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Bridge House Estates

Audit Planning Report to the Audit and Risk Management Committee and Bridge House Estates board

Year ending 31 March 2023

Presented to the Bridge House Estates board on 5 July 2023 and the Audit and Risk Management Committee on 10 July 2023.

Audit / Tax / Advisory / Risk

Strictly Private and Confidential

The Audit and Risk Management Committee and Bridge House Estates board
City of London
PO Box 270
Guildhall
London
EC2P

Dear Members of the Audit and Risk Management Committee and Bridge House Estates board

We have set out in this audit planning report various matters relating to our audit of the financial statements of Bridge House Estates for the year ending 31 March 2023 following our initial discussions with Karen Atkinson, Nathan Omane and Nicole Monteiro on 30 May 2023.

I have pleasure in submitting our audit planning report for the year ending 31 March 2023. The primary purpose of this report is to communicate to the Audit and Risk Management Committee and Bridge House Estates board and the Trustee 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; my colleagues Rachel Laws (Senior Manager) and James Badman (Manager) will be attending the Bridge House Estates board meeting on 5 July 2023 and Audit and Risk Management Committee on 10 July 2023.

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 Management Committee and Bridge House Estates board and welcome the opportunity to discuss this with you at the Bridge House Estates board meeting on 5 July 2023 and Audit and Risk Management Committee on 10 July 2023.

International Standards on Auditing (UK) require that we communicate formally with "those charged with the governance" of Bridge House Estates (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. In addition, 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 2.

Trustee's Report and Financial Statements

We have set out in Appendix 3 a number of considerations to be taken by the Trustee and management when preparing the financial statements for the year ending 31 March 2023.

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

ISA (UK) 315 (Revised) comes into effect for periods starting in December 2021 and later (i.e. years ending 31 December 2022). The changes to the standard are fairly fundamental, and are intended to change the way that audit firms approach identification of audit risk and, by extension, how they respond to these risks.

The revised ISA introduces the concept of a spectrum of inherent risk, considering both the likelihood and magnitude of a possible misstatement. A 'significant' risk is one close to the upper end of the spectrum of inherent risk, or one that has to be treated as such under other auditing standards.

Risk is considered in the context of how, and the degree to which, inherent and control 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.

Further information on the inherent risk factors, and the key changes to ISA (UK) 315, is provided in Appendix 5.

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 Bridge House Estates, 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.

In line with ISA (UK) 315 (Revised), we have considered the inherent risk including both the likelihood and magnitude of a potential misstatement.

2.1 Revenue recognition – investment property income

Key related judgements

Investment property income is the largest revenue stream for Bridge House Estates, totalling £26.2m in 2021/22 and expected to total c.£24.9m in 2022/23. Whilst comprising mostly of routinely invoiced income, there have been rent-free periods offered in the year 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.

This revenue stream also includes revenue released from deferred lease premiums attached to long term leases where BHE is the lessor.

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.

Crowe response

Our audit work will include the following:

- Reviewing the income recognition policy, ensuring it is in line with SORP requirements and is being appropriately applied and disclosed;
- Documenting and reviewing 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;
- Obtaining a report from the property management system of current leases, and ensuring that this reconciles to the total income recognised in the year;
- Verifying a sample of property receipts to supporting tenancy agreement, invoices and receipt to bank:
- Reviewing a sample of transactions across the year end date to ensure these have been recognised in the appropriate period;
- Reviewing the calculation of the rent-free period debtor, agreeing a sample to underlying leases and ensure the aging split in the accounts is correct;
- Reviewing the year-end deferred income balances, testing a sample to support and re-calculating the split of any invoices as appropriate; and
- Reviewing 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.

2.2 Revenue recognition – financial investment income

Key related judgements

Investment income is derived from the various investment holdings of BHE, including listed investments, private equity 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.

Whilst investment income is expected to fall in 2022/23 to c.£2.2m due to the adverse economic environment (2021/22: £3.9m), this nevertheless remains a material income stream for BHE.

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 but for which the benefit has been earned.

Crowe response

Our audit testing in this area will include:

- Agreeing the income reported in the investment managers' reports and bank interest to the nominal ledger and third party sources and reviewing cut off to check that the income has been appropriately recognised;
- 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 Charity; and
- Reviewing the allocation of investment income to BHE from shared holdings, ensuring it is in line with the proportion of the investment holdings allocated to the charity.

2.3 Grant expenditure and grants payable

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.

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.

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.

In addition, we understand that since the year end, BHE has moved to a new grant management system – Salesforce – and have retired the old system, BBGM post year end. The migration of the existing grant data has been completed with the assistance of third-party consultants & as part of our review of the IT systems at the corporation we will review this migration and controls over the new system.

2.4 Management override of controls

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.

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.

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.

We are required to design and perform audit procedures to respond to the risk of management's override of controls which will include:

- 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;
- reviewing accounting estimates for biases that could result in material misstatement due to fraud; and
- 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.

2.5 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.

- The estimation of the valuation of financial investment holdings [significant];
- The estimation of the valuation of investment properties [significant];
- The assumptions adopted by management and used by the actuary to calculate the pension liability [significant];
- The recognition of financial investment and investment property income [significant];
- The split of the pension scheme liability between the component entities of the City of London Corporation [significant];
- The recoverability of year-end rental debtors [significant]
- The assessment of impairment of fixed assets [not significant];

- The assessment of the remaining useful life of assets [not significant];
- The split of recharged expenditure between the component entities of the City of London Corporation [not significant]

Financial Investments

The financial investments portfolio represented £879.5m as at 31 March 2022 (2023 figure TBD). There is a risk with regard to the existence and ownership of the assets in the investment portfolio and their correct valuation, particularly in the case of non-listed investments where the valuation is determined by the fund.

As the investments are held and managed by third party service providers it is important that:

- the Charity has sufficient controls in place to mitigate the risks associated with outsourcing services; and
- 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.

We will review your 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. 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).

For non-listed holdings, we will complete a review of the audited accounts when available, and review management's assessment of any potential impairment. In addition, we will complete checks of publicly available sources for any potential indicators of impairment.

We also understand that BHE has drawn down on the investment portfolio during the year to fund grants awarded, totalling £40m over 3 withdrawals. As part of our audit work, we will agree these withdrawals to supporting documentation to the appropriate approval and receipt to bank.

Investment Properties

Investment properties held by the Charity totalled £888.1m as at 31 March 2022. 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. The valuations as at 31 March 2023 have been completed by Savills and Jones Land LaSalle (JLL), with the total valuation of the portfolio being £833.6m.

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 materiality from that which would be determined using fair value at the reporting date. As such, we consider the valuation of this portfolio to be a significant risk, particularly in light on the current property market environment.

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.

We will also review the valuation adjustment and ensure any gains/losses on revaluation have been appropriately recognised in the Statement of Comprehensive Income.

We understand from discussions with management that the pandemic and cost of living crisis has had a significant impact on ongoing renovation costs. This includes one project for which BHE and the contractor have been to adjudication with the judgement passed against BHE; we understand that the contractor is now pushing for further cost recovery. As part of our audit work, we will review the correspondence surrounding these renovations and assess the need for any provision to be included in the accounts, or potential impairment of the value of the corresponding properties.

Pension liability

The assumptions surrounding the pension liability calculations performed by the actuaries can make a significant difference to the result disclosed in the financial statements. As at 31 March 2022, this liability for BHE sat at £25.0m.

The City Corporation operates a funded defined benefit pension scheme, The City of London Pension Fund, for its staff employed on activities relating predominantly to the three principal funds for which it is responsible (City Fund, City's Cash and Bridge House Estates).

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.

Our audit testing will include the following:

- Benchmarking the assumptions used by the actuary in calculating the FRS102 pension liability;
- Assess the difference in calculating the liability between IAS19 and FRS102 to determine whether it is material or otherwise significant;
- Liaising with the auditors of the Pension Fund to, where possible, place reliance on the audit work they have completed for the Fund's 2022/23 accounts. We will then complete any further work, such as verifying scheme assets and input data, if required; and
- Assessing the basis of apportionment of the pension liability across the 3 City of London entities.

In addition, we understand that following the latest triennial valuation, a restatement of the 2021/22 liability may need restating. We will review this valuation against our materiality threshold to determine whether this is necessary and advise accordingly.

Recognition of financial investment and investment property

Our considerations in relation to income recognition are set out under Section 2.1 and 2.2 above.

Other judgements and estimates

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.

3. Other areas of audit focus and disclosure

We have also noted the following matters from our initial discussions and from our work in previous years as not having significant audit risk but being potentially relevant to the financial statements.

3.1 Income

International Standards on Auditing (ISA (UK) 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 and financial investment income to be significant (see Section 2) we do not consider tourism income to be a significant risk due to its high-volume low-value nature. Other income streams are not considered a significant risk due to their immaterial nature.

Across all income streams the key risks remain the same:

- Completeness (has all income due been appropriately recognised in the period?).
- Cut off (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?).
- Valuation (where income is owed at year end, is it likely to be received or should it be provided against?).

Tourism income

Bridge House Estates owns Tower Bridge, which is open to the public for an admission fee. In addition, there is a gift shop on site generating further revenue, and the venue is also rented out for events. This revenue stream totalled £3.1m in 2021/22 and is expected to increase to c.£7.6m in 2022/23, being the first full year of normal operation since the pandemic.

Historically, a significant proportion of the income is from cash sales, which is by its nature a fraud risk, however we understand that since the pandemic this proportion has decreased significantly, with tourists favouring online booking and card payments instead. In addition, given the high volume/low value and transactions nature of the income is not considered to give rise to a significant risk of material misstatement.

As part of our audit work, we will:

- Perform analytical review of trends and variances for each tourism income stream against expectations, budget, forecast and prior years where appropriate;
- Review a sample of reconciliations between the EPOS system and amounts banked;
- Trace a sample of sales through the EPOS system and ultimate receipt to bank;
- Trace a sample of events income through to supporting documentation and receipt to bank; and
- Review year-end cut-off to ensure income has been recognised in the correct years, including the deferral of income relating to events booked after 31 March 2023.

3.2 Payroll

Payroll is the second largest single expenditure item for BHE, totalling £7.1m in the 2021/222 year. The key risks in this area are considered to be:

- Existence (does the expenditure relate to genuine employees?).
- Accuracy (are payments made at authorised amounts and are the correct deductions made?)
- Disclosure (have all required disclosures been made in the financial statements?)

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.

3.3 Funds

Bridge House Estates 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 items identified 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 calculation of designated funds, in particular those associated with the repairs and replacement of the bridges owned by the charity, to ensure they are reasonable and any movements appropriately approved; and
- 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.
- Review supporting documentation In relation to the release of the designation of the Social Investment Fund approved by the Bridge House Estates Board in February 2023 & review respective accounting treatment.

3.4 Other balance sheet items

In addition to our focus on the areas detailed above we will carry out our standard audit procedures on the other material balance sheet amounts. Our work will include:

- Testing of key control accounts reconciliations;
- Testing of bank reconciliations;
- A review of post year end transactions and cash movements across year-end where these helps to confirm the year end position;
- A review of controls and processes over the payment of trade creditors, including bank payment authorisation; and
- Confirmation of assets held (e.g. cash at bank) to third party confirmations.

3.5 Going concern

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 and management are 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.

Whilst we do not consider there to be a significant risk over going concern due to the Charity's extensive investment and cash holdings, the trustee's going concern assessment is a key area of importance for our audit. In accordance with the requirements of ISAs (UK), our audit report includes a specific reference to going concern.

As in prior years management will prepare 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 Audit and Risk Management Committee and Bridge House Estates board.

Crowe response

Our work on going concern will include the following:

- Reviewing the period used by Trustee to assess the ability of BHE to continue as a going concern,
- Examining budgets and forecasts prepared by management covering the period of the going concern assessment to ensure that these appropriately support the trustee's conclusion,

- Reviewing the accuracy of past budgets and forecasts by comparing the budget for the current year against actual results for the year, and
- Reviewing any other information or documentation which the Trustee used in their going concern assessment.

3.6 Related parties

In line with the ISAs which direct our audit work (ISA (UK) 550) we are obliged to ensure that any related parties are identified and that any transactions involving these parties and the group are appropriately authorised and correctly disclosed in the financial statements. The definition of a “related party” as defined in FRS 102 encompasses, in addition to the Trustee and Council Members, any members of management who can directly influence management decisions and close family members of both; the latter being of relevance if individually the Trustee, Members and members of management are perceived to be in a position to influence the management decisions of family members or can be influenced by them.

We will therefore review the Corporation and the Charity’s procedures for identifying potential related parties and ensuring all transactions are complete, including any annual declaration of interests completed by Council Members and Senior Management. We will review the declarations completed to ensure that the disclosure presented within the accounts is both accurate and complete.

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 and the Audit and Risk Management Committee and Bridge House Estates board any recommendations on controls that we may have identified during the course of our work.

As we reported last year, the primary responsibility for the prevention and detection of fraud rests with management and "those charged with governance" (i.e. the Trustee), 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

As part of our audit procedures we make enquiries of management to obtain their assessment of the risk that the financial statements may be materially misstated due to fraud. However, we emphasise that the responsibility to make and consider your own assessment rests with yourselves and that the trustee, Audit and Risk Management Committee and Bridge House Estates board and management should ensure that these matters are considered and reviewed on a regular basis.

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. Specifically, we require a response to the following questions:

- What, in your view, are the risks of fraud in the entity? Both misappropriation of assets and fraud relating to financial reporting?
- What are the general risks of fraud in this business sector, and how does this entity mitigate them?
- How do you monitor and review management's process for identifying and responding to the risks of fraud in the entity?
- To what extent do you understand the controls management has put in place to mitigate those risks?
- Has there been any actual or suspected fraud during the year?
- Have there been any allegations of fraud during the year?

The Trustee may find it helpful to prepare a fraud risk assessment alongside management. A fraud risk assessment is an objective review of the fraud risks facing an organisation to ensure they are fully identified and understood. This includes ensuring:

- fit for purpose counter fraud controls are in place to prevent and deter fraud and minimise opportunity, and

- action plans are in place to deliver an effective and proportionate response when suspected fraud occurs including the recovery of losses and lessons learnt.

Any fraud risk assessment should not be seen as a standalone exercise but rather an ongoing process that is refreshed on a regular basis.

We have included in Appendix 7 guidance and a framework for conducting fraud risk assessments.

Our responsibilities

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 and the Audit and Risk Management Committee and Bridge House Estates board. 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 Audit and Risk Management Committee and Bridge House Estates board / Trustee.

- Whether they have knowledge of any fraud or suspected fraud.
- The role that the Audit and Risk Management Committee and Bridge House Estates board / Trustee exercise in oversight of:
  - i) BHE’s assessment of the risks of fraud, and the design, implementation and maintenance 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

Tina Allison is your Audit Partner. She will be assisted by Rachel Laws as Senior Manager and James Badman as Audit Manager. The onsite team this year will be led by Jack Wickett.

Our audit fees

We understand these are extraordinary and difficult times for the country, and especially for charities. In recognition of these challenges and the pressures on Bridge House Estates we are seeking to limit as far as possible passing on the additional audit costs arising from earnings inflationary pressures and from the introduction of ISA (UK) 315 (Revised) which has an impact on our audit work and has led to a refresh of our audit methodology. To this end we have been working hard to streamline our processes and the tools we use to share information such as the introduction of Inflo which we believe have been making an impact on the quality, efficiency, and the timely delivery of our audits. Whilst we will seek to minimise the extra work as far as possible, we don't believe we can fully absorb these costs.

As in previous years 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 audits of the financial statements of Bridge House Estates, incorporating an inflationary rise of 5%, £3,750 and additional costs arising from ISA (UK) 315 of £10,300 will be £89,050 (2021: £75,000):

This fee is stated exclusive of VAT and disbursements.

We propose to submit an initial interim fee of £26,700 at the time of issuing this planning report and subsequent fees of £26,700 at the end of the interim fieldwork, and £26,700 at the end of the main fieldwork and the final balance of our fees of £8,950 on completion November 2023.

To assist you in providing the required information, we have provided a separate list of audit deliverables to the BHE finance team via inflo.

Timetable

The anticipated timetable and deadlines are as follows.

Key Events	Date
Initial planning meeting	30 May 2023
Bridge House Estates Board meeting to consider audit plan	5 July 2023
Audit and Risk Management Committee and Bridge House Estates board meeting to consider audit plan	10 July 2023
Receipt of fieldwork deliverables and draft financial statements	30 June 2023
Audit fieldwork commences	3 July 2023
Clearance meeting with finance team	8 August 2023
Audit and Risk Management Committee and Bridge House Estates board meeting to consider accounts and report from the auditors	6 November 2023
Bridge House Estates Board meeting to consider accounts and report from the auditors	27 November 2023
Accounts signed by Trustee	November 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 Bridge House Estates.
- 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 and the wider Corporation'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 13 July 2022.

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 resourcmateriales 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 not been made aware of any such issues from our initial discussions but will be requesting confirmation of this 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 FRC's 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 charity. We have not identified any other issues with regards to integrity, objectivity and independence and, accordingly, we remain independent for audit purposes.

The matters in this report are as understood by us as at 19 June 2023. 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 Management Committee and Bridge House Estates board to consider and ratify on behalf of the Trustee, 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.

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. In addition, 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.

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.

We also set a level of materiality (‘performance materiality’) below the amount set for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality also refers to amounts set at less than the materiality level or levels for particular classes of transactions, account balances or disclosures.

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 that will be applied, based on the prior year financial statements:

Entity	Materiality calculation	Materiality £’000	Reporting threshold £’000
Bridge House Estates	2% Investments	35,352	1,767
	1.5% Expenditure	735	36.75

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 applicable).

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 December 2020. 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 or 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 webinars and 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) to stay updated on these. Any webinars which you have missed remain available on demand on our website.

Governance

The Charities Act 2022: Implementation

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.

The Charity Commission are currently working through implementing the various changes brought about by the legislation, and have set out an indicative timetable here: https://www.gov.uk/guidance/charities-act-2022-implementation-plan

Other provisions of the Act in force from 31 October 2022

- Section 5: Orders under section 73 of the Charities Act 2011
- Section 8: Power of the court and the Commission to make schemes
- Section 32: Trustee of charitable trust: status as trust corporation
- Section 36: Costs incurred in relation to Tribunal proceedings etc
- Part of Section 37: Public notice as regards Commission orders etc.
- Part of Section 40 and Schedule 2: Minor and consequential amendments

Provisions of the Act expected to come into force Spring 2023

- Sections 9-14 and 35a: Permanent endowment
- Sections 17-23: Charity land
- Section 24 and Schedule 1: Amendments of the Universities and College Estates Act 1925
- Sections 25-28: Charity names
- Section 38 and 39: Connected persons
- Part of Section 40 and Schedule 2: Minor and consequential amendments

Provisions of the Act expected to come into force Autumn 2023

- Section 1-3: Charity constitutions
- Section 29: Powers relating to appointments of trustees
- Section 31: Remuneration etc of charity trustees etc
- Sections 33-35: Charity mergers
- Section 37: For remaining purposes
- Section 40 and Schedule 2: For remaining purposes

The key provisions of the Act that have been implemented to date are set out below, and further information can be found here: https://www.gov.uk/guidance/charities-act-2022-guidance-for-charities

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)

The Charity Commission published guidance in relation to failed appeals on 31 October 2022, which can be found here: https://www.gov.uk/government/publications/charity-fundraising-appeals-for-specific-purposes

The Charity Commission has also updated its guidance CC20 'Charity fundraising: a guide to trustee duties' to reflect these changes.

The Fundraising Regulator has also published guidance, further details of which are provided below.

Payments to Trustees for providing goods to the charity

The Charities Act 2011 provided a statutory power for charities, in certain circumstances, to pay trustees for providing a service to a charity beyond usual trustee duties.

The Act extends this power to allow, in certain circumstances for payments to trustees for providing goods to the charity.

Updated guidance can be found here: https://www.gov.uk/guidance/payments-to-charity-trustees-what-the-rules-are

The Charity Commission has also updated its guidance CC29 'Conflicts of interest: a guide for charity trustees' and CC11 'Trustee expenses and payments' to reflect these changes.

Power to amend Royal Charters

Royal Charter charities are able to use a new statutory power to change sections in their Royal Charter which they cannot currently change, if that change is approved by the Privy Council.

Updated guidance can be found here: https://www.gov.uk/guidance/royal-charter-charities

Responsible investments guidance

The Charity Commission ran a public consultation in April 2021 in respect of updated guidance for responsible investments. Previous Charity Commission guidance was based on the outdated Bishop of Oxford case in 1992.

The outcome of this case recognised that there were times when a charity may wish to pursue an ethical approach to its investments, but that this was a secondary consideration to maximising investment income. The results of the Charity Commission consultation were published on 18 August 2021.

During the consultation two charities were granted permission to bring a case relating to responsible investment to the High Court, The Ashden Trust and the Mark Leonard Trust.

Their investment policies, approved by the High Court, were based on scientific evidence of climate change and excluded, as far as practically possible, investments not aligned with the goals of the Paris Agreement. The charities were seeking clarification of the law. Previous case law in the 1992 Bishop of Oxford case established the principle that charity trustees should maximise return on their investments and ought not to take into account ethical or moral considerations that could cause financial detriment to the charity. There were exceptions to these where an investment directly conflicted with the charity's purposes or indirectly conflicts with its work.

The new High Court ruling charities are able to exclude specific investments from their portfolio should they not align with their charitable purpose, as long as it can be demonstrated that appropriate decision-making processes have been followed. The below extract of paragraph 78 of the judgement clarifies the relevant law that should be referred to when considering responsible investment policies:

1. *"Trustees' powers of investment derive from the trust deeds or governing instruments (if any) and the Trustee Act 2000.*
2. *Charity trustees' primary and overarching duty is to further the purposes of the trust. The power to invest must therefore be exercised to further the charitable purposes.*
3. *That is normally achieved by maximising the financial returns on the investments that are made; the standard investment criteria set out in s.4 of the Trustee Act 2000 requires trustees to consider the suitability of the investment and the need for diversification; applying those*

criteria and taking appropriate advice is so as to produce the best financial return at an appropriate level of risk for the benefit of the charity and its purposes.

4. *Social investments or impact or programme-related investments are made using separate powers than the pure power of investment.*
5. *Where specific investments are prohibited from being made by the trustees under the trust deed or governing instrument, they cannot be made.*
6. *But where trustees are of the reasonable view that particular investments or classes of investments potentially conflict with the charitable purposes, the trustees have a discretion as to whether to exclude such investments and they should exercise that discretion by reasonably balancing all relevant factors including, in particular, the likelihood and seriousness of the potential conflict and the likelihood and seriousness of any potential financial effect from the exclusion of such investments.*
7. *In considering the financial effect of making or excluding certain investments, the trustees can take into account the risk of losing support from donors and damage to the reputation of the charity generally and in particular among its beneficiaries.*
8. *However, trustees need to be careful in relation to making decisions as to investments on purely moral grounds, recognising that among the charity's supporters and beneficiaries there may be differing legitimate moral views on certain issues.*
9. *Essentially, trustees are required to act honestly, reasonably (with all due care and skill) and responsibly in formulating an appropriate investment policy for the charity that is in the best interests of the charity and its purposes. Where there are difficult decisions to be made involving potential conflicts or reputational damage, the trustees need to exercise good judgment by balancing all relevant factors in particular the extent of the potential conflict against the risk of financial detriment.*
10. *If that balancing exercise is properly done and a reasonable and proportionate investment policy is thereby adopted, the trustees have complied with their legal duties in such respect and cannot be criticised, even if the court or other trustees might have come to a different conclusion."*

A full copy of the judgement can be found here: https://www.bailii.org/ew/cases/EWHC/Ch/2022/974.html

The Charity Commission has indicated that it will publish updated CC14 guidance in Summer 2023.

Charity Commission: Consultation on Charity Use of Social Media

On 17 January 2023 the Charity Commission published a consultation on draft guidance for charities on their use of social media.

The aim of the guidance is to help trustees improve their understanding in this area, and to encourage charities to adopt a policy on social media as a way to set their charity's approach. The guidance does not introduce new trustee duties but seeks to make clear how existing duties are relevant to a charity's use of social media.

The guidance sets out that social media use can raise issues and risks for charities, relating to problematic content:

- posted or shared by the charity on its own social media channels
- posted by the public or third parties on a charity's social media channel
- posted on a personal social media account that can be reasonably associated with the charity

It is important that charities have their say and engage with the consultation, to ensure that the relevant considerations can impact decision making.

The consultation closed on 14 March 2023, and the Charity Commission are now considering the responses received. An analysis of the responses and the final guidance is expected in the Summer. The consultation can be found here: **https://www.gov.uk/government/consultations/draft-guidance-charities-use-of-social-media**

Charity Commission: Manage financial difficulties in your charity arising from cost of living pressures

In December 2022 the Charity Commission published additional guidance "Manage financial difficulties in your charity arising from cost of living pressures", recognising that many charities are facing difficult circumstances as a result of rapidly increasing costs. At the same time, some charities are also experiencing an increase in demand, in particular those charities providing services to people in need, further compounded by donors also suffering from the similar issues thereby leading to reduced income for some charities.

The guidance reminds trustees of their responsibilities in providing effective financial stewardship and ensuring that any decisions made are in the best interest of the charity. Key is the evaluation of the charity's financial position, and robust and regular reviews of the cashflow forecasts, to ensure the charity is able to continue to carry out its charitable activities, identifying any potential shortfalls and enabling actions to be taken in a timely manner.

The guidance can be obtained here: **https://www.gov.uk/guidance/manage-financial-difficulties-in-your-charity-arising-from-cost-of-living-pressures**

Charity Commission: Internal financial controls for charities (CC8)

In April 2023 the Charity Commission published updated guidance "Internal financial controls for charities (CC8)"

The guidance has been updated to reflect changes in legislation and practise across the sector, including new areas such as mobile payment systems (e.g. Apple Pay) and donations of cryptoassets. Existing guidance has also been refreshed in areas such as payments to related parties and operating internationally.

An updated checklist is also included in the guidance to allow charities to assess themselves against the new guidance.

The guidance can be obtained here:
https://www.gov.uk/government/publications/internal-financial-controls-for-charities-cc8/internal-financial-controls-for-charities

Compliance

Harpur Trust vs Brazel – where are we now?

In July 2022 the Supreme Court's judgement in Harper Trust v Brazel made headlines.

The Court set out how holiday pay should be calculated for permanent employees with irregular hours, i.e. 'part-year' workers such as those on zero hours or term time contracts.

Workers are entitled to 5.6 weeks of holiday per year. The Supreme Court stated that part-year workers holiday pay should be calculated with reference to their weekly average hours over a 52-week period, which is then multiplied by the 5.6 to determine the annual entitlement. This change can produce some unusual results e.g. a worker who has worked a 5-day week only once in a 52-week period will receive 28 days holiday.

As a result of the decision a part -year worker will receive more holiday than a part-time worker, who works the same number of hours across the year.

This was referenced in the judgement with the Supreme Court noting that any slight favouring of such workers, was not of a magnitude that would require wholesale revision of the general rules. In response to a strong reaction from industry the government opened a consultation exercise to review the apparent disparity and determine how to formulate a better method of calculation.

The consultation exercise ended on 9 March 2023, but it will be many more months before we have the government's response.

So where does that leave employers?

Until new legislation is introduced the decision of the Supreme Court is still binding, and it's unusual for newly enacted legislation to have retroactive effect.

However, given the upheaval of amending internal policies and procedures for many employers a 'wait and see' approach outweighs the risks of litigation. In taking this approach however we would recommend that an organisation fully understands the potential extent of its liabilities, which can extend for a period of 2 years from the date of the most recent deduction. This evaluation should also include contractors who are potentially open to an employee status challenge.

Employers should consider using a fixed term contract for any new part-year workers to limit further exposure, as holiday pay for a fixed term contract is prorated to reflect the term of the contract rather than being calculated as a full year's entitlement.

Useful links

Gov.uk –

https://www.gov.uk/government/consultations/calculating-holiday-entitlement-for-part-year-and-irregular-hours-workers

https://www.gov.uk/employment-status

ACAS (employment status definitions) - https://www.acas.org.uk/checking-your-employment-rights

Updated guidance on Campaigning and political activity

In November 2022, the Charity Commission published updated guidance on campaigning and political activity for charities (CC9) following the passing of the Elections Act 2022.

Although the basic legal position regarding charity campaigning has not changed, this guidance focuses first on the freedoms and possibilities for charities to campaign, and then on the restrictions and risks that trustees must bear in mind.

As with previous guidance, it also includes guidance on areas of good practice.

The updated guidance can be found here: https://www.gov.uk/government/publications/speaking-out-guidance-on-campaigning-and-political-activity-by-charities-cc9

Charities and terrorism

The Charity Commission guidance on ‘Charities and Terrorism’, first published in December 2012, has been updated in November 2022.

The guidance forms Chapter 1 of the Charity Commissions compliance toolkit, which provides advice and information on key aspects of the UK’s counter-terrorism legislation, highlights how particular provisions are likely to affect charities and their work, explains the various ‘terrorism lists’ that exist and advises trustees what to do if they discover their charity may be working with or connected to people or organisations on terrorism lists.

The updated toolkit signposts to new guidance from the Crown Prosecution Service on proscription offences and terrorist financing offences and cases involving humanitarian, development and peacebuilding work overseas.

The updated toolkit can be found here:

https://www.gov.uk/government/publications/charities-and-terrorism

Fundraising Regulator: Annual complaints report

In October 2022 the Fundraising Regulator has published its latest Annual Complaints Report which covers the period 1 April 2021 to 31 March 2022. The report analyses complaints received by the Fundraising Regulator and complaints reported to 56 of the UK’s largest fundraising charities.

The number of complaints to the sample charities rose proportionally for most methods in line with increased fundraising activity – with 13 of the 23 fundraising methods having increased complaint numbers in 2021/22 compared to 2020/21. However, the overall number of complaints had decreased since 2019/20 which is reflective of changes in fundraising activity and public mood during the pandemic, as well as demonstrating the sector’s commitment to high standards of fundraising.

Over the same period, complaints about fundraising methods including charity bags (77), digital (74), collections and addressed mail (both 48) accounted for the majority of the 381 complaints within the Fundraising Regulator's scope. Vulnerability was also a theme threaded into many of the complaints we received. We encourage charities to develop policies to guide how fundraisers interact with people in vulnerable circumstances and keep up to date records about donors who may be vulnerable.

You can see the full report here.

Fundraising Regulator: ‘Failed appeals’ guidance

Following the changes introduced by the Charities Act 2022 (‘the Act’), the Fundraising Regulator has also published guidance ‘What to do if you raise more donations than you need, don’t raise enough, or cannot achieve your purpose’

The guidance includes practical measures that can be taken to avoid triggering the legal requirements of the Act, such as the inclusion of a secondary purpose in appeals literature.

The guidance should be read in conjunction with the guidance issued by the Charity Commission noted above.

The guidance is available here: https://www.fundraisingregulator.org.uk/more-from-us/news/what-do-if-you-raise-more-donations-you-need-dont-raise-enough-or-cannot-achieve

Gender pay reporting

Any employer with 250 or more employees on a specific date each year (the 'snapshot date') must report their gender pay gap data. For most entities the snapshot date is the 5 April of each year.

You must report and publish your gender pay gap information within a year of your snapshot date. You must do this for every year that you have 250 or more employees on your snapshot date.

Guidance on what and how to report can be found here: https://www.gov.uk/government/publications/gender-pay-gap-reporting-guidance-for-employers

Financial and other reporting

FRS Consultation: Amendments to FRS 102

On 15 December 2022 the Financial Reporting Council issued FRED 82 "Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs – Periodic Review".

FRED 82 proposes a number of changes resulting from the second periodic review of FRS 102 and other Financial Reporting Standards. The proposals include: a new model of revenue recognition in FRS 102 and FRS 105 based on the IFRS 15 five-step model for revenue recognition with appropriate simplifications; a new model of lease accounting in FRS 102 based on IFRS 16 on-balance sheet model (again with appropriate simplifications); and various other incremental improvements and clarifications.

The FRED is accompanied by a consultation stage impact assessment, and the anticipated implementation date will be periods commencing on or after 1 January 2025.

The consultation closed on 30 April 2023, and the FRC will now proceed to review the responses received. The consultation documents can be obtained here: https://www.frc.org.uk/consultation-list/2022/fred-82

Charity Commission: Changes to the Annual Return

In June 2022, the Charity Commission began consulting on a range of changes to its Annual Return, through which it hopes to gather more data about charities. There have not been major changes to the Annual Return since 2018, and the Commission has stated its desire to be more data driven and the Annual Return feeds many of the Commissions analyses.

The consultation closed on 1 September 2022, and the Charity Commission published its consultation response on 21 December 2022.

The updated Annual Return includes 17 new questions, a number of which are aimed at gathering more in-depth information on charity income streams and the extent of any overseas activities.

New questions in the updated Annual Return include:

- What was the value of your charity's single highest value donation received from a corporate donor during the financial period of this return?
- What was the value of your charity's single highest value donation received from an individual during the financial period of this return?
- What was the value of your charity's single highest value donation received from a related party during the financial period of this return?
- How was income from outside of the United Kingdom received by your charity in the financial period of this return?
- Does your charity have formal written agreements in place with any partners delivering charitable activities on its behalf outside of the United Kingdom?

Annex 8 contains a full list of the revised Annual Return questions that are set out in the Charities (Annual Return) Regulations 2022 that came into force on 1 January 2023.

Guidance will be published by the Charity Commission in early 2023 to provide additional details on the information being requested and the reason why.

For some charities, the additional questions will require a significant amount of data collection, and we recommend charities obtain the list of questions and begin collating the information required as soon as possible.

The Annual Return needs to be completed by all charities with an annual income of £10,000 plus, within 10 months of the end of their financial year.

Full details of the outcome of the consultation, along with guidance on completing the annual return can be found here: https://www.gov.uk/government/consultations/charity-commission-revisions-to-the-annual-return-2023-25

NCSC publishes “Cyber Threat Report: UK Charity Sector”

The National Cyber Security Centre has published a report outlining the cyber threats currently facing charities of all sizes.

The 2022 DCMS Cyber Security Breaches Survey, which measures the policies and processes organisations have for cyber security, as well as the impact of breaches and attacks, highlighted 30% of UK charities had identified a cyber-attack in the last 12 months, with 38% of these having an impact on the service.

The report notes that the charity sector is particularly vulnerable as they can hold significant amounts of sensitive or valuable data, making them attractive targets, alongside a perception that charities have fewer resources to commit to cyber security.

The report provides details of the commonly perpetrated cyber-attacks, as well as a number of recommendations and links to guidance to assist charities strengthen their defences.

A copy of the report can be obtained here: https://www.ncsc.gov.uk/files/Cyber_threat_report-UK-charity-sector.pdf

In addition, the Charity Commission has updated it’s guidance ‘Protect your charity from fraud and cybercrime’ The updated guidance includes a number of links to organisations and resources helping to protect against fraud and cybercrime.

FRC publishes "What makes a good Annual Report and Accounts" report

In December 2022, the FRC published its latest report on the attributes of a good Annual Report and Accounts (‘ARA’) from their perspective as an improvement regulator. It draws on previous FRC publications alongside their day to day work.

The report states that *‘A high-quality ARA:*

- *complies with relevant accounting standards, laws and regulations, and codes;*
- *is responsive to the needs of stakeholders in an accessible way; and*
- *demonstrates the corporate reporting principles and effective communication characteristics outlined in this publication.’*

Whilst the report is focused on corporate reporting, there are a number of quick tips and pointers, along with examples, which might be of interest when preparing your Trustees’ Annual Report.

The full report can be found here: https://www.frc.org.uk/getattachment/d3e86b16-22b6-4aa7-a6fe-1dc83657335f/What-Makes-a-Good-Annual-Report-and-Accounts.pdf

Sustainability Reporting and the Charity SORP

Sustainability and environmental issues continue to be high priority for all sectors. The Charity SORP Committee produced a briefing note reflecting on the current approach to sustainability reporting.

The Committee sought to identify whether elements of sustainability reporting should be introduced into the trustees’ annual report, and discuss preferred options should this be the case.

The current SORP ask charities to identify the difference their work has made to society as a whole.

The Committee noted that additional support would likely be required to enable charities to comply with additional reporting requirements, and the need to address the scope of the sector. The current requirements are different for large charities, this would need to remain consistent in order to avoid burdening smaller charities.

The full briefing can be found here.

Our guidance on climate change can be accessed here.

We have recently published a review of annual reports, all including a relevant disclosure, which identified a wide variety in the level of detail provided and the format used. A copy of our report, which includes examples of best practice and areas of improvement can be obtained here.

Guidance on Fundraising Reporting Requirements

The Fundraising Regulator has published new research and updated guidance to support compliance with the fundraising reporting requirements in the Charities (Protection and Social Investment) Act 2016).

The Fundraising Regulator has reviewed the annual reports of almost 200 charities with income over £1m to provide a benchmark for the sector and highlight good practice and identify areas for improvement.

The research had noted that an increasing number of charities reported on their fundraising approaches and complains compared to previous years, however only a low proportion of the reports reviewed included a statement on how fundraising carried out on their behalf is monitored or a statement of how they protect the public and vulnerable donors.

The results of the review can be found here: https://www.fundraisingregulator.org.uk/more-from-us/resources/charities-act-2016-analysis-july-2022

and the updated guidance can be found here: https://www.fundraisingregulator.org.uk/more-from-us/resources/charities-act-2016-fundraising-reporting-requirements-guidance

Taxation

Consultation: Charity tax compliance

The Government has launched a consultation into several aspects of tax compliance by charities to consider how to reform some of the tax relief rules that are not working as intended.

The consultation seeks views on a number of areas, including:

- preventing donors from obtaining a financial benefit from their donation
- preventing abuse of the charitable investment rules
- closing a gap in non-charitable expenditure rules
- sanctioning charities that do not meet their Filing and Payment Obligations

It is important that charities have their say and engage with the consultation, to ensure that the relevant considerations can impact decision making.

The consultation closes on 20 July 2023, and response can be submitted by email to charitypolicy.taxteam@hmrc.gov.uk.

The consultation can be found here: https://www.gov.uk/government/consultations/charities-tax-compliance/consultation-charities-tax-compliance

Autumn Statement 2022

The Chancellors Autumn Statement 2022 was published in November 2022.

The key measures relevant for charities are set out below. A copy of the full statement can be found here: https://www.gov.uk/government/publications/autumn-statement-2022-documents

National Minimum Wage (NMW) and National Living Wage (NLW)

Following recommendations from the Low Pay Commission, the NLW will increase for individuals aged 23 and over to £10.42 an hour from 1 April 2023.

The NMW will also increase from 1 April 2023 as follows:

- Increasing the rate for 21-22 year olds to £10.18 an hour;
- Increasing the rate for 18-20 year olds to £7.49 an hour;
- Increasing the rate for 16-17 year olds to £5.28 an hour;
- Increasing the apprentice rate to £5.28 an hour; and
- Increasing the accommodation offset rate to £9.10 an hour

Income tax additional rate threshold

The income tax additional rate threshold will be lowered from £150,000 to £125,140 from 6 April 2023.

Corporation tax rate

The planned increase in the Corporation Tax rate to 25% for companies with over £250,000 in profits will go ahead. Small companies with profits up to £50,000 will continue to pay corporation tax at 19%, with profits between these two figures subject to a tapered rate.

Business Rates: Retail, Hospitality and Leisure Relief

Support for eligible retail, hospitality, and leisure businesses is being extended and increased from 50% to 75% business rates relief up to £110,000 per business in 2023-24.

VAT: Changes to Penalty Regime

For VAT accounting periods starting on or after 1 January 2023 there are new penalties for VAT returns that are submitted late and VAT which is paid late, in addition the way interest is charged has also changed. The changes are aimed at simplifying and separating penalties and interest.

The system has changed to a penalty points system, where for each return submitted late, a penalty point is issued. The penalty point threshold is determined by the accounting period, with a higher threshold for more frequently submissions. When the threshold is reached, a penalty of £200 will be issued, with a further £200 penalty for each further late submission.

Penalty points will have a lifetime of 2 years, after which they will expire. The period is calculated from the month after the month in which the failure occurred, e.g. submission due January 2024, so the penalty point will expire in February 2026.

Once a taxpayer reaches the threshold, all points accrued will be reset to zero when the following conditions are met:

- A period of compliance; and
- The taxpayer has submitted all submission in the previous 2 years (even if late).

The new late payment penalty will apply in instances where the return is submitted on time but the payment is not. This penalty considers the length of the delay in making payment and the penalty increases over time.

As part of the new penalty regime, HMRC has also updated its Late Payment Interest ('LPI') rules to bring these in line with other tax regimes.

Full details of the updated regime can be found here: https://www.gov.uk/guidance/penalty-points-and-penalties-if-you-submit-your-vat-return-late

HMRC: Gift Aid on digital donations

HMRC have updated their Gift Aid guidance in January 2023 to clarify that qualifying donations received through digital platforms are eligible for Gift Aid on the gross amount before deduction of administration fees by the platform provider.

The updated guidance reads: "Donations made using digital platforms, credit card or debit card may incur an administration fee which reduces the actual amount received by the charity. Subject to the normal qualifying conditions, the gross donation paid is eligible for Gift Aid, regardless of any processing fees incurred by the charity. The charity may treat these administrative fees as charitable expenditure. Where the charity is unable to demonstrate a clear audit trail of administration fees incurred Gift Aid should only be claimed on the net donation received."

This is a useful clarification which agrees logically with Gift Aid legislation. Charities that historically have claimed Gift Aid on amounts received net of the deduction of administration fees may consider revisiting such claims.

Appendix 5 - Understanding the changes to ISA (UK) 315

ISA (UK) 315 (Revised) comes into effect for periods starting in December 2021 and later (i.e. years ending 31 December 2022). The changes to the standard are fairly fundamental, and are intended to change the way that audit firms approach the identification of risks of material misstatement[1], and by extension, how they respond to these risks. We have set out in the table below the key changes to ISA (UK) 315 and the potential impact on the audit of Bridge House Estates.

Key change	**Potential impact on the audit**
A more robust risk identification and assessment process, with a separate assessment required of inherent risk and control risk	Additional requests for information to enhance understanding of the systems, processes and controls, including but not limited to: - More information regarding the entity's risk assessment process and monitoring of internal controls - Policies and procedure manuals, flowcharts and other supporting information to support our understanding of the information systems relevant to the preparation of the financial statements
Enhanced procedures relating to exercising professional scepticism, and additional documentation requirements	Additional requests for information to clarify areas where evidence obtained appears to contradict information already considered in the audit.
Increased focus on information technology	Additional requests for information to enhance understanding of the IT environment, including: - Information on the IT applications used by BHE, including the extent of any automated procedures - Information on the supporting IT infrastructure (i.e. network, operating systems and related hardware and software) and ant third party hosting or outsourcing of IT - information on the access controls in place over the use of IT applications, including the setting up and removal of user accounts

[1] Risk of material misstatement: The risk that the financial statements are materially misstated prior to audit. This consists of two components, described as follows at the assertion level:

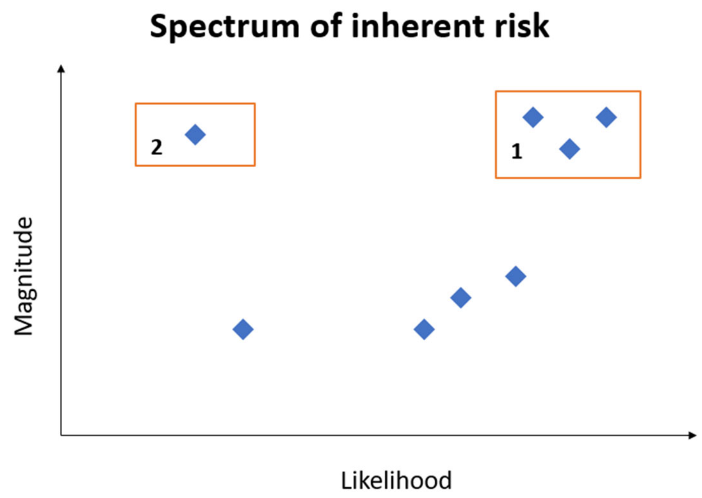
(a) Inherent risk – The susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.

(b) Control risk – The risk that a misstatement that could occur in an assertion about a class of transactions, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's controls.

Key change	Potential impact on the audit
Inclusion of specific controls where auditors are required to identify and perform design and implementation thereon.	Additional requests for information in respect of the systems, processes and controls in respect of: - Non-standard journal entries - where the journal entries are automated or manual and are used to record non-recurring, unusual transactions or adjustments - Standard journal entries - where the journal entries are automated or manual and are susceptible to unauthorized or inappropriate intervention or manipulation - Other controls identified based on auditor judgement, including but not limited to: o Controls that address risks that are assessed as higher on the spectrum of inherent risk (not determined to be a significant risk); o Controls related to reconciling detailed records to the general ledger; or o Complementary user entry controls, if using a service organisation.
A new stand-back requirement when an audit is nearing completion, to evaluate classes of transactions, account balances and disclosures that are material (either quantitatively or qualitatively) but have not been identified as significant and confirm the previous assessed remains appropriate.	Additional audit work may be required where the assessed risk of material classes of transactions, account balances and disclosures are re-evaluated as higher than at the completion of the audit planning.

ISA (UK) 315 (Revised) also introduces the concept of a *'spectrum of inherent risk'*. 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.

The assessment of an inherent risk close to the upper end of the spectrum is indicative of a significant risk (Box 1), however the combination of likelihood and magnitude means that a significant risk could potentially have a low likelihood but the magnitude could be very high if it occurred (Box 2).



We have set out below further details on the inherent risk factors, along with examples of each within a non-profit context.

Inherent Risk Factor	Description per ISA (UK) 315	Examples in a non-profit context
Complexity	Arises either from the nature of the information or in the way that the required information is prepared, including when such preparation processes are more inherently difficult to apply.	- A complex group structure, with multiple subsidiaries, branches, in disparate locations and/or joint ventures, which may also include overseas operations - A complex IT environment, such as fundraising information held in a CRM system that is not integrated with the accounting system - The calculation of the actuarial valuation of defined benefit pension schemes
Subjectivity	Arises from inherent limitations in the ability to prepare required information in an objective manner, due to limitations in the availability of knowledge or information, such that management may need to make an election or subjective judgment about the appropriate approach to take and about the resulting information to include in the financial statements. Because of different approaches to preparing the required information, different outcomes could result from appropriately applying the requirements of the applicable financial reporting framework. As limitations in knowledge or data increase, the subjectivity in the judgments that could be made by reasonably knowledgeable and independent individuals, and the diversity in possible outcomes of those judgments, will also increase.	- The assessment of whether a grant is performance related, and the associated impact on income recognition - The selection of the accounting policy adopted in respect of legacy income - Selection of assumptions used in preparing the actuarial valuation of defined benefit pension schemes - Determination of the useful economic life and residual value of fixed assets - Determination of any provisions for bad and/or doubtful debts - The assessment of any provisions for dilapidations
Change	Results from events or conditions that, over time, affect the entity's business or the economic, accounting, regulatory, industry or other aspects of the environment in which it operates, when the effects of those events or conditions are reflected in the required information.	- Loss of a major funder and the corresponding impact on going concern - Development of a new income stream or activity - Expansion into new locations, such as the opening of an overseas branch - A change in legislation and any impact on operations, for example changes to health and safety legislation

Inherent Risk Factor	Description per ISA (UK) 315	Examples in a non-profit context
Uncertainty	Arises when the required information cannot be prepared based only on sufficiently precise and comprehensive data that is verifiable through direct observation. In these circumstances, an approach may need to be taken that applies the available knowledge to prepare the information using sufficiently precise and comprehensive observable data, to the extent available, and reasonable assumptions supported by the most appropriate available data, when it is not. Constraints on the availability of knowledge or data, which are not within the control of management (subject to cost constraints where applicable) are sources of uncertainty and their effect on the preparation of the required information cannot be eliminated.	- The outcome of a pending litigation or claim, and the determination of any potential liability or contingent liability disclosure - The assessment of any provisions for dilapidations - The assumptions and judgements applied in the preparation of budgets and forecasts to support going concern
Susceptibility to misstatement due to management bias or other fraud risk factors insofar as they affect inherent risk	Results from conditions that create susceptibility to intentional or unintentional failure by management to maintain neutrality in preparing the information. Management bias is often associated with certain conditions that have the potential to give rise to management not maintaining neutrality in exercising judgment (indicators of potential management bias), which could lead to a material misstatement of the information that would be fraudulent if intentional. Such indicators include incentives or pressures insofar as they affect inherent risk (for example, as a result of motivation to achieve a desired result, such as a desired profit target or capital ratio), and opportunity, not to maintain neutrality.	- Compliance with funding conditions, including the allocation of expenditure and the assessment of any provision in respect of clawbacks - Loan covenants at risk of being breached - Significant transactions with related parties - Significant amount of non-routine or non-systematic transactions including intercompany transactions and journal entries at the reporting date.

Inherent Risk Factor	Description per ISA (UK) 315	Examples in a non-profit context
Other inherent risk factors	Other inherent risk factors, that affect susceptibility to misstatement of an assertion about a class of transactions, account balance or disclosure may include: • The quantitative or qualitative significance of the class of transactions, account balance or disclosure; or • The volume or a lack of uniformity in the composition of the items to be processed through the class of transactions or account balance, or to be reflected in the disclosure.	- Lack of personnel with appropriate accounting and financial reporting skills. - Control deficiencies – particularly in the control environment, risk assessment process and process for monitoring, and especially those not addressed by management. - Past misstatements, history of errors or a significant amount of adjustments at period end.

ISA (UK) 315 requires auditors to consider that the risk of material misstatement may occur at two levels – the overall financial statement level, and at the assertion level for classes of transactions, balances and disclosures.

Assertions are defined in ISA (UK) 315 as *'Representations, explicit or otherwise, with respect to the recognition, measurement, presentation and disclosure of information in the financial statements which are inherent in management representing that the financial statements are prepared in accordance with the applicable financial reporting framework. Assertions are used by the auditor to consider the different types of potential misstatements that may occur when identifying, assessing and responding to the risks of material misstatement.'*

We have set out below the assertions and a short description of how they pertain to classes of transactions, balances and disclosures.

Assertions about classes of transactions and events, and related disclosures, for the period under audit	Assertions about account balances, and related disclosures, at the period end
(i) Occurrence—transactions and events that have been recorded or disclosed have occurred, and such transactions and events pertain to the entity.	(i) Existence—assets, liabilities and equity interests exist.
(ii) Completeness—all transactions and events that should have been recorded have been recorded, and all related disclosures that should have been included in the financial statements have been included.	(ii) Rights and obligations—the entity holds or controls the rights to assets, and liabilities are the obligations of the entity.
(iii) Accuracy—amounts and other data relating to recorded transactions and events have been recorded appropriately, and related disclosures have been appropriately measured and described.	(iii) Completeness—all assets, liabilities and equity interests that should have been recorded have been recorded, and all related disclosures that should have been included in the financial statements have been included.

Assertions about classes of transactions and events, and related disclosures, for the period under audit	**Assertions about account balances, and related disclosures, at the period end**
(iv) Cut off—transactions and events have been recorded in the correct accounting period.	(iv) Accuracy, valuation and allocation—assets, liabilities and equity interests have been included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments have been appropriately recorded, and related disclosures have been appropriately measured and described.
(v) Classification—transactions and events have been recorded in the proper accounts.	(v) Classification—assets, liabilities and equity interests have been recorded in the proper accounts.
(vi) Presentation—transactions and events are appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable in the context of the requirements of the applicable financial reporting framework.	(vi) Presentation—assets, liabilities and equity interests are appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable in the context of the requirements of the applicable financial reporting framework.

Appendix 6 - Fraud risk assessment

The Charity Commission has highlighted that fraud is a serious problem that Boards can't afford to ignore, with a cost to the social purpose organisation sector of potentially billions of pounds each year.

In their guide to tackling fraud in the charity sector the Charity Commission have set out eight guiding principles:

1. **Fraud will always happen** – simply being a charity is no defence. Even the best-prepared organisations cannot prevent all fraud. Charities are no less likely to be targeted than organisations in the private or public sector. Fraudsters do not give a free pass to charitable activities.
2. **Fraud threats change constantly.** Fraud evolves continually, and faster, thanks to digital technology. Charities need to be alert, agile and able to adapt their defences quickly and appropriately.
3. **Prevention is (far) better than cure.** Financial loss and reputational damage can be reduced by effective prevention. It is far more cost-effective to prevent fraud than to investigate it and remedy the damage done.
4. **Trust is exploited by fraudsters.** Charities rely on trust and goodwill, which fraudsters try to exploit. A strong counter-fraud culture should be developed to encourage the robust use of fraud prevention controls and a willingness to challenge unsusal activities and behaviour.
5. **Discovering fraud is a good thing.** The first step in fighting fraud is to find it. This requires charities to talk openly and honestly about fraud. When charities do not do this the only people who benefit are the fraudsters themselves.
6. **Report every individual fraud.** The timely reporting of fraud to police, regulators and other agencies is fundamental to strengthening the resilience of individual charities and the sector as a whole.
7. **Anti-fraud responses should be proportionate to the charity's size, activities and fraud risks.** The vital first step in fighting fraud is to implement robust financial controls and get everyone in the charity to sign up to them.
8. **Fighting fraud is a job for everyone.** Everybody involved – the trustee, managers, employees, volunteers, beneficiaries – has a part to play in fighting fraud. The Trustee in particular should manage fraud risks actively to satisfy themselves that the necessary counter-fraud arrangements are in place and working properly.

Fraud poses a serious risk to valuable funds, as well as sensitive data, and can damage the good reputation of social purpose organisations, affecting public trust and confidence in the sector as a whole.

Boards as custodians have a duty to manage their organisation's resources responsibly. They have legal duties and responsibilities under charity and other law to safeguard their organisation and to ensure that its funds and assets are protected, properly used and applied, and accounted for. The public needs to be sure that money donated to social purpose organisations is used properly and goes to the causes for which it is intended

What is a fraud risk assessment?

A fraud risk assessment is an objective review of the fraud risks facing a social purpose organisation to ensure they are fully identified and understood. This includes ensuring:

- fit for purpose counter fraud controls are in place to prevent and deter fraud and minimise opportunity, and
- action plans are in place to deliver an effective and proportionate response when suspected fraud occurs including the recovery of losses and lessons are learnt

Good practice suggests that to be most effective the risk assessment should be undertaken at a number of levels within the organisation:

- Organisational – to assess the key policy, awareness raising and behavioural (including leadership commitment) requirements that need to be in place to build organisational resilience to counter fraud.
- Operational – a detailed analysis of the fraud risk and counter fraud control framework at the operational level – by function (activity) or individual business unit (including programmes and projects).

A one size fits all assessment of fraud risk and response rarely works. Consider, a school and a charity operating internationally with the same level of controls. The risk and impact of fraud at the school may be inherently lower simply because of its operating environment. So a more nuanced approach is needed – one that considers the operating environment and the type and scale of fraud risk exposure. Some measures, are focused only on expenditure but some of the largest frauds in the non profit sector have been frauds of income diversion. This means that whilst many of the prevention, detection and response policies, systems and procedures may be similar they need to take in to account the different factors.

Any fraud risk assessment should not be seen as a standalone exercise but rather an ongoing process that is refreshed on a regular basis. Carrying out the fraud risk assessment may reveal instances of actual or suspected fraud. Should this happen next steps will be determined on circumstances, the existing control framework (including any response plan(s)), and in consultation with the key members of the organisation's management team.

The Board's risk appetite and fraud

The Charity Commission's first guiding principle as explained above recognises that fraud will always happen.

It is therefore important that, as part of setting their overall risk appetite, the Board considers fraud within their tolerance for the risks associated with the management of the organisation's funds. The development and continued assurance of a robust counter fraud control framework should then contribute to the organisation matching the risk appetite and tolerance agreed by the Board.

Organisational resilience

Organisational resilience is the ability of an organisation to anticipate, prepare for, respond and adapt to incremental change and sudden disruptions in order to survive and prosper.

In order to build organisational resilience in relation to fraud, defined as the measure of how well an organisation is protected against fraud, there are a number of key questions on the organisation's culture, policies and procedures which the Board should consider.

It is essential that Board members understand and meet their responsibilities to create organisational resilience to protect the funds and assets of the organisation from fraud. As part of their counter fraud strategy the Board should establish a counter fraud, bribery and corruption policy that is regularly reviewed together with a response plan for dealing with potential instances of fraud, bribery and corruption.

We have created a document at the below link with relevant checklists and questions to allow for this assess to be carried out methodically. This document contains references that have been made to the Charity Commission guidance. Although this is issued specifically for charities, it also identifies good practice which can be applied for all social purpose organisations.

This document includes:

- key questions for Boards to ask as a starting point in considering fraud risk
- detailed organisational counter fraud checklist which lists key questions for Boards on areas of organisational resilience
- checklist of potential fraud risks by function and activity
- set of questions from the National Cyber Security Centre (NCSC) publication "10 Steps to Cyber Security" to assist Boards with their existing strategic-level risk discussions.

We have provided key extracts of the guidance of checklists to assist boards in their assessment on the following pages. We request this is considered by the Audit, Finance and Risk Committee, on behalf of the board, as part of the fraud risk assessment and responses shared with us as part of the audit.

Full details can be found at:

https://www.crowe.com/uk/insights/fraud-risk-assessment-non-profit

Key fraud questions for the Board

All of the below questions need to be considered in the context of the structure and activities of the organisation and the fraud risks which it faces to enable the Board to ensure that the appropriate mitigating controls and action plans are put in place

Do we as a Board:	Comments
1. Understand our key fraud risks and how these change over time?	
2. Have a clear and proportionate anti-fraud strategy, balancing preventative, detective and deterrent activities?	
3. Actively promote the raising of concerns by staff, volunteers and/or third parties?	
4. Promote an anti-fraud culture and set the tone for the organisation?	
5. Understand the fraud risks within our supply chain?	
6. Understand the fraud risks within our third partner delivery organisations?	
7. Understand how we would identify if a significant fraud was happening based on data available to us?	
8. Have a clear Fraud Response Plan, setting out responsibilities, membership and decision-making bodies and investigation processes?	
9. Identified that the right skills to respond to fraud and cyber fraud incidents are available within our organisation or how they can be scaled up as part of our response?	
10. Have an anti-fraud policy and code of ethics which is communicated and understood across staff, volunteers and third parties?	

Organisational counter fraud checklist

Charities and especially those operating internationally should have as part of their counter fraud, bribery and corruption strategy:

- a counter fraud, bribery and corruption policy that is regularly reviewed, and
- a response plan for dealing with potential instances of fraud, bribery and corruption.

The following questions will assist the Board to assess the adequacy and, where necessary, the development of their current organisational counter fraud policy and response plan and to understand and meet their responsibilities to protect the funds and assets of the organisation from fraud.

Does the Board's organisational counter fraud policy set out:	Yes / No	Comments
• The purpose of the policy in setting out the organisation's stance on, and its approach to preventing, detecting, reporting and investigating fraud, bribery and corruption?		
• The scope of the policy, to whom it applies and the implications of non-compliance?		
• A tone from the top that sends a clear message to staff and stakeholders on the standards of expected behaviour, and specifically that fraudulent behaviour is unacceptable, will not be tolerated and that the organisation is committed to reduce instances of fraud to an absolute minimum?		
• How fraud and corruption is defined in the organisation with reference to current legislation and, where relevant, charity commission guidance?		
• The organisation's approach to its fraud risk assessment?		
• The key Board and management responsibilities in relation to the counter fraud policy within the organisation?		
• How the organisation will continue to improve its counter fraud policy based on any lessons learnt?		

Counter Fraud Response Plan

Does the Board's organisational counter fraud response plan include:	Yes / No	Comments
• Details of the organisation's whistleblowing policy, including how and where staff, partners and other stakeholders can report potential instances of fraud and corruption?		
• How the organisation would respond to identified instances of fraud, bribery or corruption?		
• The roles and responsibilities of staff, teams and functional operating groups in responding to instances of fraud, bribery or corruption?		
• How any information on potential fraud, bribery or corruption should be reported, both within the organisation and to other relevant bodies (including law enforcement agencies)?		
• How the organisation monitors the progress of any investigation, and takes decisions on them?		
• The procedure for reporting identified loss from fraud, bribery or corruption both internally and externally and any associated recoveries?		
• The allocation of responsibility for an annual fraud action plan that summarises and is used to monitor key actions to improve capability, activity and fraud resilience?		
• Agreed activities to seek to detect fraud in high-risk areas where little or nothing is known of the potential risk of fraud, bribery or corruption activity?		
• How staff will access training appropriate to their role to promote an understanding and awareness of the organisation's fraud risks and their responsibilities?		
• The organisation's policies and procedures to identify potential conflicts of interest, including gifts and hospitality, and the requirements for staff to declare and record offers of gifts and hospitality (whether accepted or declined)?		

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