Crowe

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City Bridge Foundation (‘CBF’)

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

Year ended 31 March 2024

Presented to the City Bridge Foundation Board on 19 September 2024 & Audit and Risk Management Committee on 23 September 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
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Dear Members of the Board and Audit and Risk Management Committee,

I have pleasure in submitting our audit findings report for the year ended 31 March 2024. The primary purpose of this report is to communicate to the City Bridge Foundation Board and City of London Corporation Audit and Risk Management Committee and the Trustee 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 City Bridge Foundation Board on 19 September 2024.

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

Contents

1. Executive summary

Our report to you

We are pleased to present our Audit Findings Report to the City Bridge Foundation (‘CBF’) Board and the Audit and Risk Management Committee and we welcome the opportunity to discuss our findings with you at your meetings on 19 and 23 September 2024 respectively.

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

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

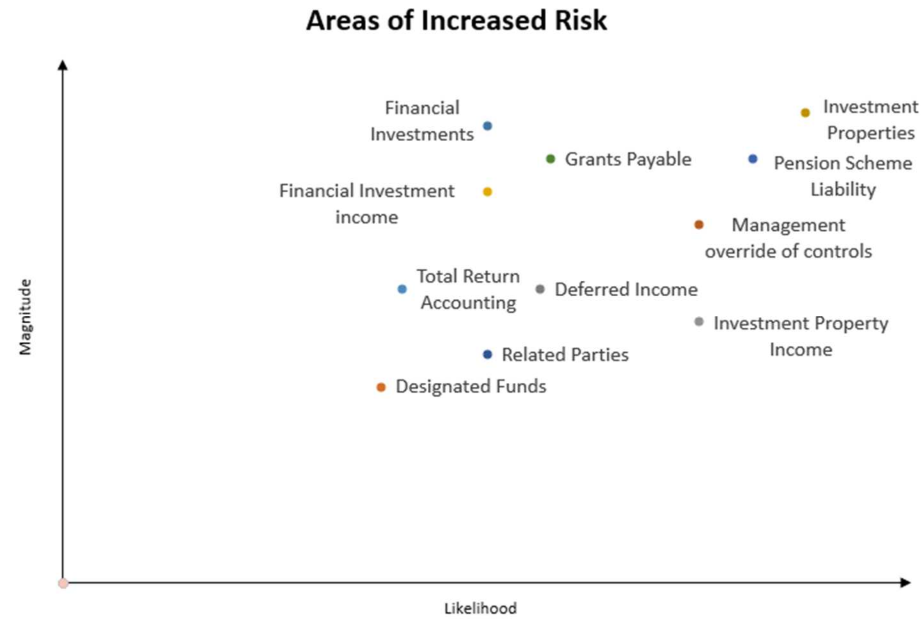
- the results of our work on areas of significant audit risk
- our views about significant qualitative aspects of the charity’s accounting practices, including accounting policies, accounting estimates and financial statement disclosures
- significant difficulties, if any, encountered during the audit
- 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.

Conclusions in relation to the areas of significant audit risk

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



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

The results of our audit work in these areas is set out below:

Significant risk	Control deficiency identified	Adjustment(s) identified	Other reported matters
Revenue recognition – investment property income	×	×	×
Revenue recognition – financial investment income	×	×	×
Grant expenditure and grants payable	×	✓	×
Valuation of investment properties	×	×	×
Valuation of financial investments	×	×	×
Other significant estimates	×	×	×
Management override of controls	×	×	×

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 Trustee 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 funds held by CBF and was set at approximately 2% of fixed asset investments. In addition, a lower materiality of 1.5% of expenditure has been applied to auditing transactions in the Statement of Financial Activities and other balance sheet items.

We have reviewed this level of materiality based on the draft financial statements for the year ended 31 March 2024 and are satisfied that it continues to be appropriate with 2% of fixed asset investments being £32.1m and 1.5% expenditure being £1.76m.

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 are pleased to report that there are no remaining unadjusted items identified from our audit in excess of the above trivial limit.

Audit completion and our Audit Report

We have substantially completed our audit in accordance with our Audit Planning Report which was sent to you and the senior management team on 14 June 2024, subject to the matters below.

- The audit file is subject to final review in some areas (outlined in Section 2 and Section 3), and clearance of any review points in turn
- Central Fraud (ISA 240) question responses from the Audit and Risk Management Committee and CBF Board
- Receipt and review of 20 remaining related party declarations
- Completion of our review of the cost allocation workings following completion of our central recharges work
- Pensions - GT audit file to be reviewed to gain assurance over the valuation of the assets in the scheme
- Conclusion of the review of the investment property valuations by Cluttons
- Receipt of responses to central Payroll queries and finalisation of our review of the payroll disclosures
- Receipt of remaining Investment & bank confirmations from respective investment managers, custodians & banks, and review of the central bank account reconciliations

- Finalisation of our review of IT systems and controls
- Completion of the post-Balance Sheet events review
- Review of the final financial statements including non-financial figures provided in the Trustee's report
- Receipt of the signed letter of representation (Appendix 3)

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.

On the satisfactory completion of these matters, we anticipate issuing an unmodified audit opinion on the truth and fairness of the 2024 financial statements.

Responsibilities and ethical standards

We have prepared this report taking account of the responsibilities of the Trustee and ourselves set out in Appendix 5 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 21 August 2024. Karen Atkinson, Nathan Omane and Nicole Monteiro 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 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 Bridge Foundation identified during our audit.

2.1 Revenue recognition – investment property income

Key related judgements

Investment property income is the largest revenue stream for City Bridge Foundation, totalling £24.1m 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 has included 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.

Our conclusions and other comments

Our testing of investment property income is complete with no issues noted. Our work has not highlighted any issues in relation to the recognition of this income stream.

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-invest 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.

Investment income including interest receivable totalled £4.8m 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 has included:

- 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.

Our conclusions and other comments

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

2.3 Grant expenditure and grants payable

Key related judgements

This is the largest single expenditure item for CBF, with net awards totalling £82.9m in 2023/24 (2022/23: £60.2m). This reflects a continuation of a higher level of grant awards from the additional £200m of funds earmarked for this purpose.

Crowe response

As part of our audit work, we have:

- Used 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;
- Tested 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 have been provided with copies of minutes and decision letters for this purpose; and
- Agreed a sample of grants awarded across year-end to the relevant approval and communication to ensure they have been recognised within the correct financial year.

Our conclusions and other comments

One adjustment has been noted from our audit work, where a number of grants with no movement in the year have been identified as requiring writing-back. This adjustment totals £113k and has been included in Appendix 1.

A significant judgement in this area is the discount rate applied by management on the future funding commitments. The net present value reflected in the accounts is £4.8m lower that than the total commitments as at year-end, reflecting a discount rate of 4.29%. As part of our audit work we have reviewed the underlying assumptions for this and are satisfied that this is an appropriate rate to apply.

Our testing of grant expenditure has been completed with no further issues noted.

2.4 Management override of controls

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

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. This is considered a sufficient control for City Bridge Foundation given the level of activity and volume of journals posted.

Our work on the review of journals posted to the City Bridge Foundation has been completed with no issues to note.

We did not identify any instances of management override of controls or other issues from our sample testing of CBF journals. However, we note that journal processing can be an area of potential risk and it is good practice to include consideration of this within the overall CBF risk assessment.

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 charity's 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.

2.5 Judgements and estimates

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:

- The estimation of the valuation of financial investment holdings, including the total return calculations [significant – Section 2.6];
- The estimation of the valuation of investment properties [significant-Section 2.7];
- The assumptions adopted by management and used by the actuary to calculate the pension liability [significant – Section 2.8];
- The recognition of financial investment and investment property income [significant – Sections 2.1 & 2.2];
- The split of the pension scheme liability between the component entities of the City of London Corporation [significant – Section 2.8];
- The recoverability of year-end rental debtors [significant – Section 2.1]
- The discount rate applied to future grant commitments by the charity [significant – Section 2.3]
- The assessment of impairment of fixed assets [not significant];
- The assessment of the remaining useful life of assets [not significant]; and
- The split of recharged expenditure between the component entities of the City of London Corporation [not significant]

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.

2.6 Estimates and judgements – Financial Investment Valuation

Key related judgements

The financial investments portfolio within City Bridge Foundation represented £850.2m as at 31 March 2024 (including short term and impact investments). 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 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 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 have obtained valuation confirmations 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 custodian reports. We are liaising with these parties to obtain the remaining confirmations outstanding.

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

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 this aspect is still in progress.

Adoption of Total Return

During 2024, a new Supplemental Royal Charter gave CBF the power to adopt a 'total returns' approach to investments representing the permanent endowment, in order to release investment gains (which would previously need to be reinvested) for the purpose of funding the Foundation's bridges or funding activities. Permanent endowment funds are now being managed to maximise the amount of funds available for distribution whilst maintaining the real value of the permanent endowment fund over time.

As part of our audit we have:

- Confirmed that the Foundation has the power to adopt a total return approach to investing;
- Confirmed the opening fund values of the original gift and unapplied total return agree to underlying workings; and
- Reviewed total return disclosures within the financial statements to ensure these reflect movements in the endowment fund across the year including investment income, management fees and investment gains and losses.

Overall, our work on the adoption of total return was satisfactory, subject to final stages of review.

2.7 Estimates and judgements – Investment Property Valuation

Key related judgements

Investment properties held by the Charity totalled £800.5m as at 31 March 2024. These properties have been valued independently by two firms, with Savills valuing the full portfolio other than one property (Newington House) valued by JLL. Both valuers are registered with the Royal Institution of Chartered Surveyors ("RICS"). These valuations have been completed as at 31 March. 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 Financial Activities.

We have also completed a wider impairment review of the investment property portfolio, considering voids, matters raised in meeting minutes, ongoing maintenance costs and other similar considerations. As part of this, we have confirmed that CBF's portfolio is not affected by the ongoing RAAC issues.

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 Foundation's valuation report prepared by Savills, consisting of a high-level review of the full report and a more detailed review of five selected properties. This also includes challenging the methodology and inputs used by Savills to determine their reasonableness. The property valued by JLL is immaterial, with a value of £3m, and therefore a full review by Cluttons has not been deemed necessary.

At the time of writing this external review by Cluttons is currently ongoing. We will provide a verbal update on this at the committee meeting.

We are aware of two ongoing matters regarding works completed involving potential litigation and/or remedial works. We have reviewed the relevant correspondence on these matters and are satisfied that these have been reflected in the accounts as appropriate. A third matter has been resolved post year-end and the financial statements adjusted accordingly to reflect the correct accrual for the associated costs.

2.8 Estimates and judgements – Pension Liability

Key related judgements

The assumptions surrounding the FRS102 pension liability (£1.5m) 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 City Bridge Foundation).

At present, City Bridge Foundation 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 testing:

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

Our conclusions and other comments

Grant Thornton are currently completing the audit of the pension scheme and we currently liaising with them in order for us to complete a review of their working papers to gain comfort over the balance of the scheme assets.

Our work in this area is otherwise complete subject to any points raised as part of the final review process. We will provide a verbal update on this at the committee meeting.

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 Income

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

Whilst we deem investment property income 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?).
- Accuracy (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 £10.5m in 2023/24, reflecting a growth in visitors to almost one million.

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.

Crowe response

As part of our audit work, we have:

- Updated our understanding of systems and processes and complete walkthroughs, including over the new system introduced in March 2024;
- Performed analytical review of trends and variances for each tourism income stream against expectations, budget, forecast and prior years where appropriate;
- Reviewed a sample of reconciliations between the EPOS system and amounts banked;
- Traced a sample of sales through the EPOS system and ultimate receipt to bank;
- Traced a sample of events income through to supporting documentation and receipt to bank; and
- Reviewed 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.

Our conclusions and other comments

Included in tourism income in 2023/24 is the release of £364k from deferred income from Gantner. We understand that this income was previously deferred where customers have prebooked entry to Tower Bridge but never attended. As the tickets are non-refundable, we are satisfied that CBF have met the criteria to recognise this income. This is an historic balance which has built up over a number of years, therefore should continue to be monitored moving forwards.

No issues have arisen in our work, which has been completed.

3.2 Payroll

Payroll is the second largest single expenditure item for CBF, totalling £9.6m in 2023/24. 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?)

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 agreed their costs to supporting documentation on a sample basis.

Our conclusions and other comments

At the time of writing this report, we are currently working to resolve queries around our detailed sample. The manager and partner reviews are to be completed. We will provide a verbal update at the committee.

3.3 Funds

City Bridge Foundation operates a number of different funds subject to various restrictions and designations. It is important to 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.

Crowe response

As part of our audit work, we have:

- Traced restricted items identified in our income testing to the relevant fund account;
- Reviewed a sample of expenses allocated to restricted funds to ensure that the expenditure was spent in accordance with the objects of the fund;
- Reviewed the analysis of net assets to ensure that it has been correctly allocated across the funds;
- Reviewed the calculation of designated funds, in particular those associated with the repairs and replacement of the bridges owned by the charity, to ensure they are reasonable and any movements appropriately approved; and
- Reviewed 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.

Our conclusions and other comments

Our audit testing has not identified any issues to date. At the time of this report, we are in the process of finalising out work and completing the review process.

3.4 Going concern

We explained in our Audit Planning Report that in preparing the financial statements to comply with Financial Reporting Standard 102 the Trustee 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 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.

The Trustee’s 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 the Trustee identifies 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.

The Trustee 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 CBF management and explained that our work on going concern includes the following:

- Reviewing the period used by the Trustee to assess the ability of the Foundation 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 has used in their going concern assessment.

Our conclusions and other comments

At 31 March 2024 City Bridge Foundation is reporting unrestricted funds totalling £628.7m (2023: £644.2m). CBF's net movement in funds for the year is (£80.7m) (2023: £109m),

CBF also has a year-end cash balance of £10.4m (2023: £7.6m) and further financial investments totalling £850.2m (2023: £855.4m). Whilst not all these investments are readily liquifiable, there are sufficient listed assets held to support the charity's operations in the short term should income from other sources be affected for any reason.

At the time of writing this report our assessment of the going concern status of the charity has been completed, with the review process currently ongoing.

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

3.5 Estimates and judgements

As noted in Section 2, management have made a number of necessary accounting estimates and judgements which impact the financial statements. Estimates that are deemed to be significant are discussed in Section 2.

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

- The assessment of impairment of fixed assets;
- The assessment of the remaining useful life of assets;
- The split of recharged expenditure between the component 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 the remaining useful life of assets

No issues have been noted through our review of depreciation and useful economic life of assets held by the charity.

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

Our work on recharges is currently ongoing and we will provide a verbal update to the committee at the meeting.

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.

Crowe response

We have therefore

- Reviewed 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;
- Obtained and reviewed the related party declarations for all Council members and Aldermen; and
- Reviewed the related party disclosure included in the CBF accounts for both accuracy and completeness, vouching the disclosure back to underlying records as appropriate.

Our conclusions and other comments

As noted in prior years, a number of related party declarations remain outstanding; we have updated our prior year finding in Appendix 2 accordingly. We do note however that the number of outstanding declarations at this point has fallen considerably compared to prior years due to increased efforts to ensure their return.

Our work in this area remains ongoing whilst declarations continue to be received.

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 CBF 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.

We obtained an understanding of the legal and regulatory frameworks within which the charity 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 the Charities Act 2011 together with the Charities SORP (FRS102). 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 charity's ability to operate or to avoid a material penalty. We also considered the opportunities and incentives that may exist within the charity 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 financial investment and investment property income and the override of controls by management. Our audit procedures to respond to these risks included enquiries of management, internal audit, the CBF Board and the Audit and Risk Management Committee about their own identification and assessment of the risks of irregularities, sample testing on income, 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 5 some fraud risks that Trustee 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 trustee 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 trustee when the financial statements are approved.

- The trustee acknowledge their responsibility for the design and implementation of internal control to prevent and detect fraud and errors.
- The trustee has assessed that there is no significant risk that the financial statements are materially misstated as a result of fraud.
- The trustee is 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 trustee is 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 2024 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.

We are pleased to report that there are no remaining unadjusted items identified from our audit in excess of the above trivial limit.

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	**Increase / (decrease) in net income £k**	**Increase / (decrease) in assets £k**	**Increase / (decrease) in liabilities £k**	**Increase / (decrease) in funds £k**
Adjustment to write-back grant expenditure on grants with no movement in 2023/24 which have been discontinued: Dr Grants Payable Cr Grant Expenditure	113	113		
Adjustment to accrue for legal costs incurred prior to year-end not previously included in creditors. Dr Expenditure Cr Accruals	(26)	(26)		

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 Bridge Foundation 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.

We are pleased to report that we have no new audit findings with regards to general systems and controls. Please see the subsequent page for a review of the prior year control findings.

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 2023 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 2023 or prior periods	Priority	Status	Update 2024
1. Related party declarations (2022) 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 2023 Update* Whilst the Corporation as a whole have worked to improve the return rate, we note that this remains an ongoing issue, with c.50 declarations outstanding as at the time of issuing our initial report. The final number did reduce to c.30, however any declarations not received increases the risk a related party transaction being missed.			We understand that the Corporation have made significant efforts to improve the rate of return of the year-end declarations. As of the time of writing this report, 20 declarations remain outstanding. Whilst we expect the final number to reduce, any declarations not received increases the risk a related party transaction being missed.

Appendix 3 - Draft Representation Letter

This letter must be typed on your official letterhead. It should be considered by the Trustee, CBF Board and Audit and Risk Management Committee at the same time as the Annual Report and Financial Statements and the Minutes should record the Board and Committee'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 Bridge House Estates (known as 'City Bridge Foundation' or 'CBF') for the year ended 31 March 2024 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 charity as at 31 March 2024 and of the results of its operations for the year then ended in accordance with UK Generally Accepted Accounting Practice ("UK GAAP").

We confirm that the following representations are made 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 Karen Atkinson 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 Trustee 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 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 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.
8. We have disclosed to you any known actual or possible litigation or claims against the company whose effects should be considered when preparing the financial statements and these have been reflected in the financial statements in accordance with applicable accounting standards.
9. 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.
10. 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.
11. There have been no events since the balance sheet date which require disclosure or which would materially affect the amounts in the financial statements other than those already disclosed or included 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 Karen Atkinson, CBF & Charities Director, or Nathan Omane, Head of Finance, to provide an update for you to cover the time period between the signing of this letter and the date of your audit report.

12. We confirm that we have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud. We have assessed that there is no significant risk that the financial statements are materially misstated as a result of fraud.
13. We are not aware of any fraud or suspected fraud affecting 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.
14. 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 charity's financial statements.
15. 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 charity conducts its business.
16. 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.
17. 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 charity SORP.
18. In the event that we publish the trustee's 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.
19. The charity has satisfactory title to all assets and there are no liens or encumbrances on the charity's assets, except for those that are disclosed in the financial statements.
20. We confirm that, having considered our expectations and intentions for the next twelve months and the availability of working capital, the charity is 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 the charity's ability to continue as a going concern.

Yours faithfully

…………………………………………….

Trustee
Signed on behalf of the Board and Trustee

Date ……………………………………….

Appendix 4 - Responsibilities and ethical standards

Audit purpose and approach

Our audit work has been undertaken for the purposes of forming our audit opinion on the financial statements of City Bridge Foundation prepared by management with the oversight of the trustee 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 trustee and Board of CBF are responsible for the preparation of the consolidated financial statements on a going concern basis (unless this basis is inappropriate). The trustee and Board 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)

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 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 CBF. 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 charity 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 30 August 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 City of London 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 5 - 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 trustee, CBF Board, Audit and Risk Management 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 trustee should be aware that the Charity Commission provides guidance (updated in January 2023) 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 trustee considers 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 trustee.

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.

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 CBF 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 latest Fraud Advisory Panel research indicates that 43% of charities reported a fraud or attempted fraud in 2023, an increase from 36% in the previous year. The report highlights the following as the main types of fraud carried as being the misappropriation of cash or other assets, staff expenses fraud and authorised push payment fraud (more commonly known as mandate fraud).

In terms of the main perpetrators of frauds reported, the most common were staff members, volunteers and trustees (50%), followed by individuals with no connection to the charity concerned (23%).

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

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.

It is also important to consider other policies and procedures, such as conflict of interest and whistleblowing policies, and carrying out fraud awareness training.

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.

c) Frauds of diversion

This is where income or other assets due to CBF 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 6 - 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/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.

Compliance

The Economic Crime and Corporate Transparency Act 2023

In October 2023, the Economic Crime and Corporate Transparency Act (the Act) received Royal assent and began coming into effect in stages. Secondary legislation will be needed before some of the key changes can be implemented.

The Act aims to improve the accuracy and quality of data filed with the Registrar of Companies, helping to tackle economic crime and boost confidence in the UK economy.

From a company secretarial point of view, the most significant change introduced by the Act is the reform of Companies House.

Key changes

Registered office address to be 'appropriate'

All companies must now have an 'appropriate address' as their registered office. This means that documents sent to the registered office address will reach someone acting on behalf of the company and that delivery can be acknowledged. Companies are not allowed to use a PO Box address. In the event of non-compliance, Companies House will change the registered office address to a default address.

Registered email address

Both existing and new companies must provide Companies House with a registered email address for communication purposes. This information must be included when filing the next confirmation statement with a statement date of 5 March 2024 onwards or at the time of incorporation. A new company cannot be incorporated without this information, and existing companies will not be able to file a confirmation statement without it.

Statement of lawful purpose

After 4 March 2024, new companies must confirm that they are being incorporated for a lawful purpose. Existing companies will need to confirm annually in the confirmation statement that their intended future activities will be lawful.

Broadening of Registrar's powers

The Registrar will have enhanced powers to question information filed at Companies House and request additional information to ensure that documents are timely, accurate, and not misleading. Companies House will have greater authority to scrutinise, query, and reject information that is filed or is in the process of being filed.

Authorised Corporate Service Provider (ACSP)

Under new identity verification measures, most documents filed at Companies House must be delivered by an ACSP. This includes incorporations, officer appointments (directors, secretary, members of LLP, partner of LP) and PSC appointment. This means if you are filing these documents with Companies House then you will need professional corporate service providers to do this for you or you will have to follow the additional identity verification steps to be introduced by Companies House.

Changes to be introduced to Company Accounts

Companies House is currently working on mandating digital filing and full tagging of financial information in an iXBRL format. The number of times a company can shorten its Accounting Reference Period will be reduced. Small companies will be required to file a profit and loss account and a directors' report, while micro-entities will need to file a profit and loss account. The option to file abridged accounts will be removed, and companies claiming an audit exemption will need to provide an additional eligibility statement.

Restrictions on the use of corporate directors

All directors (or director equivalents) of the entity that have been appointed as a corporate director must be natural persons, and those natural person directors must have undergone an appropriate identity verification process. Historically, any corporate entity could be appointed as a corporate director of a UK company. However, moving forward, only UK-registered entities will be eligible for appointment as corporate directors, and all directors (or director equivalents) of such entities must be natural persons. Companies with existing corporate directors will be given 12 months to comply; within that time, they must either ensure their corporate director is compliant with the principles or resign them.

Considering the recent changes introduced by the Act, boards of directors will need to review their current processes for filing at Companies House, adopt new systems for verifying filings, monitor identity verification requirements, introduce new policies on director changes, and review the appropriateness of the company's registered office address.

Virgin Media pension case

Until it was abolished in April 2016, defined benefit pension schemes could contract out of the State schemes. In return for lower employer and employee National Insurance contributions, a scheme was required to meet certain minimum requirements in relation to the benefits provided through the scheme. Before 6 April 1997 a contracted-out salary-related scheme was required to provide each member with a Guaranteed Minimum Pension. The 1995 Pensions Act ended that regime and with effect from 6 April 1997 contracted-out schemes had to satisfy the Reference Scheme Test, which had to be assessed and certified by the scheme actuary that the minimum level of benefits under the reference scheme test would continue to be satisfied after the amendment was made.

On 25 July 2024, the Court of Appeal upheld the High Court's decision in relation to Virgin Media v NTL Pension Trustees II Limited that the statutory actuarial confirmation was required, and without this, alterations are void. This decision could potentially have a significant impact for other schemes where changes have been made without actuarial confirmation.

The question appealed was whether a confirmation was required for changes to future service benefits or just past service benefits. The Court of Appeal upheld the High Court's decision that confirmation was required for amendments to future accruals, before legislation changes in 2013. Legislation does allow the Government to make retrospective regulations to validate amendments that are void due to the absence of such written confirmation. Therefore, depending upon the outcome of any subsequent appeal to the Supreme Court, the industry may call on the Government to take action.

On 25 July 2024, the Court of Appeal upheld the High Court's decision that the statutory actuarial confirmation was required, and without this, alterations are void. The question appealed was whether a confirmation was required for changes to future service benefits or just past service benefits. The Court of Appeal upheld the High Court's decision that confirmation was required for amendments to future accruals, before legislation changes in 2013. Legislation does allow the Government to make retrospective regulations to validate amendments that are void due to the absence of such written confirmation. Therefore, depending upon the outcome of any subsequent appeal to the Supreme Court, there is the possibility that DWP may take action to validate scheme rule amendments which would otherwise be invalidated by the principle in the Virgin Media case.

On 29 July 2024 a joint statement was issued a working group formed by the Association of Consulting Actuaries, the Association of Pension Lawyers and the Society of Pension Professionals proposing that the Secretary of State for Work and Pensions make regulations to validate retrospectively any scheme rule amendment affecting reference scheme test benefits, that is held to be invalid solely because a written actuarial confirmation was not received before that amendment was made. If such regulations were to be made, this would provide a fallback position for DB schemes and their sponsoring employers if issues of invalidity of scheme rule amendments were to be raised based on the Virgin Media case. Other industry bodies have also begun lobbying government to make these changes.

In the meantime, scheme actuaries may need to consider whether they need to take account of matters raised through the Virgin Media case and take into account the impact on funding updates and triennial actuarial valuations. To date actuaries have not been explicitly referred to this matter in their actuarial valuations.

From a pension scheme accounting perspective, unless the possibility of settling the contingent liability is remote or it is not material disclosure should be made in the notes to the financial statements of the estimated financial effect and an indication of the uncertainties relating to the amount or timing. Trustees of pension schemes should assess whether disclosure is required in their accounts.

Employers will also need to consider the impact of the case on their accounts, and this will include retrospective and future liabilities and therefore will be a larger amount. If the amount is not included in actuarial valuations due to lack of information, there will need to be an assessment as to whether a disclosure is required.

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.

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/

Taxation

VAT and charity fundraisers: dual purpose?

UK VAT law allows one-off fundraising events to benefit from applying the VAT exemption to the income generated. It could also zero-rate programmes, children’s clothing, and the sale of donated goods.

The Tribunal decision involving the Yorkshire Agricultural Society (YAS) focused on the conditions imposed when applying the fundraising exemption. VAT law states that a charged event cannot qualify for VAT exemption unless its primary purpose is fundraising. HMRC had taken a rigid approach to interpreting this rule, insisting that there can be no other motive behind the event to qualify for the exemption.

This approach has restricted the application of the fundraising exemption from organisations that they consider ‘run such events anyway’ (and so do not meet this fundraising primary purpose test).

The YAS decision was heavily influenced and referred frequently to the Loughborough decision, which HMRC won. However, in YAS the Tribunal did not read Loughborough as determining that fundraising must be the sole or overriding purpose of an event. This appears to have undermined HMRC’s arguments significantly.

YAS run an annual show which has a dual educational and fundraising purpose. HMRC argued that the event income could not be VAT exempt as the primary intention was not fundraising. The Tribunal determined that there can be more than one primary purpose in this instance, without undermining the conditions of the exemption.

The Tribunal also agreed with the Upper Tier Tribunal case involving Loughborough Students’ Union (and others)in another important point around the fundraising event rules. It agreed that the requirement to clearly hold out (advertise) an event as a fundraiser as an exemption condition, was ultra vires of EU VAT Law.

HMRC sought to argue that its assessment was all made within the relevant time limits but lost on these points also. HMRC are out of time if both of the following time limits are exceeded:

- the VAT period is more than two years old
- HMRC had the full facts for more than one year.

HMRC argued that they hadn't been given the full facts until the most recent adviser's letter,

but from the evidence, it was clear this merely re-confirmed the full facts already provided.

Whilst this case does not set a legal precedent as a First-Tier decision, it does rely very heavily on the Upper Tribunal decision in Loughborough, which set a legal precedent. It appears to have pushed back the boundaries of HMRCs restrictive approach to charity events qualifying for the fundraising VAT exemption. HMRC must abide by time limits when assessing taxpayers.

Gift Aid of waived loans and refunds

In February 2024, HMRC published new detailed guidance explaining when they will consider donations made by waiver of a right to a refund or loan repayment to be eligible for Gift Aid. The new guidance replaces previous detailed guidance, which had been largely withdrawn in early 2023.

The new guidance explains HMRC's evidence requirements which depend on the type of arrangement. For a waiver of a refund, a record of correspondence will generally be sufficient. For a loan waiver, HMRC will expect to see a legally enforceable document in place.

Importantly, the new guidance states that where a loan waiver is made by a company to a charity, HMRC take the view that for corporation tax purposes, this transaction is governed by the loan relationship rules rather than the rules for charitable donations. Under the loan relationship rules, debt releases made between connected companies are not usually deductible for tax purposes. Charity subsidiaries that donate their taxable profits annually to their parent charities should take note of this in particular.

HMRC's updated guidance is available here:

https://www.gov.uk/government/publications/charities-detailed-guidance-notes/chapter-3-gift-aid#chapter-345-claiming-gift-aid-onwaived-refunds-and-loan-repayments

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 frequent 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 two 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
- the taxpayer has submitted all submissions in the previous two 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

Employment Tax: what's keeping us hot this summer?

In the recent Budget and fiscal events, the net impact on changes to employment taxes have been relatively low-key.

However, we are seeing three key areas which employers are seeking our assistance with:

- compliance and de-risking
- cost reduction
- driving efficiencies.

Compliance and de-risking

Recently, we have seen HMRC increase their programme of performing checks of employer records. This is unsurprising as a Public Accounts Committee report informs that HMRC recovers £18 in income tax/ National Insurance Contributions (NICs) for every £1 spent on compliance activities. This contrasts with the reported £4 return for every £1 spent on the task force recovering Coronavirus Job Retention Scheme (CJRS) claim error or fraud.

The total tax gap (being the difference between the tax HMRC expects to collect and that actually paid) in 2020/21 was £32 billion, and Income Tax/NICs made up £12.7 billion (39%) of the gap. Therefore, it's not surprising HMRC target employers for potential income tax and NICs irregularities.

To mitigate the risk of undergoing an invasive HMRC check, employers can initiate a self-review and voluntarily disclose any income tax/ NIC irregularities to HMRC. Voluntary disclosure may be beneficial as it can be viewed as good behaviour by HMRC. Additionally, this can also help protect the employer's reputation as a "good citizen", and support ESG considerations.

Cost reduction

The cost-of-living crisis remains a concern for all, including the social purpose and non profit sector.

An effective salary sacrifice arrangement can help both employees and employers, and potentially ease some of the economic pressures. This is a way to provide attractive, ethical, and environmentally responsible benefits to employees at a time when the need to attract and retain key talent is a high priority for employers.

Salary sacrifice is, in simple terms, an arrangement whereby an employee gives up some of their gross pay in return for a non-cash employer provided benefit. Typically, we see salary workplace pension contributions paid via salary sacrifice.

An effective salary sacrifice means that although the employee's gross pay is lower, their take-home pay increases through NIC savings and tax savings on some benefits. Employers will also save on NICs.

Driving efficiencies

During the pandemic, there was talk about what the 'new' normal would look like.

Employers should now take stock of their employment tax processes and procedures, to check that their current ways of working are effective and efficient. Some areas of focus should include:

- identify areas of robustness and conversely, where improvements could be made
- maximise available tax exemptions
- restructure and streamline current processes
- tighten controls to reduce errors or fraud
- underpin with sound governance.

VAT rates on new buildings, energy supplies and disabled building works

0%, 5%, or 20%? Navigating the VAT rate for the various activities that your organisation is involved in can be challenging.

Can I get zero-rating on a new charity building?

There is often a common misconception that a new building purchased or built by a charity should automatically be zero-rated.

A recent VAT Tribunal case (Paradise Wildlife Park) has reconfirmed the position that for the building to be zero-rated, the building must be used by the charity in one of the following ways:

- otherwise than in the course and further of business
- as a village hall or similarly in providing social or recreational facilities for the local community.

It is important that charities are aware of whether their activities are deemed to be business under the interpretation of VAT law. Only last year, HMRC issued new guidance on what they consider to be in the course and furtherance of business. The tests are easy to meet where the activities undertaken by the charity in the building, are done for free or totally funded by grants and donations.

However, as seen in the Paradise Wildlife Park decision, it is important to note that not charging VAT does not automatically mean that you are not in business.

There is a small 5% threshold for business use in a charitable building but in our experience, many charities acquire or construct a new building which will be used for business purposes exceeding this level and will therefore not qualify for zero-rating.

If the building does qualify for zero-rating, the charity is required to issue a certificate to the supplier of the property who is either selling the building to the charity or constructing it for the charity.

Can I get the reduced rate of 5% on gas and electricity?

A charity can only get the reduced rate of 5% on gas and electricity when it applies to a building that is used by a charity for a 'qualifying use'.

This means that the reduced rate of 5% is not automatically applied by virtue of charity status.

Although there are various de minimis limits and tests, for the most part the 5% qualifying use applies to gas and electricity used for:

- buildings used by a charity for a relevant charitable purpose (a non-business use)
- relevant Residential Properties
- domestic Properties.

If you have a building that does qualify for the reduced rate and the supplier has been incorrectly charging you VAT at 20%, you can get the VAT incorrectly charged to you amended to the correct 5% for the preceding four years.

Please note there may be buildings owned by a charity which have 'mixed use' of qualifying and non-qualifying areas. These buildings can have the charges apportioned with the 5% VAT levied on the qualifying areas, based upon any fair and reasonable method of calculation. The remaining part will be charged at the full standard rate of 20%.

If more than 60% qualifies at the reduced rate, the entire building can be invoiced at 5% although the charity has a responsibility to review this situation on a regular basis to ensure the apportionments remain consistent and reflective of how the building is being used.

VAT reliefs on building works and disability

This is not an exhaustive list and takes only part of the VAT law, but all charities are entitled to zero rating on ANY of their buildings in relation to the following building works:

Services to facilitate a disabled persons entry to or movement within any building.

The supply to a charity for the service of providing, extending, or adapting a washroom or lavatory to use by disabled persons in a building, or any part of a building, used principally by a charity for charitable purposes.

If you have been incorrectly charged 20% VAT by your supplier for building works that should have been zero-rated, you can go back four years and have the VAT incorrectly charged to you refunded.

Charities are not always able to recover VAT in full on costs, therefore it is important to take advantage of VAT rates below the standard 20%. In all the above scenarios it should be noted that the charity is required to issue a certificate to the supplier in order to get the zero or reduced-rate of VAT.

HMRC guidance states that a certificate incorrectly issued could lead to a penalty of up to 100% of the VAT which has not been charged to them. Charities should check their status before claiming the reduced or zero-rates and issuing a certificate to their supplier. If you have been overcharged there is still an opportunity to reclaim the VAT from the supplier.

A non-business activity leading to a taxable supply

The First-tier Tribunal judgement of The Towards Zero Foundation (TZF) case, provided many charities with an opportunity to consider whether they have a claim to make for input tax.

The judgement confirmed that where a charity can prove that a non-business activity has a direct and immediate link to a subsequent taxable business supply, some if not all of the VAT incurred on the non-business activity becomes recoverable.

VAT incurred in relation to a non-business activity is normally fully non-deductible, however, VAT incurred in relation to a taxable supply is fully recoverable.

The VAT Tribunal heard that TZF tested car's safety features as a secret buyer, to highlight any issues that car companies need to change. The foundation's aim is to have no road deaths caused by a lack of safety features in cars.

TZF levied no charge for the secret buyer trial testing making this a non-business activity. Where cars failed the safety standards manufacturers were notified of the areas of concern, and re-testing was then ordered by manufacturers to show where improvements had been made. The manufacturers commissioned TZF to issue a retesting report, this was a business supply for which TZF charged the manufacturer a fee plus VAT.

HMRC argued that as the first part was non-business TZF could not have the input tax incurred on the initial testing back. The Court accepted that there was a business intention throughout the process, despite non-business activity at the outset.

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