

# Bridge House Estates

## Audit Planning Report to the Audit and Risk Committee

### Year ending 31 March 2022

Presented to the Audit and Risk Committee on 24 May 2022

**Strictly Private and Confidential**

The Audit and Risk Committee  
City of London  
PO Box 270  
Guildhall  
London  
EC2P 2EJ

Dear Members of the Audit and Risk Committee

We have set out in this audit planning report various matters relating to our audit of the financial statements of Bridge House Estates (BHE) for the year ending 31 March 2022 following our initial discussions with Karen Atkinson, Nathan Omane and Helen Martins on 21 March 2022.

I have pleasure in submitting our audit planning report for the year ending 31 March 2022. The primary purpose of this report is to communicate to the Audit and Risk Committee and the Trustee, to report in turn to the Bridge House Estates Board relevant matters relating to our forthcoming audit.

I look forward to discussing our report with you, as well as any further matters you may wish to raise with us, and I shall be attending the Audit and Risk Committee meeting with James Hay.

We look forward to working with you on the completion of the audit of the annual report and financial statements of Bridge House Estates

Yours sincerely

Tina Allison  
Partner

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# 1. Executive summary

## Our report to you

We are pleased to present our Audit Planning Report to the Audit and Risk Committee in its advisory role to the BHE Board, and welcome the opportunity to discuss this with you at your meeting on 24 May 2022.

International Standards on Auditing (UK) require that we communicate formally with “those charged with the governance” of BHE regarding relevant matters relating to our forthcoming audits. The objectives of this are to:

- ensure that there is a mutual understanding of the scope of the audit and the respective responsibilities of ourselves as auditor and those charged with governance;
- share information to assist both ourselves as auditor and those charged with governance to fulfil their respective responsibilities; and
- provide to those charged with governance constructive observations arising from the audit process.

The matters in this report include

• an overview of the planned scope and timing of the audit
• the significant risks of material misstatement, whether due to fraud or error, and our plans to address these
• our approach to internal control relevant to the audit
• the application of the concept of materiality in the context of an audit
• any other significant matters that, in our professional judgment, are relevant to the oversight of the financial reporting process

We have discussed the above matters in Section 2 to Section 5 of this report.

## Responsibilities and ethical standards

We have prepared this report taking account of the responsibilities of the Trustee and ourselves set out in [Appendix 1](#) of this report.

## Audit materiality

Our overall audit materiality for the financial statements as a whole will take account of the level of funds held by BHE and will be set at approximately 2% of Investments, this measure will be applied to the audit of investments and pension liability.

In addition, we will determine whether a materiality amount lower than this materiality level is applicable for any particular classes of transactions, account balances or disclosures. At planning we have determined a lower materiality of 1.5% of expenditure will be applied to auditing transactions in the statement of financial activities and other balance sheet items.

Further details of materiality levels are set out in [Appendix 3](#).

## Trustee’s Report and Financial Statements

We have set out in [Appendix 4](#) a number of considerations to be taken by the Trustee and management when preparing the financial statements for the year ending 31 March 2022.

## Audit report

Please note that, while the financial statements are in draft form, the draft audit report should contain the words “This report has not yet been signed” in the space for our signature. We will agree with you when this wording can be removed.

## 2. Significant audit risks

Our audit work will take account of our assessment of the risks of misstatement of transactions and balances in the financial statements. We identify a range of risks from our understanding of BHE, its people and environment, and the system of internal control and plan our audit work so as to reduce the risk of material misstatement to an acceptable level. We also identify which of those risks require special audit attention (“significant risks” or “specific risks”). Significant risk is considered in the context of how, and the degree to which, inherent risk factors affect the likelihood and magnitude of a misstatement occurring. Such factors may be qualitative or quantitative, and include complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or other fraud risk factors.

To assist in the understanding of these risks we have identified one or more of six potential reasons, as defined by ISA 315, for the increased audit risk. In addition, we also consider other factors which may give rise to significant risks, such as a history of previous issues or the matter involves significant judgement.

1. Fraud risk
2. Recent significant economic, accounting or other developments
3. Complexity of the transactions
4. Financial information involves a wide range of measurement uncertainty
5. Involves significant transactions with related parties
6. Significant transactions that are unusual / outside the normal course of business for the entity

Significant risk identified	Risks	Key related judgements	Crowe response
Revenue recognition – Investment property income	3	<p>Investment property income is the largest revenue stream for Bridge House Estates, totalling £27.0m in 2020/21. Whilst comprising mostly of routinely invoiced income, the Covid-19 pandemic has led to the introduction of rent-free periods and rent holidays requiring more complex accounting. In addition, the quarterly invoicing pattern usually followed leads to the need to partially defer invoiced income at year-end.</p> <p>This revenue stream also includes revenue released from deferred lease premiums attached to long term leases where BHE is the lessor. We understand that a new long lease has been signed for Millennium Bridge House in this financial year, with a £5m premium attached.</p> <p>Given the relative size of this revenue stream and complexities arising over cut-off and lease accounting, we consider there to be a significant risk over this revenue stream.</p>	<p>As part of our audit work we will include the following tests:</p> <ul style="list-style-type: none"> <li>• We will review the income recognition policy, ensuring it is in line with SORP requirements and is being appropriately applied and disclosed;</li> <li>• Document and review the systems and controls in place over investment property income. This is a key area of control to ensure that you are recognising all income that is due and closely manage and monitor the debtor ledger;</li> <li>• We will carry out analytical procedures and substantive testing on all income streams including reconciliations to the relevant systems and other records;</li> </ul>

Significant risk identified	Risks	Key related judgements	Crowe response
			<ul style="list-style-type: none"> <li>• Review a sample of transactions and bank receipts either side of the year end date to ensure these have been recognised in the appropriate period;</li> <li>• Obtain a breakdown of investment property income for the year and reconcile to the trial balance.</li> <li>• Verify a sample of property receipts to supporting tenancy agreements and invoices;</li> <li>• Review the year-end deferred income balances, testing a sample to support and re-calculating the split of any invoices as appropriate; and</li> <li>• Review the long term lease premium accounting treatments to ensure they have been accounted for in accordance with the relevant accounting standards, and that they are being released correctly.</li> </ul>
Revenue recognition – Financial Investment income	4	<p>Investment income is derived from the various investment holdings of BHE, including listed investments, private equity and hedge fund holdings and bank deposits. BHE co-invests with the City of London Pension Fund and City's Cash into a number of holdings, with a portion of the value and investment income then apportioned to the charity from this central pool.</p> <p>The primary risk for this revenue stream is over the accuracy of the central split of the income allocated to BHE, as well as the completeness of the investment income reported for the year, where it might be necessary to accrue for income not yet received.</p>	<p>Our audit testing in this area will include:</p> <ul style="list-style-type: none"> <li>• Agreeing the income reported in the investment managers' reports and bank interest to the nominal ledger and reviewing cut off to check that the income has been appropriately recognised;</li> <li>• Reviewing the relevant AAF01/06 controls reports for the investment managers and custodians to gain assurance that income is being reported accurately to the Corporation; and</li> <li>• Review the allocation of investment income to BHE, ensuring it is in line with the proportion of the investment holdings allocated to the charity.</li> </ul>

Significant risk identified	Risks	Key related judgements	Crowe response
Revenue recognition – Tourism income	4	<p>BHE operates the tourist attraction at Tower Bridge, which generates income for the charity through both ticket sales and through the gift shop. This revenue stream was impacted severely by the Covid-19 pandemic in 2020/21, with the site forced to close for much of the year.</p> <p>Whilst we understand that this revenue stream has not yet fully recovered due to ongoing government restrictions in the year, this revenue stream will once again be material for the charity in 2021/22, with the primary risk being over the completeness of the revenue recognised. This revenue stream has also traditionally involved a greater degree of cash handling than others due to its nature, increasing the risk of fraud or diversion of funds.</p>	<p>As part of our testing, we will:</p> <ul style="list-style-type: none"> <li>• Gain an understanding of the systems and controls in place around tourism income, including how the risk of fraud through diversion of cash is mitigated;</li> <li>• Trace a sample of ticket sales per the EPOS system through to its ultimate receipt in bank;</li> <li>• Review a sample of reconciliations that are completed for sales, tracing total cash and card income per the EPOS system to receipt in bank, and</li> <li>• Perform cut-off testing around the year end to ensure income has been recognised in the correct years.</li> </ul>
Revenue recognition – non-significant risks		Our consideration and approach to income streams that are not considered to be significant risks is set out in <a href="#">Section 3</a> .	
Grants to voluntary organisations		This is the largest single expenditure item for BHE. Our audit work will focus on ensuring that grant awards and payments have been appropriately approved and that liabilities have been captured in the appropriate period.	<p>We will use as our start point a schedule of grants, prepared by management, which reconciles the opening liability for grants to the closing creditor and the expense in the financial statements taking into account payments and awards in the year.</p> <p>We will test the completeness and accuracy of this schedule by confirming, on a sample basis, that awards approved have been included in the schedule and allocated to the appropriate period. We will ask to be provided with copies of minutes and decision letters for this purpose.</p>



Significant risk identified	Risks	Key related judgements	Crowe response
Estimates and judgements – Financial investment valuation	1,3,4	<p>The financial investments portfolio represented £834m as at 31 March 2021. There is a risk with regard to the existence / ownership of the assets in the investment portfolio and their correct valuation.</p> <p>As the investments are held and managed by third party service providers it is important that:</p> <ul style="list-style-type: none"> <li>the Charity has sufficient controls in place to mitigate the risks associated with outsourcing services; and</li> <li>the controls in operation by the third party service provider over the ownership and management of the Charity’s assets and their associated income streams are sufficiently robust.</li> </ul>	<p>Our focus will be on your own internal procedures to manage and control the investments as well as the controls being operated by both the investment managers and the custodian, including consideration of the relevant AAF01/06 controls reports. We will obtain valuations directly from the investment managers.</p> <p>We will review the reconciliations between the reports from the investment managers and the custodian’s report and the records independently maintained to confirm ownership and to identify potential anomalies or significant movements in the year (particularly in relation to purchases and disposals).</p> <p>We will also review the cash flows to, from and between the investment managers and the tracking of these movements.</p>
Estimates and judgements – Investment Property Valuation	1,3,4	<p>Investment properties held by the Charity totalled £843.8m as at 31 March 2021. It is our understanding that these properties are valued independently by two firms registered as valuers with the Royal Institution of Chartered Surveyors (“RICS”) as at 31 March each year.</p> <p>Investment properties are carried in the financial statements at fair value. FRS102 requires revaluation to be made with sufficient regularity to ensure that the carrying value does not differ materially from that which would be determined using fair value at the reporting date.</p>	<p>We will review the investment property valuation report with consideration to judgements and estimates used by the valuer with reference to market data. We will also test the inputs provided to the valuer by the Charity and the ownership status via land registry</p> <p>We will also review the valuation adjustment and ensure any gains/losses on revaluation have been appropriately recognised in the Statement of Comprehensive Income.</p>
Estimates and judgements – pension liability	1,3,4	<p>The assumptions surrounding the FRS102 pension liability calculations performed by the actuaries can make a significant difference to the result disclosed in the financial statements.</p> <p>The City Corporation operates a funded defined benefit pension scheme, The City of London Pension Fund, for its staff employed on activities</p>	<p>Our audit testing will include the following:</p> <ul style="list-style-type: none"> <li>Benchmarking the assumptions used by the actuary in calculating the FRS102 pension liability;</li> </ul>



Significant risk identified	Risks	Key related judgements	Crowe response
		<p>relating predominantly to the three principal funds for which it is responsible (City Fund, City's Cash and Bridge House Estates).</p> <p>At present, BHE includes the pension scheme liability in the accounts as reported under IAS19, with a conversion not made to FRS102 on the grounds of the difference not being material. There is a risk that this difference may in fact be material or otherwise significant.</p> <p>Estimates and judgements that are not considered to be significant risks are set out in <a href="#">Section 3</a>.</p>	<ul style="list-style-type: none"> <li>• Assess the difference in calculating the liability between IAS19 and FRS102 to determine whether it is material or otherwise significant;</li> <li>• Verifying scheme assets to third party documentation and testing their valuation;</li> <li>• Verifying (on a sample basis) the input data provided to the actuary to HR and payroll records; and</li> <li>• Verifying the apportionment of the pension liability across the 3 City of London funds.</li> </ul>
<p>Management override of controls, including through journal adjustments</p>	<p><b>1</b></p>	<p>Although the level of risk of management override of controls varies from entity to entity, Auditing Standards recognise that this risk is nevertheless present in all entities because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Due to the unpredictable way in which such override could occur, including to mask fraud, the override of controls is a significant risk for all audits.</p> <p>The Trustee must satisfy themselves that the control environment present within the entity together with the trustee controls and controls over the posting of journals are adequate to deter any inappropriate override of controls from management.</p>	<p>Our audit work will include the following:</p> <ul style="list-style-type: none"> <li>• Understanding and evaluating the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements and testing the appropriateness of a sample of such entries and adjustments;</li> <li>• Reviewing accounting estimates for biases that could result in material misstatement due to fraud; and</li> <li>• Obtaining an understanding of the business rationale of significant transactions that we become aware of that are outside the normal course of business or that otherwise appear to be unusual given our understanding of BHE and its environment.</li> </ul>

### 3. Other areas of audit focus and disclosure

We have also noted the following matters from our initial discussions as not having significant or specific audit risk but being potentially relevant to the financial statements.

#### Income

International Standards on Auditing (ISA 240) presumes there is always a significant risk of material misstatement due to fraud in revenue recognition, unless this is rebutted.

Whilst we deem Investment Property Income, Investment Income and Tourism Income to be significant (see [Section 2](#)) we do not consider other income streams to be significant due to their expected immaterial nature. If this does not transpire to be the case, we will perform a risk assessment of this revenue stream and report this to you within our Findings Report.

Across all income streams the key risks remain the same:

- Completeness (has all income due been appropriately recognised in the period?).
- Benefit (has income been recognised in the appropriate period?).
- Fund allocation (have donor restrictions on the use of the income been appropriately captured in the financial statements?).
- Accuracy (where income is owed at year end, is it likely to be received or should it be provided against?).

#### Judgements and estimates

ISA (UK) 540 Auditing Accounting Estimates and Related Disclosures requires additional audit focus over management's estimates, including undertaking separate risk assessments for both inherent and control risks. In respect of the former, consideration is required of the estimation uncertainty, the subjectivity and the complexity of the estimate. We are also required to consider whether the disclosures made in the financial statements are reasonable.

We will pay careful attention to areas of the financial statements affected by management judgement and estimation. We have initially identified the following for specific review.

- Assessment of impairment of assets.
- Assessment of the remaining useful life of assets.

We will identify all areas where an accounting estimate or judgment is used and we will obtain an update from management on the basis of the estimates.

We will consider whether these have high or low estimation uncertainty. Where there is high estimation uncertainty (primarily, if there is a range of reasonable outcomes which exceeds our materiality) this indicates a "significant risk". We will compare the estimates and judgments made in the prior period with actual outcomes.

We will also review management's assessment of this and specifically consider whether the estimates and judgments arrived at by management indicate any "management bias". This means that management will also need to consider whether there is any bias in information received from other departments.

It is important that you are satisfied that the assumptions used by management are appropriate and we will ask you to provide a written representation to us to confirm this.

#### Payroll

Payroll is one of the largest single expenditure items for BHE totalling £6.4m in 2021.

As part of our audit we will review the controls in place over monthly processing including the reconciliation of the payroll to the nominal ledger.

We will also perform analytical procedures that consider gross pay, deductions and staff numbers year on year to ensure that all trends and relationships appear reasonable and that the totals agree with the ledger, and we will verify a sample of staff between the payroll and other HR records and agree their costs to supporting documentation on a sample basis.

## Funds

BHE operates a number of different funds subject to various restrictions and designations. You must ensure that all movements on funds are correctly identified and accounted for. This requires careful consideration of the various terms and conditions which may be applied to income.

We will:

- Trace restricted contributions and grants found in our income testing to the relevant fund account.
- Review a sample of expenses allocated to restricted funds to ensure that the expenditure was spent in accordance with the objects of the fund.
- Review the analysis of net assets to ensure that it has been correctly allocated across the funds.

Review the processes in place to ensure that restricted transactions are completely and accurately captured and reported within the organisation and review year end balances to ensure that they appropriately reflect the restrictions that should be in force.

## Going concern and our audit reporting

In preparing the financial statements to comply with Financial Reporting Standard 102 the Trustee is required to make an assessment of the charity's ability to continue as a going concern. In assessing whether the going concern assumption is appropriate, the Trustee is required to consider all available information about the future of the charity in the period of at least, but not limited to, twelve months from the date when the financial statements are approved and authorised for issue.

In forming conclusions on going concern the Trustee will need to evaluate which of three potential outcomes is appropriate to the specific circumstances of the charity. The trustee may conclude:

- there are no material uncertainties that lead to significant doubt upon the entity's ability to continue as a going concern;
- there are material uncertainties that lead to significant doubt upon the entity's ability to continue as a going concern; or

- the use of the going concern basis is not appropriate.

A material uncertainty is defined as *'An uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern, where the magnitude of its potential impact and likelihood of occurrence is such that appropriate disclosure of the nature and implications of the uncertainty is necessary for the fair presentation of the financial statements.'*

Under ISA (UK) 570, where a material uncertainty related to going concern exists, we are also required to determine whether the financial statements:

- appropriately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions, and
- disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

We have discussed with management and explained that as part of our work on going concern for the year ending 31 March 2022 we will do the following:

- Review the period used by Trustee to assess the ability of BHE to continue as a going concern.
- Examine detailed budgets and forecasts prepared by management covering the period of the going concern assessment which adequately take account of the potential impacts of Covid-19, inflation and other economic factors on BHE to ensure these appropriately support the Trustee's conclusion.
- Review the accuracy of past budgets and forecasts by comparing the budget for the current year against actual results for the year.
- Review any other documentation which the Trustee use in assessing the going concern status and make any necessary enquiries of management.

We will agree with management the preparation of a detailed paper setting out their assessment of BHE's ability to continue as a going concern for consideration alongside the draft financial statements by the BHE Board.

## 4. Fraud and irregularities and our audit reporting

### Obtaining an understanding of internal control relevant to the audit

Our audit tests will combine a review of BHE's controls with tests of detail (substantive procedures) and analytical review procedures.

ISAs require us to document our understanding of your business and assess the risk of material misstatement. For controls considered to be 'relevant to the audit' we are required to evaluate the design of the controls and determine whether they have been implemented. The controls that are determined to be relevant to the audit are those:

- relating to identified risks (including the risk of fraud in revenue recognition) or other audit issues;
- where we are unable to obtain sufficient audit assurance through substantive tests alone; and/or
- where we consider it more efficient to obtain assurance through controls testing.

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of detailed audit testing required will be considered.

Our audit work is not designed to provide assurance as to the overall effectiveness of the controls operating within BHE, although we will report to management, Audit and Risk Committee and BHE Board any recommendations on controls that we may have identified during the course of our work.

The primary responsibility for the prevention and detection of fraud rests with management and "those charged with governance" (i.e. the Trustee and BHE Board), including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by irregularities including fraud, or error.

### Corporate governance and fraud

In line with ISA (UK) 700 our audit report will include an additional comment to explain to what extent the audit was considered capable of detecting irregularities, including fraud.

As auditors, we are required to document an understanding of how "those charged with governance" exercise oversight of management's processes for identifying and responding to the risks of fraud in BHE and the internal controls that management has established to mitigate these risks.

We note that BHE has a structured process for fraud reporting, through its risk management, BHE Board and the Audit and Risk Committee. We have not been made aware of any significant matters which would affect our assessment of audit risk at this stage, although this will need to be reviewed by us, and confirmed by the Trustee, up to the date of approval of the financial statements.

We will make enquiries of management and others within BHE as appropriate, regarding their knowledge of any actual and suspected or alleged fraud affecting BHE. In addition, we will be required to ascertain the following from the BHE Board / Trustee.

- Whether they have knowledge of any fraud or suspected fraud.
- The role that the Audit and Risk Committee / BHE Board / Trustee exercises in oversight of:
  - i) BHE's assessment of the risks of fraud, and the design and implementation of internal controls to prevent and detect fraud; and
  - ii) their assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We will seek representations from the Trustee on these matters and we will liaise with the finance team, in the first instance, to identify any specific risks or information relevant to these considerations.

## 5. Staffing, fees and timetable

### Staffing

Naziar Hashemi is your Client Service and Tina Allison is your Audit Partner. They will be assisted by James Hay and James Badman as lead Audit Managers. The onsite team will be led by Alex Harby.

### Our audit fees

Our proposed audit fee is based on two assumptions.

- First draft financial statements and detailed supporting schedules are available at the commencement of the audit. If this information is not available to us at the start of our audit we may seek to charge additional fees to cover any resulting delays or inefficiencies.
- We are required to check and review up to two further drafts of the financial statements prior to these being finalised for approval by the Trustee. If it is necessary for us to review additional drafts we may charge additional fees to cover any resulting extra staff time.

Based on the above, our fee for the audit of the financial statements of BHE, including checking the consolidation of the group financial statements, will be £75,000. This fee is stated exclusive of VAT and disbursements.

We propose to submit an initial interim fee of £15,000 at the time of issuing this planning report and subsequent fees of £50,000 at the end of the main fieldwork and the final balance of our fees on completion.

To assist you in providing the required information, we will provide a separate list of audit deliverables to the BHE finance team.

### Timetable

The anticipated timetable and deadlines are as follows.

Key Events	Date
Initial planning meeting	21 March 2022

Audit and Risk Committee meeting to consider audit plan	24 May 2022
Completion of system notes and walkthroughs along with initial sample selection	w/c 27 June 2022
Audit fieldwork commences and draft financial statements available	4 July 2022
Clearance meeting with finance team	4 August 2022
Audit and Risk Committee meeting to consider accounts and report from the auditors	27 September 2022
BHE Board to approve the accounts	TBC October 2022
Filing deadline at Charity Commission	31 January 2023

### Our deliverables to you

In addition to carrying out the necessary audit procedures in accordance with International Standards on Auditing we will provide to you the following.

- Statutory audit reports on the financial statements of BHE.
- This Audit Planning Report to confirm the details of the planned timing of our audit and related year-end meetings, to confirm the key members of your audit team and their independence, and to summarise our audit approach and any specific issues relevant to our audit which we have identified from our initial discussions with BHE's finance team or elsewhere.
- An Audit Findings Report to summarise any key issues or adjustments identified during our audit which have impacted on the disclosures in, or required adjustment to, the draft financial statements together with comments on any weaknesses in BHE's

systems and controls which come to our attention during our audit work on the annual statutory financial statements.

- Draft of the Representations Letter which we are required to obtain from the Trustee to confirm certain specific matters relevant to the completion of the statutory financial statements.

## Appendix 1 - Responsibilities and ethical standards

### Scope of our audit

Our audit is a statutory requirement to ensure that the Trustee has properly discharged their legal responsibilities to prepare their annual report and the financial statements in accordance with the applicable legislation and financial reporting requirements.

As your auditor we are required to obtain sufficient evidence to enable us to report as to whether the financial statements of BHE give a true and fair view of the financial performance of the entity, are free from material misstatements and are compliant with the requirements of relevant legislation and applicable Financial Reporting Standards.

### Your financial statements

The financial statements on which we are to report are your responsibility; our audit of the financial statements does not relieve management or the Trustee of their responsibilities for the financial statements and the Trustee must be satisfied that the financial statements give a true and fair view before approving them. Further details of your and our respective responsibilities are set out in our engagement letters dated which will be shared as soon as possible.

### Our audit approach

We will carry out our audit in accordance with International Standards on Auditing (UK) ('ISA's (UK)'). Overall, we seek to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, in order that we can report to the Trustee.

Our work will include such tests of transactions and of existence, ownership, valuation and completeness of assets and liabilities that we consider necessary for this purpose.

We will update our understanding of BHE including objectives, strategies, operations, governance structures, sources of incoming resources and related risks. We will also update our understanding of the classes of transactions, account balances, and disclosures to be expected in the financial statements.

We will consider your selection and application of accounting policies and whether they remain appropriate, and your reasons for any changes thereto.

We will review your systems for the purpose of our audit and we will report to you any significant deficiencies in internal control identified during our audit which, in our professional judgment, are of sufficient importance to merit your attention after discussing them with management. Our audit should not, however, be relied upon to identify all systems deficiencies, which are your responsibility, and we shall only draw your attention to matters we have encountered as a part of our audit work.

We will also read the Trustee's Report and any other information that will be included with the financial statements to ensure this is consistent with the financial statements.

We are required to confirm during our audit whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting BHE. We have been made aware of one incident during the year from our initial discussions but will be requesting further confirmation of no further matters as part of the audit completion process.

### Legal and regulatory disclosure requirements

In undertaking our audit work we will consider compliance with the following legal and regulatory disclosure requirements, where relevant:

- Charities Act 2011
- The Charities (Accounts and Reports) Regulations 2008
- The Charities SORP (FRS102)
- Financial Reporting Standard 102

We are not aware that any limitations will be placed on the planned scope of our audit.

### Ethical Standard

We are required by the Ethical Standard for auditors issued by the Financial Reporting Council ('FRC') to inform you of all significant facts and matters that may bear upon the integrity, objectivity and independence of our firm.



Crowe U.K. LLP has procedures in place to ensure that its partners and professional staff comply with both the relevant Ethical Standard for auditors and the Code of Ethics adopted by The Institute of Chartered Accountants in England and Wales.

In our professional judgement there are no relationships between Crowe U.K. LLP and BHE or other matters that would compromise the integrity, objectivity and independence of our firm or of the audit partner and audit staff. We are not aware of any further developments which should be brought to your attention.

### **Independence**

International Standards on Auditing (UK) require that we keep you informed of our assessment of our independence.

We confirm that we have not provided any non-audit services to the group. We have not identified any other issues with regards to integrity, objectivity

and independence and, accordingly, we remain independent for audit purposes.

In communicating with those charged with governance of the parent charity and group we consider those charged with governance of the subsidiary entities to be informed about matters relevant to them.

The matters in this report are as understood by us as at May 2022. We will advise you of any changes in our understanding, if any, during our meeting prior to the financial statements being approved.

### **Use of this report**

This report has been provided to the Audit and Risk Committee to consider and ratify on behalf of the BHE Board, in line with your governance structure. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

## Appendix 2 - Audit materiality

### Audit materiality and communication of errors and adjustments

We do not seek to certify that the financial statements are 100% correct; rather we use the concept of “materiality” to plan our sample sizes and also to decide whether any errors or misstatements discovered during the audit (by you or us) require adjustment.

The assessment of materiality is a matter of professional judgment but consideration will be given to the highest cumulative error which would not threaten the validity of the financial statements. A matter is material if its omission or misstatement would reasonably influence the economic decisions of a user of the financial statements.

Whether adjustments are material to the “true and fair” view can only be judged in the particular circumstances of the items and their impact on the financial statements to which they relate. Materiality will be considered having regard to the overall financial statement totals, the relevant individual balance, the type of transaction and the disclosures.

As mentioned in Section 1, our overall audit materiality for the financial statements as a whole will take account of the level of funds held by BHE and will be set at approximately 2% of Investments, this measure will be applied to the audit of investments and pension liability.

In addition, we will determine whether a materiality amount lower than this materiality level is applicable for any particular classes of transactions, account balances or disclosures. At planning we have determined a lower materiality of 1.5% of expenditure will be applied to auditing transactions in the statement of financial activities and other balance sheet items.

We will, of course, discuss with your finance team all errors, other than those that are “clearly trivial”, that we discover during the course of our audit work. Where such errors would have an impact upon the numbers reported in the statutory financial statements, but are not significant in terms of our audit, we will ask management if they wish to adjust the financial statements.

We will bring to your attention all significant potential adjustments to the financial statements. We will not, however, bring to your attention matters that we consider to be “clearly trivial” and we therefore propose to only identify amounts greater than 5% of our audit materiality.

The following is a summary of the overall materiality levels we apply to the separate entities within the group.

Entity	Materiality calculation	Materiality £'000	Reporting threshold £'000
Bridge House Estates	2% Investments/1.5% Expenditure	33,550/1,340	1,675/65

## Appendix 3 - Trustee's Report and Financial Statements

### Financial Statements and our audit

The preparation and presentation of the financial statements remains the responsibility of those charged with governance. However, our audit work will include reviewing the statements to ensure that they properly reflect the underlying financial records of the charity and also that they continue to be appropriately prepared in line with the requirements of the Charities SORP (FRS 102) and the requirements of the Charities Act.

As part of our audit we will:

- ensure there is a full audit trail from the trial balance to the financial statements;
- review the financial statements against legal, regulatory and the SORP requirements and sector best practice;
- review the processes operated by BHE for identifying any related party transactions that might require disclosure; and
- review the latest copy of the risk register and ensure any key issues for the financial statements have been considered in the context of our audit, and appropriately managed in the context of the BHE's governance.

### Trustee's Report

We expect that your Trustee's Report will include discussions of risks, outcomes, outputs and impacts and information on financial and non-financial KPIs.

Whilst we are required to review the report for any inconsistencies with the information included in the financial statements and to ensure that it reflects the SORP and other requirements, we do not audit the Trustee's Report. The responsibility for preparing the report rests with the charity's Trustee.

Although the Trustee may seek the assistance of the charity's staff in drafting the report, the Trustee must approve the final text of the report. It is therefore important that Trustee has some assurance over the process which management have adopted in the collection and verification of the data included in the Trustee's Report.

It will also be important that BHE continues to ensure consistency between the statutory Trustee's Report information and any information that is included elsewhere including on its website.

### Governance Code

The Charity Governance Code was updated in March 2021. The key enhancements focussed on Principle 3: Integrity and Principle 6: Equality, Diversity and Inclusion (formerly 'Diversity'). A copy of the refreshed code can be obtained from the Charity Governance Code website at <https://www.charitygovernancecode.org/en/pdf>.

The Governance Code encourages charities to publish a brief statement (a short narrative rather than a lengthy 'audit' of policies and procedures) in their annual report explaining their use of the Code and we therefore anticipate that you will be including an appropriate comment on this in your Trustee's Report.

### Fundraising Statement

The Trustee's Report will also again need to include an appropriate statement on the various matters relating to the charity's fundraising activities as required by The Charities (Protection and Social Investment) Act 2016.

## Appendix 4 - External developments

We have summarised below some of the developments and changes in the charity sector over the recent period which we believe may be of interest and relevant to you. Please note that this information is provided as a summary only and that you should seek further advice if you believe that you have any specific related issues or intend to take or not take action based on any of the comments below.

We believe it is important to keep our clients up to date on the issues that affect them and, as a part of our ongoing communication, we regularly hold seminars and courses. Unfortunately, due to the current Covid-19 restrictions, we have necessarily had to suspend our face to face courses and seminars. Although we hope to be able to return to our seminars and courses in the not too distant future, we are currently working to replace some of these as webinars. We have a number of webinars currently in development and will make these available as soon as we can.

As a result the webinar sessions are likely to be put out with relatively short notice and we therefore encourage you to visit our website (<https://www.crowe.com/uk/croweuk/industries/webinars>) or register to our mailing list ([nonprofits@crowe.co.uk](mailto:nonprofits@crowe.co.uk)) to stay updated on these. Any webinars which you have missed remain available on demand on our website.

### Governance

#### The Charities Bill: 5 key changes to charity law

The Charities Act 2022 (the Act) received Royal Assent on 24 February 2022 and brings into force a number of key changes to the Charities Act 2011, aimed at simplifying a number of processes.

While the Act comes into force on the date on which it was passed, a number of the provisions of the Act will only come into force when secondary legislation has been passed. It is expected that this will take place on a staggered basis over the next 12 – 18 months. In addition, the Charity Commission will be updating their guidance and online tools for each change to the Act.

We have set out below some of the key changes.

#### *Governing document amendments*

Amendments have been made to the Act to more closely align the rules for charities amending their constitution irrespective of the legal structure. Whilst the Commission will still need to approve any regulated amendments (e.g. changes to the charity's objects), they will now apply the same consistent criteria to approve these.

#### *Permanent endowments*

A number of changes have been made in respect of permanent endowments.

Firstly, the definition of permanent endowments has been updated with a simplified definition where property is considered to be a permanent endowment if it is '*subject to a restriction on being expended which distinguishes between income and capital*'.

The Charities Act has also been updated to increase the maximum value of a permanent endowment that Trustees can resolve to release restrictions on spending capital from £10,000 to £25,000. This power has also been extended to incorporated entities.

In addition, a new provision in the Act will allow Trustees to borrow up to 25% of the value of a charity's permanent endowment subject to the amount being repaid within 20 years of being borrowed.

These new and amended powers will grant Trustees of permanently endowed charities increased flexibility in times of economic uncertainty.

#### *Failed appeals*

The Act introduces new rules granting the power for trustees to apply *cy-près*, allowing charities more flexibility in response to a charity appeal that has failed, allowing donations to be applied for another charitable purposes rather than having to be returned to donors under certain conditions:

- i) The donation is a single gift of £120 or less; and the Trustees reasonably believe that during the financial year the total amount received from the donor for the specific charitable purpose is £120 or less (unless the donor states in writing that the gift must be returned if the charitable purposes fail); or
- ii) The donor, after all agreed actions have been taken, cannot be identified or found; or
- iii) The donor cannot be identified (for example cash collections)

In order to avail themselves of the new rules, Trustees will need to pass a resolution having regard to (a) the desirability of securing that the purposes are, so far as reasonably practicable, similar to the specific charitable purposes for which the money or other property was given; and (b) the need for the purposes to be suitable and effective in the light of current social and economic circumstances.

Where the proceeds are in excess of £1,000 a copy of the resolution, along with a statement of their reasons for passing it must be provided to the Commission. Such a resolution does not take effect until consent is provided by the Commission in writing.

#### *Payments to Trustees*

Under the Charities Act 2011, Trustees (or a person connected to the trustee) may receive payment for the provision of services to a charity under certain conditions. The Act extends this provision to allow payment for the provision of goods to a charity.

#### *Ex Gratia Payments*

Amendments to the act allow for ex gratia payments to be made without the Commission's consent, up to a maximum of £20,000 depending on the charity's income. In addition, the amendments allow this decision to be delegated to staff.

#### *Mergers*

A key amendment to the Act allows for legacies to be transferred to a merged charity. This change will remove the need for 'shell charities' to be maintained and therefore reduce administration costs.

Full details of all the changes can be found [here](#) and [here](#).

## **Responsible investments guidance**

The Charity Commission ran a public consultation in April 2021 in respect of updated guidance for responsible investments.

The results of the consultation were published on 18 August 2021, and can be viewed [here](#).

During the consultation two charities were granted permission to bring a case relating to responsible investment to the High Court. They are seeking clarification of the law, with the case heard in April 2022. As a result, the updated guidance is not yet published until impact of the judgement has been fully assessed.

## **Guidance on hybrid working launch by ACAS**

ACAS recently published guidance for employers on hybrid working, following the extended period of remote working as a result of the coronavirus pandemic.

The guidance is broken down into the following five sections:

- Considering hybrid working for your organisation
- Consulting and preparing to introduce hybrid working
- Creating a hybrid working policy
- Treating staff fairly in hybrid working; and
- Supporting and managing staff in hybrid working

The guidance also considers other legal matters that employers should consider, including data and privacy issues, health and safety issues and working time requirements.

The guidance can be found [here](#).

## **Charity Commission: 'Take action on fraud'**

As part of Charity Fraud Awareness Week, the Charity Commission issued a press release in October 2021 warning charity trustees and management to 'take action on fraud' as new figures show £8million reported lost to crime last year.

The latest data from Action Fraud also shows 1,059 separate incidents of fraud were reported by charities in just one year from April 2020 to March 2021.

Together with the Fraud Advisory Panel, the regulator is urging all trustees to sign up to a new [Stop Fraud Pledge](#), which commits charities to taking six practical actions to reduce the chances of falling victim to fraud.

The pledge includes the following measures:

- Appoint a suitable person (staff member, volunteer or trustee) to champion counter fraud work throughout the organisation
- Ensure that all trustees are aware of their legal duty to protect the charity's assets.
- Consult with staff, volunteers and trustees to identify the types of fraud that threaten the organization and the ways they can be prevented.
- Create a written fraud policy and share it regularly – with staff, volunteers and trustees – so that everyone understands what fraud is and how they can help prevent it.
- Perform checks on the individuals and organisations with whom we have a financial relationship.
- Assess annually how well the fraud controls are working, taking into account new risks and making improvements as needed.

## Compliance

### Safeguarding in international aid

The Charity Commission issued an alert in June 2021 to assist trustees of international aid charities to improve their safeguarding practices.

The alert includes a number of key steps that trustee may consider, including

- making sure policies, communications and ongoing performance management help maintain appropriate behaviours by charity staff and workers to each other and the beneficiaries they serve

- joining the [Misconduct Disclosure Scheme](#) to help protect your charity and other organisations in the sector from individuals who pose a safeguarding risk
- giving victims and survivors, and their families and friends, a safe means to report their concerns and complaints
- launching robust and timely investigations into allegations or concerns where they arise

A copy of the alert can be found [here](#) along with the Commission's guidance [Safeguarding and protection people for charities and trustees](#).

### Government procurement: carbon reduction plans

The Government has introduced new measures which will require businesses to commit to net zero by 2050 and publish clear and credible reductions plans before they can bid for major government contracts.

Under the new measures, for procurements advertised on or after 30 September 2021, suppliers bidding for contracts above £5million a year will need to have committed to the government's target of net zero by 2050 and have published a carbon reduction plan.

Carbon Reduction Plans ('CRP') must meet the required standard, and includes (but is not limited to):

- Confirming the bidding supplier's commitment to achieving Net Zero by 2050 for their UK operations.
- Providing the supplier's current emissions for the sources included in Scope 1 and 2 of the GHG Protocol, and a defined subset of Scope 3 emissions.
- Providing emissions reporting in CO<sub>2</sub>e (Carbon Dioxide Equivalent) for the six greenhouse gases covered by the Kyoto Protocol<sup>4</sup>
- Setting out the environmental management measures in effect, including certification schemes or specific carbon reduction measures you have adopted, and that you will be able to apply when performing the contract and that support achieving Net Zero by 2050.
- Publication of the CRP on the supplier's website



Further details can be found [here](#) along with the Procurement Policy Note issued by the Cabinet Office [here](#).

## Financial and other reporting

### Understand the FX issues impacting INGOs

Our latest report, in association with [CharityTransfers.org](#), draws on research from 114 UK charities with international operations. It provides insight into the big FX challenges and identifies possible areas for improvement.

While the research shows there is work to do, it is in many ways encouraging that most organisations recognise the risks they face, even if they sometimes lack the expertise or resources to manage them. This is particularly important to drive improvement as INGOs face significant financial challenges.

Key points from the report:

- Charity challenges
- Protecting funding from foreign exchange volatility
- Lack of transparency on FX remittance costs
- Lack of competition when making transfers
- Use of banks versus FX brokers
- Transaction challenges
- In-country payments – hard versus local currency
- Difficulty setting accurate budget rates
- Use of official policies to manage FX risk

A copy of the report can be obtained [here](#).

### COVID-19-related rent concessions beyond 30 June 2021

In June 2021, the Financial Reporting Council updated the amendment to FRS 102 in respect of Covid-19 related rent concessions, extending the period to which the amendments apply to 30 June 2022.

Under the amendments, any reduction in lease payments are recognised over the period that the change in lease payments is intended to compensate. For example, if a lessee is offered a rent holiday such that the rent due for July 2021 to December 2022 is waived, no lease expense would be recognized in that period.

The lessee will also need to disclose the change in lease payments recognised in profit or loss in accordance with the amendments, unless the entity is a small entity applying Section 1A of FRS 102, in which case such a disclosure is recommended.

The effective date for these amendments is accounting periods beginning on or after 1 January 2021, with early application permitted.

A copy of the updated amendment to FRS 102 can be obtained [here](#).

## Taxation

### Advertising vs Marketing: An update for charities

Charities are allowed to acquire advertising services from suppliers with the zero-rate of VAT but one condition for the relief to apply is that the advertising is made to the general public.

After consultation with the charity and advertising sector, HMRC released its [Revenue and Customs Brief 13](#) in September 2020. The brief indicated that some supplies that are made by suppliers like Facebook could be treated as zero-rated, e.g. audience targeting and location targeting. However, the notice goes on to state that the standard rate of VAT applies to social media accounts because "when individuals log in to their personal pages, sites use tools to apply advertisements to them when they are signed in. The content will be related to the individual's known likes, dislikes, interests or location, as a signed in member of the website."

We have a number of charity clients that are affected by this as they use suppliers like Facebook for a number of fundraising campaigns. As Facebook is based outside the UK it is up to the UK based charity to account for any VAT due and this is often to a large extent irrecoverable. Therefore, we have written to HMRC to seek clarification of its position.

HMRC has been provided with numerous examples of services and the terms and conditions applicable.



HMRC's response states that all supplies of Facebook advertising fall outside of zero-rated advertising. Consequently, 20% VAT must be accounted for by charities on such supplies received from suppliers based outside the UK.

HMRC's position is now clear and unless it is successfully challenged reverse charge VAT should be applied to services received from suppliers such as Facebook.

If VAT has not been applied to these services, HMRC should be notified of the amount of tax due in order that any penalties applicable can be mitigated.

### **Grant Funding: Business or non-business**

Our [Insight](#) in January 2021 informed you of the decision of the Upper Tier Tribunal in Colchester Institute and the potential adverse effects it could have upon institutions other than those in the Further Education (FE) sector.

Subsequently there has been a further unsuccessful attempt by a FE College to exploit the decision made by the upper Tier Tribunal ([read the transcript](#)) and HMRC has also responded with its guidance in its [business brief 08/21](#).

The decision has a direct application to those in the Further Education sector that receive grant income. However, in theory the conclusion arrived at by the UTT could be applied to any entity that has received grant income that has treated this as 'non-business'.

The decision in Colchester Institute reversed the common opinion that grant income is used to support non-business activities as the court opined that funding from The Skill Funding Agency (SFA) and the Education Funding Agency (EFA) was in fact consideration for supplies of educational services. In theory this could have wide reaching application in relation to the zero-rating of buildings used for charitable purposes, the application of reduce rate VAT to Fuel and Power and recovery of VAT on costs using both the standard method and special methods of partial exemption.

Many VAT commentators have seen the decision by the Tribunal as a threat to common well-founded VAT treatments applied by charities.

HMRC's brief 08/21 does give comfort to the charities' sector as well as the education sector since it essentially confirms that it disagrees with the Tribunal's decision and states that whilst it will not appeal, its policy on grant funded education will not change. Therefore, it appears that HMRC has no motivation to use the decision to serve a wider purpose and disturb well established VAT treatments for the charities' sector. Furthermore, it is willing

to retain the status quo in relation to SFA and EFA funding (i.e. treat the income as non-business).

### **Three common trading activity VAT issues for charities in 2022**

#### *Donated Goods Retail Gift Aid Scheme and VAT*

The Retail Gift Aid scheme is used by many charities in order to treat what would have been the sale of donated goods as donations of cash by acting as agent for the owners in selling their goods. This enables the charity to be able to claim Gift Aid.

It is important to note, that from a VAT perspective, this changes the nature of the transaction entirely. If donated goods are sold the shop is making a zero-rated taxable business activity which enables VAT recovery on associated costs. Whereas, if a charity is selling goods on behalf of someone in return for a donation, this is a 'non-business activity' and so while there is no VAT due on the donation, VAT cannot be recovered on the associated costs.

This can result in the shop being required to apply an apportionment to arrive at the correct amount of VAT recoverable in relation to the shop costs so VAT administration increases and VAT recovery is reduced.

**Solution:** To properly operate the scheme, the charity should charge a VAT bearing commission to the donor of the goods. This does mean a small amount of VAT being paid to HMRC but VAT on associated costs incurred on the shops can be recovered in full.

#### *Lottery ticket sales from shops*

Most charities that operate a lottery sell tickets by entering into monthly agreements with customers who buy directly from a head-office. In addition, some tickets may also be sold in charity shops.

Lottery tickets are exempt from VAT, and therefore, no VAT is due on the sales but VAT cannot be recovered on associated costs. This again results in less VAT being recovered by the charity within the shops. It also adds an extra layer of administration as overhead costs of the shop would need to be apportioned.

**Solution:** In reality, the VAT bearing costs used by the shop to make the lottery/raffle ticket sales is minimal and so application should be made to HMRC to apply a fairer apportionment on shop costs where these sales exist.

#### *Effect of COVID-19 on VAT recovery rates*

The COVID-19 pandemic has resulted in many charity shops, cafes and social enterprise activities to close temporarily. This could have an impact on the amount of VAT recoverable on overhead costs, particularly where the charity uses an income-based apportionment as the proxy for recovery (e.g. the standard method of partial exemption). This is because taxable income has been reduced while exempt income may have remained constant. For example, care services in general will have continued during lockdown, while shops/cafes and conference venues have remained closed.

**Solution:** Apply to HMRC to agree an alternative recovery method for the year. HMRC has released an information sheet which states it will look at these requests sympathetically and has set up a purpose-built inbox to review these applications. We would suggest that charities review their recovery rates to see if there has been, or will be (using a forecast), a heavy reduction input tax recovery so this can be addressed. HMRC's release can be accessed [here](#).

### Health and Social Care Levy

The government has announced on 8 September 2021 a new Health and Social Care Levy to pay for reforms to the care sector and NHS funding in England.

The levy will apply from April 2022, although will operate slightly differently in 2022–23 compared to future tax years.

From April 2022, the levy will see an increase of 1.25% on the rates of:

- Class 1 Primary and Secondary National Insurance Contributions – paid by employees and employers on gross wages, respectively
- Class 1A and Class 1B Contributions – paid by employers on benefits provided to employees
- Class 4 National Insurance Contributions – paid by the self-employed on profits.

In 2022–23, this will operate as a simple increase of the National Insurance Contributions rates, so only those liable to pay National Insurance Contributions will be subject to the levy.

From 2023–24 onwards, once HMRC have developed new systems, the levy will operate as a separate payment to National Insurance Contributions, and it will also apply to those above the State Pension age, which is currently not

the case for Class 1 Primary and Class 4 National Insurance Contributions. However, existing reliefs for Class 1 Secondary National Insurance Contributions will also apply to the new levy for employers of apprentices under the age of 25, all employees under the age of 21, veterans, and new employees in Freeports (from April 2022). The levy deduction will appear separately on employee payslips.

From an employer perspective, the effective increase in Class 1 Secondary National Insurance Contributions means that employment costs will increase. It is important that employers assess the impact of this increase on their employment costs and assess how it can be funded. Alternatively, employers may wish to consider other means of remunerating their employees, for example, through tax-efficient benefits, which would not be subject to the levy.

### 12.5% VAT rate applied to hospitality

From 1 October 2021 the VAT rate applied to hospitality changed from 5% to 12.5%. From 15 July 2020 VAT had been chargeable at 5% on:

- on-premises catering and non-alcoholic drinks sold with catering
- hot takeaway food and drinks
- admissions to attractions including theatres and amusement parks
- hotel and holiday accommodation.

This was always intended to be a temporary measure to boost the hospitality sector at this difficult time. Rather than return to 20% VAT in one go, the VAT rate applicable to these goods and services changed to 12.5% where these are supplied between 1 October 2021 and 31 March 2022.

It should be noted that none of the above affects situations where no VAT is chargeable, such as cold takeaway food.

We have produced guidance on actions both suppliers and customers should take here <https://www.crowe.com/uk/insights/preparing-for-the-new-vat-rate>.

### VAT and Covid-19 Testing

HMRC has recently released its policy, Revenue and Customs Brief 11, in relation to the VAT treatment of COVID-19 tests, and is relevant to any organisation who is involved in the provision of tests for COVID-19 or receives these services from suppliers.

HMRC's recent brief has confirmed its policy on the VAT treatment of COVID-19 testing and the requirements for VAT exemption to apply. These should be followed to avoid HMRC issuing VAT assessments and penalties.

HMRC has stated that the medical care exemption will apply in instances where:

- the service incorporates the administration of the test to the patient; and
- the provision of the results,
- by a medical professional or somebody supervised by a medical professional such as a qualified registered nurse, doctor or a state regulated institution.

Exemption can still apply where the service is supplied by a non-registered person but the services are 'wholly performed' by a medical professional.

Exemption does not apply where:

- the service is provided by UK Accredited Service or the Care Quality Commission as HMRC does not consider these as being state regulation
- the service is administered by the patient themselves. Therefore, lateral flow tests are standard rated
- tests are supplied by manufacturers to hospitals. pharmacies.

HMRC's policy may be challenged as the application to some scenarios could be complicated and provide results that will appear inequitable.

However, if your organisation's treatment is not in line with the policy corrective action should be taken both retrospectively and going forward.

Furthermore, if a supplier has been applying standard rate VAT where exemption applies, the over-charged VAT can be recovered by seeking a credit from the supplier.

### **Tax on Covid-19 Grants for charities**

Over the last couple of years many charities and/or their trading subsidiaries have claimed payments under the coronavirus job retention scheme (CJRS). The CJRS scheme ended on 30 September 2021 and was replaced by the Job Support Scheme (JSS).

Charities may also have claimed the following Covid grants, or 'coronavirus support payments' (CSP), which include:

- the self-employment income support scheme (SEISS),
- the small business grant fund,
- the retail, hospitality and leisure grant fund, the local authority discretionary grants fund,
- the coronavirus statutory sick pay (SSP) rebate scheme,
- the equivalent grant funds in Scotland, Wales and Northern Ireland
- amounts paid under the test and trace support payment scheme and its equivalent in Scotland and Wales, called self-isolation support payments
- Eat Out to Help Out (EOTHO)

*CJRS and other CSP payments are generally stated to be taxable for income or corporation tax – is that the case for charities?*

If the payments are to support a charitable (ie a non-taxable) activity of a charity, they are not taxable. If they are to support a non-charitable trade, then they will be included in the profits from that trade, as the expenditure covered will be tax-deductible. If the turnover from the trade is below the de minimis limit for income or corporation tax (currently £80,000 in a tax year, or less if the charity's total income is below £320,000) then the grant payments will not be counted when calculating whether the turnover goes over that limit. However, once the turnover is over that limit, then the CJRS/CSP receipts become taxable income.

If the CJRS or CSP grant relates to two different activities, one charitable and the other non-charitable, then it needs to be apportioned between the two on a reasonable basis.

EOTHO was implemented separately from other CSPs. HMRC guidance for EOTHO states that "You must include the payments you receive as income when you calculate your taxable profits for Income Tax and Corporation Tax purposes".

*Reporting CJRS payments*

However, when it comes to reporting grant payments to HMRC, there are additional tax return reporting requirements for CJRS, JSS, JRB and EOTHO. The JRB, or Job Retention Bonus, is not yet in operation. The Eat Out To Help Out scheme (EOTHO) applied in August 2020.

Whether or not the amounts received are taxable, they need to be reported on the charity's tax return (if it needs to complete one). On the Corporation tax return there are three boxes for CJRS receipts, boxes 471-473. Box 471 records CJRS payments actually received in the period, Box 472 records entitlement over the same period. If the total in Box 471 is larger than the total in Box 472, then clearly there is an overpayment that must be returned, less any overpayments that have already been reported to HRMC or already assessed (Box 473).

Box 474 relates only to JRB and EOTHO overpayments. EOTHO claims need to be reported in Box 647.

The amount owed to HMRC for CJRS is recorded in Box 526. However, this amount is not added to the total of any corporation tax due. It is treated as income tax, and a separate assessment will be issued to collect it.

For trust and estate returns the reporting requirements are contained in Boxes 21.6A and 21.6B. Amounts entered in box 21.6B will be added to the income tax liability of the Trust or Estate, so it is important that if any overclaimed amounts have already been assessed, they are not included in the amount in this box. The individual amounts claimed need to be reported on the relevant boxes of the supplementary pages.

#### *CJRS claims made by trading subsidiaries*

If a subsidiary has made its own CJRS (or other CSP grant) claim then clearly this needs to be recorded on its tax return. However, many charities have claimed CJRS for their employees, and then recharged a portion relating to the employees' work for the trading subsidiary. It is important that the company that has actually claimed the CJRS reports the full amount on its tax return, before any recharges, otherwise confusion will result.

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