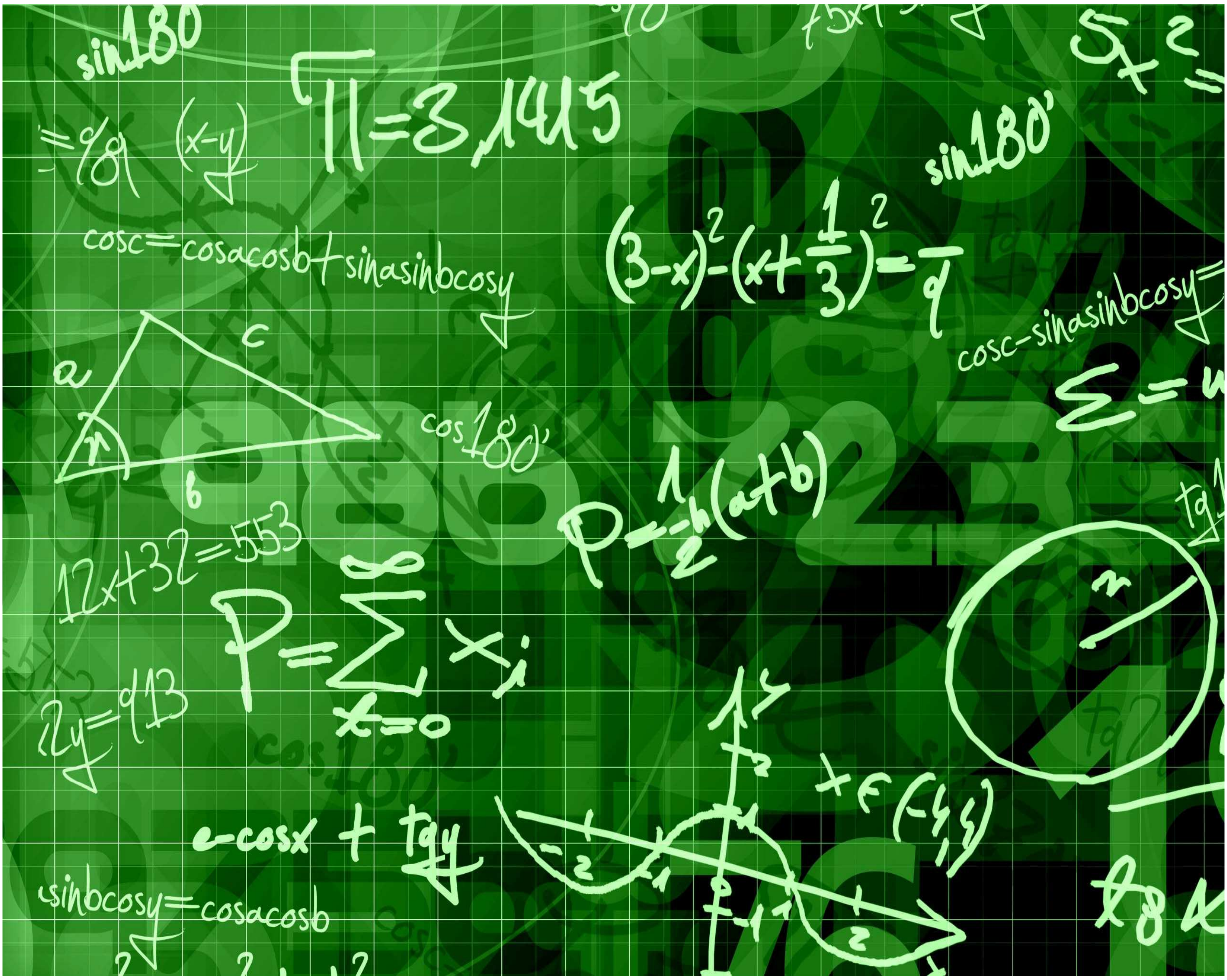
Audit Completion Report

Stamp Education Trust – 31 August 2017



Strictly private and confidential

MAZARS

Contents

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20 December 2017

Dear Sirs / Madams

Audit Completion Report – 31 August 2017

We are pleased to present our Audit Completion Report for the year ended 31 August 2017. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks, key audit matters and other areas of management.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 020 8661 4132.

Yours faithfully

N J Wakefield

Nicola Wakefield

Partner

Mazars LLP

1. Executive Summary

Principal conclusions and significant findings

Our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 2 of this report we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks, key audit matters and other areas of management judgement.

Section 4 sets out internal control recommendations and section 4 sets out audit misstatements; unadjusted misstatements total £6,517.

Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 August 2017.

At the time of preparing this report, the following matters remain outstanding:

- Latest post year end management accounts as part of our post balance sheet review

At the time of issuing this report and subject to the satisfactory conclusion of the remaining audit work, we anticipate issuing an unqualified opinion, without modification.

2. Significant findings

Set out below are the significant findings from our audit. These findings include:

- Our findings on key audit matters, including:
    - Why the matter was considered;
    - Why the matter was considered to be one of the most significance in the audit and therefore determined to be a key audit matter;
    - How the matter was addressed in the audit including a summary of the auditor’s response to those risks;
    - Where relevant, key observations arising with respect to those risks; and
    - A clear reference to the relevant disclosures in the financial statements.
- our audit conclusions regarding other significant risks, key audit matters and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 7 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management;
- any significant difficulties we experienced during the audit; and
- modifications required to our audit report.

Key audit matters

There were no key audit matters that we would like to bring to your attention.

Other significant risks, key areas of management judgement and enhanced risks

Classification of funds

Description of the risk

There is a risk that income or capital received has restrictions imposed by a third party and therefore should be recorded as restricted income in the SOFA. The related expenditure must be allocated against these restricted funds and any remaining funds at the period end must be carried forward within restricted funds.

How we addressed this risk

We reviewed the income and expenditure to supporting documentation to ensure it has been treated according to the funders' instructions and any restrictions on the donations have been complied with.

We also reviewed the Trial Balance to ascertain which income and expenditure should be treated as restricted and unrestricted, and provided a schedule of our workings to Cathy Tilley to confirm that the correct classification of funds had been applied.

Audit conclusion

Based on the work carried out funds appear to be classified accurately and used for the purposes intended.

Management override of controls

Description of the risk

In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

How we addressed this risk

We addressed this risk through performing audit work over:

- Accounting estimates impacting amounts included in the financial statements;
- Consideration of identified significant transactions outside the normal course of business; and
- Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Audit conclusion

Based on the testing performed, including a risk based review of journals posted, no evidence of management override of controls was identified from our audit work.

Income recognition

Description of the risk

There is a risk of fraud in the financial reporting relating to income recognition due to the potential to inappropriately record income in the wrong period. Due to there being a risk of fraud in income recognition we consider it to be a significant risk on all audits.

How we addressed this risk

We tested a sample of income items outside of grant income to ensure that they are appropriately accounted for and appropriate control procedures are in place.

Audit conclusion

Based on the work performed, including a detailed review of income, no issues were identified from our audit work in respect of income recognition.

Depreciation

Description of the management judgement

Depreciation is charged to write off the cost of the fixed assets over their useful lives.

How our audit addressed this area of management judgement

We have reviewed depreciation charges to ensure they are reasonable and agree with the trust's policy.

Audit conclusion

We identified two assets which were included within land and buildings and depreciated over 5 years. We established that these should be included within fixtures, fittings and equipment and therefore we have put through the adjustment to adjust the opening balances of both cost and accumulated depreciation, to show these two assets in the appropriate category and depreciate them at the correct rate.

There were no other issues identified from our audit work.

Accrued and deferred income

Description of the management judgement

Accrued and deferred income ensures that income is allocated to the correct accounting period.

How our audit addressed this area of management judgement

We have reviewed the calculations for accrued income and deferred income to ensure that they meet the criteria for entitlement and measurement at the balance sheet date.

Audit conclusion

The only issue we identified from our audit work was that there was £2,517 of accrued income in the 2015/16 financial statements, which was received in 2016/17, We concluded that this income related to 2016/17 as opposed to 2015/16. As the amount is immaterial we have not put through a prior year adjustment. This has no effect on the year end balances at 31 August 2017.

Capitalisation of fixed assets

Description of the management judgement

Any grants given for the purpose of purchasing capital equipment should be accounted for in the Restricted fixed asset fund.

How our audit addressed this area of management judgement

We reviewed the capital grant income and carried out testing to confirm if the grant income was spent on capital equipment.

Audit conclusion

No issues arising from our audit work.

Accounting policies and disclosures

We have reviewed Stamp Education Fund's accounting policies and disclosures and concluded they comply with the requirements of the Academies Accounts Direction 2016 to 2017, the Charities SORP (FRS 102) and the Companies Act 2006.

Audit Approach

The financial statement materiality for our audit was £17,916.

Significant matters discussed with management

We confirm that there were no significant matters discussed with management.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

Matters arising from our regularity assurance engagement

We confirm that there were no issues arising from our regularity assurance engagement.

3. Internal control recommendations

<u>Relating to the ‘true and fair’ Audit</u>
The purpose of our audit was to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of re

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of strategic objectives. The recommendation should be taken into consideration by management immediately.	0
2 (medium)	In our view, there is a need to strengthen internal control or enhance efficiency. The recommendations should be actioned in the near future.	0
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	4

Other recommendations in internal control – Level 3

Description of deficiency

Fixed asset register does not reconcile with Trial Balance.

Potential effects

Increased risk of misappropriation of assets, and potential misstatement in the financial statements.

Recommendation

Recommend that the fixed asset register is revisited to ensure it is up to date and includes all assets held by the Trust, and reconciles with the Trial Balance.

Management response

The School Business Manager will work with Mazars to determine the differences and correct these so there are no differences going forward.

Other recommendations in internal control – Level 3

Description of deficiency

Bank reconciliations not being maintained, as Corero does not appear to be able to produce retrospective bank reconciliations.

Potential effects

Banks do not reconcile to the year end financial statements and outstanding cheques and uncleared lodgements not easily identifiable.

Recommendation

We note it is not easy to produce bank reconciliations retrospectively, therefore we recommend that reports are printed at the end of each month to reconcile any differences between the nominal ledger bank balance and the bank statements.

Management response

The process for month end has been changed to ensure that the bank reconciliation report is printed out at the right time.

Description of deficiency

VAT debtor does not appear to reconcile with the VAT reclaim form.

Potential effects

Potential over/(under) statement of claims made from HMRC.

Recommendation

Quarterly reconciliations carried out to ensure VAT debtors and VAT reclaims match each other, and to ensure that the right amounts are reclaimed from HMRC.

Management response

A correction has been made to the balance so that reconciliations will be possible going forward.

Description of deficiency

P45/leaving documentation does not appear to have been kept after employee leaves.

Potential effects

Potential issues with HMRC over lack of evidence to confirm the employees departure.

Recommendation

Copies are kept for every employee who leaves.

Management response

The leavers process has been changed so that a copy of the P45 is taken when an employee leaves.

4. Summary of misstatements

We set out below the misstatements identified during the course of the audit, above the level of trivial, for adjustment. The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

The second table on the next page outlines the misstatements that have been adjusted by management during the course of the audit.

Unadjusted misstatements 2017

		SOFA		BS	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Dr Funds b/f			2,517	
	Cr Income		2,517		
	Being prior year adjustment – relates to accrued income in 2015/16 which should have been recognised as income in 2016/17				
2	Dr Education materials	2,735			
	Dr Furniture and equip minor purchases	1,465			
	Dr Site rentals	720			
	Cr Other contributions to capital		4,920		
	Being the recognition of income which was either netted off against expenditure or posted to incorrect income code				
3	Dr Creditors			4,000	
	Cr Expenditure		4,000		
	Being journal to correct creditor which had been recognized in error				
	Total unadjusted misstatements	4,920	11,437	6,517	-

5. Summary of misstatements (continued)

Adjusted misstatements 2017

		SOFA		BS		
		Dr	Cr	Dr	Cr	
		£'000	£'000	£'000	£'000	£'000
1	Dr Pensions cost	74,000				
	Dr Actuarial loss	22,000				
	Cr Pension liability				96,000	
	Being adjustment to the pension liability					
2	Dr Fixtures, fittings & equipment - cost			146,246		
	Dr Land & buildings - depreciation			29,249	146,246	
	Cr Land and buildings - cost				29,249	
	Cr Fixtures, fittings & equipment - depreciation					
	Being transfer of assets at cost and depreciation to another asset class					
3	Dr Other creditors			1,200		
	Cr VAT liabilities				200	
	Cr Land and buildings - additions				1,000	
	Adjustment to ensure opening balances tie in with 2015/16 financial statements (adjustment recommended by previous auditors)					
4	Dr Cash at bank			14,592		
	Cr Creditors - Taxation and social security				14,592	
	Being the recognition of payroll creditor that was paid after the year end and therefore should be treated as a creditor as opposed to cash at bank					
5	Dr VAT debtor			1,439		
	Cr Expenditure		1,439			
	Being journal to reconcile VAT debtor to VAT reclaim form					
		96,000	1,439	192,726	287,287	-

Appendix A – Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the engagement service agreement and therefore we remain independent.

Appendix B – Forthcoming accounting and other issues

ACADEMIES FINANCIAL HANDBOOK – EFFECTIVE FROM 1 SEPTEMBER 2016

Key changes from the previous edition (as extracted from the " 2016 Academies Financial Handbook")

<u>Governance</u>

- Boards of trustees should identify the skills they need and address any gaps in their skills through recruitment or training.

- In order to align with the terminology used in the Governance Handbook the ESFA are referring to the trust's publication of its governance structure and remit as its 'scheme of delegation for governance functions'.

- All trusts must have a senior executive leader who should also be appointed as accounting officer, and that these roles must not rotate.

-Trusts must publish the relevant business and pecuniary interests of their accounting officer regardless of whether they are a trustee. Local governors are included when identifying relevant interests from close family relationships.

- Trusts must use Edubase to notify the Department for Education (DfE) of the appointment and vacating of the positions of member, trustee, local governor in a multi-academy trust, chair of trustees, chairs of local governing bodies, accounting officer and chief financial officer.

<u>Financial control</u>

- Variances between budget and actual income and expenditure must be understood and addressed.

- Exposure to investment products must be tightly controlled so that security of funds takes precedence over revenue maximisation.

- Where there are concerns about financial management in a trust, the trust may be required to report information about its cash position to ESFA.

- It is now a requirement, rather than a recommendation, for trusts to have a whistleblowing procedure.

- Trusts should consider opting into the risk protection arrangement (RPA) unless commercial insurance provides better value for money.

- Trusts must implement reasonable risk management audit recommendations that are made to them by risk auditors.

- The audit committee's oversight of its trust must extend to the controls and risks at its constituent academies, where the trust has them. Oversight must also ensure that information submitted to DfE and ESFA that affects funding is accurate and compliant.

- When considering a staff severance payment trusts must satisfy the conditions in the handbook and obtain the required approval before making a binding commitment to staff.

Appendix B – Forthcoming accounting and other issues

ACADEMIES FINANCIAL HANDBOOK – EFFECTIVE FROM 1 SEPTEMBER 2017

Key changes from the previous edition (as extracted from the " 2017 Academies Financial Handbook")

Governance

- Information about the roles of members and trustees has been updated to provide greater understanding of expectations, including emphasis on having significant separation between the roles.

- A reminder to trusts that the 'seven principles of public life' apply to everyone holding public office.

- Confirmation that annual letters to trusts' accounting officers from ESFA's accounting officer about the accountability framework must be discussed by the board with action taken where appropriate to strengthen the trust's systems.

- Additional information included for trusts about improving efficiency.

- Emphasises the importance of addressing any skills gaps on the board at key transition points such as growth periods in the trust.

- Highlights the Department for Education's (DfE's) competency framework for governance to use when determining skills gaps.

- Explanation that trusts should refer to the key features of effective governance in the Department's Governance Handbook when assessing their effectiveness.

- Introduction of additional information about the appointment of the trust's statutory auditor.

- Emphasises the trust's record of key individuals on Edubase must remain up to date.

- Highlighting ESFA's investigation reports and to its guidance on reducing the risk of financial irregularity, which trusts should consider when managing their own risks.

Financial control

- Updated references to submission of budget information to ESFA to reflect changes in reporting requirements.

- Emphasising decisions about levels of executive pay must follow a robust evidence-based process.

- Explanation that repercussive transactions require ESFA approval, alongside those that are novel or contentious, and that ESFA may refer these to HM Treasury.

- Clarification that trusts' delegated authority to make non-statutory/non-contractual staff severance payments under £50,000 is before income tax and other deductions.

- The handbook has been updated to reflect the Department's introduction of an academies' sector annual report and accounts.

Appendix B – Forthcoming accounting and other issues

There are a number of accounting and other issues on the horizon of which you should be aware. Please do let Nicola Wakefield know if you would like to discuss any of these emerging issues further.

General Charity Sector update which maybe applicable to the academy trust

1. APPRENTICESHIP LEVY

From April 2017 the way the government funds apprenticeships in England is changing. Some employers will be required to contribute to a new apprenticeship levy and there will be changes to the funding for apprenticeship training for all employees.

Organisations will need to pay the apprenticeship levy if they are an employer in the UK, with a pay bill of more than £3m each year.

The levy represents a cost of 0.5% of the entire pay bill. However, a levy allowance of £15,000 each tax year offsets this, meaning that the levy is only payable on pay bills over £3m.

The levy allowance will operate on a monthly basis and will accumulate throughout the year. This means organisations will have an allowance of £1,250 per month where unused allowance is carried forward from one month to the next.

2. GENDER PAY GAP REPORTING

From April 2017 employers with a headcount of at least 250 must report certain calculations on both their website and a government website within 12 months.

The calculations required are:

- average gender pay gap as a mean average;
- average gender pay gap as a median average;
- average bonus gender pay gap as a mean average;
- average bonus gender pay gap as a median average;
- proportion of males receiving a bonus payment and proportion of females receiving a bonus payment; and
- proportion of males and females when divided into four groups ordered from lowest to highest pay.

Although commentary on the gender pay gap results is not required, charities should consider adding a narrative to help employees and the public understand their results, especially where gender pay gaps seem significant.

3. DATA PROTECTION ACT

The Information Commissioner's Office (ICO) monitors compliance with the Data Protection Act and issued a warning that charities were potentially more susceptible to serious data protection issues because of the often sensitive nature of the (paper and electronic) data handled.

Cases have highlighted what the ICO termed "entirely avoidable" issues and resulted in significant (up to £200,000) fines for the charities involved. It is important to recognise that the wider use of data holding devices such as tablets and phones only increases this risk.

The ICO's top tips to avoid issues are:

communication
training
passwords
encryption
retention

The ICO provides some useful guidance for charities on its website:
https://ico.org.uk/for-organisations/charity/

Appendix B – Forthcoming accounting and other issues

In December 2016, the Charity Commission issued a joint alert with the Fundraising Regulator about compliant with data protection laws. In brief, the alert stated:

“The Charity Commission, the independent regulator of charities in England and Wales, and the Fundraising Regulator, are issuing an alert to all charities. It reminds trustees that they must, in addition to following charity law requirements, ensure that there are systems in place at their charity to identify and comply with any data protection laws and regulations that apply to its activities.

Following data protection law is a critical compliance area for any charity that handles personal information. It includes, but is not restricted to, collection, use and storage of donors’ personal data. The Commission’s guidance, Charity fundraising: a guide to trustee duties (CC20), is clear that trustees are responsible for having systems and processes in place at their charity to ensure that its fundraising is compliant with this legislation. Two charities have been found to be in breach of the Data Protection Act and have been issued with monetary penalties by the Information Commissioner. Further charities are also under investigation.

The Commission and the Fundraising Regulator are therefore issuing this alert to support trustees as well as remind them of their legal duties and responsibilities in this area. This alert should be read in conjunction with our published guidance, the published guidance of the ICO and Fundraising Regulator alongside seeking professional advice where necessary. Below we also set out key steps as regulators we expect trustees and charities to immediately take:

- immediately cease any activity without explicit consent described and set out by the ICO notices of 5 December 2016 (published 9 December 2016) as being in breach of data protection law
- review and assess activities in the areas of data collection, storage and use to ensure it is compliant with data protection law - this should include reviewing fair processing statements to ensure they are explicit, clear, transparent and highly visible
- review and assess current data governance systems and processes to ensure they are fit for purpose and evidence sufficient oversight, control, are operating and effective - this includes ensuring there is a clear framework of ownership and accountability in place
- where breaches are identified ensure you review the requirements for reporting to the ICO and comply - where a notification of breach is required to also submit a notification to the Commission under the reporting a serious incident process
- where breaches have occurred consider the risk to those whose data has been breached and any action required to mitigate risks to those individuals and their data - this should include notification to those affected if appropriate following a risk assessment by the data controller
- notify the Commission about any investigation of their charity by the Information Commissioner by reporting a serious incident”

One of the key messages in the alert is the role they expect Trustees to play in ensuring compliance.

4. CONFLICTS OF INTEREST AND LOYALTY

Trustees must not get into a position where their personal interests and those of the charity conflict, unless the conflict is properly authorised and the conflict is managed effectively.

Trustees should be aware that conflicts which are not handled properly can damage a charity’s reputation and also damage public trust and confidence in charities generally. Rightly, the Charity Commission takes this matter seriously and so should trustees.

The Charity Commission has prepared detailed guidance called Conflicts of interest: a guide for charity trustees (CC29). The link is:

https://www.gov.uk/government/publications/conflicts-of-interest-a-guide-for-charity-trustees-cc29

We have produced for our clients a model policy on conflicts of interest and loyalty, which includes a section on receiving gifts and hospitality and a register for recording these. Please let us know if you would like a copy.

Appendix B – Forthcoming accounting and other issues

4. EMERGING FRAUD RISKS

Trustees and management must continue to be aware of fraud risks within the organisation. A study undertaken by the Centre for Counter Fraud Studies estimated that fraud costs the large charity sector £1.65bn per year, representing 5% of the turnover of those charities sampled.
During 2015/16, 178 serious incidents reported to the Charity Commission related to fraud – the largest of which exceeded £1m. Analysis undertaken by the Charity Commission into these reported frauds revealed common factors included weak governance or poor financial controls, often combined with excessive trust placed in an individual.

Charities can help protect themselves by applying consistent financial controls, encouraging a culture of professional scepticism and appropriate challenge.

An increasingly important element of fraud prevention is that of cyber security, ensuring that digital information is robustly protected. The Charity Commission has published a document which covers its views on charities becoming more digital, which can be found here: https://www.gov.uk/government/publications/making-digital-work-12-questions-for-trustees-to-consider. Our cyber security services team can provide guidance and advice, further information is available here: http://www.mazars.co.uk/Home/Our-Services/Consulting/Cyber-security-services.

Examples of fraud to be alert to are shown below.

Supplier bank detail fraud
There has been increased fraud due to suppliers changing bank details. In these cases, your purchase ledger department receives a letter on what looks like official letterhead from your supplier requesting a change in bank details. A phone number is also provided on the letterhead to use to verify the change in details. Bank changes have been made in good faith by employees and the next payment is made to a diverted bank account.
We would suggest that, when requests for these changes are made, you do contact your supplier to check that their bank details have in fact changed. You should use the phone number you have on your system to contact the supplier, because the phone number listed on the letterhead will more than likely be linked to the fraudster. Staff should continue to be vigilant.

Email fraud
There have been a number of scams doing the rounds, whereby a company receives a fraudulent request to change a supplier's bank account details or a request to make an urgent payment on behalf of the Chief Executive who is away on business. Unfortunately, a number of businesses have fallen foul of these. This type of fraud is becoming increasingly sophisticated, with scammers using seemingly genuine email accounts, either by hacking them or by setting up very similar accounts.

VAT return email scam
HMRC are aware of a number of customers receiving emails, requesting them to review their VAT return. An example of the email received can be found on the HMRC's website:
https://www.gov.uk/government/publications/phishingand-bogus-emails-hm-revenue-and-customs-examples/phishing-emails-and-bogus-contact-hm-revenue-andcustoms-examples
HMRC have advised that this email is bogus and you should not respond to the email, click on any links or open the attachment, as this contains malicious software. Please forward the email to phishing@hmrc.gsi.gov.uk and then delete it.

Internal controls
Internal controls are really important to every organisation. They help to remove the opportunity to commit fraud. Most frauds are detected through a colleague being suspicious, often through internal control procedures being circumvented or records being incomplete or altered.

Donations and loans
Trustees should continue to be aware of suspect donations and loans, for instance an unusually large unsolicited donation where the source cannot be verified. The loan or donation could be a fraud or an attempt at money-laundering.

Appendix B – Forthcoming accounting and other issues

5. MODERN SLAVERY

The below applies to many organisations, commercial and otherwise, which belong to a group which has total annual turnover of more than £36 million. Some charities will fall into this category, but, even for those that do not, there are potential compliance implications where they might deal with such organisations

The UK Parliament passed the Modern Slavery Act in March 2015 with the objective of consolidating and extending current offences relating to slavery and human trafficking.

This act is a milestone as, for the first time, the UK has a law that attempts to have companies take responsibility for behaviours that take place in their supply chains, both in the UK and internationally. Whilst it is a domestic law, it implicitly has extraterritorial measures.

However, this law is the first of several that are due and will be binding on UK entities of various sizes to demonstrate their respect for some, if not all, human rights, both within their own corporate structure but also their supply chains.

Section 54 of the Act requires companies to prepare a slavery and human trafficking statement for each financial year. This is now also being referred to as the Transparency in Supply Chains Statement (TICS).

A TICS must be prepared for each financial year and is

- a statement of the steps the organisation has taken during the financial year to ensure that slavery and human trafficking is not taking place
    - in any of its supply chains, and
    - in any part of its own business, or
- a statement that the organisation has taken no such steps.

The Act suggests that this statement may include information about

1. the organisation's structure, its business and its supply chains;
2. its policies in relation to slavery and human trafficking;
3. its due diligence processes in relation to slavery and human trafficking in its business and supply chains;
4. the parts of its business and supply chains where there is a risk of slavery and human trafficking taking place, and the steps it has taken to assess and manage that risk;
5. its effectiveness in ensuring that slavery and human trafficking is not taking place in its business or supply chains, measured against such performance indicators as it considers appropriate;
6. the training about slavery and human trafficking available to its staff.

This statement must be signed by a director and approved by the Board and published in a "prominent" place on the company's website.

Further information can be found on our website at:

http://www.mazars.co.uk/Home/Our-Services/Publications/Consulting-publications/Human-Rights-publications/The-Modern-Slavery-Act-2015-FAQs

Appendix B – Forthcoming accounting and other issues

6. DIRECT TAX UPDATE

Non-charitable activities

Under charity law, charities are not allowed to undertake non-charitable trading as it could put the assets of the charity at risk. Under tax law, 'Primary purpose trading', trading ancillary to that and other income within the small trading exemption are all exempt from corporation tax. 'Non-primary purpose' trading (often including gift shops, cafés and letting accommodation other than to charity beneficiaries) is, however, taxable. In an effort to generate funds for the charity, such taxable trading activities can be very attractive to charities.

To simplify the division of income and expenses between Primary purpose and Non-primary purpose trading, charities often decide to set up a trading subsidiary company through which the non-primary purpose activity is channelled. As a trading company, the subsidiary will be treated as an ordinary limited company, subject to normal company reporting requirements and tax on its profits. These costs may be offset by the maintenance of the charity's charitable status and associated tax exemptions, not to mention the simpler identification of transactions for separate reporting.

Gift aid distributions from subsidiaries

A trading company can pass up its trading profits to its parent charity using company Gift Aid. The trading company's profits chargeable to Corporation Tax are reduced by the amount of Gift Aid paid. Any such Gift Aid donations to a parent charity paid up to 9 months after the end of an accounting period may be included in the tax return for the period. This allows the company to effectively and efficiently plan the appropriate Gift Aid donation amount each period with the benefit of hindsight.

Although the Charity Commission and HMRC historically accepted such payments are not distributions, a technical release by the Institute of Chartered Accountants in England and Wales states Counsel's opinion that these are in fact distributions and subject to the restrictions within the Insolvency Act 1986, the Companies Act 2006 and any within the Memorandum and Articles of Association of the company. To reduce taxable profits to nil, in some cases subsidiaries have previously donated amounts that would be deemed illegal under the distribution rules. Subsidiaries should restrict any Gift Aid amounts to within the legal distribution limit. This may well result in an irrecoverable tax liability but will ensure no illegal distribution amounts need paying back in future and the company directors are correctly exercising their duty of care.

Gift aid declarations

In October 2015 HMRC issued a new model gift aid declaration which became mandatory from April 2016. These declarations are broadly the same as previously but now must explain that taxpayers are liable for the gift aid tax if they have not paid sufficient income tax when making the donation.

HMRC have said they will allow historic certificates to be used where the declaration clearly covers 'this donation and any future donations' or words to that effect. But, for new sign ups, the new wording must be used or a certificate is invalid.

HMRC have said if charities can prove they purchased declaration sheets before 21 October 2015 they can continue to use these until they run out, rather than have to replace them.

National Minimum Wage

For entities who employ staff who are remunerated in part via a sleep-in allowance, during which time they retain responsibilities, there are potential pitfalls for the employer in relation to National Minimum Wage.

In certain scenarios, the sleep-in allowances would be added to the employee's pay and compared to the number of hours worked including the sleep-in period, in order to assess whether the employer is compliant with National Minimum Wage. This assessment would relate to each pay period, both looking forward and historically.

This is a complex area. If it potentially affects your charity, please liaise with your Mazars contact.

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7. VAT UPDATE

Since 1 April 2012 charities have been specifically defined for VAT purposes as, *a body of persons or trust that is established for charitable purposes only and*

- *Falls under the jurisdiction of the High Court, Court of Session, High Court of Northern Ireland (or the corresponding jurisdiction in another Member State);*
- *Complies with any requirement to be registered under Charities Act 2011, s29 (or corresponding provisions in other territories);*
- *Is managed by "fit and proper persons".*

Business and non-business activities

It is important for a charity to distinguish between its business and non business activities in order to determine both whether it will require a VAT registration, and, if registerable, to determine which of its supplies should be subject to VAT.

By way of example, admission charges are typically deemed to be in respect of business activities and therefore VAT must be accounted for on admission income, whilst grant funding received by a charity may be outside the scope of VAT if the charity does not supply anything in return for the income.

A common error is for a charity to assume that because its activities fall within its objects they are accordingly not business activities for VAT purposes.

VAT registration

A VAT registration will be a mandatory requirement if income from taxable business activities exceeds the VAT registration threshold of £85,000 per annum (this threshold applies from 1 April 2017 and is typically increased each year).

If VAT registration is not mandatory, but the charity has some taxable business income, it may be worthwhile considering whether an application should be made for a voluntary VAT registration, in order to enable VAT recovery on a proportion of costs. The financial benefit should be considered in conjunction with the compliance obligations that a VAT registration entails.

In recent years charities that historically received income categorised as "grant funding" have been required to submit tender documents (or similar) outlining the services they will provide in return for the funding. This has led to some confusion in terms of the VAT liability of such income on the basis that typically income received in return for the provision of services will be categorised as "business" income, and if taxable may lead to a mandatory VAT registration requirement.

VAT rates

Whilst there is no general VAT relief available to all charities, certain supplies to charities may be eligible for VAT at 0% (the zero rate) or 5% (the reduced rate):

- The zero rate may apply to the following supplies to charities: advertising, lifeboats, donated goods, aids for disabled persons, wireless sets for the blind and talking books for the blind and disabled.
- The reduced rate may apply to the following supplies to charities: fuel and power and energy-saving materials.

In addition, VAT relief on imported goods may be available to charities, depending upon the nature of the goods being imported.

Land and property

The rules around supplies of land and property for charities are complex and advice should be sought on a case by case basis. In general, a supplier should zero rate the supply of the first grant of a major interest in land or buildings to be used for a "relevant charitable purpose", which entails use other than for business purposes.

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Annual VAT checklist
It is good practice to review VAT regularly. VAT for many charities is a complex area requiring constant thought to ensure full compliance and to minimise irrecoverable VAT.

Whilst it is impossible to provide a checklist that will cover all aspects, the list below is designed to help charities think about VAT, manage risk and minimise the cost of VAT. This list is a guide and will not cover all VAT risks.

- **Income review:** is the correct VAT treatment applied to income? Have changes to supplies, revisions of and new contracts been considered?
- **VAT registration:** are all entities registered for VAT either on a mandatory or voluntary basis?
- **VAT recovery:** is a business/non business apportionment of VAT incurred carried out and has this calculation been reviewed recently?
- **Partial exemption:** is the standard method used or is an agreed partial exemption method in place? Are partial exemption calculations made and reviewed? Does the charity apportion VAT incurred to taxable and exempt supplies under its method?
- **Recharges:** are there or should there be recharges between related or even unrelated entities? Have the VAT consequences of these charges been reviewed?
- **VAT reliefs:** if the charity is involved in any rescue, medical or research activity or uses funds to purchase medical or research equipment, does it consider the VAT consequences of such activity?
- **Welfare:** is the charity involved in any care or welfare services? The VAT rules can be complex and the VAT implications of activities in this area should be reviewed.
- **Capital item expenditure:** has the charity carried out property projects or refurbishments or invested in any major computer upgrades in the last 10 years? If so has the VAT capital goods scheme been considered?
- **Cost review:** does the charity review the VAT it incurs on costs to ensure that it has been correctly charged? For example:
  - Fuel & power - could the 5% reduced rate of VAT be applied?
  - Construction of new buildings used for qualifying use - could the zero rate be applied to the building works?
  - Conversion of building used for a residential purpose - could the 5% reduced rate be applied to any of the works?
  - Advertising - could any of the charge qualify for the charity relief and zero rating?
  - Fund raising income - could the relief apply in order that no VAT is due on sales of tickets etc?
  - Sale of donated goods - can any of the goods sold qualify for the reliefs?

The above questions are designed to create some key review considerations in respect of VAT for the charity. They cover a complex area and cannot guarantee full compliance but they will help identify many risks and opportunities. To obtain a view of its VAT compliance risks the charity may wish to carry out a more detailed review.

At all times a charity should bear in mind that HMRC frequently impose penalties on non-compliance, which could lead to 30% charge on any tax assessed (the standard penalty range is between 0%-100%). HMRC have limited resources and focus on areas which produce the greatest return. For each £1 HMRC have spent on tax investigations they have recovered £11 when investigating companies but £44 when investigating charities. In view of this, HMRC's focus on the charity sector is likely to be high.

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8. EMPLOYEE OR VOLUNTEER

Many charities have both volunteers and employees and consider the distinction between the two groups to be clear.

Ensuring clarity of this distinction is both vitally important and potentially difficult.

The importance is due to the relative rights of the two groups. Volunteers have few rights whereas employees have extensive rights such as:

- the right to be paid at least the National Minimum Wage;
- those provided by the Equality Act 2010;
- protection against unfair dismissal; and
- sick pay, maternity pay and holiday.

Wrongly classifying an individual as a volunteer when, in the eyes of the law, they are an employee can result in significant cost and reputational implications.

A charity is at risk of individuals that are called volunteers being classified as employees if certain rules are not adhered to:

- Volunteers should not receive anything linked directly to their volunteering because in doing so there is a risk of the relationship becoming contractual. Certain reimbursement of reasonable expenses can be paid to volunteers. Providing benefits to volunteers (even if to thank them) such as “staff” discounts in charity shops risks tainting their volunteer status.
- The concept of voluntary workers creates further uncertainty. These volunteers may be provided with accommodation and basic living expenses. There are scenarios in which volunteers can correctly be provided with these but it is important to ensure they are applied appropriately.
- HMRC makes a distinction between volunteering and unpaid work. Where time spent by an individual is classified as unpaid work, the charity is at significant risk due to non-compliance with National Minimum Wage, amongst other issues.

This area is a complex one where obtaining professional advice is important. Should you be at all unsure if your charity is compliant, please discuss your situation with your usual Mazars contacts.