Crowe

Smart decisions. Lasting Value

City’s Cash Group and Other Charities of the City of London

Initial Audit findings Report to the Audit and Risk Committee

Year ended 31 March 2023

Presented to the Audit and Risk Committee on 6 November 2023

Audit / Tax / Advisory / Risk

Strictly Private and Confidential

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

Dear Members of the Audit and Risk Committee

I have pleasure in submitting our initial audit findings report for the year ended 31 March 2023. The primary purpose of this report is to communicate to the Audit and Risk Committee, Corporation of London (in the context of the group), Directors (In the context of the Power Stations) & Trustees (in the context of the Natural Environment entities) the significant findings arising from our audit that we believe are relevant to those charged with governance.

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

I would like to take this opportunity to express our appreciation for the assistance provided to us by the finance team and the other staff at the charity during this year's audit.

Yours sincerely

Tina Allison
Partner

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1. Executive summary

Our report to you

We are pleased to present our Initial Audit Findings Report to the Audit and Risk Committee and we welcome the opportunity to discuss our findings with you at your meeting on 6 November 2023.

The primary purpose of this report is to communicate to the Audit and Risk Committee and the Trustees the significant findings arising from our audit to date that we believe are relevant to those charged with governance.

In accordance with International Standards on Auditing (UK) the matters in this report include

- the results of our work on areas of significant audit risk
- our views about significant qualitative aspects of the group's accounting practices, including accounting policies, accounting estimates and financial statement disclosures
- significant difficulties, if any, encountered during the audit
- any significant matters arising during the audit and written representations we are requesting
- unadjusted misstatement identified during the audit
- circumstances that affect the form and content of our auditor's report, if any
- any other significant matters arising during the audit that, in our professional judgment, are relevant to the oversight of the financial reporting process

We have included comments in relation to the above where relevant in the subsequent sections of this report.

We also 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.

Audit status update

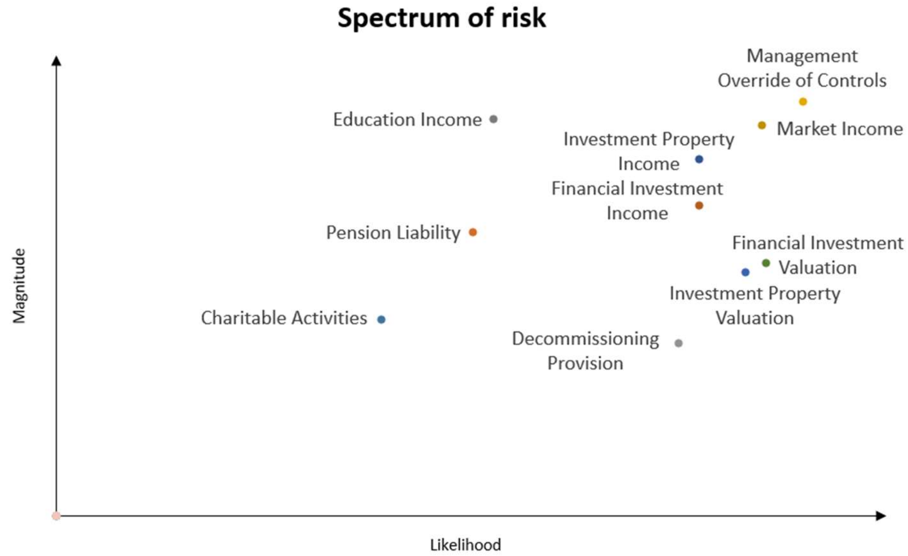
The matters in this report are as understood by us as at 18 October 2023, which is the papers deadline for the 6 November Audit and Risk Committee meeting.

Due to the timing gap between the papers deadline and the Committee meeting itself, we are expecting significant progression on several of the outstanding areas by the time of the committee meeting and as such, we will be able to provide a verbal update in the committee meeting.

Following the conclusion of the audit and prior to the financial statements being approved, we will re-issue our findings report updated for our final conclusions and highlighting any changes in our understanding.

Conclusions in relation to the areas of significant audit risk

As explained in our Audit Planning Report, in line with ISA (UK) 315 (Revised), we have considered the inherent risks, including the likelihood and magnitude of a potential misstatement, as shown in the chart below.



Our risk assessment process is tailored to each individual entity, and as such, the risks outlined below do not apply to all entities covered within this report. As such, we have included in the list below an indication as to which entities each risk applies to.

As per the planning report, Tina Allison is the group RI and will be signing audit opinions for the Group and the Power Stations. Vincent Marke (who is also a partner in Crowe UK's Non-Profit and Social Purpose audit team) is the RI on the Natural Environments and Sundry Trust entities and will be signing the audit opinion on these. Both of these groups of audits are progressing and details of any findings will be communicated in due course.

The initial audit findings report will include all entities listed below. However, our updated report which will be issued on completion of the audit work listed in Section 2 and Section 3 as outstanding will not include the Other charities within the Corporation subject to Audit as a separate report will be issued to cover these entities.

A. City's Cash
B. Natural Environment charities (previously known as open spaces)
C. Power station companies
D. Other charities within the Corporation subject to Audit

In line with our audit plan we focussed our work on the significant audit risks identified.

- Revenue recognition – Investment Property Income (A)
- Revenue recognition – Financial Investment Income (A, D)
- Revenue recognition – Education Income (A)
- Revenue recognition – Market Income (A)
- Revenue recognition – Charitable Activities (B, D)
- Revenue recognition – Voluntary Income* (B, D)
- Estimates and judgements – Financial Investment Valuation (A, B, D)
- Estimates and judgements – Investment Property Valuation (A)
- Estimates and judgements – Pension Liability (A)
- Estimates and judgements – Decommissioning Provision (A, C)
- Management Override of Controls (A, B, C, D)

* During our fieldwork we identified an additional significant risk in relation to the Revenue Recognition - Voluntary Income (B, D), this was communicated to management.

Other audit findings

Section 3 sets out various comments on other important matters which we have identified from our audit.

Fraud and irregularities

Section 4 sets out the Trustees and our responsibilities in respect of fraud and irregularities.

Audit materiality

The audit materiality for the financial statements set as part of our audit planning took account of the level of activity of / funds held. For City's Cash was set at 2% of investment (overall) and 1.5% of income (specific), as appropriate for the financial statement area concerned. We have used overall materiality just for our testing on investments and specific materiality for all other areas of testing.

Please note, our Audit Planning Report issued at the planning stage stated that we would use 2% of income for our materiality levels. During the course of the audit there was a change to this specific materiality level, this was formally communicated with management and the detail has been included in Appendix 4.

We have reviewed this level of materiality based on the draft financial statements for the year ended 31 March 2023 and are satisfied that it continues to be appropriate with 2% of investments (£60.8m) and 1.5% of income (£2.9m).

We set separate audit materiality levels for each of the group's subsidiary entities. Details of these separate materiality levels are set out in Appendix 4.

Unadjusted misstatements

We report to you any unadjusted individual errors other than where we consider the amounts to be trivial, and for this purpose we have determined trivial to be 5% of our audit materiality.

We have listed in Appendix 1 the misstatements we have identified which have not been adjusted by management. The unadjusted errors identified at the time of issuing this report would result in an increase of £1.6k in the net income recorded in the Statement of Financial Activities and management have concluded that this is not material. We will be requesting confirmation from the Trustees in our audit representation letter that you do not wish to adjust for these misstatements.

There are ongoing discussions with management over several other potential adjusting items and once we have concluded on these, we will issue an updated Audit Findings Report to confirm the total effect on net income for unadjusted errors.

Audit completion and our Audit Reports

We have carried out our audits in accordance with our Audit Planning Report which was sent to you and the senior management team on 9 October 2023. At the time of writing this report the following areas remained outstanding:

- The audit file is subject to both partner review and an engagement quality control review.
- Fraud (ISA 240) question responses
- Receipt of remaining related party declarations
- Receipt of outstanding information on education income & completion of the respective work.
- Receipt of sample on school's other debtors & prepayments.
- Completion of substantive work around expenditure.
- Pensions – completion of work around the valuation of the assets (some queries with GT)
- Conclusion of extent of RAAC issue (section 2.8 below)
- Fixed assets – query WIP depreciation
- Receipt of responses to Payroll queries/ provision of OS contracts.
- Conclusion of query in relation to City's Cash allocation of central cash balance.
- Completion of our journals testing
- Receipt of management Impairment review of Goodwill recognised in City's Cash in relation to Power Stations
- Finalisation of consolidation review & address queries over eliminating journals
- Receipt of all Investment & bank confirmations from respective investment managers, custodians & banks.
- Receipt of Private Minutes and completion of review of these.
- Finalisation of our review of IT General Controls.
- Completion of the going concern and post-Balance Sheet events reviews.
- Review of the final financial statements.
- Receipt of the signed letter of representation (Appendix 5).

We will report to you orally in respect of any modifications to the findings or opinions contained in this report that arise from progressing these outstanding matters.

Responsibilities and ethical standards

We have prepared this report taking account of the responsibilities of the Trustees and ourselves set out in Appendix 6 of this report.

The matters included in this report have been discussed with the charity's management during our audit and at our closing meeting on 9 October 2023. Sonia Virdee and Liton Rahman have seen a draft of this report and we have incorporated their comments and/or proposed actions where relevant.

2. Significant audit risks

As reported in our Audit Planning Report, ISA (UK) 315 (Revised) was applicable this year, and required us to consider a spectrum of inherent risk, considering both the likelihood and magnitude of a possible misstatement, with risks close to the upper end of the spectrum of inherent risk considered to be 'significant risks'.

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.

In addition, the auditing standards also set out a number of areas considered to always be a significant risk. Our audit response in respect of risks not identified as significant is set out in Section 3.

We have commented below on the results of our work in these areas as well as on any additional significant risks, judgements or other matters in relation to the financial statements of City's Cash Group and Other Charities of the City of London identified during our audit.

2.1 Revenue recognition – Investment property Income (A)

Key related judgements

Investment property income of one of the largest revenue streams for City's Cash, totalling £70.3m in 2023.

Investment property income is 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 yearend.

This revenue stream also includes revenue released from deferred lease premiums attached to long term leases where City's Cash 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

As part of our audit work we included the following tests:

- We reviewed the income recognition policy to ensure it is aligned with FRS 102 and is being appropriately applied and disclosed.
- Documented and reviewed the systems and controls in place over investment property income. This is a key area of control to ensure that you have recognised all income that is due and closely managed and monitored the debtor ledger.
- Carried out analytical procedures and substantive testing on all investment property income streams including reconciliations to the relevant systems and other records.
- Reviewed a sample of transactions and bank receipts either side of the year end date to ensure these have been recognised in the appropriate period.
- Obtained a breakdown of investment property income for the year and reconciled to the trial balance.
- Verified a sample of property receipts to supporting tenancy agreements and invoices.
- Reviewed the year-end deferred income balances, testing a sample to support and re-calculating the split of any invoices as appropriate.
- Reviewed the long-term lease premium accounting treatments to ensure they had been accounted for in accordance with the relevant accounting standards, and that they are being released.

Our conclusions and other comments

Our testing of investment property income is nearly complete and pending final reviews.

At this stage, our testing of investment property income has not highlighted any material issues in relation to the recognition of this income stream.

2.2 Revenue recognition – Financial Investment Income (A, D)

Key related judgements

Investment income in City's Cash (£5.2m) and the City of London Charities Pool is derived from the various investment holdings including listed investments, private equity, multi-asset and infrastructure fund holdings and bank deposits. City's Cash and the City of London Charities Pool co- invests with the City of London Pension Fund and Bridge House Estates into a number of holdings, with a portion of the value and investment income then apportioned to each entity from this central pool.

The Charities Pool entity acts as a pooled investment vehicle for the smaller charities within the City of London, responsible for managing their collective portfolios and dividing any income received in proportion to the units the other charities hold in the entity.

In addition, Hampstead Heath Trust holds a standalone portfolio along with Sir William Coxen Trust Fund which both also generate income through interest and dividends.

The primary risk for this revenue stream is over the accuracy of the central split of the income allocated to City's Cash and the Charities Pool and in turn the entities invested in the Pool, as well as the completeness of the investment income reported for the year in each entity, where it might be necessary to accrue for income not yet received.

Crowe response

As part of our audit work we included the following tests:

- Agreed the income reported in the investment managers' reports and bank interest to the nominal ledger and third party sources and reviewed cut off to check that the income had been appropriately recognised.
- Reviewed the relevant AAF01/06 controls reports for the investment managers and custodians to gain assurance that there are appropriate controls in place to accurately report income to the Corporation and Charity.
- Reviewed the allocation of investment income to City's Cash and the Charities Pool, ensured it is in line with the proportion of the investment holdings allocated to each entity.
- Reviewed the split of investment income to the charities holding units in the Charities Pool, to ensured it has been calculated correctly and income for the full year has been allocated.

Our conclusions and other comments

Our testing of financial investment income is nearly complete and pending final reviews. We are still waiting on some direct confirmations from Investment Managers and Custodians.

Our testing of financial investment income did not highlight any material issues in relation to the recognition of this income stream.

2.3 Revenue recognition – Education Income (A)

Key related judgements

Income through tuition and other related fees is one of the primary revenue streams in City's Cash, amounting to £105.7m in 2023. This income stream is generated from the three schools and one higher education body that the entity operates; City of London School, City of London School for Girls, City of London Freemen's School and Guildhall School of Music and Drama.

We consider the primary risks to lie over the completeness of this income – ensuring correct cut-off of termly invoices at year-end along with the correct application of any discounts.

Crowe response

As part of our audit work we included the following tests:

- Gained an understanding of the systems and controls in place around education income, including controls over pupil management and invoicing at each school.

- Completed a proof-in-total over education fee income at each school using pupil data and fixed tuition fees lists for each school.
- Completed testing on the underlying inputs into this proof in total, including any discounts offered in the year.
- Reviewed a sample of tuition and other education fee income, agreeing it to support and receipt to the bank.
- Performed cut-off testing around the year end to ensure income has been recognised in the correct years and income has been deferred appropriately.

Our conclusions and other comments

During our reconciliation of education income back to the accounts, we identified £4.7m of education income which was incorrectly double counted in income and reserves. We have included this as an adjusted error in Appendix 1. We have also noted this as a control point in Appendix 2 as management failed to notice this error and have included a recommendation for the financial statements to be reviewed before being sent to us.

At the time of writing this report, our sample testing on this area is outstanding with management. We are also waiting on management to review a possible adjustment in relation to a prior year journal. We will provide a verbal update at the Committee if progress has been made.

2.4 Revenue recognition – Market Income (A)

Key related judgements

Market income (£12.2m) consists of rental and similar income from the markets that City's Cash operates, being Billingsgate and Smithfield. Whilst comprising primarily of routinely invoiced income, the Covid-19 pandemic led to the introduction of rent-free periods and rent holidays requiring more complex accounting. In addition, the quarterly invoicing pattern followed leads to the need to partially defer invoiced income at year-end.

This revenue stream also includes revenue from related non-rental sources such as service charge and car parking income.

Given the relative size of this revenue stream we consider there to be a significant risk over this revenue stream, primarily over cut-off and completeness.

Crowe response

As part of our audit work we included the following tests:

- Reviewed a sample of transactions and bank receipts either side of the year end date to ensure these have been recognised in the appropriate period.
- Obtained a breakdown of market income for the year and reconciled to the trial balance.
- Verified a sample of market income receipts to supporting agreements and invoices.
- Reviewed the year-end deferred income balances, testing a sample to support and re-calculating the split of any invoices as appropriate.
- Performed cut off testing on either side of the year end of market income.

Our conclusions and other comments

Our work cut off of this income is still ongoing. We are currently discussing with management the best way to trace through to bank rather than PARIS statements.

At this stage, our testing of this income did not highlight any material issues in relation to the recognition of market income.

2.5 Revenue recognition – Charitable Activities (B, D)

Key related judgements

In addition to the funding received from City's Cash, the various charities within the City's Cash group generate revenue through a variety of activities. This includes revenue generated from sources such as car parking, café sales, use of sports grounds and admission fees.

Due to the varying nature of these revenue streams each requiring different recognition criteria to be considered, we consider there to be a significant risk around completeness of this revenue stream.

Crowe response

As part of our audit work we included the following tests:

- Obtained an understanding of systems and controls over all material revenue streams within this category.
- Reviewed the revenue recognition policy for each material revenue stream to ensure it is compliant with the applicable accounting standards.
- Tested a sample of charitable activity income substantively from nominal and agreeing it to supporting documentation and receipt to bank.
- Tested a sample of charitable activity income from source documentation to nominal and receipt into the bank.
- Performed cut-off testing by reviewing transactions around yearend.

Our conclusions and other comments

At the time of writing this report, we are still finalising our work in this area. Following the completion of this we will provide an update to the conclusions of this work and communicate any controls findings we have identified.

2.6 Revenue recognition ‑ Voluntary Income (B, D)

Key related judgements

Included within the Natural Environment entities and the City of London Girls Bursary Fund is voluntary income. Due to the varying nature of these revenue streams each requiring different recognition criteria to be considered, we consider there to be a significant risk for this revenue stream.

We consider there to be a significant risk over this revenue stream, primarily over cut-off and completeness.

Crowe response

As part of our audit work we included the following tests:

- Obtained an understanding of systems and controls over all material revenue streams within this category.
- Reviewed the revenue recognition policy for each material revenue stream to ensure it is compliant with the applicable accounting standards.
- Tested a sample of voluntary income substantively from nominal and agreeing it to supporting documentation and receipt to bank.
- Tested a sample of voluntary income from source documentation to nominal and receipt into the bank.
- Performed cut-off testing by reviewing transactions around year end.

Our conclusions and other comments

At the time of writing this report, we are still finalising our work in this area. Following the completion of this we will provide an update to the conclusions of this work and communicate any controls findings we have identified.

2.7 Estimates and judgements – Financial Investment Valuation (A, B, D)

Key related judgements

The financial investments portfolio within City's Cash represented £977.2m as at 31 March 2023. There is a risk regarding the existence / ownership of the assets in the investment portfolio and their correct valuation.

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

- the Entity 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 Entity's assets are sufficient; and their associated income streams are sufficiently robust.

Crowe response

Our focus was on your own internal procedures to manage and control the investments as well as the controls being operated by both the investment managers and the custodian, including consideration of the relevant AAF01/06 controls reports. We obtained valuations directly from the investment managers.

We reviewed 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).

We also reviewed the cash flows to, from and between the investment managers and the tracking of these movements.

Our conclusions and other comments

As part of our testing, we have obtained direct confirmation from the respective investment managers for both listed and unlisted investments. We are currently awaiting a number of investment managers and custodians reports. We are liaising with these parties to obtain these.

For our testing on listed investments, we have corroborated the values of the investments held by City's Cash to third party sources. We have not found any issues as part of this work.

On unlisted investments, we have undertaken additional work on these investments to assess whether there are any indicators of a required impairment, including assessments of the fund performance and reviews of post year-end information.

Where they have been prepared and have been available, we have also reviewed the AAF 01/06, or equivalent controls reports, for the investment managers and custodians. We are currently awaiting the receipt of various reports, however we have not yet noted any issues.

In addition to the above, we have undertaken extra substantive tests of detail covering additions, disposals and recognition of management fees. At the time of this report, the review process on these areas is still in progress.

2.8 Estimates and judgements – Investment Property Valuation (A)

Key related judgements

Investment properties held by City's Cash totalled £2,002m as at 31 March 2023, including the former Barking Power Station site owned by the subsidiary Barking Power Limited. 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. 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.

Crowe response

We reviewed the investment property valuation report with consideration to judgements and estimates used by the valuer with reference to market data. We also tested the inputs provided to the valuer by the entity and the ownership status via land registry.

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

Our conclusions and other comments

Valuation reports review

As with the prior year, we have engaged Cluttons as an auditor's expert to complete a review of the City's Estate valuation report prepared by JLL, consisting of a high-level review of the full report and a more detailed review of five selected properties. This has also included challenging the methodology and inputs used by JLL to determine their reasonableness.

The valuations prepared by JLL have been noted as being relatively aggressive; whilst the properties reviewed all fall into the expectations set by Cluttons, two of the five properties reviewed sit at the upper boundary. We have concluded with the aid of this review that the approach adopted by JLL is reasonable however, with satisfactory explanations obtained where a property's value has not moved in line with wider market trends.

Cluttons have also completed a review of the valuation report for the former Barking power station site, prepared by Gerald Eve. Again we note that the valuation of £127.5m is at the top end of the range expected (£111m - £127.5m) however we are satisfied that the approach by GE is reasonable and the value falls within expectations.

Whilst we note that the site's development is still in its early stages and the approval process for the new market is ongoing, we would not expect any issues or delays with this to fundamentally change the value of the property as it is valued on the basis of being developed for City's Cash proposed use.

At the time of writing, the review process for this area is currently ongoing. We will provide a verbal update on this at the committee meeting.

Ongoing RAAC review

We note that there is scope for properties within the portfolio to be affected by the ongoing nationwide issues with reinforced autoclaved aerated concrete (RAAC), as a number were constructed or renovated during the period it was used.

The valuations have been prepared on the basis that no RAAC is present in the properties and therefore could be materially impacted should RAAC be found to have been used in the core framework of the building.

We understand that the City of London have launched a Corporation-wide working party to identify and survey any buildings that are potentially affected, though this is unlikely to be completed prior to the signing of the audit opinion due to the scale of the review and inspections required.

Depending on the progress of this review however there may be a need for City's Cash to disclose a contingent liability within the accounts for any remedial works, should a possible obligation arise.

We will continue to review the status of this review up to the signing of the accounts and work alongside City's Cash management to ensure a suitable disclosure is included in the accounts to reflect the current position at signing. We will also provide a verbal update on this at the committee meeting.

2.9 Estimates and judgements – Pension Liability (A)

Key related judgements

The assumptions surrounding the FRS102 pension liability (£65.6m) calculations performed by the actuaries can make a significant difference to the result disclosed in the financial statements.

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, City's Cash 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.

Crowe response

As part of our audit work we included the following tests:

- Benchmarked the assumptions used by the actuary in calculating the FRS102 pension liability.
- Assessed the difference in calculating the liability between IAS19 and FRS102 to determine whether it is material or otherwise significant.
- Verified scheme assets to third party documentation.
- Verified (on a sample basis) the input data provided to the actuary to HR and payroll records.
- Verified the apportionment methodology of the pension liability across the 3 City of London funds.

Our conclusions and other comments

Our work is largely complete in this area subject to the following and any points raised as per of the final review process:

- We have now completed our review of Grant Thornton work papers who were completing the audit of the pension scheme.
- Review of the prior year adjustment that has been made in relation to the updated 21/22 triennial valuation.
- Verification of the methodology around the apportionment of the pension liability across the 3 City of London funds.

2.10 Estimates and judgements – Decommissioning Provision (A, C)

Key related judgements

Included within the accounts of Barking Power Limited is a provision (£26.5m) for the decommissioning of the site in preparation for future development. This provision has a number of key assumptions regarding expected costs and the time period over which they will be incurred.

Given the size of the provision and its reliance on judgemental inputs, we consider there to be a significant risk over the valuation of the provision.

Crowe response

As part of our audit work we included the following tests:

- Obtained and reviewed management's estimation of the provision.
- Gained an understanding of the key inputs to the provision calculation, agreed them to supporting documentation as appropriate.
- Reviewed costs incurred post year-end to ensure that they are in line with management's forecast to corroborate the accuracy of the provision made.

Our conclusions and other comments

As part of our work on provisions, we have confirmed the calculations, estimates, and judgements used by management are reasonable and correct. We have made enquiries to determine the basis of the provision and undertaken tests to assess the controls surrounding the inclusion of costs within. We have agreed a sample of underlying costs held within the provision to the underlying support to confirm these have been included within the calculation at the correct value.

Partner review has now taken place and we are clearing down review comments.

We found no issues as part of our testing. However, the review process is still ongoing in this area and further queries may arise as a result.

2.11 Management override of controls (A, B, C, D)

Auditing standards require us to consider as a significant audit risk area of potential or actual management override of controls. In completing our audit we have therefore considered the following matters.

Significant accounting estimates and judgements

ISA (UK) 540 (Revised) 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 given to 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.

Management have made a number of necessary significant accounting estimates and judgements which impact the financial statements. We identified the following for specific audit review:

- Financial Investment Valuation [significant risk]
- Investment Property Valuation (including considerations of a potential contingent liability due to RAAC) [significant risk]
- Pension Liability [significant risk]
- Decommissioning Provision [significant risk]
- Assessment of impairment of assets.
- Assessment of impairment of goodwill (City's Cash)
- Assessment of the remaining useful life of assets.
- The classification of accounts between short term investments and cash and cash equivalents.
- The split of recharged expenditure between the various entities of the City of London Corporation.

Estimates and judgements that are not considered to be significant risks are set out in Section 3.

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.

Controls around journal entries and the financial reporting process

We reviewed and carried out sample testing on the charity's controls around the processing of journal adjustments (how journals are initiated, authorised and processed) and the preparation of the annual financial statements. We also considered the risk of potential manipulation by journal entry to mask fraud.

We note that only Chamberlain (finance) staff, whether they work in the corporate team or one of the units, are able to post journals and whilst journals under £100k are not subject to management review or spot checks, they should be accompanied by relevant supporting documentation. All journals over £100k are reviewed in the form of managers' reviewing regular reports detailing these journals and approving them on the Oracle system.

Whilst this threshold is deemed satisfactory for City's Cash due to the level of materiality, this threshold for reviewing journals for some Sundry Trusts and the Natural Environment entities is not sufficient due to their lower level of materiality. We have included a recommendation in Appendix 2 to lower the threshold of journal review for Sundry Trusts and the Natural Environment entities and include independent spot checks for journals under the £100k threshold for City's Cash as a two-tiered approach to journal reviews.

At the time of writing this report, our work on journals is incomplete as we require support for our selected sample of journals from management.

Significant transactions outside the normal course of business

We are required to consider the impact on the financial statements if there are any significant transactions occurring outside of the normal course of the business.

No such transactions were notified to us by management, nor did any such transactions come to our attention during the course of our work.

3. Other audit findings

In addition to matters relating to the significant audit risks as reported in Section 2, we have also noted the following matters from our audit work which we should bring to your attention.

3.1 Going concern

We explained in our Audit Planning Report that in preparing the financial statements to comply with Financial Reporting Standard 102 the Trustees and management are required to assess the charity's ability to continue as a going concern. In assessing whether the going concern assumption is appropriate, the Trustees 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.

The trustees' going concern assessment is a key area of emphasis and importance for our audit and, in accordance with the requirements of ISAs (UK), our audit report includes a specific reference to going concern.

Where trustees identify possible events or scenarios, other than those with a remote probability of occurring, that could lead to failure, then these should be disclosed in the financial statements.

Trustees may consider and take account of realistic mitigating responses open to them, considering the likely success of any response.

We have discussed this with the management and explained that our work on going concern includes the following:

- reviewing the period used by Trustees to assess the ability of City's Cash Group and Other Charities of the City of London 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 trustees' 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 Trustees have used in their going concern assessment.

Our conclusions and other comments

As at 31 March 2023 City's Cash Group and Other Charities of the City of London is reporting total reserves of £2,912.3m (2022: £2,845.4m). City's Cash Group and Other Charities of the City of London's operating deficit for the year is £251.5m (2022: £95.6m surplus).

The cash balance at year end is £25.1m (2022: £20.1m) and financial investments amounted to £1,041.6m (2022: £1,174.7m) and investment properties of £2,002m (2022: £2,112.9m).

At the time of writing this report we are awaiting management's paper on going concern and supporting budgets and forecasts. Our work on this area is therefore still ongoing however we have nothing to note at this time that would bring the going concern assumption into question.

We will be seeking representations that the Board has considered the forecasts and is satisfied that the going concern basis is appropriate.

We have included as Appendix 9 some further guidance on going concern which may be of help to the trustees.

3.2 Estimates and judgements

As noted in Section 2, management have made a number of necessary significant accounting estimates and judgements which impact the financial statements.

We identified the following non-significant estimates and judgements for specific audit review:

- Assessment of impairment of assets.
- Assessment of impairment of goodwill (City's Cash)
- Assessment of the remaining useful life of assets.

- The classification of accounts between short term investments and cash and cash equivalents.
- The split of recharged expenditure between the various entities of the City of London Corporation.

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.

Assessment of impairment of assets

We have not identified any issues on the impairment of assets as part of our testing on this area and have nothing to note on this.

Assessment of impairment of goodwill (City's Cash)

At the time of writing this report, we are awaiting a paper from management on their assessment of the impairment of goodwill in relation to the Power Stations. We will provide an update on this after completion of the work.

Assessment of the remaining useful life of assets

We have discussed tangible assets below in Section 3.9.

The classification of accounts between short term investments and cash and cash equivalents

We have noted a potential issue on the classification between short term investments and cash and at the time of writing this report, management are investigating this.

The split of recharged expenditure between the various entities of the City of London Corporation

Our work on recharge is complete and at the review stage of the process.

3.3 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 the income streams detailed above to be significant (see Section 2) we do not consider other income streams to be significant due to their expected 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?).
- Accuracy (where income is owed at year end, is it likely to be received or should it be provided against?).

3.4 Payroll

Payroll is one of the largest single expenditure items for City's Cash totalling £100.8m in 2023 (2022: £95.7m). Other entities under the scope of this report also incur significant payroll costs, which are recharged from the central payroll function within the Corporation of London.

As payroll is processed centrally and allocated to the various organisations within the Corporation we have taken a holistic approach to the testing.

Crowe response

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

We also performed analytical procedures that considered gross pay, deductions, and staff numbers year on year to ensure that all trends and relationships appeared reasonable and that the totals agreed with the ledger.

Additionally, we verified a sample of staff between the payroll and other HR records and agree their costs to supporting documentation on a sample basis.

Our conclusions and other comments

At the time of writing this report, we have queries in relation to the detailed sample test in progress and subsequent manager and partner reviews are continuing. We are also waiting on management to provide information on disclosures. We will provide a verbal update at the committee.

3.5 Grant expenditure

A number of grants are made through the Central Grants Programme across a wide range of charitable causes in London. The programme has four funding themes;

- Stronger Communities
- Enjoying Green Spaces and Natural Environments
- Inspiring London through Culture
- Education and employment support

In addition to this, as part of the Corporation of London's response to the Covid-19 pandemic, City's Cash is funding a £50m business support scheme. This consist of multiple grants of c.£100k aimed to support businesses within the City of London. Total Grants expenditure in the year is £30.1m.

Crowe response

As part of our testing, we agreed a sample of grants to supporting documentation and payment and reviewed the agreements to ensure they have been appropriately recognised. We also performed cut-off testing around year-end in order to ensure that grants have been recognised within the correct financial period.

Our conclusions and other comments

At the time of writing this report our testing on grant expenditure is incomplete due to delays in obtaining the relevant information to sample from. We will provide an update on this once our testing has been concluded.

3.6 Barking Power Limited

Barking Power Limited's primary objective is to decommission the power station on its site, as such no income has been generated in the year.

Expenditure

Expenditure in the year is made up of £7m (2022: £2.1m) of cost of sales and £0.3m (2022: £0.6m) of administrative expenses.

Our audit work on cost of sales agreed the expenditure recognised to the movement in the decommissioning provision (Section 2). For the administrative expenditure we agreed a sample of expenditure items to supporting documentations.

Deferred Taxation

As a result of the revaluation a deferred tax liability has arisen, as at the 31 March 2023 this amounts to £23m (2022: £32.8m).

As part of our audit work, we reviewed the calculation and agreed taxation rates used to relevant guidance.

Audit Fee

We are currently reviewing the recognition of the audit fees for both BPL and TPSL and will provide an update on this at the Committee.

Intercompany Balances

At year end, BPL owe £7m (2022: £5.3m) to associated undertakings. BPL are not income generating and do not have sufficient cash to meet these liabilities, they will therefore need to drawdown on their loan facility with the City of London to meet these as they fall due.

As part of our audit work we have agreed the balance due to TPSL to their accounts, and the amounts owed to City of London to supporting calculations.

We have no further issues to report in our work completed.

3.7 Thames Power Limited

Thames Power Services Limited provide management services to BPL in connection with their operations.

Income

Income for the year ended 31 March 2023 is £227k, (2022: £316k), this is primarily made up of fees due from BPL in relation to management charges for the services paid for by the City of London, plus an additional 5% charge added by TPSL.

As part of our audit work, we have agreed the income to the charges raised by City of London and recalculated the 5% uplift as per TPSL's service agreement.

Additionally, we reviewed the income accounts for the periods March 2023 and April 2023 to consider the risk of cut off, we noted there had been no activity in this time.

Expenditure

Cost of sales in the year amounted to £213k (2022: £304k), this is for charges by City of London for staff costs, utilities, legal support and consumables.

As part of our audit work, we agreed these costs to the annual invoice issued by City of London.

Audit Fee Accrual

As part of our testing, we noted that the audit fee accrued for in the financial statements was different to the audit fee included in the Audit Planning Report issued for both BPL and TPSL. Although this was trivial for BPL, it was above our reporting threshold for TPSL (£1.6k) and has been included in Appendix 1 below as an unadjusted error.

As above, we are currently reviewing the recognition of the audit fees for both BPL and TPSL and will provide an update on this at the Committee.

Intercompany Balances

As at 31 March 2023, TPSL have a debtor balance of £899k (2022: £672k) due from BPL and a creditor balance of £780k (2022: £568k) due to City of London. At the time of the audit, these balances remain outstanding.

TPSL do not have sufficient cash funds to settle the liability due to City of London, and will be unable to do this until BPL settle their debt. This has been discussed further above.

We have no further issues to report in our work completed.

3.8 Rental and School Debtors

Rental Debtors

Our work on post year end credit notes is still ongoing. We are currently discussing with management the best way to trace through to bank rather than PARIS statements.

We will provide an update on this once the work has been completed and reviewed.

School Debtors

Management have been unable to provide a breakdown from a source external to finance of the school debtor tuition fees amounting to £2,169k at GSMD in order to complete our detailed and recoverability testing. Of this balance we have a breakdown of £500k for the non-tuition fee element which we have tested. We have therefore included this as a control point in Appendix 2 and added a recommendation to ensure management are aware of the year end position for tuition fee debtors at the year end.

3.9 Tangible assets

City's Cash Group and Other Charities of the City of London hold £330.5m (2022: £292.6m) of Tangible Assets, of this £250.1m (2022: £224.2m) relates to Freehold and £37.3m (2022: £38.2m) to Plant & Machinery.

Crowe response

As part of our audit work we included the following tests:

- Reconciled the fixed asset register to the trial balance and accounts.
- Recalculated the depreciation for all material classes of assets to ensure the correct amount had been included in the Statement of Comprehensive Income.
- Tested a sample of additions, disposals and assets under construction to ensure they had been added/removed from the fixed asset register.

Our conclusions and other comments

When reviewing the capitalisation policy, we noted that it is £50k for all entities with the City of London and whilst this was deemed sufficient for assets in City's Cash due to their size, we deem this threshold to be too high for some of the Sundry Trusts and Natural Environment entities due to their smaller level of materiality. We have noted this as a control finding in Appendix 2 and recommend that the capitalisation policy for the Sundry Trusts and Natural Environment entities is reviewed.

As part of our additions testing, we noted that these were not being captured in a timely manner for some of the Sundry Trusts and Natural Environment entities.

As part of our work on the fixed assets of City's Cash and reviewing of depreciation and the remaining useful life of assets, we noted there is around £6m of fixed assets which are not being depreciated. Management have reviewed the fixed asset register and confirmed an adjustment of £746k to depreciation should be made. We have included this as an adjusted error in Appendix 1 below.

This is currently under investigation with management but a possible adjustment may need to be recognised as this is material.

We are also waiting on management to respond on a potential issue on classification of fixed assets, however this will not impact the overall net book value of fixed asset.

3.10 Almshouses & Natural Environment entities

At the time of writing this report we are awaiting information from management about the City of London Almshouses Work in Progress and need to complete work for the remaining Natural Environment entities. Once work has been completed, we will communicate with management our findings and any control deficiencies identified Report and Financial Statements

3.11 Report and Financial Statements

As noted in the Responsibilities of the City of London Corporation statement, the Corporation are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

We would expect management to prepare monthly management accounts which include comparisons to budgets and year to date progress. As part of the audit process we noted that City's Cash Group and Other Charities of the City of London do not prepare management accounts. We have noted this as a control finding in Appendix 2 and included a recommendation for management accounts to be prepared and reviewed each month.

We have reviewed the annual report and financial statements and provided comments to management who are in the process of addressing these and updating the Annual Report and financial statements as appropriate. The annual report and financial statements are still pending a second partner review (engagement quality control reviewer).

4. Fraud and irregularities and our audit reporting

Audit reporting on detecting irregularities, including fraud

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

Irregularities are acts of omission or commission which are contrary to the prevailing laws or regulations. Fraud includes both fraudulent financial reporting and misstatements resulting from misappropriation of assets.

Our responsibility is to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The additional reporting requirements this year placed increased emphasis on our understanding of the risks to City's Cash Group and Other Charities of the City of London from fraud and irregularities. Our audit included discussions with management and those charged with governance to obtain their assessment of the risk that fraud may cause a significant account balance to be materially misstated as well as other procedures to obtain sufficient appropriate audit evidence.

City's Cash Group and Other Charities of the City of London has systems in place for the review and authorisation of expenditure and journals by management, including dual authorisation and segregation of duties between those posting transactions and those approving payments up to £100k.

We obtained an understanding of the legal and regulatory frameworks within which the group operates, focusing on those laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements. The laws and regulations we considered in this context were together with the FRS 102, Companies Act and Charities SORP. We assessed the required compliance with these laws and regulations as part of our audit procedures on the related financial statement items.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which might be fundamental to the group's ability to operate or to avoid a material penalty. We also considered the opportunities and incentives that may exist within the group for fraud. The laws and regulations we considered in this context for the UK operations were General Data Protection Regulation and health and safety legislation.

We identified the greatest risk of material impact on the financial statements from irregularities, including fraud, to be within the timing of recognition of income, financial and property investment valuations and the override of controls by management. Our audit procedures to respond to these risks included enquiries of management, internal audit, and the Audit and Risk Committee about their own identification and assessment of the risks of irregularities, sample testing on the posting of journals, reviewing accounting estimates for biases, reviewing regulatory correspondence with the Charity Commission, and reading minutes of meetings of those charged with governance.

In accordance with International Auditing Standards, we planned our audit so that we have a reasonable expectation of detecting material misstatements in the financial statements or accounting records including any material misstatements resulting from fraud, error or non-compliance with law or regulations.

However, owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected even though the audit is properly planned and performed in accordance with the ISAs (UK). No internal control structure, no matter how effective, can eliminate the possibility that errors or irregularities may occur and remain undetected. In addition, because we use selective testing in our audit, we cannot guarantee that errors or irregularities, if present, will be detected. Accordingly, our audit should not be relied upon to disclose all such misstatements or frauds, errors or instances of non-compliance as may exist.

We have also included in Appendix 7 some fraud risks that Trustees and management should be aware of.

Trustee responsibilities

The primary responsibility for safeguarding the charity's assets and for the prevention and detection of both irregularities and fraud rests with the trustees and management of the organisation. It is important that management, with oversight of those charged with governance, place a strong emphasis on fraud prevention and fraud deterrence. This involves a commitment to creating a culture of honest and ethical behaviours which can be reinforced by an active oversight by those charged with governance.

As in past years, the following statements will be included in the letter of representation which we require from the Members when the financial statements are approved.

- The Members acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and errors, and the trustees believe they have fulfilled those responsibilities.
- The Members have assessed that there is no significant risk that the financial statements are materially misstated as a result of fraud.
- The Members are not aware of any fraud or suspected fraud affecting the charity involving management, those charged with governance or employees who have a significant role in internal control or who could have a material effect on the financial statements.
- The Members are not aware of any allegations by employees, former employees, regulators or others of fraud, or suspected fraud, affecting the charity's financial statements.

We draw your attention to bullet point 2 above which presupposes that an assessment has been made. We have not been made aware of any actual or potential frauds which could affect the 2023 financial statements, or in the period since the previous year end.

Appendix 1 - Reporting audit adjustments

Unadjusted misstatements

International Standards on Auditing (UK) require that we report to you all misstatements which we identified as a result of the audit process but which were not adjusted by management, unless those matters are clearly trivial in size or nature.

The following misstatements were identified during our audit work and up to the date of this report have not been adjusted in the draft financial statements. We have summarised below the potential overall impact of these items on the financial statements.

Adjustment description	Debit/(credit) net income £k		Debit/(credit) net assets £k	Debit/(credit) opening reserves £k
1. Thames Power Services Limited audit fee accrual				
Dr Expenditure	1.6			
Cr Audit fee accrual		(1.6)		

Adjusted misstatements

The following misstatements, which have been corrected by management, were also identified during our audit work and up to the date of this report. No further adjustments to the financial statements are required for these items and this information is provided to assist you in understanding the financial statements completion process and to fulfil your governance responsibilities.

Adjustment description	Debit/(credit) net income £k		Debit/(credit) net assets £k	Debit/(credit) opening reserves £k
1. Schools income double counted in income and reserves				
Dr Schools income £4,707,052	4,707			
Cr Schools expenditure £4,707,052		(4,707)		
2. Missing depreciation				
Dr Depreciation expenditure	746			
Cr Accumulated depreciation			(746)	

Appendix 2 - Systems and controls

We have set out below certain potential improvements to the charity's processes and controls which we noted during our audit work and which we believe merit being reported to you.

Our evaluation of the systems of control at City's Cash Group and Other Charities of the City of London was carried out for the purposes of our audit and accordingly it is not intended to be a comprehensive review of your business processes. It would not necessarily reveal all weaknesses in accounting practice or internal controls which a special investigation might highlight, nor irregularities or errors not material in relation to the financial statements.

In order to provide you with a clearer picture of the significance of issues raised, we have graded the issues raised by significance/priority before any corrective actions are taken: We have also included below a brief update on the matters we raised last year.

High	These findings are significant and require urgent action.	(0 comments in this category)
Medium	These findings are of a less urgent nature, but still require reasonably prompt action.	(5 comments in this category)
Low	These findings merit attention within an agreed timescale.	(0 comments in this category)

Audit finding and recommendation	Priority	Management response
1. GSMD – Tuition Fees Management have been unable to provide a breakdown from a source external to finance of the school debtor tuition fees amounting to £2,169k at GSMD in order to complete our detailed and recoverability testing. Of this balance we have a breakdown of £500k for the non-tuition fee element which we have tested. We recommend management review their schedules to ensure they are aware of the year end position for tuition fee debtors at the year end.		The total debt of £2,169k includes various sources of income, with some billed through Oracle and others not. Management provided detailed reports from the Student billing system (SITS) for each activity that contributes to debtors. Reports were submitted separately for Senior School, Junior School, regional centres (under 18 provision), student accommodation, and debt invoiced via Oracle AR systems. While the figures were not consolidated, comprehensive information on each element giving rise to debtors was supplied.

Audit finding and recommendation	Priority	Management response
2. Journals review We note that only Chamberlain (finance) staff, whether they work in the corporate team or one of the units, are able to post journals and whilst journals under £100k are not subject to management review or spot checks, they should be accompanied by relevant supporting documentation. All journals over £100k are reviewed in the form of managers' reviewing regular reports detailing these journals and approving them on the Oracle system. Whilst this threshold is deemed satisfactory for City's Cash due to the level of materiality, this threshold for reviewing journals for some Sundry Trusts and the Natural Environment entities is not sufficient due to their lower level of materiality. Our recommendation is to lower the threshold of journal review for Sundry Trusts and the Natural Environment entities and include independent spot checks for journals under the £100k threshold for City's Cash as a two-tiered approach to journal reviews.		We appreciate the auditors' recommendation regarding the threshold for journal reviews. We have carefully considered this suggestion, but after a careful consideration, we believe that lowering the threshold would be excessively time-consuming, given the scale of our operations. We want to assure the auditors that despite the threshold, robust controls are in place. All journals, regardless of the amount, are posted only by Chamberlain (finance) staff and the CBF & Charities Finance Team. Furthermore, for journals exceeding £100k, detailed supporting documentation is mandatory, and these journals are rigorously reviewed and approved by managers using the Oracle system. Additionally, our existing controls, including segregation of duties and regular budget monitoring, provide a safeguard against potential issues. While we understand the value of independent spot checks, we believe the current two-tiered approach, with rigorous oversight of high-value transactions and strong controls for all transactions, strikes an appropriate balance between efficiency and accountability within our organisation. We remain committed to the integrity of our financial processes and will continue to monitor and refine our controls to uphold the highest standards of financial management.

Audit finding and recommendation	Priority	Management response
3. Capitalisation policy When reviewing the capitalisation policy, we noted that it is £50k for all entities with the City of London and whilst this was deemed sufficient for assets in City's Cash due to their size, we deem this threshold to be too high for some of the Sundry Trusts and Natural Environment entities due to their smaller level of materiality. We recommend that the capitalisation policy for the Sundry Trusts and Natural Environment entities is reviewed.		We appreciate the auditors' diligence in reviewing our capitalisation policy. The current threshold of £50k has been applied uniformly across all entities within the City of London. However, we value the auditors' perspective and acknowledge the unique nature of some of our Sundry Trusts and Natural Environment entities. We are currently undergoing a charity review of our Sundry Trusts and Natural Environment and will therefore consider this recommendation as part of this review. We will ensure that our capitalisation policy is periodically revisited and adjusted if necessary to align with best practices and the unique needs of our diverse entities.

Audit finding and recommendation	Priority	Management response
4. Management accounts We would expect management to prepare monthly management accounts which include comparisons to budgets and year to date progress. As part of the audit process we noted that City's Cash Group and some of the Other Charities of the City of London do not prepare management accounts. We recommend that management accounts to be prepared and reviewed each month.		This has been a challenging year for the Financial Services Division (FSD), starting 2022/23 with 32 vacancies. Despite efforts to recruit into these roles it been extremely challenging, plus several staff have moved onto new roles outside of FSD or left the organisation. Leaving a huge gap in skills and knowledge. In addition, a back log of audits on City Fund has restrained our resources further. Although interim measures have been put in place, management have gained support from Chief Officers and Finance Committee to move to quarterly management reporting to help prioritise resources and tackle other pressures the department continues to face. For the charities, an ongoing review of management information provided is underway, including consideration of the format and content of any reporting that is already undertaken. In addition, the Financial Services Division is undergoing a transformation journey, plus procuring a new ERP system which provides an opportunity to address challenges faced this year. Reporting of monthly management accounts will be under consideration for 2024/25.

Audit finding and recommendation	Priority	Management response
5. Double counting of income During our reconciliation of education income back to the accounts, we identified £4.6m of education income which was incorrectly double counted in income and reserves. We have included this as an adjusted error in Appendix 1 below. We have also noted this as a control point as management failed to notice this error and have included a We recommend that the financial statements are reviewed before being sent to us.		In light of this finding, we recognise the importance of enhancing our internal controls to prevent similar errors in the future. As part of our ongoing commitment to improving our processes, we will review and strengthen our year-end procedures comprehensively. This will include a meticulous examination of the reconciliation of education income to the accounts. Specifically, we will address your recommendation by instituting a robust review process before the financial statements are sent to you for audit. This additional layer of scrutiny will help identify and rectify any potential discrepancies or errors prior to the audit stage.

We have set out below the systems and control issues on which we reported after our audit last year together with an update on how the points raised have been addressed including information on the progress made at the time of the audit of the 2022 financial statements.

Status		Priority
Recommendation fully implemented or no longer relevant		These findings merit attention within an agreed timescale.
Recommendation partially implemented		These findings are of a less urgent nature, but still require reasonably prompt action.
These findings merit attention within an agreed timescale.		These findings are significant and require urgent action.

Observations and recommendations in 2022	Priority	Status	Update 2023
1. Year-end procedures As part of our audit testing we have noted a number of adjustments (see Appendix 1) which relate to year end adjustments such as unallocated cash balances at year end and rental debtor credit notes which had not been considered by management in the preparation of the financial statements. We also note a large number of manual adjustments occur in the preparation of the financial statements. We would expect management to have a robust year end process in place to ensure the financial statements presented for audit have considered and reviewed any year end adjustments performed or required. *Crowe recommendation* We therefore recommend City's Cash review year end procedures and ensure that each account is appropriately reviewed and considered in the preparation of the financial statements.			Due to key personnel transitioning into new roles within the organisation, including some who have recently left, we were faced with challenges in reviewing our year-end procedures this year. However, recognising the importance of this process, additional resources were bought in starting from scratch, we are also seizing the opportunity to enhance our procedures comprehensively in the coming year. We plan to meticulously review all existing processes, meticulously documenting them to ensure they are easily transferable to new staff members. Our goal is to create standardised operating procedures (SOPs) and develop training materials, such as videos and manuals, to facilitate the seamless onboarding of new officers. Additionally, we are actively engaging with our auditors to ensure that the quality of our working papers meets the highest standards and aligns with their expectations.

Observations and recommendations in 2022	Priority	Status	Update 2023
2. Related party declarations As part of normal processes at the City of London Corporation all members are expected to complete a declaration of interests each year. We noted from our audit work that 26 members did not complete a declaration this year. This is a control breakdown and limits the Corporation's ability to produce accurate information for the related parties disclosures. *Crowe recommendation* We recommend the importance of these declarations is stressed to Members and procedures put in place to ensure they are all completed and submitted on a timely basis. *Crowe Update* Whilst the Corporation as a whole have worked to improve the return rate, we note that this remains an ongoing issue, with declarations outstanding as at the time of writing. It is expected this number will reduce, however any declarations not received increases the risk a related party transaction being missed.			Despite our best efforts to address the recommendations raised in the past, we have encountered a recurring challenge. The issue stems from the numerous changes in Members, which have led to lapses in ensuring that related party declarations are completed upon departure. To tackle this challenge head-on, we are actively working with Town Clerks to reinforce our controls and ensure that related party declarations are diligently completed in all cases. We are committed to learning from these experiences and strengthening our processes to prevent similar occurrences in the future.

Appendix 3 - Entities

Entities	Type	Main objectives	Audit/Independent
Consolidated Entities			
Ashtead Common	Charity	The objective of the charity is the preservation in perpetuity of the common at Ashtead as an open space for the recreation and enjoyment of the public.	IE
Burnham Beeches	Charity	The objectives of the charity are the preservation and maintenance of Burnham Beeches and Stoke common, as Open Spaces for the recreation and enjoyment of the public and to maintain their natural aspect.	Audit
Epping Forest	Charity	The objective of the charity is the preservation of Epping Forest in perpetuity, as an open space for the recreation and enjoyment of the public. The open space consists of the lands known as Epping Forest including Wanstead Park and Highams Park in Essex. Various buffer lands have been acquired by the City Corporation around the edges of Epping Forest.	Audit
Hampstead Heath /Hampstead Heath Trust	Charity	The objective of the charity is the preservation and maintenance of Hampstead Heath in perpetuity, as an open space for the recreation and enjoyment of the public.	Audit
Highgate Wood and Queen's Park Kilburn	Charity	The objective of the charity is the maintenance and preservation in perpetuity of the open spaces known as Highgate Wood and Queen's Park Kilburn, as public parks or open spaces for use by the public for exercise and recreation.	Audit
West Ham Park	Charity	The objectives of the charity are to hold West Ham Park on trust forever "as open public grounds and gardens for the resort and recreation for adults and as playground for children and youth". The City of London Corporation agreed to maintain and preserve the Park for this purpose at its own cost.	Audit
West Wickham and Spring Park Wood, Coulsdon and Other Commons	Charity	The objectives of the charities are the preservation and maintenance of West Wickham Common and Spring Park Wood Coulsdon, as Open Spaces for the recreation and enjoyment of the public.	Audit
Sir Thomas Gresham	Charity	The objectives of the charity are the provision of eight Almshouses known as the Gresham Almshouses; the annual payment of an allowance to the almsfolk; and the annual payment to the four Gresham college lecturers as detailed below.	IE
Barking Power Limited	Company	Decommissioning of the power station is the principal business of the Company and, because if receives minimal external revenue, this is financed by a loan from the City of London Corporation	Audit

Thames Power Services Limited	Company	To provide management services to Barking Power Limited in connection with operation and decommissioning of Barking Power Station.	Audit
Other Entities			
Corporation of London Charities Pool	Charity	The key objective of the charity is to provide small charities linked with the City of London the opportunity to obtain better returns than could generally be achieved if investments were made individually	Audit
City Education Trust Fund	Charity	The purposes for which the City Educational Trust Fund was established under section 25 of the City of London Various Powers Act 1967 declared that the capital and interest of the fund shall be applied by the City of London Corporation as it thinks fit	IE
City of London School Bursary and Awards Fund	Charity	The objective of the charity is the promotion of education	IE
City of London School for Girls Bursary Fund and City of London School for Girls Scholarships and Prizes Fund	Charity	The objective of the charity is the promotion of education (including physical training) by the provision of bursaries and other forms of financial assistance for fees and/or other costs incurred through attendance at the School to enable pupils to further their education at the School.	Audit
City of London Freemen's School Bursary Fund	Charity	The objective of the charity is the promotion of education (including physical training) by the provision of bursaries and other forms of financial assistance for fees and / or other costs incurred through attendance at the School to enable pupils to further their education at the School	IE
The City of London Corporation Combined Education Charity	Charity	The objects of the charity are to further the education of persons (including persons born or resident in the City of London and those attending educational institutions in the City of London or the other London boroughs) attending or proposing to attend secondary, further or higher educational institutions by the provision of grants or financial assistance and by arranging or supporting education and training to extend or complement courses provided by such institutions.	IE
Emanuel Hospital	Charity	From 22 October 2019, the objectives were amended to become for the public benefit, the relief of need by reason of age, ill-health, disability, financial hardship or other disadvantage of persons who are resident or have been resident in Greater London	IE
Sir William Coxen Trust Fund	Charity	The object of the charity is to apply income for the benefit of all or any of the Orthopedic Hospitals of England or other hospitals or charitable institutions carrying out similar work (preference should be to the Royal National Orthopedic Hospital Charity of Great Portland Street, London). Assistance is granted to eligible organisations (usually registered charities) in the form of donations and grants.	IE
Samuel Wilson's Loan Trust	Charity	The objective of the charity is the relief of young people in need by reason of ill-health,	IE

		disability, financial hardship or other disadvantage for the public benefit by: a) the provision of loans to individuals, partnerships and companies preparing for or engaged in any trade, manufacture, business or profession in the area comprising greater London and the counties of Buckinghamshire, Essex, Hertfordshire, Kent, Surrey, East Sussex and West Sussex; b) investing in shares of companies preparing for or engaged in any trade, manufacture, business or profession in the area comprising greater London and the counties of Buckinghamshire, Essex, Hertfordshire, Kent, Surrey, East Sussex and West Sussex.	
City of London Almshouses	Charity	The objective of the charity is the provision of Almshouses for poor or aged persons, giving preference to freemen of the City of London, their wives, widows, sons and daughters and where practicable to married couples.	Audit
Keats House	Charity	The objective of the charity is to preserve and maintain and restore for the education and benefit of the public the land with the buildings known as Keats House as a museum and live memorial to John Keats and as a literary meeting place and centre.	IE

Appendix 4 - Materiality

Materiality and identified misstatements

As we explained in our Audit Planning Report, 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 judgement but overall a matter is material if its omission or misstatement would reasonably influence the economic decisions of a user of the financial statements.

Our overall audit materiality for the financial statements as a whole took account of the level of activity of / funds held by each entity and was set at 2% of investments, 1.5%* of income or 2% of Expenditure as appropriate for each entity.

We reassessed materiality based on the draft financial statements, and the following is a summary of the overall materiality levels we applied to the separate entities within the group.

*Change of materiality from planning report – please note, as formally communicated to Sonia Virdee on 11 September 2023, following completion of our internal planning review process and internal technical discussions, it was deemed appropriate to decrease the overall materiality from 2% to 1.5% for City’s cash. It is a normal part of the audit process for this to be potentially revised as part of the review of the planning file. Our materiality guidance states we should use a % within between 1% - 2%. The prior year materiality for City’s cash was 1.5% on the basis that it was a first-year audit for Crowe, with a view to increasing in the subsequent year. However, since having further technical discussions, it was deemed that given such a significant % of the City’s cash team are new it was determined to lower this back down to the mid-way point of 1.5%.

Entity	Materiality calculation	Planning Materiality £’000	Final Materiality £’000	Reporting threshold £’000
City’s Cash	1.5% of income (Specific materiality – used for all areas of testing except investments) 2% of investments (Overall materiality – used only for investments)	3,380 65,752	2,990 60,872	149 3,044
Consolidated Audited Entities				
Burnham Beeches	2% of expenditure	25	30	2
Epping Forest	2% of expenditure	147	152	8

Hampstead Heath /Hampstead Heath Trust	2% of expenditure	186	191	10
Highgate Wood and Queen's Park Kilburn	2% of expenditure	27	30	2
West Ham Park	2% of expenditure	29.5	29	1
West Wickham and Spring Park Wood, Coulsdon and Other Commons	2% of expenditure	22.5	28	1
Barking Power Limited	2% of fixed assets 2% of expenditure	3,330 54	2,500 147	127 7.3
Thames Power Services Limited	2% of expenditure	6	4	1

Appendix 5 - Draft Representation Letter

This letter must be typed on your official letterhead. It should be considered by the [Board] at the same time as the as both the Consolidated and Parent Charity's Annual Report and Financial Statements; and the Minutes should record the [Board's] approval of the letter.

The letter should be dated at the date of the approval of the financial statements.

Crowe U.K. LLP
55 Ludgate Hill
London

EC4M 7JW

Dear Crowe,

We provide this letter in connection with your audit of the financial statements of City's Cash Group and Other Charities of the City of London for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the group and of the charity as at 31 March 2023 and of the results of the group's and the charity's operations for the year then ended in accordance with UK Generally Accepted Accounting Practice ("UK GAAP").

We confirm that the following representations are made in respect of the group and the parent charity on the basis of sufficient enquiries of management and staff with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation and that, to the best of our knowledge and belief, we can properly make each of these representations to you. If completion of the audit is delayed we authorise Caroline Al-Beyerty to provide an update to all representations sought.

1. We have fulfilled our responsibility for the fair presentation of the financial statements in accordance with UK GAAP.
2. We acknowledge as trustees our responsibility for making accurate representations to you.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and errors, and we believe we have appropriately fulfilled those responsibilities.
4. We have provided you with all accounting records and relevant information, and granted you unrestricted access to persons within the entity, for the purposes of your audit.
5. All the transactions undertaken by the group and the charity have been properly reflected and recorded in the accounting records or other information provided to you.
6. The methods, the data, and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting standards.
7. We confirm that we consider the key assumptions used in the preparation of the valuations of the investment properties to be appropriate and that we have not withheld any information that may affect the valuation of these properties.
8. We have considered the adjustments in Appendix 1, proposed by you. In our judgement, these adjustments are appropriate given the information available to us. We further confirm that we have now made these adjustments to the financial statements.
9. We do not wish to adjust the financial statements for the actual errors set out in Appendix 1 as we believe that the errors are immaterial, both individually and in aggregate, to the financial statements as a whole.

10. We are not aware of any actual or possible litigation or claims against the company whose effects should be considered when preparing the financial statements.
11. All grants, donations and other incoming resources, the receipt of which is subject to specific terms and conditions, have been notified to you. There have been no breaches of terms or conditions in the application of such incoming resources.
12. We are not aware of any breaches of our charitable trusts and have advised you of the existence of all endowments and funds maintained by us.
13. There have been no events since the balance sheet date which require disclosure or which would materially affect the amounts in the financial statements. Should any material events occur which may necessitate revision of the figures in the financial statements, or inclusion in a note thereto, we will advise you accordingly. We specifically authorise Caroline Al-Beyerty, Chamberlain and Chief Financial Officer, to provide an update for you to cover the time period between the signing of this letter and the date of your audit report.
14. We have assessed that there is no significant risk that the financial statements are materially misstated as a result of fraud.
15. We are not aware of any fraud or suspected fraud affecting the group or the charity involving those charged with governance, management or other employees who have a significant role in internal control or who could have a material effect on the financial statements.
16. We are not aware of any allegations by employees, former employees, regulators or others of fraud, or suspected fraud, which would have an impact on the financial statements.
17. We are not aware of any frauds that have not been included in the fraud log/ register provided to you.
18. We are not aware of any known or suspected instances of non-compliance with those laws and regulations which provide a legal framework within which the group and charity conducts its business.
19. We confirm that complete information has been provided to you regarding the identification of related parties and that we are not aware of any significant transactions with related parties other than matters that we consider have been appropriately and adequately disclosed.
20. We confirm we have appropriately accounted for and disclosed related party relationships and transactions in accordance with applicable accounting standards and with the recommendations of the applicable FRS 102, Companies Act and Charity SORP'.
21. We have no plans or intentions that might materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
22. The group and parent have satisfactory title to all assets and there are no liens or encumbrances on the parent's assets, except for those that are disclosed in the financial statements.
23. There are no liabilities or contingent liabilities or guarantees that we have given to third parties other than those disclosed in the financial statements.
24. In the event that we publish the trustees' report, independent auditor's report and financial statements electronically, we acknowledge our responsibility for ensuring that controls over the maintenance and integrity of the entity's web site are adequate for this purpose.
25. We confirm that, having considered our expectations and intentions for the next twelve months and the availability of working capital, the group and parent are a going concern. We are unaware of any events, conditions, or related business risks beyond the period of assessment that may cast significant doubt on their ability to continue as a going concern.

Yours faithfully

……………………………………..…………

Trustee
Signed on behalf of the [board]

Date ………………………………………

Appendix 6 - Responsibilities and ethical standards

Audit purpose and approach

Our audit work has been undertaken for the purposes of forming our audit opinions on the financial statements of the City's Cash Group and Other Charities of the City of London prepared by management with the oversight of the Members and has been carried out in accordance with International Standards on Auditing (UK) ('ISAs').

Our work combined substantive procedures (involving the direct verification of transactions and balances on a test basis and including obtaining confirmations from third parties where we considered this to be necessary) with a review of certain of your financial systems and controls where we considered that these were relevant to our audit.

Financial statements

The Members of City's Cash Group and Other Charities of the City of London are responsible for the preparation of the consolidated financial statements on a going concern basis (unless this basis is inappropriate). The Members are also responsible for ensuring that the financial statements give a true and fair view, that the process your management go through to arrive at the necessary estimates or judgements is appropriate, and that any disclosure on going concern is clear, balanced and proportionate.

Legal and regulatory disclosure requirements

In undertaking our audit work we considered compliance with the following legal and regulatory disclosure requirements, where relevant.

- Companies Act 2006
- Charities Act 2011
- Financial Reporting Standard 102 (FRS 102)
- The Charities SORP (FRS 102)

Directors' responsibilities (Power Station entities only)

Under the provisions of the Companies Act, the Directors' Report is required to include a statement confirming for each director who was a director at the time of the approval of the financial statements that:

- they have each taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information; and
- so far as they are aware there is no relevant audit information of which the company's auditor is unaware.

Ethical Standard

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

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

As explained in our audit planning report, in our professional judgement there are no relationships between Crowe U.K. LLP and City's Cash Group and Other Charities of the City of London 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 carried non-audit services as detailed below. We have not identified any other issues with regards to integrity, objectivity and independence and, accordingly, we remain independent for audit purposes.

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

The matters in this report are as understood by us as at 18 October 2023, which is the papers deadline for the 6 November Audit and Risk Committee meeting. Due to the number of areas outstanding will advise you of any changes in our understanding, if any, during our meeting prior to the financial statements being approved.

Non-audit services

We have considered the non-audit services we have provided in the period and have concluded that there are no facts or matters that bear upon the integrity, objectivity and independence of our firm or of the audit partner and audit staff related to the provision of such services which we should bring to your attention. Our fees for non-audit services in the year have been as follows.

Teachers' Pension work	£19,800

Use of this report

This report has been provided to the Audit and Risk Committee to consider and ratify on behalf of Those Charged with Governance, 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 7 - Fraud risks

As part of our audit procedures we make enquiries of management to obtain their assessment of the risk that fraud may cause a significant account balance to contain a material misstatement. However, we emphasise that the responsibility to make and consider your own assessment rests with yourselves and that the Members, Audit and Risk Committee and management should ensure that these matters are considered and reviewed on a regular basis.

Usually fraud in the charity sector is not carried out by falsifying the financial statements. Falsifying statutory financial statements usually provides little financial benefit, as compared to say a plc where showing a higher profit could lead to artificial share prices or unearned bonuses. However, falsifying financial statements can be used to permit a fraud or to avoid detection. As a generality, charities represented by its management and its trustees do not actively try to falsify financial statements as there are not the same incentives to do so. In the charity world fraud is usually carried out through misappropriation or theft.

The trustees should be aware that the Charity Commission provides guidance (updated in September 2022) on how to protect your charity from fraud including information about fraud, how to spot it and what you can do to protect against it.

The Charity Commission’s first guiding principle recognises that fraud will always happen. It is therefore important that, as part of setting their overall risk appetite, the Members consider fraud within their tolerance for the risks associated with the management of the organisation’s (and group’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 Members.

We have shared with management our guidance and a framework on conducting fraud risk assessments.

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.

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).

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.

Considering risks of fraud

There is evidence that during times of economic instability there is an increased risk of fraud. This may be because resource constraints can reduce internal controls and over sight and also because individuals facing hardship may be more likely to consider fraudulent practices.

The following provides further information on the three kinds of fraud that charities such as City’s Cash Group and Other Charities of the City of London should consider.

a) Frauds of extraction

This is where funds or assets in possession of the charity are misappropriated. Such frauds can involve own staff, intermediaries or partner organisations since they require assets that are already in the possession of the entity being extracted fraudulently. This could be by false invoices, overcharging or making unauthorised grant payments.

Essentially such frauds are carried out due to weaknesses in physical controls over assets and system weaknesses in the purchases, creditors and payments cycle. The cycle can be evaluated by considering questions such as who authorises incurring a liability and making a payment. On what evidence? Who records liabilities and payments? Who pays them and who checks them?

The close monitoring of management accounts, ledger entries and strict budgetary controls are also generally seen as an effective way of detecting and deterring frauds in this area.

Staff should be made aware of the increasing use of mandate fraud. This is where when the fraudster gets the organisation to change a direct debit, standing order or bank transfer mandate by purporting to be a supplier or organisation to which the charity makes regular payments.

Insufficient due diligence around requests to amend supplier or payroll details has led to payments to unauthorised individuals so sufficient checks in these areas is of increasing importance. All employees should exercise real scepticism and not make any payments which are not properly supported and / or outside the normal payment mechanisms.

The Fraud Advisory Panel latest research shows the following as the fraud risks on the horizon:

- *Staff fraud. As people feel the effects of the cost-of-living crisis on their finances.*
- *Ransomware, particularly targeting network-attached storage. There has been a recent increase in these types of attack.*
- *E-commerce / online shopping fraud. In the lead-up to Black Friday (25 November), Cyber Monday (28 November), and the busy Christmas shopping period.*
- *Supply chain fraud. As some businesses and individuals find themselves in financial difficulty. To boost resilience, government is looking to create standard templates for supply chain contracts.*

A new survey has found that 12% of charities had experienced cybercrime in the previous 12 months, prompting the Charity Commission to highlighting this issue to charities recently and warning them against the risk of online fraud. Furthermore, the survey also pointed to a potential lack of awareness of the risks facing charities online and note that just over 24% have a formal policy in place to manage the risk and only around 55% of charities reported that cyber security was a fairly or very high priority in their organisation. The Commission's discussion of this can be found here: https://www.gov.uk/government/news/charities-at-risk-of-underestimating-online-fraud-as-one-in-eight-experienced-cybercrime-last-year

b) Backhanders and inducements

There is also an inherent risk that individuals who are able to authorise expenditure or influence the selection of suppliers can receive inducements to select one supplier over the other. This risk can be mitigated by robust supplier selection and tendering procedures.

There is also the risk that once a donation of money or aid has been authorised and released in the UK, this could be diverted, probably into the underground economy, as a result of inducements paid in the destination country. Charities should be aware of the requirements and extent of the UK Bribery Act 2010, as this extends their liability to actions beyond the shores of the UK and to cover the actions of their intermediaries and agents. Organisations are required to put in place proportionate measures to prevent backhanders and inducements from being paid, either by their workers, agents or intermediaries or to their workers, agents or intermediaries.

c) Frauds of diversion

This is where income or other assets due to City's Cash Group and Other Charities of the City of London are diverted before they are entered into the accounting records or control data. Essentially, it is easy to check what is there but very difficult to establish that it is all there. Therefore, ensuring the completeness of income provided to a charity becomes difficult.

It is important to consider the different income streams and when and how they are received. So income received directly into the charity's bank account will be a lower risk than income being received by home based fundraisers.

Appendix 8 - External developments

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

We believe it is important to keep our clients up to date on the issues that affect them and, as a part of our ongoing communication, we regularly hold 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.

Guidance on hybrid working launch by ACAS

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

The guidance is broken down into the following five sections:

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

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

The guidance can be found **here**.

Charity Commission: 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

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.

Gift Aid: Extension to gift aid claims on debt waivers

HMRC have now amended their detailed guidance notes to confirm that the donations made from a waiver of a right to either a refund or loan repayment are eligible for gift aid.

This could be useful for a theatre which cancels a show and asks patrons if they will donate the price paid for the tickets instead of claiming a refund. Or a school which receives fee deposits. A child leaves and the School asks the parents if they will donate any remaining fee deposit to the school. They can now claim gift aid on the amount waived by the donor.

As ever there are conditions. There needs to be a record of a formal waiver held by the charity. For a small amount (HMRC give the example of tickets to a fundraising events) an exchange of emails confirming that no refund is required and that the amount is to be treated as a donation should be enough. The charity then needs to keep the emails in case HMRC want to check the donation.

For larger amounts HMRC expect there to be a legally enforceable document in place which makes clear: 1) how much is being waived 2) that the donor is giving up all legal rights to any future repayment and 3) confirmation that the amount waived is to be treated as a donation for gift aid purposes. This means putting in place a deed of waiver or release, which will require legal input.

Other gift aid rules still all need to be met, such as having a gift aid declaration, and the donor not receiving any significant benefits in return for the donation.

The guidance can be found here: https://www.gov.uk/government/publications/charities-detailed-guidance-notes/chapter-3-gift-aid.

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

Museum & Galleries VAT Refund Scheme

On 6 December 2022 the Department for Digital, Culture, Media & Sport announced that the latest round of applications from eligible museums and galleries is now open.

The closing date for applications is 5pm on 1 March 2023.

Full details of the process can be found here: https://www.gov.uk/guidance/applying-for-the-vat-refund-scheme-for-museums-and-galleries

Application forms can be obtained by emailing vat33a@dcms.gov.uk

Appendix 9 - 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 March 2023). 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 City's Cash Group and Other Charities of the City of London.

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 City's Cash Group and Other Charities of the City of London, 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

[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.

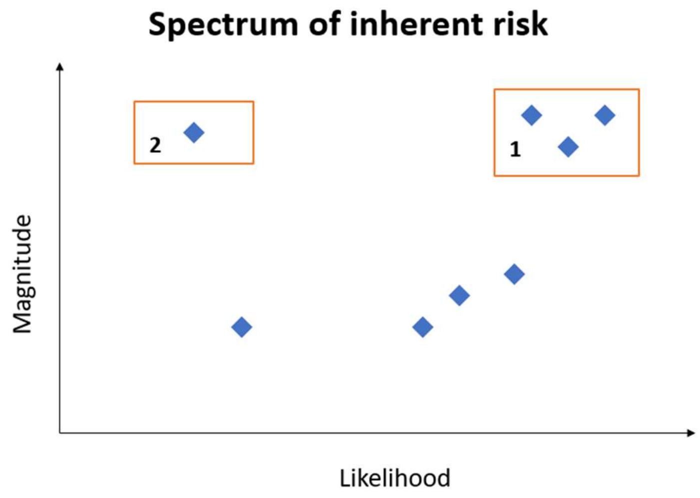
Key change	Potential impact on the audit
	- information on the access controls in place over the use of IT applications, including the setting up and removal of user accounts

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:
	  ○ Controls that address risks that are assessed as higher on the spectrum of inherent risk (not determined to be a significant risk);
	  ○ Controls related to reconciling detailed records to the general ledger; or
	  ○ 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.

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