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Bridge Estate Charity

Audit highlights memorandum and management letter

Year ended 31 March 2012

December 2012

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This report is made solely to the Trustees of Bridge Estate, in accordance with the terms of our engagement. It has been released to the Trustees on the basis that this report shall not be copied, referred to or disclosed, in whole (save for the Trustee's own internal purposes) or in part, without our prior written consent. Matters coming to our attention during our audit work have been considered so that we might state to the Trustees those matters we are required to state to the Trustees in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Charity and its Trustees, for our work referable to this report, for this report, or for the opinions we have formed.

Please note that that this report is confidential between the Trustees and this firm. Any disclosure of this report beyond what is permitted above will prejudice this firm's commercial interests. A request for our consent to any such wider disclosure may result in our agreement to these disclosure restrictions being lifted in part. If the Trustees receive a request for disclosure of this report under the Freedom of Information Act 2000, having regard to these actionable disclosure restrictions you must let us know and you must not make a disclosure in response to any such request without our prior written consent.

Audit conclusions		
✓	<ul style="list-style-type: none"> ■ Unqualified audit opinion proposed on financial statements. 	
Accounting matters		
✓	<ul style="list-style-type: none"> ■ No significant accounting issues arose during the course of our audit. 	
✓	<ul style="list-style-type: none"> ■ Accounting policies appropriate for the annual report and the financial statements are in accordance with disclosure requirements of relevant charities legislation, UK GAAP and the Statement of Recommended Practice. 	
Auditing matters		
✓	<ul style="list-style-type: none"> ■ We have substantially completed the audit subject to: <ul style="list-style-type: none"> ■ Agreement of the final approved set of accounts; and ■ Receipt of the signed management representations letter. 	Page 4
✓	<ul style="list-style-type: none"> ■ No significant audit issues arose during the course of our audit of the Charity. 	
Systems and controls		
✓	<ul style="list-style-type: none"> ■ No major weaknesses in the financial systems were identified although we have made one recommendation to improve the control environment as set out in Appendix 2. 	Appendix 2
Regulatory and tax matters		
✓	<ul style="list-style-type: none"> ■ No significant regulatory or tax matters came to our attention during the course of our normal audit work. 	

Our audit strategy identified two specific issues which we have addressed through our audit.

We ask members of the Trusts and Charities Committee to note these issues.

The fee for the year ended 31 March 2012 audit is £13,360 plus VAT as last year.

We ask Trustees to note the fee for this year.

KPMG Audit Strategy Issues

Issue	Risk Assessment	How addressed during the audit
Related party Charitable activities included a substantial payment of £1,274,991 during the year ended 31 March 2012 to a related party (Nottingham City Council).	●	We reviewed this payment to confirm its accuracy. Specific work performed to understand the nature of the payment with the related party (Council) included: <ul style="list-style-type: none"> • verifying that the payment is consistent with charity objectives • obtaining assurance that it met Charity Commission public benefit requirements.
Investments Charity holds substantial property and other investments.	●	We reviewed both property and other investments held by the charity. Specific work performed to confirm these investments included: <ul style="list-style-type: none"> • checks of property and investment records held by the charity and Nottingham City Council • agreement of property investment values to valuations provided by Nottingham City Council.

Risk assessment



The purpose of this document is to set out certain matters which came to our attention during the course of our audit of the accounts of Bridge Estate Charity (the Charity) for the year ended 31 March 2012.

The purpose of our audit

The main purpose of our audit, carried out in accordance with the Clarified International Auditing Standards issued by the Auditing Practices Board, is to issue a report to Bridge Estate Charity. This expresses in our opinion, whether the Charity's financial statements:

- **give a true and fair view**, in accordance with UK Generally Accepted Accounting Practice, of the state of the Charity's affairs as at 31 March 2012 and of its incoming resources and application of resources for the year then ended; and
- **have been properly prepared** in accordance with the SORP 2005.

Our audit objectives

Our audit objectives go beyond the delivery of the statutory requirements of audit (the provision of an opinion) and reflect our desire to meet and exceed Bridge Estate Charity's expectations. Our audit objectives are to:

- deliver a high quality, efficient audit, focusing on key issues and risks, with an appreciation of operational sensitivities and of the overall environment in which Bridge Estate Charity operates;
- provide added value commentary on current issues, control recommendations and accounting and regulatory developments in our management reporting; and
- report effectively within agreed timescales.

In delivering these objectives, we worked closely with finance staff to ensure that our work was undertaken with the minimum of disruption to the Charity.

Acknowledgements

- We would like to take this opportunity to thank the charity accountant and finance team for their co-operation and assistance with our audit.

We set out below details of the required communications to the Trustee:

Disagreement with management	There have been no disagreements with management on financial accounting and reporting matters that, if not satisfactorily resolved, would have caused a modification of our auditors' report on the financial statements.
Consultation with other accountants	To the best of our knowledge, management has not consulted with or obtained opinions, written or oral, from other independent accountants during the past year that were subject to the requirements of Statement 1.213 of the Institute of Chartered Accountants in England and Wales Guide of Professional Ethics.
Difficulties encountered in performing the audit	We encountered no fundamental difficulties in dealing with management in performing the audit.
Material written communications	In accordance with the communication requirements of Clarified International Standard on Auditing (UK and Ireland) 260, we provide the following material written communications to the Trustee: <ul style="list-style-type: none"> ■ Report to the Trusts and Charities Committee – this is the main body of this report; and ■ KPMG Independence communication (appendix 4).

Audit status and observations (cont.)

Management Representations	In accordance with Clarified ISA 580 <i>Written representations</i> , we will request written representations from those charged with governance.
Audit misstatements	Under the requirements of Clarified ISA 260 <i>Communication of audit matters with those charged with governance</i> , we are required to report any adjusted audit misstatements arising from our work. There are a number of adjusted misstatements (see Appendix 1).

upon to disclose errors or irregularities which are not material in relation to those financial statements.

All issues raised in the report have been discussed with management and we have included responses where appropriate. In order to provide an indication of the level of importance of the recommendations made, we have prioritised our recommendations into the following categories:

- High – matters that are considered fundamental, against which management should take action as soon as possible;
- Medium – matters that are considered significant, that should be addressed within three months; and
- Low – matters that merit attention and would improve overall control.

Audit of Bridge Estate Charity

Our audit work on the financial statements is now substantially complete and we plan to issue an unqualified audit opinion for the year ended 31 March 2012 (based on our position at the date of this report), following the approval of the accounts by the Trustees.

The following are the principal matters currently outstanding at the time of writing this report:

- Agreement of the final approved set of accounts; and
- Management representations (to be provided by Trustees on date accounts are signed).

The key issues identified during our audit are reported in this document in appendices 1 and 2.

Management Report

Our objective is to use our knowledge of the Charity gained during our routine audit work to make useful comments and suggestions for you to consider. However, you will appreciate that our routine audit work is designed to enable us to form the above audit opinions on the annual financial statements of Bridge Estate Charity and should not be relied

Summary of audit differences

We are required by *ISA (UK and Ireland) 260 Communication of Audit Matters to Those Charged with Governance* to communicate all uncorrected misstatements, other than those that we believe are clearly trivial, to the Trusts and Charities Committee. We are also required to report all material misstatements that management has corrected but that we believe should be communicated to the Trusts and Charities Committee to assist it in fulfilling its governance responsibilities. This appendix sets out the audit differences that we identified during the course of our audit for the year ended 31 March 2012.

Corrected audit differences

The following table sets out the significant audit differences identified by our audit of the Bridge Estate Charity's financial statements for the year ended 31 March 2012. We confirm that these have all been adjusted in the finalised financial statements.

Adjusted audit differences				
£000	Statement of financial activities		Balance sheet	
	Dr	Cr	Dr	Cr
Bridge Estate				
Incorrect classification of 'Investment management costs' against restricted funds				
Unrestricted funds – Investment management costs		328,068		
Endowment funds – Investment management costs	328,068			
Endowment funds – Gross transfers between funds		328,068		
Unrestricted funds – Gross transfers between funds	328,068			
Incorrect inclusion of property valuation costs within 'Investment management costs'				
Unrestricted funds – Investment management costs		5,000		
Unrestricted funds – Governance costs	5,000			
Incorrect classification of a fund transfer as 'Other resources expended'				
Unrestricted funds – Other resources expended		13,522		
Unrestricted funds – Gross transfers between funds	13,522			
Incorrect classification of audit fee as 'Provisions for liabilities and charges' rather than 'Creditors – Amounts falling due within one year'				
Creditors – Amounts falling due within one year				13,360
Provisions for liabilities and charges			13,360	



Appendix 1 Summary of audit differences (cont.)

Uncorrected audit differences

We did not identify any audit misstatements that management did not correct.

Appendix 2

Summary of control weaknesses

We have sought to rely wherever possible on the systems and internal controls operating at the Charity and in doing so we have identified a single recommendation for control improvements that is set out below.

- We have discussed each of the points raised with Management and include their responses to our recommendations.
- We have graded our control observations as follows:

	Grade A – These are particularly significant matters for the Scheme, such as those relating to factors critical to the successful running of the scheme and regulatory environment. We have not identified any grade A observations in the current year.
	Grade B – These include observations on non-critical control systems, one-off items subsequently corrected, improvements to the efficiency of effectiveness of controls and matters that could be significant in the future. We have not identified any grade B observations in the current year.
	Grade C – These are less significant than those graded A and B but we nevertheless consider that they merit attention by Management. We have identified one grade C observations in the current year.

Grade	Observation	Risk	Recommendation	Management response
	<p>Investment with Nottingham City Council</p> <ul style="list-style-type: none"> ■ No formal documentation or agreement is in place that evidences title or terms of the Charity's investment with the Council. 	The Charity is unable to demonstrate that it has received all the income due to it in addition to title over the principal sum being brought into question.	The Charity should ensure that confirmation of deposits are received for all investments made including details of the amount invested, the terms of the investment and the period of the investment.	The investment made with Nottingham City Council at 31/3/12 has since been recovered to help purchase an additional property investment. A framework for any future cash investments will be brought to Trusts and Charities Committee during 2013 for their consideration and approval.

The end of UK GAAP is a foregone conclusion, however the reporting structure that will replace it is in a state of flux.

IFRS for Charities

At present the expectation is still that the Charity Sector will move to IFRS in line with the UK Accounting Standards Board's convergence programme for UK GAAP. This has however been pushed back to accounting periods starting on or after 1 January 2015. The first year for which this will apply to the your charity will therefore be the year ending 31 March 2016 although early adoption will be permitted.

The proposed replacement for UK GAAP continues to be based on the IASB's IFRS for Small and Medium Sized Entities (IFRS for SMEs). However, in response to comments on the previous FRED, the ASB now proposes new accounting policy choices, simpler tax disclosure requirements and clarification of proposals in certain key areas. The overall effect should be to simplify the transition process for many UK entities compared with the proposals issued in 2010.

The future of the Charities SORP

All charities are required to prepare accounts. The regulations require financial statements to present a true and fair view of incoming resources, application of resources and to be prepared in accordance with the SORP.

The ASB requires the application of accounting standards, clarifying how they apply to accounting by charities. The SORP will be updated to reflect the requirements of FRS 102.

Other matters

The format of the financial statements and fund accounting will be clarified with the advent of the new SORP.

Charities Act 2011

The Charities Act 2011 came into effect on 14 March 2012. It is the Act of Parliament which sets out how all charities in England and Wales are registered and regulated. The 2011 Act is intended to make the law easier to understand by replacing four Acts of Parliament with one. It doesn't make any changes to the law. It replaces:

- most of the Charities Acts 1992, 1993 and 2006; and
- all of the Recreational Charities Act 1958.

It doesn't replace the sections in the Charities Acts about fundraising which haven't taken effect yet, eg charitable collections in public places.

The Charity does not have to do anything differently except refer to the Charities Act 2011 in documents, reports, accounts or statements produced on or after 14 March 2012 (even where they relate to an earlier financial period).

Since the 2011/2012 financial statements will be approved after 14 March 2012 legislative references have been updated.

Developments in UK VAT law could assist charities to share resources and collaborate.

VAT - Cost Sharing exemption

The implementation of the Cost Sharing Exemption (CSE) into UK VAT law later this year could assist charities and other public sector bodies to work more collaboratively. In the past, VAT chargeable on cross charges made such arrangements uneconomic. The cost sharing exemption allows bodies undertaking non-business and VAT exempt activities (typically charities and most Public Sector organisations) to share resources and collaborate without adding a layer of VAT on cross charges. There are some conditions for participation.

The cost sharing group must be formed of a group of independent entities who each undertake non-business and VAT exempt activities coming together and holding an interest in a separate legal entity (one member can hold a controlling majority). To qualify for VAT exemption, the supplies must be directly necessary for the undertaking of non-business or VAT exempt activities (directly necessary is defined as at least 85% for these purposes), provided on a not-for-profit basis. Whilst HMRC accept that benefits will arise to members by virtue of being part of a cost sharing group, the group must not cause a distortion of competition.

The CSE offers a great opportunity for many charities to consider how they collaborate with other like minded organisations. In many cases it may allow them to achieve efficiencies from economies of scale. We are awaiting detailed supporting guidance from HMRC to provide further details of how the exemption will work in practice but charities should start to consider whether they can benefit from this new measure as soon as possible.

Appendix 5

Audit independence

Professional ethical standards require us to communicate to you in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgment, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of Sue Sunderland and the audit team. This letter is intended to comply with this requirement. We have summarised below the fees paid to us by the charity for significant professional services provided by us during the reporting period.

We are satisfied that our general procedures support our independence and objectivity.

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners, Directors and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings. Our Ethics and Independence Manual is fully consistent with the requirements of the APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values.
- Communications.
- Internal accountability.
- Risk management.
- Independent review.

Please inform us if you would like to discuss any of these aspects of our procedures in more detail.

There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the Board of Trustees.

We confirm that as of 4 January 2013, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the Board of Trustees and should not be used for any other purposes.

Any additional services provided by KPMG to you are approved by management under delegated authority from the Board of Trustees to ensure transparency. In addition to the audit of the financial statements, during 2011/12 KPMG has undertaken no other work in respect of the Charity.



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