Audit Completion Report

Symphony Learning Trust – year ended 31 August 2017

8 December 2017

Strictly private and confidential

Contents

Mazars LLP
The Pinnacle
160 Midsummer Boulevard
Milton Keynes
MK9 1FF

The Board of Trustees
Symphony Learning Trust
Featherby Drive
Glen Parva
Leicester
Leicestershire
LE2 9NY

8 December 2017

Dear Sirs / Madams

Audit Completion Report – Year ended 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 judgement was outlined in our Audit Strategy Memorandum. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks, key audit matters and other areas of management judgement remain appropriate.

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 01908 257129.

Yours faithfully

Stephen Brown

Stephen Brown
Partner
Mazars LLP

1. Executive Summary

Principal conclusions and significant findings

As outlined in our Audit Strategy Memorandum, 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 3 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. The key audit matters that were of most significance in our audit of the Financial Statements for disclosure in our auditor's report:

- Management override of controls;
- Revenue recognition; and
- Classification of funds.

Section 4 sets out internal control recommendations and section 5 sets out audit misstatements; total unadjusted misstatements total £nil.

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, there are no significant matters outstanding.

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, as set out in Appendix B.

We confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

2. Financial Highlights

Statement of Financial Activities

	2017	2016
	£	£
Donations and capital grants	9,318,986	-
Charitable activities	8,697,560	2,283,655
Other trading activities	340,014	34,165
Investments	1,126	365
Other income	278,190	60,876
Total income	**18,635,876**	**2,379,061**
Charitable activities	9,627,640	2,545,549
Total expenditure	**9,627,640**	**2,545,549**
Net income / (expenditure) before gains and losses	**9,008,236**	**(166,488)**
Acturial gains / (losses) on pension scheme	991,000	(211,000)
Net movement in funds	**9,999,236**	**(377,488)**
Total funds brough forward	4,400,669	4,778,157
Total funds carried forward	**14,399,905**	**4,400,669**

The results of the year are distorted when comparing to the prior year as the prior year is the result of Glen Hills Primary School as a standalone academy. This year, the results are for the Multi-Academy Trust including 5 additional schools.

Total income includes £9,318,986 of income relating to the donations of fixed assets, pension scheme liabilities and cash from the 5 additional schools.

The defined benefit pension scheme liability has increases this year as it now represents the liability of 6 schools but the movement in the SOFA is a gain and the overall deficit has reduced.

2. Financial Highlights (continued)

Balance Sheet

	2017 £	2016 £
Tangible fixed assets	16,815,539	5,285,911
Debtors	237,515	24,934
Cash at bank and in hand	2,006,461	345,868
Total current assets	**2,243,976**	**370,802**
Creditors due within one year	(1,177,610)	(291,050)
Net current assets	**1,066,366**	**79,752**
Creditors falling due after more than one year	-	(8,994)
Defined benefit pension scheme	(3,482,000)	(956,000)
Net assets	**14,399,905**	**4,400,669**
Restricted funds		
Restricted income fund	497,073	131,194
Restricted fixed asset fund	16,902,062	5,289,993
Pension reserve	(3,482,000)	(956,000)
	13,917,135	**4,465,187**
Unrestricted funds	482,770	(64,518)
Total funds	**14,399,905**	**4,400,669**

The results of the year are distorted when comparing to the prior year as the prior year is the result of Glen Hills Primary School as a standalone academy. This year, the results are for the Multi-Academy Trust including 5 additional schools.

Tangible fixed assets has increased this year with donated assets of £11,435,318 from the 5 additional schools. Capital additions in the year were £359,240 for the year for capital projects undertaken.

The defined benefit pension scheme liability has increased this year as now represents the liability for the 6 schools.

3. Significant findings

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

- 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; and
- any significant difficulties we experienced during the audit.

Other significant risks and key areas of management judgement

Classification of funds

Description of the risk

There is a risk of incorrect classification between restricted and unrestricted funds.

How we addressed this risk

We ensured that funds are correctly classified (unrestricted, designated, restricted and fixed asset) and movements in funds comply with legal requirements.

Audit conclusion

No issues have been identified in relation to this risk and income and expenditure has been recognised under the correct reserve.

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

We are satisfied that the journals process is working effectively and journals do not indicate management override of controls.

Revenue recognition

Description of the risk

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

How we addressed this risk

We have tested a sample of revenue items to ensure that this is appropriately accounted for and appropriate control procedures are in place.

Audit conclusion

Income was recognised correctly in line with the revenue policy and is considered to be materially correct.

Depreciation

Description of the management judgement

To ensure that the correct allocation has been made and depreciation rates match the expected useful lives of the assets as well as there being a level of consistency in the calculations applied.

How our audit addressed this area of management judgement

We reviewed the methodology to ensure the correct allocation and the approach adopted provides a sound base for accounting in this area. We reviewed other data to verify the logic of the assumptions used and we reviewed the calculations underlying the methodology. We considered if asset lifecycles are reasonable and consistent with our knowledge of the sector.

Audit conclusion

From the audit work performed the fixed assets appear materially correct and the depreciation policy included within the financial statements is considered reasonable.

Local Government Pension Scheme assumptions

Description of the management judgement

To ensure that the assumptions used within the year end valuation of the Local Government Pension Scheme are appropriate.

How our audit addressed this area of management judgement

We arranged for our internal pension specialists to review the assumptions that have been applied and consider if these are appropriate based on our knowledge of the sector.

Audit conclusion

Our own experts have reviewed the assumptions used in the valuation. All are considered to be reasonable, except for the salary increase. This assumption is lower than benchmark which has been used. The valuation used in the report is 2.7% but the benchmark is RPI plus 0.5% - 1.25%. Management are satisfied that the rate used is consistent each year and given the pressures on support staff salaries, this is considered reasonable.

Accounting policies and disclosures

We have reviewed Symphony Learning Trust accounting policies and disclosures and concluded they comply with the requirements of the Academies Accounts Direction 2016 to 2017, the Charities SORP 2015 and the Companies Act 2006.

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.

Audit approach

Our audit was undertaken in line with the audit approach set out in our Audit Strategy Memorandum dated 28 September 2017.

The financial statement materiality for our audit was £139,000.

Matters arising from our regularity assurance engagement

Our regularity assurance engagement was conducted in accordance with the Academies Accounts Direction 2016 to 2017, issued by the Education Funding Agency.

The Academies Accounts Direction 2016 to 2017 sets out the framework and reporting requirements on the statement of regularity, propriety and compliance and the Board of Trustees responsibilities and the scope of our work in our role as independent reporting accountant.

We are required to report to the Board and the Secretary of State for Education acting through the Education Funding Agency whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 1 September 2016 to 31 August 2017 have not been applied to purposes intended by Parliament or that the financial transactions do not confirm to the authorities which govern them.

In the course of our work, nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 01 September 2016 to 31 August 2017 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

We are required to report to you by way of management letter instances of irregularity that have been identified during the course of our engagement that we conclude are not material by virtue of value or nature, either individually or in aggregate, or does not relate to transactions underlying the annual accounts.

We did not identify any instances of irregularity through the course of this engagement.

4. Internal control recommendations

Relating to the ‘true and fair’ Audit

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 required action. In summary, the matters arising fall into the following categories:

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 business strategic objectives. The recommendation should be taken into consideration by management immediately.	-
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	-
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	3

Other recommendations in internal control – Level 3

Description of deficiency – Discrepancies of nominal codes used across schools

We noted during our testing that items such as income & reserves, are not being universally posted to the same codes across all schools.

Potential effects

There is a risk of misclassification and therefore funds could be spent or allocated incorrectly within the accounts.

Recommendation

We recommend that all schools use the same codes to post all their transactions to improve comparability & clarification within the accounts.

Management response

Symphony Learning Trust has introduced standardised Ledger codes across the Trust, this will ensure all schools use the appropriate codes and remove the risk of misclassification.

Description of deficiency – VAT refunds

It was noted during VAT testing that June 2017 VAT refund was processed in SLT however, the individual schools had not accounted for their allocation.

Potential effects

There is a risk of miscalculation of year end positions of VAT and Cash.

Recommendation

We recommend either to ensure the refund is fully accounted for in all schools or wait until after the year end to process the VAT refund. A consistent approach across the MAT during the whole year may be the most appropriate method, e.g. recognising the refund quarterly.

Management response

The Trust is moving to payments by BACs and this issue will not occur again.

Other recommendations in internal control – Level 3

Description of deficiency – Bank reconciliations

It was noted that year end bank reconciliations did not reconcile the year end bank balance to the TB amount.

Potential effects

There is a risk of misstatement of the cash position at the year end

Recommendation

Bank reconciliation are a key control and we recommend that bank reconciliations are performed regularly during the year and at the year end. This should be performed, at a minimum, monthly using the monthly check sheet and a printed copy of the unreconciled report sheet as done by AW.

Management response

This has been raised will Finance Staff and the schools are moving to a standardised bank reconciliation process, based upon best practice. Finance staff are receiving training on the 29th January 2018.

Follow up of previous internal control points

We set out below an update on internal control points raised in the prior year.

Description of deficiency – Opening balances – Glen Hills, Fairfield, Thornton & The Meadow

We noted that the opening balances did not agree to the prior year signed accounts.

Potential effects

There is a risk that management information is not a true reflection of the financial position of the academy throughout the year.

Recommendation

Management should ensure that all journals raised as part of the audit are accounted for at the earliest possible date.

2017 update

No such issues noted this year.

Description of deficiency – Other income - Fairfield

We noted that a revenue code called 'Other income' is being used for a variety of restricted and unrestricted income which is not being posted correctly on the trial balance.

Potential effects

There is a risk that the income disclosure in the accounts may not be a true reflection of the activities in the year.

Recommendation

Management should ensure that the use of the 'Other income' code is limited and analysed out on a regular basis to ensure income is recorded correctly.

2017 update

No such issues noted this year.

Description of deficiency – Bank Reconciliation - Thornton

During the testing of cash it was noted that the bank reconciliation was unclear, it had items that were in fact 'reconciled' and old items from October 2015.

Potential effects

There is a risk that the trial balance may not reflect the true available cash that the academy has.

Recommendation

We recommend that management should ensure a full bank reconciliation is done as at the end of each month, once bank statements have been received to ensure unreconciled items are correct. Ensure the reconciliation is checked by the Business Manager. Additionally - old unreconciled items should be investigated & cleared from the reconciliation.

2017 update

See management letter points raised for the current year to ensure bank reconcilations are completed correctly.

Description of deficiency – VAT - Thornton

During our testing it was identified that the VAT debtor does not agree to the VAT claim being submitted.

Potential effects

There is a risk that VAT is not being claimed back correctly each month.

Recommendation

We recommend that management should ensure that a reconciliation is performed each month between the claim and the ledger codes to ensure nothing has been missed from the claim.

2017 update

No issues noted in the current year.

Description of deficiency – Fixed Asset Register – The Meadow

During the audit it was noted that no fixed asset register was maintained that reconciled to the financial statements.

Potential effects

This could lead to the depreciation charge being incorrectly calculated, or could lead to the misappropriation of assets if no comprehensive list of all assets is not maintained.

Recommendation

We recommend that a detailed listing of all fixed assets are compiled & updated for all additions and disposals when appropriate. This will ensure the academy has a full record of all assets and will enable the depreciation charge to be calculated accurately.

2017 update

Now maintained by each school and reconciled to the financial statements.

Description of deficiency – Accruals – The Meadow

We noted during our testing that accruals had not been accounted for in the year end results.

Potential effects

There is a risk that the management information is not a true reflection of the financial position of the academy at the year end.

Recommendation

We recommend that management ensure all accruals are accounted for in the accounting system at the year end.

2017 update

These are now being recorded at the year end**.**

Description of deficiency – Loan liability – The Meadow

We noted during our testing that the loan for energy efficient expenditure has not been accounted for in the accounting system.

Potential effects

There is a risk that the management information is not a true reflection of the financial position of the academy during the year.

Recommendation

We recommend that management ensure all liabilities are accounted for in the accounting system at the year end and all journals raised as part of the audit are reflected in the accounting system as soon as the accounts are signed.

2017 update

No issues noted this year.

5. 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 outlines the misstatements that have been adjusted by management during the course of the audit.

Unadjusted misstatements 2017

		SOFA		BS	
		Dr	Cr	Dr	Cr
		£	£	£	£
1	Dr Expenses	44,538			
	Cr Accruals				- 44,538
	Cr Income		- 44,538		
	Dr Accrued income			44,538	
	Being to account for additional income and expenses relating to the year				

5. Summary of misstatements (continued)

Adjusted misstatements 2017

		SOFA		BS		
		Dr	Cr	Dr	Cr	
		£	£	£	£	£
	Surplus before adjustments					**14,222,552**
1	Dr Pension scheme income	4,689,200				(4,689,200)
	Cr Pension scheme liability				4,689,200	
	Being to account for the pension scheme liabiities given to the MAT					
2	Dr Fixed asset additions			360,355		
	Cr Capital expenditure		360,355			360,355
	Being to account for the fixed asset additions in the year					
3	Dr Other income	202,541				(202,541)
	Cr Bank account				202,541	
	Being to account for a misposting of the bank transfer					
4	Dr Depreciation charge	264,930				{264,930)
	Cr Accumulated depreciation charges				264,930	
	Being to account for the depreciation charges for the year					
5	Dr Interest costs	169,000				(169,000)
	Cr Expected return		80,000			80,000
	Dr Current service charge	771,000				(771,000)
	Cr Actuarial gains and losses		991,000			991,000
	Cr Employers contribution		442,000			442,000
	Dr Donated pension scheme			1,063,000		
	Dr Defined benefit pension scheme				490,000	
	Being to account for the pension scheme movement in the year					
	Surplus after adjustments					**9,999,236**

Appendix A – Draft management representation letter

Symphony Learning Trust - audit for year ended 31 August 2017

This representation letter is provided in connection with your audit of the financial statements of Symphony Learning Trust for the year ended 31 August 2017 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice including the Financial Reporting Standard Applicable in the UK and Republic of Ireland for charities (FRS 102), Companies Act 2006, and Academies Accounts Direction 2015 to 2016 issued by the Education and Skills Funding Agency (ESFA).

We confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the following representations to you.

Our responsibility for the financial statements and accounting information

We believe that we have fulfilled our responsibilities, as set out in the audit engagement terms, for the true and fair presentation and preparation of the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice including the Financial Reporting Standard Applicable in the UK and Republic of Ireland for charities (FRS 102), Companies Act 2006, and Academies Accounts Direction 2015 to 2016 issued by the ESFA.

Our responsibility to provide and disclose relevant information

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 material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the trust you determined it was necessary to contact in order to obtain audit evidence.

We confirm as trustees that we have taken all the necessary steps to make us aware, as trustees, of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as we are aware there is no relevant audit information of which you, as auditors, are unaware.

We have made you aware of any instances of non compliance with either our funding agreement or the Academies Financial Handbook.

Accounting records

We confirm that all transactions undertaken by the trust have been properly recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all management and shareholders' meetings, have been made available to you.

Accounting policies

We confirm that we have reviewed the accounting policies applied during the year in accordance with the requirements of with United Kingdom Generally Accepted Accounting Practice Including the Financial Reporting Standard Applicable in the UK and Republic of Ireland for charities (FRS 102), Companies Act 2006, and Academies Accounts Direction 2015 to 2016 issued by the EFA and consider them appropriate for the year.

Accounting estimates, including those measured at fair value

We confirm that any significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:
information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the trust have been brought to your attention. 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 United Kingdom Generally Accepted Accounting Practice Including the Financial Reporting Standard Applicable in the UK and Republic of Ireland for charities (FRS 102), Companies Act 2006, and Academies Accounts Direction 2015 to 2016 issued by the ESFA.

Appendix A – Draft management representation letter

Laws and regulations
We confirm that we have disclosed to you all those events of which we are aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

We have complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error
We acknowledge our responsibility as trustees of the trust, for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
We have disclosed to you:

- all the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the entity involving:
- management and those charged with governance;
- employees who have significant roles in internal control; and
- others where fraud could have a material effect on the financial statements.

We have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Related and connected party transactions
We confirm that all related and connected party relationships, transactions and balances, (including sales, purchases, loans, transfers, leasing arrangements and guarantees) have been appropriately accounted for and disclosed in accordance with the requirements of United Kingdom Generally Accepted Accounting Practice Including the Financial Reporting Standard Applicable in the UK and Republic of Ireland for charities (FRS 102), Companies Act 2006, and Academies Accounts Direction 2015 to 2016 issued by the ESFA.

We have disclosed to you the identity of the trust's related and connected parties and all related and connected party relationships and transactions of which we are aware.

Impairment review
To the best of our knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the fixed assets below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Charges on assets
All the trust's assets are free from any charges exercisable by third parties except as disclosed within the financial statement

Future commitments
We have no plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Trustee' emoluments
The Executive Head Teacher and other staff Trustees only receive remuneration in respect of services they provide undertaking the roles of Executive Head Teacher and staff, and not in respect of their services as Trustees. Other Trustees did not receive any payments, other than expenses, from the Academy in respect of their role as Trustees. The value of Trustees ' remuneration fell within the following bands:

Mrs K McGovern, CEO and Staff Governor	£70,000 - £75,000

Key management personnel
We confirm that the total costs incurred for the key management personnel was £342,530 (2016: £316,796).

Appendix A – Draft management representation letter

Property valuation
We confirm that the property valuation transferred to the MAT at 1 September 2016 for Ashby Willesley Primary School and Newcroft Primary School is £2,464,000 and £2,225,000 respectively.

Subsequent events
We confirm all events subsequent to the date of the financial statements and for which the United Kingdom Generally Accepted Accounting Practice Including the Financial Reporting Standard Applicable in the UK and Republic of Ireland for charities (FRS 102), Companies Act 2006, and Academies Accounts Direction 2015 to 2016 issued by the EFA, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, we will advise you accordingly.

Going concern
To the best of our knowledge there is nothing to indicate that the trust will not continue as a going concern in the foreseeable future. The period to which we have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements
We confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this letter as an Appendix.

Appendix B – Draft audit reports

Opinion

We have audited the financial statements of Symphony Learning Trust for the year ended 31 August 2017 which comprise the Statement of Financial Activities incorporating income and expenditure account, the Balance Sheet, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law, the Academies Accounts Direction 2016 to 2017 issued by the Education and Skills Funding Agency and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice) and Charities SORP 2015.

In our opinion, the financial statements:

- give a true and fair view of the state of the Academy's affairs as at 31 August 2017 and of its incoming resources and application of resources, including its income and expenditure, for the year then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the Charities SORP 2015 and Academies Accounts Direction 2016 to 2017.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the charitable company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Trustees use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Trustees are responsible for the other information. The other information comprises the information included in the Trustees Report, other than the financial statements and our auditors' reports thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Appendix B – Draft audit reports

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Trustees' Report including the incorporated strategic report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Trustees' Report including the incorporated strategic report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the charitable company and its environment obtained in the course of the audit, we have not identified material misstatements in the Trustees' Report including the incorporated strategic report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Trustees' remuneration specific by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the Trustees

As explained more fully in the Trustees' responsibilities statement set out on page [X], the Trustees are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the governors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustees are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the governors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK). Those standards require us to comply with the Financial Reporting Council's Ethical Standard. This report is made solely to the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 company and the company's members as a body for our audit work, for this report, or for the opinions we have formed.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Appendix B – Draft audit reports

Independent Reporting Accountant's Assurance Report on Regularity to the Governing Body of Symphony Learning Trust and the Education and Skills Funding Agency

In accordance with the terms of our engagement letter dated 2 October 2017 and further to the requirements of the Education and Skills Funding Agency (ESFA) as included in the Academies Accounts Direction 2016 to 2017, we have carried out an engagement to obtain limited assurance about whether the expenditure disbursed and income received by Symphony Learning Trust during the period 1 September 2016 to 31 August 2017 have been applied to the purposes identified by Parliament and the financial transactions conform to the authorities which govern them.

This report is made solely to Symphony Learning Trust and the ESFA in accordance with the terms of our engagement letter. Our work has been undertaken so that we might state to Symphony Learning Trust and the ESFA those matters we are required to state to it in a report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Symphony Learning Trust and the ESFA, for our work, for this report, or for the conclusion we have formed.

Respective responsibilities of Symphony Learning Trust's accounting officer and the reporting accountant

The accounting officer is responsible, under the requirements of Symphony Learning Trust's funding agreement with the Secretary of State for Education dated 1 March 2012 and the Academies Financial Handbook, extant from 1 September 2016, for ensuring that expenditure disbursed and income received is applied for the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Our responsibilities for this engagement are established in the United Kingdom by our profession's ethical guidance and are to obtain limited assurance and report in accordance with our engagement letter and the requirements of the Academies Accounts Direction 2016 to 2017. We report to you whether anything has come to our attention in carrying out our work which suggests that in all material respects, expenditure disbursed and income received during the period 1 September 2016 to 31 August 2017 have not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

Approach
We conducted our engagement in accordance with the Academies Accounts Direction 2016 to 2017 issued by the ESFA. We performed a limited assurance engagement as defined in our engagement letter.
The objective of a limited assurance engagement is to perform such procedures as to obtain information and explanations in order to provide us with sufficient appropriate evidence to express a negative conclusion on regularity.
A limited assurance engagement is more limited in scope than a reasonable assurance engagement and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a positive opinion.

Our engagement includes examination, on a test basis, of evidence relevant to the regularity and propriety of the academy trust's income and expenditure.
A summary of the work we have undertaken is as follows:

- Planned our assurance procedures including identifying key risks;
- Carried out sample testing on controls;
- Carried out substantive testing including analytical review; and
- Concluded on procedures carried out.

Conclusion
In the course of our work, nothing has come to our attention which suggests that in all material respects the expenditure disbursed and income received during the period 1 September 2016 to 31 August 2017 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

Appendix C – 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")

Governance

- 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.

Financial control

- 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 C – 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") <u>Governance</u> - 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. <u>Financial control</u> - 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 C – 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 Stephen Brown 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 C – 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 C – 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 C – 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 C – 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.

Appendix C – Forthcoming accounting and other issues

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.

Appendix C – Forthcoming accounting and other issues

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.

Appendix C – Forthcoming accounting and other issues

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.