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City Bridge Foundation (CBF)

Audit Planning Report to the City Bridge Foundation Board & Audit and Risk Management Committee

Year ending 31 March 2024

Issued to the City Bridge Foundation on 14 June 2024

Audit / **Tax** / **Advisory** / **Risk**

Strictly Private and Confidential

The City Bridge Foundation Board & Audit and Risk Management Committee
City of London
PO Box 270
Guildhall
London
EC2P

Dear Members of the Board and Audit and Risk Management Committee

We have set out in this audit planning report various matters relating to our audit of the financial statements of City Bridge Foundation (CBF) for the year ending 31 March 2024 following our initial discussions with Karen Atkinson, Nathan Omane and Nicole Monteiro on 29 May 2024.

I have pleasure in submitting our audit planning report for the year ending 31 March 2024. The primary purpose of this report is to communicate to the City Bridge Foundation Board, the Audit and Risk Management Committee and the Trustee relevant matters relating to our forthcoming audit.

Should you have any questions on this report please do not hesitate to get in touch.

We look forward to working with you on the completion of the audit of the annual report and financial statements of City Bridge Foundation.

Yours sincerely

Tina Allison
Partner

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1. Executive summary

Our report to you

We are pleased to present our Audit Planning Report to the City Bridge Foundation Board and the Audit and Risk Management Committee.

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

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

The matters in this report include

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

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

Responsibilities and ethical standards

We have prepared this report taking account of the responsibilities of the Trustee and ourselves set out in Appendix 1 of this report.

Audit materiality

Our overall audit materiality for the financial statements as a whole will take account of the level of funds held by CBF and will be set at approximately 2% of fixed asset investments. In addition, a lower materiality of 1.5% of expenditure will be applied to auditing transactions in the Statement of Financial Activities and other balance sheet items.

Further details of materiality levels, including those of components, are set out in Appendix 2.

Trustee's Report and Financial Statements

We have set out in Appendix 3 a number of considerations to be taken by the Trustee and management when preparing the financial statements for the year ending 31 March 2024.

Audit report

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

2. Significant audit risks

ISA (UK) 315 (Revised) came into effect for periods starting in December 2021.

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

Risk is considered in the context of how, and the degree to which, inherent and control risk factors affect the likelihood and magnitude of a misstatement occurring. Such factors may be qualitative or quantitative, and include complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or other fraud risk factors.

Our audit work will take account of our assessment of the risks of misstatement of transactions and balances in the financial statements. We identify a range of risks from our understanding of CBF, its people and environment, and the system of internal control and plan our audit work so as to reduce the risk of material misstatement to an acceptable level.

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

2.1 Revenue recognition – investment property income

Key related judgements

Investment property income is the largest revenue stream for City Bridge Foundation, totalling £24.9m in 2022/23 and expected to perform strongly in 2023/24. Whilst comprising mostly of routinely invoiced income, there have been rent-free periods offered in the year and rent holidays requiring more complex accounting. In addition, the quarterly invoicing pattern usually followed leads to the need to partially defer invoiced income at the year-end.

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

Given the relative size of this revenue stream and complexities arising over cut-off and lease accounting, we consider there to be a significant risk over this revenue stream.

Crowe response

Our audit work will include the following:

- Reviewing the income recognition policy, ensuring it is in line with SORP requirements and is being appropriately applied and disclosed;
- Documenting and reviewing the systems and controls in place over investment property income. This is a key area of control to ensure that you are recognising all income that is due and closely manage and monitor the debtor ledger;
- Obtaining a report from the property management system of current leases, and ensuring that this reconciles to the total income recognised in the year;
- Verifying a sample of property receipts to supporting tenancy agreement, invoices and receipt to bank:
- Reviewing a sample of transactions across the year end date to ensure these have been recognised in the appropriate period;
- Reviewing the calculation of the rent-free period debtor, agreeing a sample to underlying leases and ensure the aging split in the accounts is correct;
- Reviewing the year-end deferred income balances, testing a sample to support and re-calculating the split of any invoices as appropriate; and
- Reviewing the long term lease premium accounting treatments to ensure they have been accounted for in accordance with the relevant accounting standards, and that they are being released correctly.

2.2 Revenue recognition – financial investment income

Key related judgements

Investment income is derived from the various investment holdings of CBF, including listed investments, private equity and bank deposits. CBF also co-invests with the City of London Pension Fund and City's Estate into a number of holdings and money market deposits, with a portion of the value and income then apportioned to the charity from these central pools.

Whilst investment income fell in 2022/23 to £2.2m due to a more adverse economic environment, performance is expected to have improved in 2023/24.

The primary risk for this revenue stream is over the accuracy of the central split of the income allocated to CBF, as well as the completeness of the investment income reported for the year, where it might be necessary to accrue for income not yet received but for which the benefit has been earned.

Crowe response

Our audit testing in this area will include:

- Agreeing the income reported in the investment managers' reports and bank interest to the nominal ledger and third party sources and reviewing cut off to check that the income has been appropriately recognised;
- Reviewing the relevant AAF01/06 controls reports for the investment managers and custodians to gain assurance that income is being reported accurately to the Corporation and Charity; and
- Reviewing the allocation of investment income to CBF from shared holdings, ensuring it is in line with the proportion of the investment holdings allocated to the charity.

2.3 Grant expenditure and grants payable

This is the largest single expenditure item for CBF, with awards totalling c.£86m in 2023/24 (2022/23: £63.4m). We understand that this increase is a result of the additional £200m of funds earmarked for grant awards.

Our audit work will focus on ensuring that grant awards and payments have been appropriately approved and that liabilities have been captured in the appropriate period.

We will use as our start point a schedule of grants, prepared by management, which reconciles the opening liability for grants to the closing creditor and the expense in the financial statements taking into account payments and awards in the year.

We will test the completeness and accuracy of this schedule by confirming, on a sample basis, that awards approved have been included in the schedule and allocated to the appropriate period. We will ask to be provided with copies of minutes and decision letters for this purpose.

Finally, we will agree a sample of grants awarded across year-end to the relevant approval and communication to ensure the year-end cut-off of awards is correct.

2.4 Management override of controls

Although the level of risk of management override of controls varies from entity to entity, Auditing Standards recognise that this risk is nevertheless present in all entities because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Due to the unpredictable way in which such override could occur, including to mask fraud, the override of controls is a significant risk for all audits.

The Trustee must satisfy themselves that the control environment present within the entity together with the trustee controls and controls over the posting of journals are adequate to deter any inappropriate override of controls from management.

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

- understanding and evaluating the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements and testing the appropriateness of a sample of such entries and adjustments;
- reviewing accounting estimates for biases that could result in material misstatement due to fraud; and
- obtaining an understanding of the business rationale of significant transactions that we become aware of that are outside the normal course of business or that otherwise appear to be unusual given our understanding of CBF and its environment.

2.5 Judgements and estimates

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

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

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

- The split of recharged expenditure between the component entities of the City of London Corporation [not significant]

Financial Investments

The financial investments portfolio totalled £794.9m as at 31 March 2024 (2023: £819.7m). There is a risk with regard to the existence and ownership of the assets in the investment portfolio and their correct valuation, particularly in the case of non-listed investments where the valuation is determined by the fund.

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

- the Charity has sufficient controls in place to mitigate the risks associated with outsourcing services; and
- the controls in operation by the third party service provider over the ownership and management of the Charity's assets and their associated income streams are sufficiently robust.

We will review your internal procedures to manage and control the investments as well as the controls being operated by both the investment managers and the custodian, including consideration of the relevant AAF01/06 controls reports.

We will obtain valuations directly from the investment managers. We will review the reconciliations between the reports from the investment managers and the custodian's report and the records independently maintained to confirm ownership and to identify potential anomalies or significant movements in the year (particularly in relation to purchases and disposals).

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

In addition, the charity has moved to a total return accounting model for its endowment investments (both property and financial investments), following the adoption of a supplemental Royal Charter in the year. As this is the year of adoption, the historic cost will need to be disclosed alongside the historic and current year returns.

Investment Properties

CBF's investment properties are valued independently by two firms registered as valuers with the Royal Institution of Chartered Surveyors ("RICS") as at 31 March each year. The valuations as at 31 March 2024 have been completed by Savills and Jones Land LaSalle (JLL), with the total valuation of the portfolio being £792.6m (2022/23: £841.1m).

Investment properties are carried in the financial statements at fair value. FRS102 requires revaluation to be made with sufficient regularity to ensure that the carrying value does not differ materiality from that which would be determined using fair value at the reporting date. As such, we consider the valuation of this portfolio to be a significant risk, particularly in light on the current property market environment.

We will review the investment property valuation report with consideration to judgements and estimates used by the valuer with reference to market data. We will also test the inputs provided to the valuer by the Charity and the ownership status via land registry.

We will also review the valuation adjustment and ensure any gains/losses on revaluation have been appropriately recognised in the Statement of Comprehensive Income, and that the adoption of total return accounting has been appropriately applied and reflected in the notes to the accounts.

We also understand from discussions with management that increasing costs in the construction sector derived from the pandemic and high inflation have continued to impact renovation costs. This includes a major renovation of 84 Moorgate, where the final costs have been around twice the original £20m budgeted. Also of note is a project where CBF and the contractor have been to adjudication with a judgement dividing the extension of time costs between CBF and the contractor in the prior year. We understand that CBF are waiting for the final account to be submitted before a further challenge is made.

As part of our audit work, we will review the correspondence surrounding these refurbishments and assess the need for any provision to be included in the accounts, or potential impairment of the value of the corresponding properties. We will also complete a wider review of the portfolio for any potential indicators of impairment. This will include obtaining an update from the RAAC working group regarding the presence of reinforced autoclaved aerated concrete, though from our work as part of the 2022/23 audit, we expect that CBF's properties are not affected.

CBF are also currently undertaking a review of properties that may have been acquired under statute and therefore may not be part of the endowment fund. At present, research over this remains ongoing, however we will continue to monitor this throughout the audit process and will review any additional disclosures included within the financial statements for accuracy.

Pension liability

The assumptions surrounding the pension liability calculations performed by the actuaries can make a significant difference to the result disclosed in the financial statements. As at 31 March 2023, this liability for CBF sat at £4.3m.

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 Estate and City Bridge Foundation).

At present, CBF includes the pension scheme liability in the accounts as reported under IAS19, with a conversion not made to FRS102 on the grounds of the difference not being material. There is a risk that this difference may in fact be material or otherwise significant.

Our audit testing will include the following:

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

We understand that CBF is not affected by the potential pension regulations breach around casual workers, however as part of our audit work we will review management's paper and the potentially affected employees to confirm this, or otherwise the magnitude of any potential impact.

Recognition of financial investment and investment property income

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

Other judgements and estimates

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

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

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

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

3. Other areas of audit focus and disclosure

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

3.1 Income

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

Whilst we deem investment property income and financial investment income to be significant (see Section 2) we do not consider tourism income to be a significant risk due to its high-volume low-value nature. Other income streams are not considered a significant risk due to their immaterial nature.

Across all income streams the key risks remain the same:

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

Tourism income

City Bridge Foundation owns Tower Bridge, which is open to the public for an admission fee. In addition, there is a gift shop on site generating further revenue, and the venue is also rented out for events. This revenue stream totalled £7.6m in 2022/23 and is expected to increase to c.£10.2m in 2023/24, with nearly a million visits made in the year.

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

As part of our audit work, we will:

- Update our understanding of systems and processes and complete walkthroughs, including over the new system introduced in March 2024;
- Perform analytical review of trends and variances for each tourism income stream against expectations, budget, forecast and prior years where appropriate;
- Review a sample of reconciliations between the EPOS system and amounts banked;
- Trace a sample of sales through the EPOS system and ultimate receipt to bank;
- Trace a sample of events income through to supporting documentation and receipt to bank; and
- Review year-end cut-off to ensure income has been recognised in the correct years, including the deferral of income relating to events booked after 31 March 2024.

3.2 Payroll

Payroll is the second largest single expenditure item for CBF, totalling £8.1m in 2022/23. The key risks in this area are considered to be:

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

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

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

3.3 Funds

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

We will:

- Trace restricted contributions, legacies and grants found in our income testing to the relevant fund account;
- Review a sample of expenses allocated to restricted funds to ensure that the expenditure was spent in accordance with the objects of the fund;
- Review the analysis of net assets to ensure that it has been correctly allocated across the funds; and
- Review the processes in place to ensure that restricted transactions are completely and accurately captured and reported within the organisation and review year end balances to ensure that they appropriately reflect the restrictions that should be in force.

3.4 Other balance sheet items

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

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

3.5 Going concern

In preparing the financial statements to comply with Financial Reporting Standard 102 the Trustee is required to make an assessment of the charity's ability to continue as a going concern.

In assessing whether the going concern assumption is appropriate, the Trustee and management are required to consider all available information about the future of the charity in the period of at least, but not limited to, twelve months from the date when the financial statements are approved and authorised for issue.

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

As in prior years management will prepare a detailed paper setting out their assessment of CBF's ability to continue as a going concern for consideration alongside the draft financial statements by the Audit and Risk Management Committee and City Bridge Foundation board.

Crowe response

Our work on going concern will include the following:

- Reviewing the period used by Trustee to assess the ability of CBF to continue as a going concern,
- Examining budgets and forecasts prepared by management covering the period of the going concern assessment to ensure that these appropriately support the trustee's conclusion,
- Reviewing the accuracy of past budgets and forecasts by comparing the budget for the current year against actual results for the year, and
- Reviewing any other information or documentation which the Trustee used in their going concern assessment.

3.6 Related parties

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

We will therefore review the Corporation’s and Charity’s procedures for identifying potential related parties and ensuring all transactions are complete, including any annual declaration of interests completed by Council Members and Senior Management.

4. Fraud and irregularities and our audit reporting

Obtaining an understanding of internal control relevant to the audit

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

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

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

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

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

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

Corporate governance and fraud

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

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

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

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

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

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

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

A copy of our guidance and a framework on conducting fraud risk assessments can be obtained from our website here: https://www.crowe.com/uk/insights/fraud-risk-assessment-non-profit.

Our responsibilities

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

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

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

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

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

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

5. Staffing, fees and timetable

Staffing

Tina Allison is your Audit Partner. They will be assisted by Daniel Haines as Director and James Badman as Audit Manager. The onsite team this year will be led by Nireekshna Ganesh.

Our audit fees

As in previous years our proposed audit fee is based on two assumptions.

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

Based on the above, our fee for the audits of the financial statements of City Bridge Foundation, incorporating an inflationary rise[1] of 5% will be £93,500 (2022: £89,050).

This fee is stated exclusive of VAT and disbursements.

We propose to submit an initial interim fee of £30,000 at the time of issuing this planning report and subsequent fees of £55,000 at the end of the main fieldwork and the final balance of our fees on completion in September.

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

Timetable

The anticipated timetable and deadlines are as follows:

Key Events	Date
Initial planning meeting	29 May 2024
Interim audit work commences	w/c 11 June 2024
Provision of the audit planning report to the CBF Board	14 June 2024
Audit fieldwork commences and draft financial statements available	w/c 1 July 2024 (3 weeks)
Audit & Risk Management Committee	8 July 2024
Central Work Fieldwork (for reference)	w/c 29 July 2024 (3 weeks)
Clearance meeting with finance team	21 August 2024
Draft audit findings report to management	29 August 2024
Papers deadline for CBF Board	5 September 2024
CBF Board meeting to consider audit findings report and provide delegated authority for signing	19 September 2024
Audit & Risk Management Committee to consider findings report and accounts	23 September 2024

[1] Please note that the latest ONS inflation index indicates that the Consumer Prices Index (CPI) stood at 2.3% in the 12 months to April 2024 and the annual RPI inflation rate was 3.3% in April 2024. The inflation index according to ONS for accountancy services was 13.0% in March 2024 due to a shortage of quality candidates and competition amongst audit firms.

Approval of the accounts for signing by CBF Board and Crowe	18 October 2024

Our deliverables to you

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

- Statutory audit reports on the financial statements of CBF.
- This Audit Planning Report to confirm the details of the planned timing of our audit and related year-end meetings, to confirm the key members of your audit team and their independence, and to summarise our audit approach and any specific issues relevant to our audit which we have identified from our initial discussions with CBF's finance team or elsewhere.
- An Audit Findings Report to summarise any key issues or adjustments identified during our audit which have impacted on the disclosures in, or required adjustment to, the draft financial statements together with comments on any weaknesses in CBF's systems and controls which come to our attention during our audit work on the annual statutory financial statements.
- Draft of the Representations Letter which we are required to obtain from the Trustee to confirm certain specific matters relevant to the completion of the statutory financial statements.

Appendix 1 - Responsibilities and ethical standards

Scope of our audit

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

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

Your financial statements

The financial statements on which we are to report are your responsibility; our audit of the financial statements does not relieve management or the Trustee of their responsibilities for the financial statements and the Trustee must be satisfied that the financial statements give a true and fair view before approving them. Further details of your and our respective responsibilities are set out in our engagement letters dated 13 July 2022.

Our audit approach

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

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

We will update our understanding of CBF including objectives, strategies, operations, governance structures, sources of incoming resources and related risks. We will also update our understanding of the classes of transactions, account balances, and disclosures to be expected in the financial statements. We will consider your selection and application of accounting policies and whether they remain appropriate, and your reasons for any changes thereto.

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

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

We are required to confirm during our audit whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting CBF. We have not been made aware of any such issues from our initial discussions but will be requesting confirmation of this as part of the audit completion process.

Legal and regulatory disclosure requirements

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

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

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

Ethical Standard

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

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

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

Independence

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

We confirm that we have not provided any non-audit services to the charity. We have not identified any other issues with regards to integrity, objectivity and independence and, accordingly, we remain independent for audit purposes.

The matters in this report are as understood by us as at 14 June 2024. We will advise you of any changes in our understanding, if any, during our meeting prior to the financial statements being approved.

Use of this report

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

Appendix 2 - Audit materiality

Audit materiality and communication of errors and adjustments

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

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

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

Our overall audit materiality for the financial statements as a whole will take account of the level of funds held by CBF and will be set at approximately 2% of fixed asset investments. In addition, a lower materiality of 1.5% of expenditure will be applied to auditing transactions in the Statement of Financial Activities and other balance sheet items.

In addition, we will determine whether a materiality amount lower than this materiality level is applicable for any particular classes of transactions, account balances or disclosures.

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

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

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

The following is a summary of the overall materiality levels that will be applied, based on the prior year financial statements:

Entity	Materiality calculation	Materiality £'000	Reporting threshold £'000
City Bridge Foundation	2% Fixed Asset Investments	33,216	1,661
	1.5% Expenditure	1,556	67

Appendix 3 - Trustee's Report and Financial Statements

Financial Statements and our audit

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

As part of our audit we will:

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

Trustee's Report

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

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

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

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

Governance Code

The Charity Governance Code was updated in December 2020. The key enhancements focussed on Principle 3: Integrity and Principle 6: Equality, Diversity and Inclusion (formerly 'Diversity'). A copy of the refreshed code can be obtained from the Charity Governance Code website at https://www.charitygovernancecode.org/en/pdf.

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

Fundraising Statement

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

Appendix 4 - External developments

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

We believe it is important to keep our clients up to date on the issues that affect them and, as a part of our ongoing communication, we regularly hold webinars and therefore encourage you to visit our website (https://www.crowe.com/uk/industries/webinars#nonprofit).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 that came into force on 14 June 2023

- Sections 9-14 and 35a: Permanent endowment
- Sections 17, 19-22: Charity land
- 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 on 7 March 2024

- Section 1-3: Charity constitutions
- Sections 18* and 23: Charity land
- Section 24 and Schedule 1: Amendments of the Universities and College Estates Act 1925**
- Section 29: Powers relating to appointments of trustees
- Section 31: Remuneration etc of charity trustees etc
- Sections 33, 34 and 35(b): Charity mergers
- Section 37: For remaining purposes
- Section 40 and Schedule 2: For remaining purposes

* Section 18(1) (in part), (2)(a), (2)(c) and (3)(a) will come into force on 7 March 2024. Due to the provisions being linked to section 24 and Schedule 1, section 18(1) (for remaining purposes), (2)(b) and (3)(b) will come into force on 19 May 2025.

** Section 24 and Schedule 1 will come into force on 19 May 2025.

Provisions of the Act expected to come into force later in 2024

- Sections 15 and 16: Ex gratia payments

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

Making changes to governing documents

The Act introduces a new statutory power to allows trusts and unincorporated associations to make changes to their governing documents.

Charities will still however need to get the Commission's authority to make certain 'regulated alterations' in the same way as companies and Charitable Incorporated Organisations (CIO).

Other related changes include:

- how unincorporated charities must pass trustee and (where they have members) member resolutions when using the new power
- that the Commission will apply the same legal test when deciding whether to give authority to charitable companies, CIOs, and unincorporated charities changing their charitable purposes
- a power for the Commission to give public notice to, or to direct charities to give notice to, regulated alterations they make

The Commission have updated CC36 to reflect these changes, which can be found here: https://www.gov.uk/government/publications/changing-your-charitys-governing-document-cc36

Selling, leasing or otherwise disposing of charity land

The following provisions are now in force:

- provisions relating to disposals by liquidators, provisional liquidators, receivers, mortgagees or administrators
- provisions relating to the taking out of mortgages by liquidators, provisional liquidators, receivers, mortgagees or administrators
- changes about what must be included in statements and certificates for both disposals and mortgages

The Commission have updated CC28 to reflect these changes, which can be found here: https://www.gov.uk/government/publications/sales-leases-transfers-or-mortgages-what-trustees-need-to-know-about-disposing-of-charity-land-cc28

Charity mergers

For certain mergers, new rules are now in force that will allow most gifts to charities that merge to take effect as gifts to the charity they have merged with.

Updated guidance on charity mergers can be found here: https://www.gov.uk/government/publications/making-mergers-work-helping-you-succeed/how-to-merge-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

Selling, leasing or otherwise disposing of charity land

Charities must comply with certain legal requirements before they dispose of charity land. Disposal can include selling, transferring or leasing charity land. The Act simplifies some of these legal requirements. The changes include:

- widening the category of designated advisers who can provide charities with advice on certain disposals
- confirming that a trustee, officer or employee can provide advice on a disposal if they meet the relevant requirements
- giving trustees discretion to decide how to advertise a proposed disposal of charity land
- removing the requirement for charities to get Commission authority to grant a residential lease to a charity employee for a short periodic or fixed term tenancy

Updated guidance can be found here: https://www.gov.uk/government/publications/sales-leases-transfers-or-mortgages-what-trustees-need-to-know-about-disposing-of-charity-land-cc28.

Using permanent endowment

The Act introduces new statutory powers to enable:

- charities to spend, in certain circumstances, from a 'smaller value' permanent endowment fund of £25,000 or less without Commission authority
- certain charities to borrow up to 25% of the value of their permanent endowment fund without Commission authority

Charities that cannot use the statutory powers will require Charity Commission authority.

In addition, a new statutory power enables charities that have opted into a total return approach to investment to use permanent endowment to make social investments with a negative or uncertain financial return, provided any losses are offset by other gains.

Updated guidance can be found here: https://www.gov.uk/guidance/permanent-endowment-rules-for-charities

https://www.gov.uk/government/publications/total-return-investment-for-permanently-endowed-charities

Investing Charity Money

CC14 has been updated, it is now called Investing Charity Money, and takes account of the High Court Judgement on the Butler Sloss case.

CC14 states that all charities should have a written investment policy if their governing document requires they have one or if the charity is a trust, and where it gives an investment manager powers to make decisions on its behalf. It includes:

- Examples of various issues which may be relevant for trustees to consider when making investment decisions, such as the potential for an investment to conflict with the purposes of the charity, or the reputational impact of an investment decision.
- Steps trustees 'must' take to be compliant with the law and those trustees 'should' do as best practice but not legally required.
- Explanations on acting in the best interests of a charity, ensuring that above all else any decision furthers its purposes.
- Guidance on social investment and no longer uses terminology that could get in the way of trustees' understanding, such as 'ethical investment', 'mixed motive investment' and 'programme related

investment'. It should be noted that whilst the guidance has simplified the terminology, this distinction is still important from a financial reporting perspective, as the Charity SORP requires different accounting treatment for mixed motive and programme related investments.

It also provides example approaches to financial returns including avoiding those investments which can reduce support for a charity and harm its reputation, and is more specific on ESG factors:

- aiming only for the best financial return you can achieve, within the level of risk that you have decided is acceptable for your charity
- alongside the financial return you are aiming for, avoiding investments that conflict with your charity's purposes.
- alongside the financial return you are aiming for, avoiding investments that could reduce support for your charity or harm its reputation, particularly amongst its supporters or beneficiaries.
- alongside the financial return you are aiming for, avoiding or making investments in companies because of their practice on environmental, social and governance (ESG) factors
- alongside the financial return you are aiming for, using your shareholder vote, or other opportunities that come with your investment, to influence practice at companies that your charity is invested in.

The revised guidance can be found here: Investing charity money: guidance for trustees (CC14) - GOV.UK (www.gov.uk)

: The future charity chair | Bayes Business School (city.ac.uk)

Public trust in charities 2023

The Charity Commission has published the latest annual report into public trust in charities, the report shows that although public trust has risen the increase is small though the situation appears more stable than previous years.

There is still a divide in the perception of charities when it comes to size, with smaller charities faring better than larger organisations. The research includes interviews with members of the public from various demographics and reveals that half of the population are aware of the Charity Commission.

The full report can be found here Public trust in charities 2023 - GOV.UK (www.gov.uk)

Defined Benefit Funding Code of Practice

The Pensions Regulator (TPR) is currently analysing responses to its second consultation on the new Defined Benefit (DB) funding code of practice. The new Code includes a requirement for a 'funding and investment strategy' (FIS) where trustees will be required to articulate their approach and decisions on funding and investments. Trustees must prepare a written statement of strategy which records the FIS and supplementary details, is signed on the trustees' behalf by their chairperson, and submitted to TPR with each triennial valuation.

Under the proposals, TPR sets out a "twin-track" model where trustees will be able to choose either a prescriptive "Fast Track" option or a more flexible "Bespoke" approach to completing and submitting an actuarial valuation for TPRs assessment. The proposed requirements for the fast track route include a number of areas such as suitable long-term objectives for schemes to achieve low dependency by the time a scheme is significantly mature (measured as 12-year duration) and discount rates of gilts plus 0.5% p.a. The fast track does not explicitly take account of covenant strength. TPR plans to consult separately on proposed changes to covenant guidance.

The code is now expected to come into force in April 2024, rather than 1 October 2023.Details of the consultation can be accessed via TPRs website:

https://www.thepensionsregulator.gov.uk/en/document-library/consultations/draft-defined-benefit-funding-code-of-practice-and-regulatory-approach-consultation

Charity Commission: Charity Use of Social Media

On 18 September 2023 the Charity Commission published guidance for charities on their use of social media, following a consultation carried out earlier in 2023.

A knowledge gap was identified through the Charity Commission's casework where trustees were not always aware of the risks that may arise from the use of social media, meaning that some do not have sufficient oversight of their charity's activity, leaving them and their charity vulnerable.

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

The new guidance is clear that charities using social media should have a social media policy in place, explaining how it will help deliver the charity's purpose, include guidelines for expected conduct and should ensure the policy is followed.

The guidance contains a checklist to help trustees and senior employees have informed conversations on what the right policy for them looks like.

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

Charity Commission: Charities and Artificial Intelligence

On 2 April 2024 the Charity Commission published a blog explaining that charities may need to consider having an internal artificial intelligence (AI) policy, and that Trustees should be aware of the risks and opportunities arising from AI whether they are currently using AI or planning to do so.

The Commission is not anticipating issuing specific guidance but encourages trustees to apply existing guidance to new technologies as they emerge.

The key consideration is that AI should be used responsibly in a way that furthers the charity's purposes. Before utilising AI, consider the advantages and risks – and how these will be managed – in the context of the trustee's duties and charity's objectives.

That could involve looking at what gaps can be filled, or insights generated by an AI tool, what skills are needed to use these tools to the charity's advantage and if people within the charity's trustees, staff or volunteers have those skills. This could also consider how staff or volunteers may already be using AI.

As the use of AI develops and more applications become available, the Commission recommends charities consider whether having an internal AI policy would be beneficial so it is clear how and when it can be used in governance, by employees in their work, or in delivering services to beneficiaries.

However, Trustees remain responsible for decision making and it is vital processes are not delegated to AI alone as there are risks inherent to the way AI is built, operates, and continues to learn. Trustees and others in charities must ensure that human oversight is in place to prevent material errors, and a human touch is key to the way many charities operate and interact with their beneficiaries.

Trustees should consider external risks and reputational damage arising from the misuse and recircularization of AI, such as fake news or deep fakes.

Whilst this evolving technology may seem daunting to many, there are more opportunities for charities to engage with the technology now it is more widely available.

The full blog can be obtained here:

https://charitycommission.blog.gov.uk/2024/04/02/charities-and-artificial-intelligence/

Compliance

Holiday Entitlement – where are we now?

In March 2023 the government opened a consultation exercise to review the legislation governing holiday entitlement and holiday pay, which had over time become complex, and in some cases, difficult for employers to follow.

The consultation exercise ended on 7 July 2023, and the government's response was published on 8 November 2023. The response indicates that the following actions will be taken:

- *Introduce an accrual method for calculating holiday*

Entitlement will be calculated as 12.07% of hours worked in a pay period for irregular hours and part year workers. All other workers will accrue leave at 1/12th of their entitlement on the first day of each month during their first year of employment.

- *Sanction rolled-up holiday pay (RHP)*

  Legislation will be introduced to allow RHP for irregular hours workers and part-year workers only.

- *Introduce a definition of irregular hour workers & part-year workers*

  Legislation will be updated to define what is meant by irregular hours workers and part-year workers.

The Government has laid out revisions in respect of the above as part of The Employment Rights (Amendment, Revocation and Transitional Provision) Regulations 2023, effective from 1 January 2024.

Irregular hours and part-year workers

To the relief of many employers the revised Working Time Regulations ('WTR') will include provisions aimed squarely at addressing the flaws laid bare in the Harper Trust v Brazel case in which it was held part year workers on permanent contracts were entitled to a full year's holiday entitlement, regardless of the number of weeks worked.

For holiday years from 1 April 2024 individuals who work irregular hours or part-year (such as term time or casual workers) will accrue holiday on the last day of each pay period at a rate of 12.07% of the number of hours worked during the pay period. This will ensure that their entitlement will remain in proportion to the hours that have been worked and differs from other employees who receive their full entitlement at the start of a holiday year. It is open to employers to allow the employee to take more holiday than they have accrued – in such cases its essential that employment contracts reserve the right for the employer to deduct over usage from final salaries.

For the same group of workers the revised WTR sees a welcome return of rolled-up holiday pay. Rolled-up holiday pay is where the accrual in a pay period is paid to the employee with their basic salary rather than when they actually take their holiday. The practice was outlawed because in the opinion of the European Court of Justice it discouraged workers from taking time off. However, for many casual work arrangements rolled up holiday pay is the only logical approach and many employers have continued to apply it.

From 1 April 2024 rolled up holiday pay will be permitted on condition that:

- the individual is a part-year or irregular hours worker
- the holiday pay is calculated using 12.07% of all pay for work done
- the holiday pay (12.07%) is paid at the same time as the pay for work done
- the holiday pay is separately itemised on the payslip.

It's worth noting that the 12.07% formula does not account for the different holiday pots that we covered at the start of this article and therefore in some cases it could result in higher rates of holiday pay.

It is also the case that an employer has a legal duty to ensure that an individual takes their 5.6 weeks of holiday per year and this duty applies even when they are paid using rolled-up holiday pay and not when they actually take their holiday – which could make it difficult to monitor.

Record Keeping

Following a 2019 decision by the European Court of Justice employers have been required to record the daily hours worked by their employees.

Under the revised WTR employers will be required to keep records that evidence compliance with the 48-hour week, opt-out agreements, length of night work and health assessments for night workers, and therefore an employer is not required to record daily hours if they can evidence compliance by other means.

Key Takeways

The revisions to the WTR should be welcome news for most employers, although in some areas they lack detail – such as a lack of definition around normal earnings for the calculation of holiday pay.

Employers of irregular and part year workers will be eager to adapt their processes to accommodate 'accrue as you go' and rolled up holiday pay.

For some employers it will be the much-needed spur to start and correctly calculate holiday pay and for others a need to evaluate the true status of their self-employed contractors.

However, for almost all employers there will be a need to look at policies and procedures to ensure that they align with the new rules on holiday carry over and ensure that ‘use it or lose it’ prompts are timetabled before the end of the holiday year.

The full article can be obtained here: https://www.crowe.com/uk/insights/holiday-entitlements

Duty on employers to prevent sexual harassment at work

The Worker Protection (Amendment of Equality Act 2010) Act 2023 received Royal Assent on 26 October 2023, and came into force on 27 October 2023, and introduces a new duty on employers to take reasonable steps to prevent sexual harassment of their employees in the course of their employment. ‘In the course of their employment’ covers activities outside of the workplace, for example work social events.

This new duty to prevent sexual harassment will be enforceable by an employment tribunal, where it has first upheld a claim for sexual harassment. A tribunal will have the discretion to award a ‘compensation uplift’ by increasing any compensation it awards for sexual harassment by up to 25% where there has been a breach of the employer’s duty in sexual harassment cases.

The Equality and Human Rights Commission’s guidance on sexual harassment and harassment at work contains steps employers should consider taking in order to prevent and deal with harassment at work. These steps include having an effective and well communicated anti-harassment policy in place and maintaining a reporting register of complaints for all forms of harassment.

A copy of the guidance can be found here: https://www.equalityhumanrights.com/sites/default/files/sexual_harassment_and_harassment_at_work.pdf

Increase to National Minimum Wage

The government has announced an increase to the national living wage (‘NLG’) and national minimum wage (‘NMW’) effective from 1 April 2024, as follows:

- The NLW rate will rise from £10.42 to £11.44 per hour - this rate currently applies to workers aged 23 and over but it will be extended to also apply to 21 and 22-year-olds from 1st April 2024.
- The NMW rate for workers aged 18 to 20 will rise from £7.49 to £8.60 per hour.
- The NMW rate for workers aged 16 and 17 will rise from £5.28 to £6.40 per hour.
- The NMW rate for apprentices aged under 19, or those aged 19 and over but in the first year of their apprenticeship, will rise from £5.28 to £6.40 per hour.
- The daily offset for the provision of living accommodation to a worker will rise from £9.10 to £9.99 per day.

Fundraising Regulator: Annual complaints report

In November 2023 the Fundraising Regulator has published its latest Annual Complaints Report which covers the period 1 April 2022 to 31 March 2023. The report analyses complaints received by the Fundraising Regulator and complaints reported to 58 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. The overall number of complaints had increased since 2021/22 which is reflective of increases in fundraising activity since the pandemic.

Over the same period, complaints about fundraising methods including door to door fundraising (60), charity bags (57) and addressed mail (51) accounted for the majority of the 270 complaints within the Fundraising Regulator's scope. A common theme was that of misleading information, highlighting the importance of clarity in fundraising materials.

You can see the full report here.

Failure to prevent fraud and other economic crimes

A new failure to prevent fraud offence has been introduced by the Economic Crime and Transparency Act 2023. It will apply to all large corporate entities, including charitable companies and CIOs.

An offence is committed where an employee or agent commits fraud. The penalty is an unlimited fine for the organisation, and no personal liability will be introduced for trustees or management failure to prevent fraud.

The legislation is far reaching, and where an organisation operates or is based overseas, if an employee commits fraud under UK law or affecting UK victims, the company can be prosecuted.

There is a defence to the failure to prevent economic crimes if the organisation can prove that it had reasonable prevention measures in place, or that it was not reasonable in all the circumstances to expect it to have had any procedures in place.

The offence will come into force when the government publishes statutory guidance on the reasonable procedures organisations should consider putting in place.

Full details of the legislation can be found here.

New free digital service from National Cyber Security Centre

The National Cyber Security Centre have launched a new free digital service, MyNCSC, which aims to enhance charities' cyber security approach.

MyNCSC combines Active Cyber Deference (ACD) digital services, offering a unified experience tailored to each user's needs, including content, vulnerabilities, and alerts.

The MyNCSC platform is a free service for UK registered charities, enabling organisations to access various ACD services, such as:

- early warning
- mail check, assessing email security compliance
- web check, finding and fixing common security vulnerabilities in the charity's website

There are plans to gradually increase the number of ACD services integrated with MyNCSC.

MyNCSC offers a unified user interface for accessing multiple services promoting collaboration within organisations when managing digital assets and viewing findings.

For further information and guidance on how MyNCSC works, visit:

https://www.ncsc.gov.uk/information/myncsc

Financial and other reporting

FRC Amendments to FRS 102

The Financial Reporting Council (FRC) issued amendments to financial reporting standards on 27 March 2024, the changes are mostly effective for accounting periods beginning or after 1 January 2026. This follows the consultation impact assessment during 2023.

The amendments 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)
- various other incremental improvements and clarifications

The FRC intends to publish new editions of the standards and updated staff factsheets with guidance during 2024, they will also host a webinar to discuss the new standards at 11am on 15 May 2024.

The SORP committee are reflecting on these amendments and exploring how they will impact the remaining stages of the SORP development process with updates to follow.

The full amendment documents can be obtained here: https://www.frc.org.uk/news-and-events/news/2024/03/frc-revises-uk-and-ireland-accounting-standards/

Dispelling common myths about charities

ICAEW, with input from Crowe, has published guidance exploring ten myths surrounding charities and their operations, with a view to encourage transparent communication in areas where these misconceptions are prevalent. The ten myths considered are:

- Charities spend too much on fundraising.
- They should not make a surplus or build up cash reserves.
- Too much is spent on highly paid executives.
- They should not undertake commercial activities.

- Charities should be run and staffed [for free] by volunteers.
- Too much is spent on overheads.
- Charities don't pay taxes, so need less money.
- Professional qualifications are needed to become a charity trustee.
- Charities are less vulnerable to fraud than other organisations.
- Charities should not engage in campaigning and political activity.

The guidance includes access to a webinar discussing some of the key myths with voices from the sector.

The Guidance can be found here: Dispelling common myths about charities | ICAEW

Charity Digital Skills report

The Charity Digital Skills annual report has been running since 2017 and tracks the sector during a time of significant change due to the impact of the pandemic. As we continue to navigate the cost of living crisis and the impact on the sector, this report aims to shed some light on how the digital capabilities of charities have evolved and highlighting key trends.

The report highlights that:

- Three quarters (78%) of charities say that digital is more of a priority for their organisations
- 1 in 5 charities say their IT provision is poor
- 8 out of 10 (79%) of charities see improving their website, digital presence or social media as the greatest priority for the next year
- Improving data security, privacy and GDPR compliance has become more of a priority since 2022.
- Almost half (46%) of charities say they do not have anyone with digital expertise on their board

The gaps seen in previous years persist, these include funding and leadership. With the rapid growth in AI development charities must ensure that digital skills remain a priority to avoid being left behind.

Digital Skills Report for the Charity Sector - Introduction (charitydigitalskills.co.uk)

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 2023 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 24% of UK charities had identified a cyber-attack in the last 12 months, a decrease from 30% in 2022. The drop is driven by smaller organisations – the results for medium and large businesses, and high-income charities, remain at similar levels to last year.

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.gov.uk/government/statistics/cyber-security-breaches-survey-2023/cyber-security-breaches-survey-2023#summary

Charity Commission: Guidance on accepting donations

In March 2024, the Charity Commission published new guidance to help charities when deciding whether to accept, refuse or return a donation.

The guidance explains when donations must be refused or returned and when these might likely need to be refused or returned. The guidance makes clear that trustees should start from a position of accepting donations, but from time to time a charity may face a difficult decision as whether to refuse or return a donation. The guidance sets out an approach for trustees to take on these occasions, advising they:

- consider the risks involved in refusing or returning the donation, and how likely and serious these are. These include negative financial impact, ability to deliver services and ability to attract donations in future

- consider the risks involved in accepting or keeping the donation, and how likely and serious these are. These include the likelihood of reduced support or reputational harm, particularly among supporters or beneficiaries
- determine how any decision aligns with their charity's purposes
- determine what steps they can take to mitigate the risks. These include negotiating the terms of a conditional donation with the donor or developing a public explanation for a decision

It explains that if a charity is considering refusing or returning a donation, the charity must have the legal power to refuse or return a donation. In some situations, there are additional legal rules to consider e.g. disposal or land or properties of a special trust.

The charity should also consider whether it needs to make a SIR when it refuses or returns a donation.

Ultimately, as the guidance states: "Deciding whether to accept, refuse or return a donation is likely to involve a careful balancing exercise. There may be no right or wrong answer, but your decision must be rational and reasonable, and supported by clear evidence."

The full guidance can be obtained here: https://www.gov.uk/guidance/accepting-refusing-and-returning-donations-to-your-charity

Taxation

HMRC Guidance: Detailed guidance notes on how the tax system operates for charities

HMRC have updated their guidance for charities in recent months. The key changes to the guidance are:

- Sections 3.4.1 and 3.13.1 of Chapter 3 'Gift Aid' have been updated to explain that cryptoassets must be converted to money before donations are eligible for gift aid.

- Section 8.1 has been updated to clarify that top-up payments on chip and pin donations can be claimed.

- Section 8.3 has been updated to explain that a Community Amateur Sports Club must keep records of chip and pin donations made through bank accounts and terminals for their claims.

- Update to correct an error in section 22.2 of Chapter 3: Gift Aid. Figures have been adjusted in the calculations to make sure the aggregate value test produces the same pass or fail outcomes as before.

- Section 3.45 of Chapter 3 has been updated to provide examples of Gift Aid on waived funds and loan repayments for individuals and companies.

The updated guidance can be found here: https://www.gov.uk/government/publications/charities-detailed-guidance-notes

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