESPONSIBILITIES

## Responsibilities and reporting

### Our responsibilities and reporting

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

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

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

### What we don't report

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



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# FRAUD RISK

## Respective responsibilities

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

### Trustees' Responsibility

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

### Management’s Responsibility

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

### Auditor’s Responsibility

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

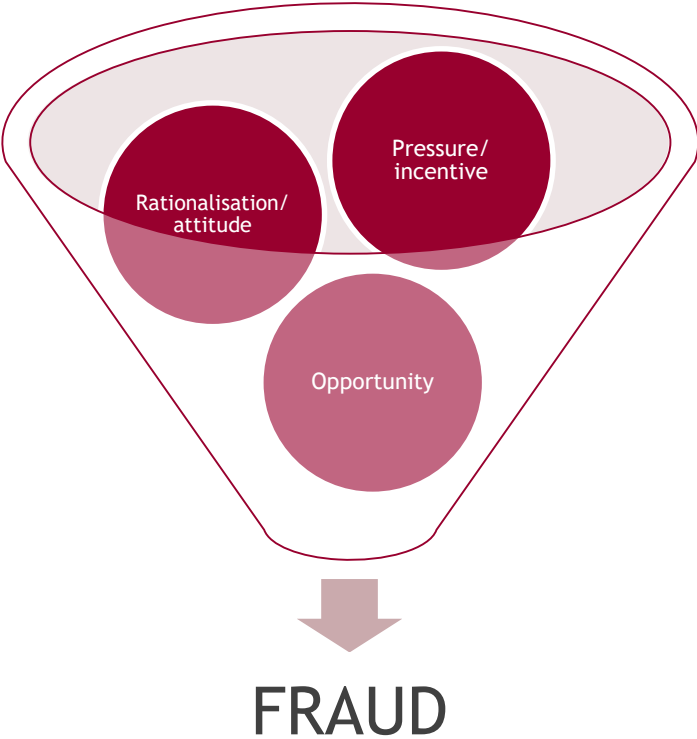
The auditor would also report to those charged with governance subject to “tipping-off” provisions under anti-money laundering legislation.

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

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

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

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





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# COMMUNICATION WITH YOU

## Those Charged with Governance (TCWG)

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

## Communication, meetings and feedback

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

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



# LETTER OF REPRESENTATION

Red text is update to previous draft

TO BE TYPED ON YOUR HEADED NOTEPAPER

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

Dear Madams/Sirs

## Financial Statements of Bridge House Estates for the year ended 31 March 2021

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 2021 are made to the best of our knowledge and belief, and after having made appropriate enquiries of Members and officials of the charity.

We have fulfilled our responsibilities as the Trustee for the preparation and presentation of the financial statements as set out in the terms of the audit engagement letter, and in particular that the financial statements give a true and fair view of the financial position of charity as at 31 March 2021 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.

## Going concern

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

In making our assessment, we considered the financial impact of Covid-19 upon the charity and its impact on our going concern assessment. In making our assessment we have prepared forecasts for the charity which include looking ahead at least 12 months from the date on which the financial statements will be signed and approved. We have considered the cash position of the charity and have considered the financial resources available to the charity, in determining the cash flow resources and requirements of the charity over the period of our going concern assessment. We have considered the investment property portfolio, along with considering the impact of changes in fair values of that portfolio and making reasonable assessments in relation to returns from the investment portfolio and the potential level of bad debts.

We have also considered the fair value of the financial investments of the charity, in respect of both cash or short-term cash investments along with other financial investments, along with the expected returns from those investments. We have considered the liquidity i.e. the ability of the charity to realise these financial investments to generate cash flow as required, and have also considered the impact of changes in market value of the investments as part of a going concern assessment.

Having performed our assessment we were able to conclude that the charity is able to continue to operate as a going concern and that it is appropriate to

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# LETTER OF REPRESENTATION CONT.

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 regulation

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

## Post balance sheet events

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

## Fraud and error

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

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

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

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

## Misstatements

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

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

## Related party transactions

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

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

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

## Carrying value and classification of assets and liabilities

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the financial statements.

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# LETTER OF REPRESENTATION CONT.

## Accounting estimates

### 1. Pension fund assumptions

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

- Rate of inflation (CPI): 2.9%
- Rate of inflation (RPI): 3.2%
- Rate of increase in salaries: 3.9%
- Rate of increase in pensions: 2.9%
- Rate of discounting scheme liabilities: 2.0%

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

### 2. Valuation of investment properties

The Charity's property investment portfolio has been valued by Cushman and Wakefield and Savills in accordance with the RICS Global Standards 2020 as at 31 March 2021, based on tenancy and rental information that was correct at that date.

### 3. Valuation of private equity investments

We confirm that private equity investments are valued based on the latest available information from the individual private investment fund managers as at 31 March 2021 and therefore represent fair value of the funds as at the balance sheet date.

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

## Litigation and claims

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

## Serious incident reports

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

## Charity income

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

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# LETTER OF REPRESENTATION CONT.

## Short term investments - presentation of cash flows

The financial statements show, within investing activities in the cash flow statement, the cash flow movement for short-term investments, on a net basis (shown as "cash deducted from short-term deposits"). Following discussion with the treasury team within the city of London Corporation, as the vast majority of the short-term investments balance relates to City Fund (a fund of the City of London Corporation), and having considered the size and significance of the short-term investments to us click the charity, the proportion of the gross cash flow movements that relate to the charity, for disclosure within the financial statements of the charity on the gross basis, would be immaterial to the financial statements of the charity. Accordingly the cash flow movement has been shown on a net basis within the cash flow statement.

## Confirmation

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

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

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

Yours faithfully

Caroline Al-Beyerty

(Signed on behalf of the Trustee)

Date: .....

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# AUDITOR'S REPORT

## INDEPENDENT AUDITOR'S REPORT TO TRUSTEE OF BRIDGE HOUSE ESTATES

### Opinion on the financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the Charity's affairs as at 31 March 2021 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities Act 2011.

We have audited the financial statements of Bridge House Estates ("the Charity") for the year ended 31 March 2021 which comprise the Statement of Financial Activities, the Balance Sheet, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We remain independent of the Charity in accordance with the ethical requirements relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Conclusions related to going concern

In auditing the financial statements, we have concluded that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Charity's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Trustee with respect to going concern are described in the relevant sections of this report.

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# AUDITOR'S REPORT CONT.

## Other information

The Trustee is responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements, other than the financial statements and our auditor's report thereon. The other information comprises: Overview of the year; Origins of the charity; Trustee's Annual Report; Trustee Responsibilities; Report of the Audit Review Panel; Reference and Administration Details. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Charities Act 2011 requires us to report to you if, in our opinion;

- the information contained in the financial statements is inconsistent in any material respect with the Trustees' Annual Report; or
- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

## Responsibilities of Trustees

As explained more fully in the Trustee responsibilities statement, the Trustee is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the Charity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustees either intend to liquidate the Charity or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

We have been appointed as auditor under section 144 of the Charities Act 2011 and report in accordance with the Act and relevant regulations made or having effect thereunder.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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# AUDITOR'S REPORT CONT.

## Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory framework applicable to the Charity. We focused on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Charity. The laws and regulations we considered in this context were United Kingdom Accounting Standards (Financial Reporting Standard 102), the Statement of Recommended Practice (SORP) Accounting and Reporting by Charities (FRS 102), and the Charities Act 2011.
- We understood how the Charity is complying with those legal and regulatory frameworks, by making enquiries to management, and the Trustee, of known or suspected instances of non-compliance with laws and regulations. We corroborated our enquiries through our review of key committee board minutes.
- We reviewed the financial statement disclosures to assess compliance with the relevant laws and regulations discussed above. We remained alert to any indications of non-compliance throughout the audit.
- We assessed the susceptibility of the Charity's financial statements to material misstatement, including how fraud might occur, by discussing with management and the Trustee to understand where it is considered there was a susceptibility of fraud.
- We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements, and determined that the principal risks were related to the override of controls by management including posting of inappropriate journal entries, management bias in key material accounting estimates, and the timing of income recognition.
- Audit procedures performed in response to the assessment above included: Enquiries of management; reviewing accounting estimates for bias and challenging assumptions made by management in their significant accounting estimates including, but not limited to, valuation of investment properties, valuation of the Charity's financial investments, measurement of the defined benefit pension scheme liability; Sample testing the recognition of income, Sample testing the appropriateness of journal entries.

Our audit procedures were designed to respond to risks 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, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed 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 are to become aware of it.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's ("FRC's") website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

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# AUDITOR'S REPORT CONT.

## Use of our report

This report is made solely to the Charity's trustee, as a body, in accordance with the Charities Act 2011. Our audit work has been undertaken so that we might state to the Charity's trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Charity and the Charity's trustees as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP, statutory auditor

London, UK

Date:

BDO LLP is eligible for appointment as auditor of the charity by virtue of its eligibility for appointment as auditor of a company under section 1212 of the Companies Act 2006.

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# LOOKING FORWARDS

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

The following developments are therefore of general application to all larger charities, and are included because we recognise that trustees often have an interest in the wider sector.



# FINANCIAL REPORTING AND GOVERNANCE

<b>Contents</b>	<b>Financial Reporting Council</b>
Appendices contents	The FRC has requested companies to provide more information about how boards have assessed the entity's going concern position, especially where there is any uncertainty over the financial future. Significant judgements should also be explained. At the same time they identified opportunities for companies to reduce duplication of material in the accounts and annual report. Although this is addressed to commercial entities, the same principles apply to charities. The FRC say that investors ( supporters?) seek information relating to risks, uncertainties and opportunities that contributes to their understanding of a company's business model, longer term strategy, resilience and viability. The annual report should therefore cover context, form (how risks are identified and classified), approach, linkage to wider strategy, response, and scenarios and stress testing.
Trustee's responsibilities	The FRC has also issued guidance for the 2021 year end reporting season. In particular they highlight the climate change disclosures required by premium listed companies that charities may wish to consider. The FRC expects material climate change policies, risks and uncertainties to be included in narrative reporting and appropriately considered and reflected in the financial statements.
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<b>Communication</b>	<b>Alternative Performance Measures</b>
Letter of representation	The FRC has conducted a review of the use by companies of Alternative Performance Measures (APM). These are measures that are usually derived from the financial statements and used to explain performance in a way the board feels is more relevant to the company's needs or situation. The report is not aimed at charities, but it is not uncommon for charities to include performance measures in their annual report which are not simply drawn from the Sorp based accounts. In that situation the FRC say that while companies generally provided good quality APM disclosures, their context needs to be better explained, particularly as profit-based APMs tended to be more favourable than their GAAP results. Companies should clearly define their APMs and explain why they are needed, but not give them greater focus than their GAAP equivalents.
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<b>Financial Reporting and governance</b>	<b>Provisions, Contingent Liabilities and Contingent Assets</b>
Financial Reporting and governance	The FRC has also reviewed companies' treatment of Provisions, Contingent Liabilities and Contingent Assets. The review found scope for improvements in several areas, in particular in: explaining how the amounts of expected outflows have been estimated, identifying the key assumptions applied and describing the associated uncertainties; disclosing the phasing of outflows companies expect to see as they utilise their provisions; and describing the underlying costs for which companies make provisions.
TAX	
TAX	<b>Revised Audit standard on fraud</b>
Charity financial and regulatory	
Charity financial and regulatory	The FRC has issued a revised standard (ISA 240) for the auditor's responsibilities relating to fraud, effective for December 2022 year ends. The revisions clarify the auditor's obligations, and enhance the requirements for the identification and assessment of risk of material misstatement due to fraud and the procedures to respond to those risks.
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# FINANCIAL REPORTING AND GOVERNANCE

<b>Contents</b>	<b>Amendments to FRS 102: COVID -19 related rent concessions</b>
Appendices contents	A further revision to FRS102 affects temporary rent concessions occurring as a direct consequence of the COVID-19 pandemic and within a limited timeframe. This now applies to rent concessions that reduce lease payments originally due on or before 30 June 2022. The change requires entities to recognise such changes on a systematic basis over the periods that the change in lease payments is intended to compensate.
Trustee's responsibilities	<b>Corporate Board Diversity</b>
Our responsibilities	The FRC has published research (Board Diversity and Effectiveness in FT350 Companies) showing that diverse boards are beneficial in terms of boardroom culture and performance. To maximise these benefits boards should recognise that change takes time and that diversity without active inclusion is unlikely to encourage new talent to the board. The main findings of the research concluded that:
Fraud	<ul style="list-style-type: none"> <li>• It is the responsibility of the Chair of a board to drive inclusion.</li> <li>• Organisations must focus on collecting more data on the types of diversity, board dynamics and social inclusion</li> <li>• the Nomination Committee, or equivalent, should itself be diverse and access talent from wide and diverse pools.</li> </ul>
<b>Communication</b>	<b>Workforce engagement</b>
Letter of representation	The UK Corporate Governance Code asks companies to report on their engagement with the workforce. The Financial Reporting Council (FRC) has published research on recent annual reports concluding that an effective feedback loop between boards and the workforce is needed to achieve meaningful dialogue, those who act as an interface between the board and the workforce, should receive appropriate support, and energies should be focussed principally on the substance of the engagement, not the process.
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# TAX

<b>Contents</b>	<b>HMRC Concessions for Retail Gift Aid</b>
Appendices contents	As a result of disruption caused by the pandemic, charities have not been able to meet all the HMRC's requirements for the Retail Gift Aid scheme. As a result HMRC has provided limited concessions relating to end of year letters, returned mail, oral declarations, staff and volunteer training, and the scheduling of internal audit visits.
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<b>Communication</b>	<b>Budget 2021</b>
Letter of representation	The recent budget had little to offer charities. However trustees may wish to note the introduction of a new temporary business rates relief scheme for 2022-23, which may be of use to some charities. In addition there is an extension of the Museums and Galleries Exhibition Tax Relief (MGETR) for a further two years until 31 March 2024.
Letter of representation Cont.	
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Auditor's Report	<b>Tax increases</b>
Auditor's Report Cont.	From 1 April 2022, there will be a temporary 1.25% increase in class 1 (employee) and class 4 (self-employed) national insurance contributions (NIC) paid by workers, as well as a 1.25% increase in class 1 secondary NIC paid by employers (to 2.5% in total). The 1.25% increase will also apply to class 1A and class 1B NIC paid by employers. The projected £12bn annual income is to be ringfenced to pay for health and social care. From the same date, dividend tax rates will increase by 1.25%, taking rates to: 8.75% for basic rate taxpayers, 33.75% for higher rate taxpayers and 39.35% for additional rate taxpayers
Auditor's Report Cont.	Charities will need to budget for the impact of these changes on their personnel costs, and consider any possible impact on donor income and tax to cover.
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Trustee's responsibilities	In a number of recent cases HMRC has argued that receipt of outside scope grants to support a business causes the input tax on all the business costs to be apportionable pro rata to the taxable income and outside scope income received. Charities often receive grants and donations that they use to support charitable trading activities. This currently seems open to attack by HMRC, although with no success reported to date.
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Communication	VAT liability of coronavirus (COVID-19) testing services
Letter of representation	An HMRC brief explains the rules for the VAT treatment of coronavirus (COVID-19) testing services. This is relevant to any organisation that provides or receives such services. Where the service of Covid -19 testing is treated as medical care the service would normally be exempt, and the same applies to the supply of test kits. However, this position is dependant on a number of detailed factors, and charities should consider their own situation carefully to ensure the Vat treatment applied is correct.
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# CHARITY FINANCIAL AND REGULATORY

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## Sorp example accounts

The Sorp example accounts available on the Sorp microsite, now include two examples dealing with the implications of the pandemic. Issues addressed include: closure of services, accounting for furlough, deteriorating trade, contingent grant funding support, donations of cancelled tickets, a public appeal, changes in expenditure to reflect working from home, and revised annual report wording.

## Whistleblowing

The Charity Commission has issued its latest report on whistleblowing reports received in its role as a prescribed person. Over 2021 disclosures increased by 75%, mainly from employees but increasingly from trustees. The main issues raised related to governance, safeguarding and financial management

## Charities Bill 2021

The Charities Bill 2021 includes several changes that will affect any charity. Many of the proposals are technical, and relate to the Charity Commission's functions, or will be of specific interest to a limited class of charities. However the more wide ranging recommendations for charities, include:

- allowing trustees to be paid for goods, as well as services, in certain situations
- simplifying the process on ex gratia payments
- giving charities more flexibility to obtain tailored advice when they sell land, and removing unnecessary administrative burdens
- increased flexibility to use permanent endowment, with checks in place to ensure its protection in the long term
- removing legal barriers to charities merging, when a merger is in their best interests
- giving trustees advance assurance that litigation costs in the Charity Tribunal can be paid from the charity's funds

A more detailed analysis can be found here: <https://www.bdo.co.uk/en-gb/insights/industries/not-for-profit/charities-bill-briefing-proposed-changes>

## Impact of Covid-19 on charities

The Charity Commission reported in October on the impact of Covid-19 on charities. Amongst their findings they note that there is a mixed view on charities' future viability. A significant minority (34%) expect to generate less revenue from fundraising and donations in 2022; over half (62%) anticipate a threat to their charity's financial viability in the next 12 months; however, a majority expect their charity to be in the same or better position overall.

## Public Trust in Charities

The Charity Commission has released independent research, also referenced by the OSCR, showing that trust in charities is gradually recovering, to a 6-year high. The research shows that charities are among the most trusted groups in society, third only after doctors and the police. The findings also indicate that a decade-long decline in people's perception of charities' importance in society has partially reversed - 60% of those asked say charities play an important or very important role, compared to 55% last year.

This modest uptick may be linked in part to the COVID-19 pandemic, and charities' visible role in responding to the national crisis. Meanwhile, very high-profile scandals in household name charities appear to be retreating in the collective memory.

The findings confirm that the key drivers of trust in charities have not changed during the pandemic, and that people expect charities to:

show that they make a positive difference  
spend a high proportion of funds on the end cause, and  
live their values, showing charity not just in what they do, but how they behave along the way



# CHARITY FINANCIAL AND REGULATORY

<b>Contents</b>	<b>Charity Commission blog</b>
Appendices contents	In a blog from the Charity Commission the following typical issues were identified for charities coming out of the pandemic: anticipated challenges with long-term funding, how hard it has been to plan long term, due to uncertainty over restrictions, difficulties with recruitment, the time it will take to be able to return to ways of operating from before the pandemic, and challenges in returning to pre-pandemic levels of engagement when working with vulnerable people. Charities often have more in common with other organisations than they expect, and may benefit from sharing how they have responded to these issues
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<b>Communication</b>	<b>CCNI and COVID 19 reporting</b>
Letter of representation	The Charity Commission of Northern Ireland has issued a checklist covering COVID-19 disclosures. A key message in the Trustees Annual Report will be the impact of the coronavirus on the charity and how the charity will need to adopt and change its plans going forward. Charities registered in Northern Ireland should consult this guidance in respect of the their annual report and accounts.
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Auditor's Report	<b>Remuneration practices</b>
Auditor's Report Cont.	There continues to be interest in the levels of pay for higher paid staff in charities, both from the media and the regulators. The FRC has commented on reporting remuneration practices in the FTSE 350, and some of its comments could equally apply to charities. The FRC comment on the trend to disclose more information on remuneration, that most companies link rewards to long term performance, but that there is still a lack of detail on the principles relating to remuneration setting. Rob Wilson, sometime minister for civil society, has called for salary disclosure to be compulsory on charities' websites and annual reports if they have an annual income of over £500,000.
Auditor's Report Cont.	
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Financial Reporting and governance	<b>Government funding</b>
Financial Reporting and governance	The Public Accounts committee has published its report into how DCMS distributed coronavirus support funds to charities. It has noted that there was insufficient attention given to charities' impact and benefit to taxpayers, and an implication that subjective decisions were taken. One can expect that any future funding will be allocated more transparently, based on measurable outcomes.
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Charity financial and regulatory	<b>Fundraising</b>
<b>Charity financial and regulatory</b>	The Fundraising Regulator reports that online fundraising is now the most complained about technique, which probably reflects changes in activity during the pandemic. However, complaint levels are generally low, at less than one in 1.9m contacts. Charity bags and mail were the next biggest sources of complaint. Trustees are reminded that information relating to fundraising standards is required in the annual report of all charities subject to audit.
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Matter in preliminary report	Summary of Audit Committee Actions	Follow up work performed (including misstatements Identified)	Conclusion
The completion of our testing of input data into the investment property valuations	Not required	Our testing of the input data is now complete.	We have no further issues to bring to your attention.
The review of the financial statements updated for BDO's feedback	Not required	Final review of the accounts and disclosures has been completed.	We have no further issues to bring to your attention.
A number of related party declarations are currently outstanding from members	New control recommendation on page 21 of this report to be considered.	Not all members have returned declarations. In addition, we have noted some returns not being fully accurate. As a result, we have raised a new control recommendation on page 21.	We have undertaken alternative testing to get comfort over the disclosures made in the financial statements. We have no further issues to bring to your attention.
Subsequent events review to the date of the signing of the accounts	Not required	Subsequent events were updated to the date of approval of the financial statements	We have no further issues to bring to your attention.
Receipt of signed letter of representation	Not required	Signed representation letter was obtained. It should be noted that a late change was made to this in respect of short term investments - this is set out on page 33 of this report in red ink.	We have no further issues to bring to your attention.



FOR MORE INFORMATION:

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

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