

The City of London Corporation  
Bridge House Estates and the  
Charities

Report to the Audit and Risk  
Management Committee on the  
year ended 31 March 2013 Audit

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

11 July 2013

Dear Sir

We have pleasure in setting out in this document our report to the Audit and Risk Management Committee of the City of London for the year ended 31 March 2013, for discussion at the meeting scheduled for 23 July 2013. This report covers the principal matters that have arisen from our audit of Bridge House Estates ("BHE") and the Charities (the City's Cash Trust Funds, Sundry Trust Funds and The City of London Almshouses) (as listed in Appendix 4) for the year ended 31 March 2013.

In summary:

- The major issues, which are summarised in the Executive Summary, have now been addressed and our conclusions are set out in our report.
- There are a number of judgemental areas to which we draw your attention in our report which you should consider carefully.
- In the absence of unforeseen difficulties, officers and Deloitte expect to meet the agreed audit and financial reporting timetable.

We would like to take this opportunity to thank the Chamberlain, Chris Bilsland, Caroline Al-Beyerty and their team for their assistance and co-operation during the course of our audit work.

Heather Bygrave

Senior Statutory Auditor

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# Executive summary

We have the pleasure in setting out in this document our report to the Audit and Risk Management Committee on the audits of Bridge House Estates and the Charities (the City's Cash Trust Funds, Sundry Trust Funds and The City of London Almshouses) (as listed in Appendix 4) for the year ended 31 March 2013. This report summarises the principal matters that have arisen from our audit for the year ended 31 March 2013.

This summary is not intended to be exhaustive but highlights the most significant matters to which we would like to bring to your attention. It should, therefore, be read in conjunction with the report and the appendices thereto.

Status	Description	Detail
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## Completion of the audit

### The status of the audit is as expected at this stage of the timetable

The status of the audit is as expected at this stage of the timetable agreed in our audit plan.

Items which remain outstanding at the date of this report include:

- Attendance at the closing meeting with the Chamberlain and Audit Panel;
- Completion of internal quality review assurance and routine audit procedures;
- Review of post balance sheet events; and
- Receipt of the signed letters of representation.

## Overall view

### We anticipate issuing an unmodified audit opinion on the truth and fairness of the financial statements

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

The matters that we have taken into account in forming our overall view are described in the following sections.

# Executive summary (continued)

Status	Description		Detail
● Risk appropriately addressed <b>G</b>	● Risk satisfactorily addressed but with unadjusted errors identified <b>A</b>	● Material unresolved matter <b>R</b>	

## Significant audit risks

<p><b>There were no significant issues arising from our review of these audit areas</b></p>	<p>The audit risks which were communicated to you in our audit plan and the conclusion of our audit work thereon are set out below.</p>	<p>Section 1</p>
	<p><u>Revaluation of investment property – BHE</u></p> <p>We have reviewed the adopted valuations in conjunction with our internal specialists and believe the valuations produced for Bridge House Estates as at 31 March 2013 representing an increase of £31.7m or 7.9% from 2011-12 are a reasonable reflection of their market value.</p>	<p>● G</p>
	<p><u>Revenue recognition – all entities</u></p> <p>We have audited the revenue recognised during the year with a specific focus on the completeness of rental income and service charges. We note that rental income decreased during the year primarily due to a decrease in the number of leases which reduced from 313 leases in 2011-12 to 279 leases in 2012-13. This is primarily attributable to vacant properties at 1-5 London Wall Buildings which are currently undergoing renovation to improve the marketability of these properties. We have not identified any issues with the recognition of revenue.</p>	<p>● G</p>
	<p><u>Accounting for Scholarships and Bursary Awards – the Schools Charities as marked with an * in Appendix 4</u></p> <p>We have audited the bursaries awarded during the year with a specific focus on the cut-off point of recording the awards for the summer term. There were no misstatements noted on the bursary awards as these had been accrued for the summer term. However, there were some scholarships which were paid post year end, which should have been accrued at 31 March 2013 in the accounts for The City of London School Bursary Fund and The City of London School for Girls Bursary Fund. The underaccrual on scholarships was immaterial but officers confirmed the errors and these have been adjusted. The details of the adjustments are shown in Appendix 1.</p>	<p>● G</p>
	<p><u>Management override of controls – all entities</u></p> <p>We have focused our work on testing of journals (including the use of computer assisted audit techniques), significant accounting estimates and any unusual transactions, including those with related parties. Our testing did not identify any issues in relation to management override of controls, or the assumptions which have been adopted in determining key accounting judgements.</p>	<p>● G</p>

# Executive summary (continued)

Status	Description	Detail
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## Other issues

**A prior year adjustment was noted in The Vickers Dunfee Memorial Benevolent Fund**

### Guildhall Improvement Project (“GIP”)

We consider that the amounts capitalised in the financial statements of BHE in relation to the Guildhall Improvement Project are appropriate. After discussions, the Officers have agreed to remove the disclosure of the Contingent Liability note in the 2012-13 BHE financial statements as the actual contract with the contractor of GIP and the resulting obligation lies with another entity under the City of London Corporation – City’s Cash.

Section 2

### VAT – BHE

The City can recover input tax directly attributable to its exempt business activities where HMRC consider it to be an ‘insignificant’ proportion (less than 5%) of the total VAT incurred on all goods and services purchased for both business and non-business activities.

Officers of the City have completed the calculation for the 2012-13 VAT partial exemption return which indicates that there is no breach of the 5% threshold.

### The Vickers Dunfee Memorial Benevolent Fund

A prior year adjustment has been posted to the Vickers Dunfee Memorial Benevolent Fund. This arose as a result of a review carried out by officers during the year on the Endowment value which had been held historically at a value of £3,322 since the charity was set up in 1927. Officers estimated the value of the endowment held in the Charities Pool to be £139,396 at 31 March 2013. This value was tested for reasonableness by officers by applying long term growth rates to the earliest recorded investment value of £9,759 which was shown in the Charity Commission Scheme Document of 22 December 1961. An adjustment was required to reflect the transfer of £136,074 to the endowment fund from the unrestricted fund. This is just a reclassification of reserves and does not impact net assets in either the current year or prior year. As this reclassification was identified by the Officers prior to the commencement of the audit, it has not been included in Appendix 1.

# Executive summary (continued)

Status	Description	Detail
<b>Our observations on the “front half” of your annual report</b>		
<b>The “front half” of your annual report is consistent with the financial statements</b>	<p>Overall the annual reports provide adequate detail to assist the readers in their understanding of the charities.</p> <p>The annual reports include the required disclosures under the Charities SORP 2005.</p>	Section 3
<b>Risk management and internal control systems</b>		
<b>We did not identify any significant deficiencies in the financial reporting systems</b>	<p>Our audit findings did not identify any significant deficiencies in the financial reporting systems.</p> <p>Section 4 sets out the risk management and internal control observations arising from our audit procedures.</p>	Section 4
<b>Independence</b>		
<b>We confirm we comply with APB Revised Ethical Standards for Auditors</b>	<p>Our reporting requirements in respect of independence matters, including fees, are covered in Section 5.</p>	Section 5
<b>Identified misstatements and disclosure misstatements</b>		
<b>There were no unadjusted misstatements or disclosure deficiencies</b>	<p>Audit materiality for BHE was £1.9m (2012 £1.7m). Audit materialities of the Charities are included in Appendix 4.</p> <p>Audit materiality for the other entities was set on the basis of incoming resources or net assets as appropriate.</p> <p>There were no unadjusted misstatements or disclosure deficiencies.</p>	Appendix 1
<b>Significant representations</b>		
<b>We will request management representations</b>	<p>A copy of the representation letters to be signed on behalf of the City and The City of London Almshouses are included at Appendix 5. The letters remain the same as the previous year's letters.</p>	Appendix 5

# 1. Significant audit risks

## Investment properties (BHE)



**We believe the internal and external valuations produced for Bridge House Estates as at 31 March 2013 are a reasonable reflection of their market value**

BHE has a substantial portfolio of investment properties which are subject to annual revaluation. These properties require the application of specialist valuation assumptions. The current and recent economic volatility has affected property values, generally, and BHE has recorded significant gains and losses over the last 3 years.

All properties are valued in accordance with the Royal Institution of Chartered Surveyors ("RICS") Appraisal and Valuation Manual ("the Red Book"). In March 2013, 54% of the BHE portfolio by capital value was valued externally by Cushman & Wakefield (compared to 58% valued by Montagu Evans in March 2012). The remainder of the portfolio was valued by the City Surveyors' Office.

A summary of the portfolio is shown below:

Market value at 1 April 2012	Additions	Disposals	Revaluations	Market value at 31 March 2013
£394.0m	£0.6m	Nil	£31.1m	£425.7m

The value of investment properties has increased by £31.7million from 2011-12, representing a like-for-like movement of +7.9%.

### Deloitte response

#### Central London Office Market Commentary

Conditions within the London property market continue to improve. Leasing take-up rose by 2.6m sq ft, boosted by Google's 800,000 sq ft purchase at King's Cross Central. Availability rose by 8% to 17.9m sq ft, which remains at 9% below the long-term average. There is 9.0m sq ft under construction, one-third of which is already pre-let. Prime yields remained stable as investors continued to focus on Central London opportunities.

The Investment Property Databank ("IPD") index reports changes in capital values of various property types. Reported movements in Central London in the year to 31<sup>st</sup> March 2013 are summarised in the table below, and demonstrate that the performance of the BHE estate (like for like movement of 7.9%) is broadly in line with the London property market as BHE estate is spread across these 3 locations / property types:

Property Type	Change in Capital Value
Central & Inner London offices	+4.43%
City offices	+1.39%
Central London standard shops	+8.48%

There have been a range of valuation increases across the portfolio for various reasons including improved market conditions since March 2012 for prime assets and value gains derived via the pursuit of active asset management opportunities, which have in many instances, increased capital values.

Certain investments have outperformed IPD and increased in value, due to active asset management by the long leaseholder, a good example of which is demonstrated by Friars House. In this instance a comprehensive refurbishment and pre-let has increased the capital value of the ground lease interest by c. 50%.



# 1. Significant audit risks (continued)

## Investment properties (BHE) (Continued)

### Deloitte response

Whilst we note that Friars House has performed extremely well and the value of £5.7m (2012: £3.8m) is reasonable as at 31 March 2013, we recommend that its valuation is monitored in the coming year. This is because the valuation contains assumptions about the future head lease income which has not yet transpired.

#### Work performed:

We have evaluated BHE's arrangements for updating valuations, including the operation of its rolling programme of reviews and the qualifications, relevant experience and independence of the specialists utilised to carry out the valuations.

We involved valuation specialists from Deloitte as part of the engagement team to assist in our review of the valuation of investment properties in view of the size of this portfolio. We noted that the process followed in preparation of the valuations appears to be reasonable.

Our procedures performed identified that £454,000 had been double counted on the BHE balance sheet, whereby the City had recognised the full market value of investment properties whilst also recognising the lease incentive balance separately under debtors. Based on the guidance provided in the Charities SORP and UK GAAP accounting standard, UITF Abstract 28, lease incentives should be deducted from the investment property year end valuation so that the sum of investment properties and the lease incentive asset equates to the market value established in accordance with the Red Book.

An adjustment of £454,000 was made by officers as detailed in Appendix 1.

We believe the internal and external valuations produced for Bridge House Estates as at 31 March 2013 are a reasonable reflection of their market value, and are correctly recognised in the Annual Report following the audit adjustment.

# 1. Significant audit risks (continued)

## Revenue recognition (All entities)

### ● G

**Our testing has not identified any issues with the recognition of revenue**

Under ISA 240 (UK and Ireland) there is a presumption that each audit should recognise that potential fraud in revenue recognition is a significant risk. For BHE this has been identified as the completeness of rental income and service charges given its large property portfolio. Within each of the Charities, completeness of income has been identified as the specific risk.

### Deloitte response

#### BHE

We have held discussions with the officers to refresh our understanding of the process for recording rental income and service charges.

We reviewed the completeness of rental income and service charges given BHE's large property portfolio by performing the following procedures:

- Substantive analytical procedures have been performed on the investment property income balance with expectations based upon original budget figures;
- We selected a sample of new leases entered into 2012-13, tracing from original lease documentation through to the general ledger to verify that rental and service charge amounts had been billed in accordance with the terms of the lease and these amounts were accurately recorded in the correct period, and
- We note that rental income decreased during the year primarily due to a decrease in the number of leases which reduced from 313 leases in 2011-12 to 279 leases in 2012-13. This is primarily attributable to vacant properties at 1-5 London Wall Buildings which are currently undergoing renovation to improve the marketability of these properties.

We have not identified any issues with the recognition of revenue.

#### Charities

The material revenue stream for the Charities is investment income from units invested in the Charities Pool.

We have audited the completeness and accuracy of allocation of investment income from the Charities Pool by performing the following procedures:

- Confirmed opening units held in the Charities Pool to prior year signed accounts and verified all movements during the year to supporting documentation;
- Consulted with our internal Financial Investment Specialists team;
- Agreed samples of income to investment manager statements;
- Checked the accuracy of officer's calculations; and
- Re-performed the allocation split.

No issues were noted with our testing.

# 1. Significant audit risks (continued)

## Accounting for bursary awards (the Schools Charities as marked with an \* in Appendix 4 )

### ● G

#### **Our testing has not identified any issues with the recognition of revenue**

In the prior year a review was performed of the commitment terms for a number of bursary awards. The assessment showed that there are a variety of terms and conditions attached to the bursary awards given by the schools. These include the statements that the awards are subject to annual review, that they are subject to sufficient funds being available and that they are subject to satisfactory conduct of the pupil in the view of the school head. The applicants are also duty bound to advise the schools of any change of circumstances.

It was concluded that the bursary could be withdrawn by the school following each annual assessment and therefore the funding commitment over the total bursary should not be recognised on the date of award. However, as the academic year end for each school is not coterminous with the financial year end 31 March, the funding commitment for the summer term should be recognised in the annual financial statements.

The Charities affected by the accounting for bursary awards are:

- City of London School Education Trust;
- Charities ICW City of London Freeman's School;
- City of London School Bursary Fund;
- City of London School for Girls Bursary Fund; and
- City of London Freeman's School Bursary Fund.

#### **Deloitte response**

We have held discussions with officers to determine that there has been no change in the terms and conditions attached to the bursary awards and that the recognition should be on annual basis in line with the school year for the reasons outlined above. For a sample of bursaries we have requested the award letters and reviewed the terms and conditions attached, to determine whether the award has been treated correctly.

There were no misstatements noted on the bursary awards as these had been accrued for the summer term. However, there were some scholarships which were paid post year end, which should have been accrued at 31 March 2013 in the accounts for The City of London School Bursary Fund and The City of London School for Girls Bursary Fund. The underaccrual on scholarships was immaterial but officers confirmed the misstatement and these have been adjusted. The details of the adjustments are shown in Appendix 1.

# 1. Significant audit risks (continued)

## Management override of controls (All entities)

### ● G

#### **Our testing did not identify any issues with officers bias**

Under auditing standards the risk of management override is explicitly identified as a non-rebuttable significant risk. Therefore specific procedures are required to evaluate officers' processes for addressing estimation uncertainty, unusual transactions, related party transactions and the use of journals.

#### **Deloitte response**

We have focused our work on testing of journals, significant accounting estimates and any unusual transactions, including those with related parties.

We have used computer assisted audit techniques to select our samples for testing of journals covering both manual and automated journals. We placed particular focus on manual journals which exhibit certain key identifying characteristics such as large revenue entries reversed after quarter end, entries with round numbers or recurring ending digits and large income statement entries posted before quarter end to name a few. Except for an internal control observation point surrounding the review and authorisation of journals discussed further in Section 4 below, we did not identify any other issues.

Our consideration of key accounting estimates focused on the significant judgements identified separately above as areas of audit risk.

We considered through our detailed planning procedures and substantive procedures whether there were any transactions where the business rationale was not clear. We did not identify any such transactions.

## 2. Other issues

We identified the following issues in our planning document, in addition to the significant risks detailed in Section 1:

### **Guildhall Improvement Project (GIP) & Bovis Claims**

#### **Background**

Bovis were the main contractors for the Guildhall Improvement Project which undertook refurbishment works to the North Wing, the Old Library and the Old Museum. The practical completion certificate for this project was issued in February 2010 by the contract administrator, therefore providing Bovis with six months to submit their final claim for costs incurred. There has been minimal communication from Bovis since practical completion to substantiate their initial claim of £89.2 million. The City has engaged Northcroft, a consultant quantity surveyor, to provide an assessment of the potential future costs, and has accrued for the additional expenditure in line with the estimate provided by them.

City's Cash was the entity that contracted with Bovis and settled the invoices relating to the construction. A portion of this cost was then re-charged to BHE and City Fund.

We continue to identify this area as an area of focus as final negotiations could have a material impact on the financial statements.

#### **Deloitte Response**

We met with officers to update our understanding for the level of the accrual in City's Cash. As BHE capitalises its share of the GIP costs, any movement in the accrual made in City's Cash would result in a portion being recharged to BHE impacting the cost of the asset.

We have corroborated these discussions through examination of supporting documentation from third parties, including any updated reports from Northcroft, to assess whether the cost of the asset is appropriate.

After discussions, the Officers have agreed to remove the disclosure of the Contingent Liability note in the 2012-13 BHE financial statements as the actual contract with the contractor of GIP and the resulting obligation lies with another entity under the City of London Corporation – City's Cash.

We consider that the amounts recognised in BHE's financial statements are appropriate. They will, however, require regular review and reconsideration as discussions with Bovis progress to ensure that they remain materially correct.

## 2. Other issues (continued)

### VAT (BHE)

#### Background

The City can recover input tax directly attributable to its exempt business activities where HMRC consider it to be an 'insignificant' proportion of the total VAT incurred ('insignificant' means that this input tax is less than 5% of the total VAT incurred on all goods and services purchased for both business and non-business activities).

The City is required to undertake a calculation for the VAT year ending 31 March 2013 to confirm that its input tax relating to exempt supplies did not exceed the 5% de minimis limit. The exempt input tax percentage has been calculated at 4.67%.

Officers have confirmed that they are satisfied with the calculation and that they do not expect a breach of the 5% de minimis level, however a number of errors were identified and corrected by the City during preparation of the 2012-13 calculation.

#### Deloitte response

We have reviewed the City's partial exemption calculation for 2012-13 in conjunction with our internal VAT specialists. The calculation of the 2012-13 VAT partial exemption return shows that the input tax relating to exempt supplies did not exceed the 5% de minimis limit.

We conclude that the methodology applied to the partial exemption calculation for 2012-13 is reasonable in establishing that a breach of the 5% de minimis level has not occurred.

Whilst we consider the calculation to be reasonable, we have not undertaken a detailed line-by-line review of the calculation. However, we have performed a review of the calculation on a sample basis and no errors were noted on the samples tested.

Confirmation that the calculation is accurate is included as a non-standard representation in the management representation letter. In addition, we have also raised the following recommendations.

To assist the City in its VAT compliance and to reduce the potential for errors or a breach of the 5% de minimis level occurring in future years, we recommend the following:

- The procedures for in-year monitoring continue to be developed;
- The development of partial exemption forecasting for future years is explored although it is recognised that the significant and unpredictable nature of some of the City's property transactions could compromise the accuracy of forecasts;
- Continuing to liaise with and instruct finance personnel, to minimise the likelihood of errors in VAT treatment – particularly in relation to income;
- In addition to the Group Accountant and the graduate trainee, one other individual be involved in the preparation and oversight of COL's partial exemption calculations to provide resilience;
- Subscriptions to VAT technical updates to be maintained for all personnel in the City involved in VAT accounting; and

## 2. Other issues (continued)

In addition to the issues above, we identified one further issue during performance of our audit procedures which is detailed below.

### Prior period adjustment – The Vickers Dunfee Memorial Benevolent Fund

#### Background

A prior year adjustment has been posted to the Vickers Dunfee Memorial Benevolent Fund. This arose as a result of a review carried out by officers during the year on the Endowment value which had been held historically at a value of £3,322 since the charity was set up in 1927. Officers estimated the value of the endowment held in the Charities Pool to be £139,396 at 31 March 2013. This value was tested for reasonableness by officers by applying long term growth rates to the earliest recorded investment value of £9,759 which was shown in the Charity Commission Scheme Document of 22 December 1961. An adjustment was required to reflect the transfer of £136,074 to the endowment fund from the unrestricted fund. This is just a reclassification of reserves and does not impact net assets in either the current year or prior year. As this reclassification was identified by the Officers prior to the commencement of the audit, it has not been included in Appendix 1.

#### Deloitte response

We concur and agree with the assumptions and adjustment to the endowment fund.

# 3. Our observations on the “front half” of your annual report

We are required to read the “front half” of your annual report to consider consistency with the financial statements and any apparent misstatements. The following section summarises the regulatory requirements for narrative reporting applicable to charities subject to statutory audit in the UK along with other key areas of focus for the Financial Reporting Council:

## Charities SORP

*The trustees' annual report should provide a fair review of the charity's structure, aims, objectives, activities and performance to summarise what the charity has achieved in the year and what impact it has made.*

The annual reports explain to the reader the basis for the charities and the way they carry out their business.

The annual reports include detailed information on aims, achievements, performance against charitable objectives and future plans.

We have completed a Charity SORP checklist to ensure that BHE's and the Charities financial statements contain the required disclosures.

## Risk disclosures

*The Charity Commission guidance requires that charities produce a risk management statement.*

The disclosures in the annual reports explain the risk management processes put in place by the Trustee(s).

However, Section C4 of the Charity Commission's 'Charity and Risk Management (CC26)' guidance recommends the inclusion of a description of the major risks faced by larger charities or those with more complex activities as best practice. This is currently not disclosed in the annual report of Bridge House Estates.

## Public Benefit Reporting

*The Charity Commission published in 2008 guidance on public benefit reporting which stated that public benefit is an integral part of what every charity does and should be integrated into any overall report of the charity's activities and performance during the year.*

The annual reports include a public benefit statement confirming that the Trustee(s) have referred to the Charity Commission guidance on public benefit when reviewing aims and objectives and when making future plans and setting policy.

## Remuneration

*“The Government continues to have concerns about the disconnect between how the largest companies perform and the rewards that are on offer.”*

Vince Cable September 2011

The BHE Annual Report explains that members of the City of London Corporation are unpaid and do not receive allowances in respect of City of London Corporation activities in the City.

As required by the Charity SORP the number of staff earning more than £60,000 is disclosed.

None of the Charities have staff earning more than £60,000. This has been appropriately disclosed.



# 4. Risk management and internal control systems

Our audit approach in relation to internal control was set out in our 'Briefing on audit matters' and our planning report circulated to you in December 2012.

## Risk management and control observations

In addition to the recommendations provided in relation to significant audit risks, we also identified a number of risk management and control observations, the most significant of which are detailed below.

### VAT

#### Prior year observation

The City encountered difficulties in completing the VAT partial exemption claim to fit with the audit timetable, due to the death of the highly experienced VAT accountant.

The calculation of the finalised claim for 2011-2012 was performed by a contractor and was received late in the audit process. We recommended the City should ensure that the knowledge gained from this temporary role is adequately captured and utilised in planning for future years and the timetable is again revisited.

#### Current year update

The City has recruited a Group Accountant for VAT, Research, Technical and Projects, and he is rapidly gaining knowledge and experience from the VAT Consultant. In addition, the City has recruited a Graduate Trainee assistant for the Group Accountant to assist on the VAT matters and is also recruiting a Senior Accountant to his team. The City decided to retain the services of the VAT consultant to ensure a smooth handover of duties and the consultant is currently still part of the team. The consultant undertook the Partial Exemption calculation this year, passing on his experience to the Group Accountant along the way. The calculation has been performed in a very precise manner, drawing on last year's experience and advice from PwC. The exempt input tax percentage has been calculated at 4.67%. Officers have confirmed that they are satisfied with the calculation and that they do not expect a breach of the 5% de minimis level.

The consultant also proposes to set up simplified procedures so that the Group Accountant can monitor the position on a quarterly basis as accurately as possible, thereby enabling him to advise officers of any concerns he may have at an early stage. However, we appreciate that it is difficult to accurately forecast future periods, given the City's perspective on property issues and management. The City's resilience with regard to VAT matters is thus enhanced this year.

Please see page 11 for recommendations.

The officers concur with the recommendations set out on page 11, most of which are already being progressed.

## 4. Risk management and internal control systems (continued)

### Approval of journals

#### Prior year observation

The City introduced a new system in 2011-12 whereby all journal lines that have a value over £100,000 are retrospectively reviewed by a more senior member of staff. This was introduced following recommendations in previous years, to reduce the risk of errors arising from inappropriate journals going undetected. In the past we also noted that journals can be the means by which an individual might seek to hide fraud or commit fraud through manipulation of reported financial information. We reviewed the authorisation process in 2011-12 as part of our journals testing and no issues were noted.

#### Current year update

Current year testing of journals identified that the authorisation process was put in place; however, there are instances where this has been inconsistently followed. Two of our samples were not substantiated with evidence of authorisation although the entries were appropriate. We recommend that all officers maintain evidence of their reviews / authorisation via the sign off forms which indicate that the journal has been reviewed and approved, to ensure compliance with the controls in place in the journals review process.

## 4. Risk management and internal control systems (continued)

### Investment Property Ownership

#### Current year observation

Testing of investment properties in BHE identified that no title deeds were held for 8 properties with a total valuation of £35.6m as at 31 March 2013. We had to perform alternative procedures such as verifying that rental income was derived from these properties to gain assurance that these properties were held by BHE. In particular, for one property (34 Engate Street, value £575k) there were no reasonable means by which BHE's ownership could be verified. We could not obtain evidence from the land registry and there were no title deeds in existence. Additionally there was no evidence of receipt of rental income in the current year, as the most recent lease agreement came to an end in June 2012 and was not subsequently renewed. We noted that negotiations for the granting of a new lease are on-going.

Lack of evidence to confirm ownership may potentially result in the recognition of assets on the balance sheet that the entity does not have rights to, resulting in an overstatement of the investment property balance. Therefore we recommend that there should be sufficient appropriate ownership evidence available in order that the ownership of all investment properties (across all entities) can be satisfactorily verified.

We note that a programme of title registration commenced in 1999, initially focusing on properties within the City boundaries. The next phase of the programme will cover the Open Spaces followed by properties outside the City boundaries. We note that the 34 Engate Street property is located outside the City boundaries in Lewisham. However, Officers are satisfied that they own the title to this property as they have collected rental income on this property until the expiry of the lease in June 2012 and there were no property disposals during the year. Furthermore, there hasn't been any challenge of ownership arising from previous sales of properties. We agree with management's justification and are satisfied given the inclusion of a specific representation confirming ownership of this property in the management representation letter. We support the City in continuing with the programme of title registration.

#### Officers comments

It is not unusual for organisations such as the City, which have a long history of land ownership, to own real property without having title registered at HM Land Registry or to be in possession of title deeds and documents. A significant amount of property was gifted or granted to the City some hundreds of years ago and in these cases, for example, no conventional title deeds would have been drawn up. The City is, however, continuing with its programme of title registration, albeit presently in respect of properties within the City boundaries.

In 1999 the Property Sub-Committee approved the City Surveyor's programme of researching and registering the City's unregistered freehold titles to its land holdings within the City. This programme is integral to the City fulfilling its property asset management responsibilities, while also taking account of Land Registry's target of achieving a comprehensive land register by 2017. Since the start of the registration project, title to 86 properties in the City has been registered as at February 2013.

## 4. Risk management and internal control systems (continued)

### Open Spaces Capitalisation Policy

#### Current year observation

We note that the current capitalisation policy for all open space charities is £50,000. If this policy is applied for some of the smaller open space charities this could potentially result in material (refer appendix 4) capital items not being appropriately capitalised in accordance with accounting standards.

We understand that Officers do not anticipate spending material amounts on fixed assets for the Open Spaces Charities, and as such it is unlikely that material items which meet the definition of a fixed asset would be significant in any one year.

We recommend that the capitalisation spend is monitored in the smaller charities on an annual basis so that a material fixed asset is not expensed within the accounts.

#### Officers comments

At present there is no reference to the £50,000 capitalisation threshold in the accounting policy note of the Open Spaces charities. We will update the financial statement note to include this policy. In our opinion, it would not be pragmatic to administer an arrangement which has different thresholds for different services. Therefore, we propose to maintain the policy of having costs capitalised in accordance with a clearly stated policy.

# 5. Independence

As part of our obligations under International Standards on Auditing (UK & Ireland) and the Companies Act, we are required to report to you on the matters listed below.

Confirmation	
<b>We confirm we comply with APB Revised Ethical Standards for Auditors</b>	We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.

Non-audit services							
<b>We confirm that our independence is not compromised by our provision of non-audit services</b>	<p>In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the company's policy for the supply of non-audit services or of any apparent breach of that policy.</p> <p>We apply the following safeguards to eliminate identified threats to independence or reduce them to an acceptable level are as follows:</p> <table border="1"> <thead> <tr> <th>Service provided</th> <th>Identified threats to independence</th> <th>Safeguards applied</th> </tr> </thead> <tbody> <tr> <td>Advice provided by Deloitte Real Estate (DRE) in relation to leasing matters</td> <td>Self-review and management threat</td> <td>We have discussed independence issues with officers in the current year. This work is performed by an independent partner and does not have a material impact on the valuation of the asset portfolio.</td> </tr> </tbody> </table>	Service provided	Identified threats to independence	Safeguards applied	Advice provided by Deloitte Real Estate (DRE) in relation to leasing matters	Self-review and management threat	We have discussed independence issues with officers in the current year. This work is performed by an independent partner and does not have a material impact on the valuation of the asset portfolio.
Service provided	Identified threats to independence	Safeguards applied					
Advice provided by Deloitte Real Estate (DRE) in relation to leasing matters	Self-review and management threat	We have discussed independence issues with officers in the current year. This work is performed by an independent partner and does not have a material impact on the valuation of the asset portfolio.					

Fees	
<b>The level of non-audit fees is within appropriate guidelines</b>	An analysis of professional fees earned by Deloitte in the period from 1 April 2012 to 31 March 2013 is included in Appendix 3.

## 6. Responsibility statement

This report should be read in conjunction with the "Briefing on audit matters" circulated to you in our audit plan dated 3 December 2012 and sets out those audit matters of governance interest which came to our attention during the audit. Our audit was not designed to identify all matters that may be relevant to the board and this report is not necessarily a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for the City of London Corporation, as a body, and we therefore accept responsibility to you alone for its contents. 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. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

### **Deloitte LLP**

Chartered Accountants

St Albans

11 July 2013

# Appendix 1: Audit adjustments

## Uncorrected misstatements

No uncorrected misstatements have been identified up to the date of this report.

## Recorded audit adjustments

Officers have adjusted all misstatements identified in excess of our clearly trivial threshold (set at 5% of materiality). We report all individual identified recorded audit adjustments in excess of £96,000 for Bridge House Estates and other identified misstatements in aggregate adjusted by officers in the table below.

		Credit/ (charge) to current year income statement £'000	Increase/ (decrease) in net assets £'000	Increase/ (decrease) total funds £'000	Increase/ (decrease) in turnover £'000
<b>Factual misstatements</b>					
<b>Bridge House Estates</b>					
Investment Property Value	[1]	-	(454)	-	-
Revaluation Movement	[1]	-	-	454	-
<b>Charities</b>					
Epping Forest – accruals	[2]	-	196	-	-
Epping Forest – cash	[2]	-	(196)	-	-
Hampstead Heath – cash	[3]	-	20	-	-
Hampstead Heath – creditor	[3]	-	(20)	-	-
Hampstead Heath – grant received	[4]	(15)	-	-	-
Hampstead Heath – fixed assets	[4]	-	(15)	-	-
The City of London School Bursary Fund – scholarships	[5]	13	-	-	-
The City of London School Bursary Fund – accruals	[5]	-	-	(13)	-
City of London School for Girls Bursary Fund – scholarships	[5]	5	-	-	-
City of London School for Girls Bursary Fund – accruals	[5]	-	-	(5)	-
The City of London School Bursary Fund – Permanent endowment	[6]	-	-	119	-
The City of London School Bursary Fund – Expendable endowment	[6]	-	-	(119)	-

[1] As per Charities SORP and UK GAAP, UITF Abstract 28 states that where a lease incentive has been provided, the amount at which the property is reported should be (to avoid double counting) the open market value less the lease incentive reported as a separate asset. Testing revealed that only the movement between the prior year and current year balance had been excluded. However the total year end lease incentive balance should have been excluded. An adjustment for the difference was agreed with officers and corrected.

[2] Correction of an overaccrual for works being undertaken at Epping Forest.

# Appendix 1: Audit adjustments (continued)

## Recorded audit adjustments (continued)

[3] Correction of a misallocated payment.

[4] Correction of an overpayment of grant from City's Cash due to overaccrual. This was reversed by officers post year end.

[5] As per Charities SORP, grant liabilities should be recognised when an obligation arises. Testing revealed that an additional accrual for scholarships was required for The City of London Bursary Fund and The City of London Schools for Girls Bursary Fund. An adjustment was agreed with officers and corrected and details are shown as in the above table.

[6] The accounts of The City of London School Bursary Fund included a transfer for £118,595 from the expendable endowment fund to the permanent endowment. As there has been no change in the status of the endowment fund this was considered incorrect. An adjustment was agreed with officers and has been corrected.

## Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements.

There are no significant disclosure misstatements that we consider require consideration by the committee.



# Appendix 2: Important future developments

For reference, the following developments may impact Bridge House Estates and the Charities.

## Summary updates

### Digital Giving

It is recognised that the current gift aid system presents a number of obstacles to charities using new fundraising channels in the digital age such as text donations.

The Government launched a consultation on “Digital Giving” on 3 July 2013 with the aim of introducing proposals to make it easier to claim Gift Aid on donations to charity made through digital channels. The consultation document seeks specific proposals about the administration of Gift Aid, in particular changes to the Gift Aid declaration and allowing non-charity intermediaries a greater role in operating Gift Aid than currently. It also asks for views on aspects of a universal Gift Aid declaration database, and on other barriers charities may experience in attracting Gift Aid on donations.

Responses to the consultation are requested by 20 September 2013 and The Government would like to hear from charities, intermediaries, donors and any other interested parties by then with the aim of introducing new legislation in Finance Bill 2014 and/or 2015.

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### Approved alterations to listed buildings

There is a change to remove the VAT zero rate for approved alterations to protected buildings. This will apply to both listed residential dwellings as well as listed buildings used for charitable and other residential purposes. It does not apply to supplies of repairs and maintenance which are already subject to VAT.

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### Energy saving materials in charity buildings

At present, the installation of energy saving materials in buildings used for non-business purposes by charities qualifies for the 5% rate of VAT. Legislation to remove the relief from such work (and hence to make it liable to VAT at the standard rate) is to be introduced in the Finance Bill 2013. The 5% rate will continue to be available for energy saving materials installed in residential accommodation (including that owned and operated by charities).

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### VAT cost-sharing exemption

The VAT cost-sharing exemption is a provision in EU law that allows businesses and organisations making VAT exempt and/or non-business supplies to form cost-sharing groups to achieve cost savings and economies of scale whilst reducing the burden of irrecoverable VAT. The Government is planning to introduce this provision into UK legislation. Currently, the irrecoverable VAT creates a barrier to the sharing of costs and services by these businesses and organisations. The cost-sharing exemption aims to remove this barrier in certain circumstances.

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# Appendix 2: Important future developments (continued)

## Summary updates

### Changes to pensions legislation

New legislation will soon come into effect requiring businesses to automatically enrol their new employees into a qualifying pension scheme. These new duties, designed to increase levels of workplace pension saving, are being staged in between 1 October 2012 to 1 February 2017 - starting with larger employers first.

The duties will apply to a new tranche of employers on a monthly basis. By 1 January 2014, any employer with 350 or more staff on its books will be obliged to enrol those employees who are eligible into a Qualifying Pension Scheme. The phasing will apply to employers with less than 350 staff over the remaining period to 1 February 2017, more information is available at: <http://www.legislation.gov.uk/ukxi/2010/4/regulation/4/made>

Eligible employees must be auto-enrolled into a Qualifying Pension Scheme that provides minimum levels of benefits. Where the employer uses a defined contribution arrangement, the employer will have to ensure that a least a minimum level of contributions are paid. The minimum level of contributions will be phased in rising to 8% of Qualifying Earnings, of which the employer will have to pay at least 3%. Qualifying Earnings are earnings between £5,564 and £42,475.

Although this impacts on an employer's pension provision, it is not just a pension's issue. Achieving compliance is likely to require changes to payroll, HR and communications processes. Proactive planning now can help employers identify what they need to do to comply with the new duties as well as what options are available to mitigate any increase in costs and disruption to existing business processes.

### Charity Commission publications

In March 2013 the Charity Commission published an independent research report into "**charities and social investment**". The research aimed to explore the regulatory risks, challenges and opportunities facing charities and gain insight into the likely development of the social investment market over the next 5 years.

The Charity Commission issued advice in February 2013 in its **Safer giving alert** reminding charities how to minimise the risk posed by bogus fundraising collectors. The advice includes reminding charities to collect back promptly from volunteer collectors any official material, such as identity badges, collecting tins, etc.

The Charity Commission published guidance in January 2013 to "**help trustees protect their charities from abuse for extremist purposes**". The guide explains trustees' duty to prevent their charity being used to promote extremist views and the toolkit also suggests steps trustees can take to minimise risks associated with particular activities, such as organising public events and debates and circulating information. It is aimed at charities hosting regular events involving external speakers and those with educational purposes that distribute material and information.

The Charity Commission has published a checklist in December 2012 for Trustee Boards entitled **Big Board Talk - 15 questions Trustees need to ask**. The checklist is designed to be used as a template to help structure discussion or prompt agenda items at board meetings, away days or planning meetings. The areas of focus are strategy, financial health, governance and making the best of resources.

# Appendix 2: Important future developments (continued)

## Summary updates

### New UK GAAP

FRS 102 “The Financial Reporting Standard Applicable in the UK and Ireland” was published in March 2013 and replaces current UK GAAP.

For periods beginning on or after 1 January 2015, charities will need to move to FRS 102. However, the FRSSE will continue to be an option for those within its scope, regardless of whether they currently adopt it. The option to move to EU-adopted IFRSs or FRS 101 remains unavailable to charities.

A new Charities SORP will assist in interpretation of the new standard, with consultation expected during the summer of 2013. It is not expected that early adoption of the SORP or FRS 102 will be possible. The revised SORP will be modular in approach and amongst other changes is expected to set out a simplified SOFA, and place greater emphasis on the disclosures relating to risk management and going concern in the trustees report.

The most significant changes are expected to be in the areas of cash flows, donated income, accounting for grants, investment property, listed investments, financial instruments, and foreign currency.

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# Appendix 3: Independence – fees charged during the year

The professional fees earned by Deloitte in the year ended 31 March 2013 across all Bridge House Estates and the Charities are as follows.

We have not included those fees earned by Deloitte in respect of the Corporation of London City's Cash and City Fund entities as these will be separately reported to the Audit and Risk Management Committee:

	Current year £	Prior year £
Audit of Corporation of London Charity entities:		
Bridge House Estates & the Charities	41,514	41,514
Charities one-off fee for reorganisation	n/a	6,100
<b>Total audit fees</b>	<b>41,514</b>	<b>47,614</b>
<b>Other services</b>		
Deloitte Real Estate services*:		
Bridge House Estates	5,000	6,500
<b>Total non-audit services</b>	<b>5,000</b>	<b>6,500</b>
<b>Total fees</b>	<b>46,514</b>	<b>54,114</b>

\* The Deloitte Real Estate services relate to planning and development services comprising of consultancy advice and sales of real estate for development.

# Appendix 4: List of entities

The list of entities on which we have reported on, and which are covered by this document are included in the table below. We have included in the table incoming resources, surplus/deficit and net assets along with the materiality level we have used during the audit. Materiality was calculated based on either the net assets of the entity or incoming resources.

Detailed planning and risk assessments were carried out for each entity and the key risks and other issues we identified during the audit have been discussed in the body of the report above. Our testing was particularly focused on investments, income completeness and grants.

With the exception of the matters referred to in the main body of the report, there were no major issues encountered during our testing, however we do note that there are procedures remaining to be completed which are detailed in the executive summary.

\* The following Charities (collectively known as ‘the Schools Charities’ for the purposes of this report) are affected by the significant audit risk – Accounting for bursary awards in Section 1 of this report.

# Appendix 4: List of entities (continued)

Activities	Incoming resources £	Surplus/ (Deficit) £	Net Assets £	Materiality £
<b>Bridge House Estates</b>	43,200,000	89,600,000	959,600,000	1,900,000
<b>Corporation of London Charities Pool</b> Investments pool for Sundry Trusts	4,292,922	5,726,433	18,418,005	552,540
<b>Hampstead Heath Trust Fund</b> To manage Hampstead Heath	1,127,754	3,182,959	26,907,318	807,220
<b>Guildhall Library Centenary Fund</b> Education and training, to provide library, archives, museum, and gallery services	545	2,137	19,836	595
<b>City Educational Trust Fund</b> Grants for education	103,228	306,532	3,193,843	95,815
<b>City of London School Education Trust*</b> Advancing education	1,363	(8,172 )	5,187	95,815
<b>The City of London Corporation Combined Relief of Poverty Charity</b> Relief of poverty	3,964	10,211	142,621	4,279
<b>Charities Administered in Connection with The City of London Freemen's School *</b> To provide prizes in various subjects	10,332	13,291	151,908	456
<b>City of London School Bursary Fund*</b> Promotion of education through scholarships and prizes	220,288	454,861	2,927,235	88,217
<b>City of London School for Girls Bursary Fund*</b> Promotion of education through bursaries	552,251	183,063	3,530,505	106,061
<b>City of London Freemen's School Bursary Fund*</b> Promotion of education through bursaries	18,792	74,237	676,595	20,298
<b>Emanuel Hospital</b> Payment of pensions of poor people	54,592	213,753	2,054,433	61,633
<b>Sir William Coxen Trust Fund</b> Income applied for the benefit of Orthopaedic Hospitals	111,815	375,867	2,381,506	71,445

## Appendix 4: List of entities (continued)

Activities	Incoming resources £	Surplus/ (Deficit) £	Net Assets £	Materiality £
<b>Signore Pasquale Favale Bequest</b> To provide marriage dowries	321	973	11,422	343
<b>Samuel Wilson's Loan Trust</b> Grants loans to young people at a low rate of interest	54,180	218,981	1,834,781	55,043
<b>Vickers Dunfee Memorial Benevolent Fund</b> Relief for distressed past and present Members of the City of London Police	5,328	5,298	58,674	5,439
<b>King George's Field – City of London</b> Open space for sports, games and recreation	22,419	-	-	1,121
<b>The City of London Almshouses</b> Almshouses for poor or aged people	324,954	28,375	1,249,055	37,472
<b>Sir Thomas Gresham Charity</b> To provide a programme of public lectures	36,496	67	535	1,825
<b>Ashted Common</b> Preservation of the common at Ashted	563,849	-	-	19,082
<b>Burnham Beeches</b> Preservation of the Open Space known as Burnham Beeches	939,947	(3,349)	837,883	27,067
<b>Epping Forest</b> Preservation of Epping Forest in perpetuity	7,010,713	562,120	6,471,222	138,405
<b>Hampstead Heath</b> Preservation of Hampstead Heath for the recreation and enjoyment of the public	8,436,216	(173,634)	27,958,984	155,814
<b>Highgate Wood and Queen's Park Kilburn</b> Preservation of the Open Spaces known as Highgate Wood and Queen's Park Kilburn	1,334,403	(5,553)	421,257	36,294
<b>West Ham Park</b> To maintain and preserve the Open Space known as West Ham Park	1,430,079	9,140	149,380	38,516
<b>West Wickham Common and Spring Parks Wood, Coulsdon and other Commons</b> Preservation of West Wickham Common and Spring Parks Wood, Coulsdon and other Commons	1,355,775	-	-	36,590

# Appendix 5: Management representation letters – Bridge House Estates and the Charities

Included in this appendix are two management representation letters, one for Bridge House Estates and the Charities and a separate letter for The City of London Almshouses, a registered social landlord which requires a management representation letter referring to the Housing Act 1996.

## Bridge House Estates and the Charities

*Note: Non-standard representations have been included in points 6 and 12 to 18 and are consistent with the prior year. These are highlighted in yellow for reference. Appendix 1 & 2 are not shown as the information is provided elsewhere within this document.*

The Chamberlain of London  
City of London  
PO Box 270  
Guildhall  
London EC2P 2EJ

Date: [xx] July 2013

Our Ref: HAB/SRC/LC

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Bridge House Estates (“BHE”) and the Charities (as listed at Appendix 2) for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of these charities as of 31 March 2013 and of the results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with the applicable accounting framework and the Charities Act 2011.

We acknowledge as trustees our responsibilities for preparing financial statements for the charities which give a true and fair view and for making accurate representations to you.

We confirm, to the best of our knowledge and belief, the following representations.

### *Financial statements*

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the applicable financial reporting framework and the Charities Act 2011 which give a true and fair view, as set out in the terms of the audit engagement letter.
2. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of FRS8 “Related party disclosures”.



# Appendix 5: Management representation letters (continued) – Bridge House Estates and the Charities

4. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.
5. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements and disclosure deficiencies is detailed in Appendix 1 to this letter.
6. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to liquidate the charities or cease trading as we consider we have realistic alternatives to doing so. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the charities' ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.
7. Having considered our income streams and based on officers' close monitoring of donations, response rates and appeals for funds we are satisfied that the total value of income as reported is not materially misstated.
8. All grants, donations and other incoming resources, the receipt of which is subject to specific restrictions, terms or conditions, have been notified to you. There have been no breaches of terms or conditions in the application of such incoming resources.
9. All constructive obligations for grants meeting the conditions set out in FRS 12 "Provisions, Contingent Liabilities and Contingent Assets" and the Charities SORP have been recognised in the financial statements.
10. We have drawn to your attention all correspondence and notes of meetings with regulators, including, any serious incident reports.
11. We consider there to be appropriate controls in place to ensure overseas payments are applied for charitable purposes.
12. Except as disclosed in Note 16 to the BHE accounts, as at 31 March 2013 there were no significant capital commitments contracted for by any of the charities.
13. The charities have satisfactory title to all assets and there are no liens or encumbrances on the charities assets.
14. We are of the opinion that the property valuations at 31 March 2013 as updated from the internal valuations at 31 March 2012 are not materially misstated. It is our opinion that the property listing provided by the City of London is complete and includes all properties owned by the City of London. Furthermore, we are not aware of any current disputes regarding ownership of any properties within our current portfolio.

# Appendix 5: Management representation letters (continued) – Bridge House Estates and the Charities

15. We are the opinion that the costs involved in the reconstruction or analysis of past accounting records of heritage assets (bridges) or in valuation are onerous compared with the additional benefit derived by users of the accounts in assessing the trustees' stewardship of the assets.
16. In our professional opinion, the input tax relating to exempt supplies is not expected to exceed the 5% de minimis limit for the years ended 31 March 2011, 31 March 2012, 31 March 2013 and as such, the City expects to be able to recover any of the input tax relating to exempt supplies.
17. That the split of venture capital investments recognised in BHE accounts, being 28% of the fund held by City's Cash, BHE and the Pension Fund, represents an accurate allocation to BHE.
18. We have satisfactory title to all assets and there are no liens or encumbrances on the entity's assets and assets pledged as collateral. We confirm that we own satisfactory title to 34 Engate Street, Lewisham.

## *Information provided*

19. We have provided you with:
  - access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.
20. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
21. 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.
22. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
23. We are not aware of any material fraud or suspected fraud that affects the entity or group and involves:
  - (i). officers;
  - (ii). employees who have significant roles in internal control; or
  - (iii). others where the fraud could have a material effect on the financial statements.

# Appendix 5: Management representation letters (continued) – Bridge House Estates and the Charities

24. We are not aware of any instances of non-compliance, or suspected non-compliance, with laws, regulations and contractual agreements whose effects should be considered when preparing financial statements.
25. We have disclosed to you the identity of the charities' related parties and all the related party relationships and transactions of which we are aware.
26. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the applicable financial reporting framework. On the basis of legal advice we have set them out in the attachment with our estimates of their potential effect. No other claims in connection with litigation have been or are expected to be received.
27. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

We confirm that the above representations are made on the basis of adequate enquiries of officers and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed on behalf of the Trustees

# Appendix 5: Management representation letters (continued) – The City of London Almshouses

## The City of London Almshouses

The Chamberlain of London  
City of London  
PO Box 270  
Guildhall  
London  
EC2P 2EJ

Date: [xx] July 2013

Our Ref: HAB/SRC/LC

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of The City of London Almshouses for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the final statements give a true and fair view of the financial position of this charity as of 31 March 2013 and of the results of its operations, other recognised gains and losses and cash flows for the year then ended in accordance with the applicable accounting framework and the Charities Act 2011 and the Housing Act 1996.

We acknowledge as trustee our responsibility for preparing financial statements for the charity which give a true and fair view and for making accurate representations to you.

We confirm, to the best of our knowledge and belief, the following representations.

### *Financial statements*

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the applicable financial reporting framework and the Charities Act 2011 and the Housing Act 1996 which give a true and fair view, as set out in the terms of the audit engagement letter.
2. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of FRS8 "Related party disclosures".
4. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.
5. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements and disclosure deficiencies is detailed in the appendix to this letter.

# Appendix 5: Management representation letters (continued) – The City of London Almshouses

6. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to liquidate the charity or cease trading as we consider we have realistic alternatives to doing so. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the charity's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.
7. Having considered our income streams and based on management's close monitoring of donations, response rates and appeals for funds we are satisfied that the total value of income as reported is not materially misstated.
8. All grants, donations and other incoming resources, the receipt of which is subject to specific restrictions, terms or conditions, have been notified to you. There have been no breaches of terms or conditions in the application of such incoming resources.
9. All constructive obligations for grants meeting the conditions set out in FRS 12 "Provisions, Contingent Liabilities and Contingent Assets" and the Charities SORP have been recognised in the financial statements.
10. We have drawn to your attention all correspondence and notes of meetings with regulators, including, any serious incident reports.
11. We consider there to be appropriate controls in place to ensure overseas payments are applied for charitable purposes.
12. Except as disclosed in the notes to the Almshouses accounts, as at 31 March 2013 there were no significant capital commitments contracted for by the charity.
13. The charity has satisfactory title to all assets and there are no liens or encumbrances on the charity's assets.
14. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

## *Information provided*

15. We have provided you with:
  - access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.
16. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

# Appendix 5: Management representation letters (continued) – The City of London Almshouses

17. 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.
18. We are not aware of any fraud or suspected fraud that affects the entity or group and involves:
  - (iv). management;
  - (v). employees who have significant roles in internal control; or
  - (vi). others where the fraud could have a material effect on the financial statements.
19. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
20. We are not aware of any instances of non-compliance, or suspected non-compliance, with laws, regulations and contractual agreements whose effects should be considered when preparing financial statements
21. We have disclosed to you the identity of the charity's related parties and all the related party relationships and transactions of which we are aware.
22. No claims in connection with litigation have been or are expected to be received.
23. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed on behalf of the Trustee

The City of London Corporation

# Appendix 6: Additional resources available to you

## Additional information on current and future technical developments

### Life is change. Growth is optional



The challenges facing the charity and not for profit sector are putting organisations under pressure to do more with less and engage on public service delivery and deliver more for their partners and donors. Finding new ways of working with and benefitting from supporters, large and small, is therefore essential.

The donor landscape is changing and corporate partnerships which were typically based on the company simply raising cash for the charity now need to be richer, deeper and mutually beneficial relationships. Harnessing the expertise and insight of a business partner can have a more dramatic impact than traditional financial support.

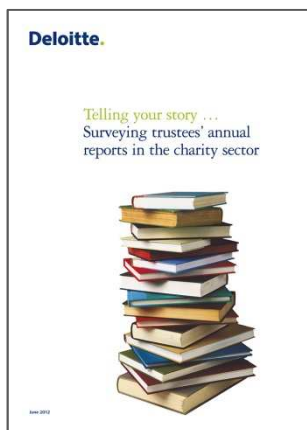
Similarly, individual donors are becoming increasingly insistent on seeing tangible results for how their money is spent. Charities therefore need to give evidence of successful outcomes while driving down costs and communicating effectively with the public.

The publication can be found via:

[https://www.deloitte.com/view/en\\_GB/uk/industries/charities-not-for-profit/8c7fb432dcbd1310VgnVCM3000001c56f00aRCRD.htm#.UctR3o1s69w.e.mail](https://www.deloitte.com/view/en_GB/uk/industries/charities-not-for-profit/8c7fb432dcbd1310VgnVCM3000001c56f00aRCRD.htm#.UctR3o1s69w.e.mail)

## Additional information on current and future technical developments

### Telling Your Story - Surveying Trustees' Annual Reports in the charity sector



As the pressure has increased on charities to report more effectively on the impact of their achievements, the way they 'tell their story', has become more critical and attracted more interest amongst the users of Annual Reports.

It is surprising however, that even now some major charities fail to connect effectively with the users of the annual report of trustees.

Competition for donors is fierce and an accessible, appealing report clearly demonstrating the achievements of the charity and its value to the wider society is likely to draw more interest.

Times are hard; only charities with not just a story to tell but who tell it well are likely to succeed with others may fail.

As the pressure has increased on charities to report more effectively on the impact of their achievements, the way they 'tell their story', has become more critical and attracted more interest amongst the users of Annual Reports.

We have recently published "Telling Your Story - Surveying Trustees' Annual Reports in the charity sector"

The publication can be found via:

[https://www.deloitte.com/view/en\\_GB/uk/industries/charities-not-for-profit/03187f0e25648310VgnVCM2000001b56f00aRCRD.htm#.UctQZlrSXRg.e.mail](https://www.deloitte.com/view/en_GB/uk/industries/charities-not-for-profit/03187f0e25648310VgnVCM2000001b56f00aRCRD.htm#.UctQZlrSXRg.e.mail). Alternatively, please speak to Heather Bygrave who will provide you with copies or add you to our mailing list.

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