Audit Completion Report

Symphony Learning Trust – year ended 31 August 2018

19 December 2018

Strictly private and confidential

Contents

Mazars LLP
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Milton Keynes
MK9 1FF

The Board of Trustees
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Featherby Drive
Glen Parva
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Leicestershire
LE2 9NY

19 December 2018

Dear Sirs / Madams

Audit Completion Report – Year ended 31 August 2018

We are pleased to present our Audit Completion Report for the year ended 31 August 2018. 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 257312.

Vincent S. Marke

Yours faithfully

Vincent Marke
Director
Mazars LLP

1. Executive Summary

Principal conclusions and significant findings

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 and other areas of management judgement.

Section 3 sets out internal control recommendations and section 4 sets out audit misstatements; total unadjusted misstatements total £67,424.

Section 5 summarises the "Top 10 Musts" of the Academies Financial Handbook 2018 which is effective from 01 September 2018. Management have summarised in this section how they are responding to these requirements.

Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 August 2018.

At the time of preparing this report, there are no outstanding items.

As set out in our engagement terms, we issue 2 opinions on the financial statements, the first is to express an opinion on the true or fair view of the financial statements and the other is to provide limited assurance that the expenditure disbursed and income received by Symphony Learning Trust Trust has been applied to the purposes identified by Parliament and the financial transactions conform to the authorities which govern them.

At the time of issuing this report and subject to the satisfactory conclusion of the remaining audit work, we anticipate issuing an unqualified audit opinion, without modification, as set out in Appendix B. We also anticipate issuing an unqualified regularity opinion, without modification, as also set out in Appendix B. However, we have noted some control points for improvement in both areas in section 3.

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

2. Significant findings

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

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 6 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

Management override of controls (ISA required)

Description of the risk

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

In line with our methodology we addressed this risk through performing audit work over accounting estimates, journal entries and significant transactions outside of the normal course of business or otherwise unusual.

Audit conclusion

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

Revenue recognition (ISA required)

Description of the risk

There is a risk of fraud in revenue recognition due to the potential to inappropriately shift the timing and basis of revenue recognition as well as the potential to record fictitious revenues or fail to record actual revenues. Due to there being a risk of fraud in revenue recognition it is presumed to be a significant risk on all audits. For Symphony Learning Trust Limited we see the revenue recognition significant risk as being principally in relation to:

Cut-off: ensuring income is recorded in the correct period

How we addressed this risk

We addressed this risk by selecting a sample of revenue both pre and post year end and tracing to source documentation to identify the correct year in which this revenue should have been recognised.

Audit conclusion

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

Classification of funds (Mazars standard)

Description of the risk

There is a risk that income or capital (endowment) received has restrictions imposed by a third party and therefore should be recorded as restricted income or capital (endowment) 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 income documentation to ensure the classification is correct.

Audit conclusion

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

Going concern (Mazars standard)

Description of the risk

Both the private sector and public sector face challenging times due to the current economic climate. Increased risks are faced in many areas by the Trust, including:

- Reduced levels of public funding
- Demographic challenges and fall in student numbers
- Expected reduction in funding for the next financial year
- Increased national insurance and pension contribution rates

The risk of these factors having a significant impact on the going concern opinion is moderate. It needs to be considered whether any factors impact on the Trust's ability to continue operations.

How we addressed this risk

Additional audit focus was made regarding the going concern opinion of the Trust (as is the situation with all trusts). We also considered and reviewed future funding.

Audit conclusion

The going concern assumption appears to be reasonable, we do not believe this is a risk for Symphony Learning Trust for the year under audit.

Depreciation

Description of the management judgement

Symphony Learning Trust have tangible assets on their balance sheet which are subject to depreciation charges. Management are involved in the selection of the useful economic lives of these assets.

How our audit addressed this area of management judgement

We reviewed the methodology taken to ensure the approach adopted provides a sound base for accounting in this area. We shall review other data to verify the logic of the assumptions used and we also reviewed the calculations underlying the methodology. In addition 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 Deficit 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 considered if these are appropriate based on our knowledge of the sector.

Audit conclusion

Our own expert has reviewed the assumptions made and is satisfied that they are reasonable. We also reviewed this in light of the sector and information on the payroll records and are content with the valuation.

Donated assets on transfer of Old Mill Primary School

Description of the management judgement

To ensure that donated assets brought in on conversion are reasonable and appropriate.

How our audit addressed this area of management judgement

We reviewed correspondence and closing accounts to ensure the figure brought in is as agreed and consistent with Old Mill Primary School's closing financial position.

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Audit conclusion

From the work performed we are satisfied the donated assets appear 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 2017 to 2018, 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. However, we did experience some delays to our audit fieldwork, most notably early on in the process, which we hope can be rectified in the following year's audit.

These are outlined as follows:

- There were significant delays in receiving final TBs for the Trust due to an Ofsted visit. Consequently, the audit team had to request items after the audit booking which was further delayed by the schools' half term holidays.
    - Although next year we anticipate there will not be an Ofsted visit, we can break up the audit so instead of two solid weeks we have one week on site, one week off the audit and then the following week back on site working on the audit. This will be designed to mirror the half term break.
- We used Dropbox as a way of communicating and sharing folders, however, the audit team did not receive notifications from this software of when and where items were uploaded and often when we found things they would later be moved.
    - We recommend using Huddle next year. This is a platform like Dropbox but it will give the audit team the ability to receive notifications and see a trail of what documents have been uploaded and by who. T Tundall has confirmed that we will explore this at the audit planning meeting to see if it fits with the Trust's systems.
    - We will also create a deliverables list tailored by school and send to all business managers each day so they can keep track of items sent/ annotate with comments.
- When we did receive information it was not always what we required due to accounting jargon and required reports the schools are not used to.
    - Next year we will send round a contact list of the audit team so the individual schools can just ring and email us directly with questions in order to gain clarification.
- The actuary was slow to provide a defined benefit pension report and when it did it contained wrong information.
    - We valued management's continued support in putting pressure on the actuary to deliver the information required on a timely basis and appreciate their help on this matter during the FY18 audit.

These delays have not slowed our ability to meet the deadline and we stress that we have had the full support of management throughout.

Audit approach

Our audit was undertaken in line with the audit approach set out in our Audit Strategy Memorandum dated 24 September 2018.

The financial statement materiality for our true and fair audit was based on 2% gross revenue expenditure excluding depreciation which amounted to £166,000.

For our regularity audit, we do not work to a specific calculated materiality but use the Trust's financial regulations and the Academy Financial Handbook 2017/18 in order to asses a level of appropriateness from which to base our audit conclusions.

Matters arising from our regularity assurance engagement

Our regularity assurance engagement was conducted in accordance with the Academies Accounts Direction 2017 to 2018, issued by the Education Funding Agency.

The Academies Accounts Direction 2017 to 2018 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 2017 to 31 August 2018 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 2017 to 31 August 2018 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. However, we have identified some control points to strengthen existing procedures in section 3.

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 Audit Strategy Memorandum and therefore we remain independent

3. 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.	1
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	3

Recommendations in internal control – Level 2

Description of deficiency

It was noted that bank reconciliation procedures performed are not consistent across all the schools, with different templates being used across the Multi-Academy Trust. It was also noted in some of the schools that the year end bank reconciliation had not been signed as approved/ reviewed. One school mentioned that they were unsure of what figure they were reconciling to.

Potential effects

Enhanced risk of fraud or error.

Recommendation

We recommend that a standardised bank reconciliation template is issued across all of the schools in the Multi-Academy Trust. And that the Business Managers are taught how to fill this out..

Management response

Standardised templates and training has been provided with regards to the Bank Reconciliation process. However, this issue has been noted and further training will now be provided to clarify the Bank Reconciliation process to check understanding and an internal audit will be undertaken to ensure compliance

Other recommendations in internal control – Level 3

Description of deficiency

It was noted that at both the Old Mill and Glen Hill Primary Schools, General Annual Grant (GAG) income for the year is posted in its entirety in September when the GAG letter is received with a corresponding receivable, which is reduced throughout the year as remittance is received. This will make Trust management account inconsistent and potentially not meaningful.

Potential effects

There is a risk that the monthly management accounts would not reflect the true position of the Trust.

Recommendation

Income should be recognised when it is incurred, not on receipt of the annual GAG letter.

Management response

The Bursar who works at Glen Hills and Old Mill has been advised of the process and she now changed the way she processes the GAG income.

Description of deficiency

At Fairfield, it was noted that the journals are reviewed only by the Bursar, who does not provide a signature to evidence this review. There is no journals review at the other academies within the Trust.

Potential effects

Enhanced risk of fraud or error.

Recommendation

We recommend implementing a system of review of journals, this could be done through building the check into the scope of the Internal Auditors.

Management response

Reviewing the Journals will be built into Internal Audit's scope and checked when the review is undertaken in April/May 19.

Description of deficiency

It was noted that Old Mill does not have a fixed asset register.

Potential effects

Risk of fraud or error.

Recommendation

Old Mill should maintain a fixed asset register which reconciles to the trial balance to ensure a clear audit trail.

Management response

Old Mill joined the Trust on the 1st September 2017 and the RAR was previously completed by the LA, OM has now been provided a template and completed the RAR and will be forwarded to the Accountants

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 – 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.

2018 Update

No issues noted.

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.

2018 Update

No issues noted during VAT Testing this year.

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.

2018 Update

Deficiencies over the performance of bank reconciliations across the MAT has been noted again this year.

Internal control recommendations – Regularity report

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.	1

Recommendations in Internal Control – Level 3

Description of deficiency

We noted some instances where bespoke or specialist work was expensed but due to its nature, no quotes were obtained.

Potential effects

Risk of non-compliance.

Recommendation

We recommend that the financial regulations need updating to reflect this and clarity needs to be introduced in regards to the regulations around different types of expenditure.

Management Response

The Trust's Finance Policy is being updated to reflect that where "Bespoke and Specialist Works" are undertaken, it may not be possible to obtain the required number of quotes and as long as this is noted in the LGB minutes this is deemed acceptable.

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

Unadjusted misstatements 2018

		SOFA		BS		STRGL	
		Dr	**Cr**	**Dr**	**Cr**	**Dr**	**Cr**
1	Dr Other Recoverable Charges	61,932					
	Cr Payroll		(42,932)				
	Cr Expense		(19,000)				
	Being the elimination of the intra-MAT recharges.						
3	Dr Computer Equipment			48,522			
	Dr Land and Buildings			21,321			
	Cr Expenditure		(76,364)				
	Dr Depreciation expense	8,940					
	Cr Depreciation charge				(8,940)		
	DR Fixtures & Fittings			6,521			
	Being the individually trivial items listed as capital but not posted to the TB.						
	Total unadjusted misstatements	**70,872**	**(138,296)**	**76,364**	**(8,940)**	**-**	**-**

4. Summary of misstatements (continued)

Adjusted misstatements 2018

		SOFA		BS		STRGL	
		Dr	**Cr**	**Dr**	**Cr**	**Dr**	**Cr**
1	Dr Other Restricted Reserve			201,093			
	Dr Payroll Control			1,449			
	Dr Pension Reserve			844,183			
	Cr Pensions Long Term Liability				(844,183)		
	Cr Other income		(202,541)				
	Being the correction of brought forward reserves						
2	Dr School Budget Reserve			6,655,209			
	Dr Pension Reserve			2,430,055			
	Dr Liability - end of Year Trans			2,585,826			
	Cr Other Restricted Reserve				(790,567)		
	Cr Restricted F.Asset Reserve				(9,040,727)		
	Cr Carry Forward				(1,839,797)		
	Being the reallocation of brought forward reserves						
3	Dr Lloyds TSB			100,503			
	Cr Payroll Control				(100,503)		
	Being correction of payroll charge which cleared bank post year end						
4	Dr Payroll control			52,269			
	Cr Pension creditor				(144,935)		
	Dr Bank			92,666			
	Being correction to PAYE creditor						
5	Dr Fixed asset additions			3,504,900			
	Cr Pension liability				(380,000)		
	Cr Transfer from local authority		(3,124,900)				
	Being transfer on conversion of Old Mill not posted						
6	Dr Deferred income			106,917			
	Cr Capital grants		(106,917)				
	Being adjustment to deferred CIF						
7	Dr Pension costs in the SOFA	815,000					
	DR Defined benefit pension liability			68,000			
	Cr Statement of recognised gains and losses						(883,000)
	Being the posting of the pension						
	Total adjusted misstatements	**815,000**	**(3,434,358)**	**16,643,070**	**(13,140,711)**	**-**	**(883,000)**

5. Top 10 'musts' for chairs and other trustees

We have set out below the Top 10 'musts' for chairs and other trustees from the Academies Financial Handbook 2018 which is effective from 01 September 2018:

As per the handbook	Management Response
Personal responsibilities 1. Apply highest standards of governance, comply with charitable objects with **duties as company directors**, with charity law and with the funding agreement.	1. The company directors compiles with the charitable objects, charity law and funding agreements
Structures 2. Ensure the board of trustees **meets at least three times a year**, and conducts business only when quorate. 3. Approve a written **scheme of delegation** of financial powers.	2. The Board meets at least four times a year and this is evidenced by the minutes from the meetings. 3. Approved Scheme of Delegation is reviewed in the Autumn term annually and available on the website.
Relationships 4. Ensure there are measures to **manage conflicts of interest**, be even-handed in relationships with **related parties**, and ensure goods or services provided by them are at **no more than cost**, beyond the limits specified in this handbook.	4. Staff, Governing Body and Trustees are required to complete a Pecuniary Interests form annually. LGB and Trustees minutes records if anyone has a Pecuniary Interest and any relationships or with related parties is noted in the minutes and everyone complies with the Finance Policy.
Money and oversight 5. Ensure the board approves a **balanced budget** for the financial year and minutes their approval. 6. Ensure **management accounts** are shared with the chair of trustees monthly, with the other trustees six times a year, and are considered by the board when it meets, taking action to maintain financial viability. These should include a cash flow forecast.	5. All schools are required to set a balanced budget and this is initially checked by the LGB's and approved by the Trustees. Where a school is not able to set a balanced budget and set a deficit budget the school is required to produce a report stating how they intend to bring the school back into balance. The progress is reported to the Finance Trustees at their regular meetings. 6. Monthly meetings have been arranged with the Chair of the Trustees and CEO and then reported at the Finance Trustees and Full Trustees meetings, financial viability including cash flow forecast is discussed and notes taken.
Money and oversight (continued) 7. Ensure decisions about **executive pay** follow a robust evidence-based process reflective of the individual's role and responsibilities, and that the board's approach to pay is transparent, proportionate and justifiable, in line with the handbook. 8. Establish an **audit committee**, or a committee fulfilling the functions of an audit committee, to provide assurance over the suitability of, and compliance with, the trust's financial systems and operational controls and to manage risks.	7. Executive pay follows the Teachers Pay and Conditions policy and performance management targets are set and regular reviews undertaken, any pay awards are agreed by the annual Pay Committee. 8. Finance and Audit Committee takes place at least four times a year and provides assurance and compliance of the Trusts financial systems, operational controls and manages risks.
Accountability and audit 9. **Submit audited accounts** to ESFA by 31 December 10. Ensure an appropriate, reasonable and timely response to findings by auditors, taking opportunities to strengthen financial management and control.	9. Audited accounts are submitted to the ESFA by the 31st December annually. 10. Auditor findings are communicated to the Trustees and any actions are undertaken to strengthen financial management and control and where necessary Finance Policy is updated and communicated and further staff training delivered as required.

Appendix A – Draft management representation letter

Dear Sirs

Symphony Learning Trust - audit for year ended 31 August 2018
This representation letter is provided in connection with your audit of the financial statements of Symphony Learning Trust for the year ended 31 August 2018 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 2017 to 2018 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 2017 to 2018 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 directors that we have taken all the necessary steps to make us aware, as directors, 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 2017 to 2018 issued by the ESFA 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.

Appendix A – Draft management representation letter

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 2017 to 2018 issued by the ESFA.

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 directors 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 2017 to 2018 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.

Governors' emoluments
The Executive Head Teacher and other staff Governors 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 Governors. Other Governors did not receive any payments, other than expenses, from the Academy in respect of their role as Governors. The value of Governors' remuneration fell within the following bands:

Mrs K McGovern, CEO and Staff Governor	£65,000 - £70,000

Key management personnel
We confirm that the total costs incurred for the key management personnel in the year ended 31 August 2018 was £526,788.

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 statements.

Property valuation
We confirm that the property valuation transferred to the MAT at 01 September 2017 for Old Mill Primary school is £3,504,900.

Appendix A – Draft management representation letter

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.

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 2017 to 2018 issued by the ESFA, 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.

Yours faithfully

…………………………….
Signed on behalf of Symphony Learning Trust

Appendix B – Draft audit reports

Independent auditor's report to the members of Symphony Learning Trust

We have audited the financial statements of Symphony Learning Trust for the year ended 31 August 2018 which comprise the Statement of Financial Activities, 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 2017 to 2018 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 2018 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 2017 to 2018.

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 s ignificant 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.

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.

- the 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.

Appendix B – Draft audit reports

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.

Vincent Marke (Senior Statutory Auditor)

for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor

The Pinnacle
160 Midsummer Boulevard
Milton Keynes
MK9 1FF
Date

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 21 September 2018 and further to the requirements of the Education and Skills Funding Agency (ESFA) as included in the Academies Accounts Direction 2017 to 2018, 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 2017 to 31 August 2018 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 2017, 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 2017 to 2018. 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 2017 to 31 August 2018 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 2017 to 2018 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 2017 to 31 August 2018 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

Mazars
Chartered Accountants and Statutory Auditor

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 Vincent Marke know if you would like to discuss any of these emerging issues further.

ACADEMIES FINANCIAL HANDBOOK – EFFECTIVE FROM 1 SEPTEMBER 2018

Key changes from the previous edition (as extracted from the “2018 Academies Financial Handbook”)

Governance

- Highlights directions the Secretary of State may make in relation to members and other individuals

- Refers to the Charity Commission’s role in addressing non-compliance

- Greater emphasis on trustees applying high standards of governance

- Updated references to Church academies

- Explaining reporting requirements if the board meets less than six times a year.

- Confirming that trusts must apply robust cash management.

- Setting clearer requirements for budgeting – the trust **must** prepare management accounts every month setting out its financial performance and position, comprising budget variance reports and cash flow forecasts with sufficient information to manage cash, debtors and creditors. Managers **must** take appropriate action to ensure ongoing viability.

- Recommending the national deals for schools

- Strengthening expectations about the process for setting executive pay and highlighting gender pay gap reporting

- Clarifying the section on the risk protection arrangement

- Emphasising the proper handling of whistleblowers.

- Confirming reporting requirements in relation to internal scrutiny

- Explaining new requirements for related party transactions. In future academy’s will need to notify the ESFA in advance of entering into any Related Party Transactions and will need advance ESFA approval of transactions above a financial threshold. The ESFA are also moving to the conventional term ‘related’ parties. The handbook also provides further clarification for Church schools around transactions with their dioceses..

- Focussing on the importance of acting on audit advice – the board **must** ensure there is an appropriate, reasonable and timely response by the Trust to any findings by auditors.

- Highlighting how ESFA may take action where trusts do not comply with requirements for submitting financial information

The handbook has issued a the top 10 ‘musts’ for chairs and other trustees.

Appendix D – Forthcoming accounting and other issues

General Charity Sector update

1. UPCOMING ACCOUNTING CHANGES

Background

In 2012, the Financial Reporting Council (FRC) set out revised proposals to change the financial reporting standards in the UK and Republic of Ireland. The requirements fundamentally reform financial reporting; with the overriding objective to produce accounting standards that enable users of accounts to receive high quality, understandable financial reporting, proportionate to the size and complexity of the entity and users' information needs.

FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ("FRS 102") is the new single comprehensive Financial Reporting Standard that replaces the previously extant FRSs, SSAPs, and UITFs currently in issue ("old UK GAAP").

The new Charity SORPs have now been published, one for entities reporting under the Financial Reporting Standard for Small Entities (the FRSSE) and one under FRS 102.

2016 changes

For periods beginning on or after 1 January 2016, the FRSSE SORP has been withdrawn and all charities are required to prepare financial statements which comply with the FRS 102 SORP.

Any charity which was classified as a small company under the Companies Act 2006 could previously use the FRSSE SORP.

For those charities who are converting from FRSSE SORP to FRS 102 SORP, the following is a summary of some of the changes:

- The Trustees' Report requirements are unchanged;
- The layout of the Statement of Financial Activities has much in common, although gains and losses on investments are displayed in different places;
- The layout of the Balance Sheet is common between the SORPs, although FRS 102 requires additional disclosures of certain Balance Sheet items; and
- The FRS 102 SORP requires a statement of cash flows.

A more detailed summary of the differences between the FRSSE SORP and the FRS 102 SORP can be found in Charity Commission publication Helpsheet 3, which can be downloaded from:

http://www.charitysorp.org/about-the-sorp/helpsheets/

Smaller charities are considered to be those below the relevant audit threshold for their jurisdiction (which differs in Scotland from England and Wales). Smaller charities benefit from certain Trustees' Report disclosure exemptions under FRS 102. The additional requirements for larger charities are clearly listed in the Trustees' Report module of the FRS 102 SORP.

Appendix D – Forthcoming accounting issues

2. AUDIT THRESHOLDS – APPLICABLE TO CHARITIES REGISTERED IN ENGLAND AND WALES

- Audit thresholds for charities registered in England and Wales were raised following the review of the Charities Act. The thresholds in place for charities registered with OSCR remain at the previous level.
- There is a requirement for annual accounts to be audited by an auditor whose name appears on the Register of Statutory Auditors, if a charity has:

Charities registered in England and Wales

- an annual income from all sources (income) of more than £1,000,000 (known as the income threshold); or
- assets worth more than £3.26 million and an income of more than £250,000 (known as the asset threshold).

3. CHANGES AT THE CHARITY COMMISSION FOR ENGLAND AND WALES

As we all know, the Charity Commission has experienced significant funding cuts. In response, it published its strategic plan for 2015 to 2018 in June 2015:

The link is:

https://www.gov.uk/government/publications/charity-commission-strategic-plan-2015-18

The plan has four main areas of focus:

- Protecting charities from abuse or mismanagement;
- Enabling trustees to run their charities effectively;
- Encouraging greater transparency and accountability by charities; and
- Operating as an efficient, expert regulator with sustainable funding.

The Charity Commission is encouraging trustees to undertake a board skills audit and “mind the gap” in their trustee boards. By having an understanding of the skills, experience and knowledge your trustee board has, you can determine if you have what you need to run your organisation effectively. Where gaps are identified, then trustees should consider additional training requirements or recruiting to fill any gaps in skills and/or experience.

Treasury funding of the Charity Commission has reduced from £29m in 2010/11 to £21m in 2014/15, with funding static until 2020. William Shawcross, the Charity Commission’s Chair has stated that, in his view, it is inevitable that the sector will have to assume more of the responsibility for funding its regulator. A consultation is due to open in the near future to consider the charging of a levy which could vary between £60 and £3,000 depending on the size of the charity. William Shawcross recently explained that a portion of the levy may be used to set up a new advice line for charities – acknowledging that the Commission has focused on regulation in the recent past and moved away from supporting charities.

Appendix D – Forthcoming accounting issues

4. REPORTING SERIOUS INCIDENTS

The Charity Commission provides guidance to trustees on reporting serious incidents. This guidance gave an indication of areas identified by the Charity Commission where, because of the nature of the incident, they would always consider them to be serious and hence require reporting. These include:

- fraud and theft;
- other significant loss;
- donation of significant sums of money or property from an unknown source;
- known or alleged links to proscribed organisations (due to terrorism);
- disqualified person acting as a trustee;
- the charity has no vetting procedures to ensure trustees are eligible to act;
- the charity has no policy on safeguarding vulnerable beneficiaries;
- suspicions, allegations or incidents of abuse or mistreatment of vulnerable beneficiaries; and
- the charity has been subject to a criminal investigation or an investigation by another regulator.

The link to the Commission's advice for trustees is:

https://www.gov.uk/guidance/how-to-report-a-serious-incident-in-your-charity

For charities registered with the Office of the Scottish Charity Regulator (OSCR), there are requirements to report to them. These are known as "notifiable events" and there are differences between matters reportable in Scotland to those reportable in England and Wales, both in terms of scale and area. There is no requirement to report a matter to OSCR if it has already been reported to the Charity Commission.

Further information is available at: http://www.oscr.org.uk/charities/managing-your-charity/notifiable-events.

5. CHARITY LAW UPDATE

Charities (Protection and Social Investment) Act 2016

The Act received royal assent in March 2016 and changed the law in four key areas, as follows:

1. Social investment: Charities' powers to make social investments are confirmed. Social investments are those made where financial return is not the only justification – the other justification being the advancement of the charity's objects.
2. Fundraising: The Act imposes further controls over the relationship between charities and commercial organisations used to raise funds on their behalf. Larger charities will need to include a statement about their fundraising practices in their Trustees' Report. The Act also includes new powers for the Government to support and intervene in the regulation of fundraising.
3. Disqualification of charity trustees: The Charity Commission will have a new power to disqualify people from serving as trustees. This also disqualifies them from acting in senior management positions in charities.
4. Charity Commission powers: The Charity Commission will have more regulatory powers over charities, including a new power to give official warnings to charities.

Appendix D – Forthcoming accounting issues

Common Reporting Standard

From 1 January 2016 the Common Reporting Standard (CRS) came into effect. If you are classed as a Financial Institute (FI) within the rules, you will have significant additional reporting responsibilities.

Any entity (including charities) whose assets are managed by another FI and more than 50% of its income (including interest, dividends, royalties and rental income) is from investing in financial assets will be deemed an FI itself. This will typically apply where a charity's assets are managed by a discretionary fund manager. A charity that is not a FI will be an 'active Non-Financial Entity' (NFE) and will have no reporting obligations under the rules.

As an FI, you are required to register with HMRC and report on those grant recipients not resident in the UK. Residency or tax residency within a particular country is the decisive factor – not citizenship. In addition, your charity will also have to introduce new client procedures to ensure it can identify all non-resident recipients going forward and report on them to HMRC. Financial information to be reported includes interest, dividends, account balance, income from certain insurance products and sales proceeds from financial assets. The Standard includes penalties for those unable or unwilling to comply fully. The deadline for reporting transactions to 31 December 2016 is 31 May 2017.

The Common Reporting Standard (CRS) was introduced so that participating governments can obtain financial information from local Financial Institutions and automatically exchange that information with other countries on an annual basis. The CRS is a big step towards a globally coordinated approach to disclosure of income earned by individuals and organisations. As a measure to counter tax evasion, it builds upon other information sharing legislation, such as the EU Savings Directive. While the intention is to have a single global standard, requirements may vary across countries, making it more difficult to standardise your approach if you operate across borders.

6. DATA PROTECTION

The Information Commissioner's Office (ICO) monitors compliance with the Data Protection Act and has 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/

In December 2016, the Charity Commission issued a joint alert with the Fundraising Regulator about compliance 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."

Appendix D – Forthcoming accounting issues

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.

Appendix D – Forthcoming accounting issues

7. THE DEFINITION OF CHARITABLE PURPOSES AND THE FIT AND PROPER PERSONS TEST

In the Finance Act 2010, the tax exemptions for charities and the reliefs for gifts to charities were extended to similar organisations in the EU, Norway and Iceland. In order to achieve this, the definition of a charity for UK tax purposes changed.

A charity (including a UK charity) must now meet 4 conditions:

1 It must be established for charitable purposes only, which now has the same meaning as for charities in England and Wales in section 2 of the Charities Act 2011.
2 It must be within the authority of a UK court or one of a corresponding jurisdiction in the countries concerned.
3 It must comply with any requirement to be registered under the law of the country concerned. For a UK charity, this is the registration requirement under the Charities Act 2011.
4 Anyone having the general control and management of the administration of the charity must be a fit and proper person to hold that position.

The fourth condition is called the management condition and those charged with this responsibility are called the managers for the purpose of the Fit and Proper Persons test. The link to the Fit and Proper Persons test is in the basic guide:

https://www.gov.uk/government/publications/charities-detailed-guidance-notes/chapter-2-applications-for-recognition-as-a-charity-for-tax-purposes

The detailed guidance on the Fit and Proper Persons test follows at:

https://www.gov.uk/government/publications/charities-fit-and-proper-persons-test

The guidance on Fit and Proper persons is relevant to trustees, employees and volunteers of a charity who claim tax relief or exert control over how charitable funds are spent. The term general control and management should be interpreted widely. It includes those who are able to exert direction or influence the way a charity is run and how it spends its money.

The aim of the Fit and Proper Persons test is to ensure that those who claim tax relief and control how charitable funds are spent do not misuse their position for fraudulent or other illegal purposes. A model declaration is given in the detailed guidance.

8. 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 D – Forthcoming accounting issues

10.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.

Appendix D – Forthcoming accounting issues

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.

11. GOING CONCERN

In recent years, there have been a number of high profile charity bankruptcies which have, in combination with other factors, been detrimental to the level of trust the public have in the sector. In addition, many charities are being asked to undertake more with less funding, with the consequential pressures that places on finances and service delivery. There are two primary areas in which the concept of going concern is important, being in relation to trustee duties and in relation to the financial statements.

Trustee duties

Trustees have a statutory duty to maximise their charitable impact for the good of their beneficiaries. This extends far beyond ensuring that a charity can continue financially and encompasses decisions relating to the activities of the charity to ensure that the impact on beneficiaries is maximised. Trustees should be alert to the warning signs of a charity moving in the direction of a crisis.

Andrew Hind, the former Chief Executive of the Charity Commission, has identified ten warning signs that a charity is either in or moving towards crisis:

1. The Trustees are a ‘Council’
2. Trustees’ motivations are to ‘put something back’ or are so committed that they lack perspective
3. Overly smart offices
4. The Annual Report is introduced by the Chair or CEO alone
5. The Trustee Board comprises only white males aged over 50
6. Reserves exceed 2 years spending
7. Statutory income exceeds 80%
8. Chair of Trustees or CEO has been in post over 10 years
9. The Trustees’ Report is cut and pasted or is filed late
10. A large number of staff are excessively remunerated

Charities who display some of the above warning signs may do so legitimately and they may not be representative of an organisation heading towards crisis. The above list does however provide a thought provoking prompt for any charity.

Appendix D – Forthcoming accounting issues

A historical perspective

In recent years there have been a handful of high profile charity failures. Independent assessments of these failures often cite weak governance, dominance of individuals, inadequate reserves levels and divergence of management and trustees as factors inherent in their downfall. The Charity Commission has prepared guidance which covers the management of charity finances (CC12). A copy of which can be downloaded from:

https://www.gov.uk/government/publications/managing-financial-difficulties-insolvency-in-charities-cc12

Financial statements

Within UK Generally Accepted Accounting Practice is the assumption that entities' financial statements will be prepared on the going concern basis.

FRS 102 does not specifically define going concern, although it does state that "an entity is a going concern unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so". This assessment covers at least 12 months from the date the financial statements are authorised for issue and signed.

Trustees are required to make their own assessment of their charity's ability to continue as a going concern as part of their responsibility to prepare the financial statements. There are requirements to disclose any pertinent aspects of their assessment within the financial statements.

12. FUNDRAISING

Fundraising Regulator

The Fundraising Regulator was established in January 2016 following widespread media coverage of public concern regarding fundraising practices.

The Fundraising Regulator's purpose is to act as the independent regulator of charitable fundraising. Its role has 5 core elements, being to:

- Set and promote the standards for fundraising practice ('the code' and associated rulebooks) in consultation with the public, fundraising stakeholders and legislators.
- Investigate cases where fundraising practices have led to significant public concern.
- Adjudicate complaints from the public about fundraising practice, where these cannot be resolved by the charities themselves.
- Operate a fundraising preference service to enable individuals to manage their contact with charities.
- Where poor fundraising practice is judged to have taken place, recommend best practice guidance and take proportionate remedial action.

The Regulator is funded via a levy on charities who spend more than £100,000 on raising voluntary income. The levy is stepped, based on the fundraising costs incurred by a charity. Charities below this threshold can register with the Regulator in return for a small payment.

The Regulator has developed a Code of Fundraising Practice, details of which can be found here:

Appendix D – Forthcoming accounting issues

Charities Act 2016: new fundraising rules

New fundraising rules came into force for all periods commencing on or after 1 November 2016 as part of the Charities Act 2016. These rules impact on the Trustees' Reports for larger charities that fundraise from the public as well as the contents of the agreements that must be in place when professional fundraisers or other businesses raise money for charities.

In more detail, the two new requirements are:

Charities who are required to be audited by law have to include extra information about fundraising in their trustees' annual report which encompasses disclosures relating to the following areas:

- approach to fundraising;
- work with, and oversight of, any commercial participators/professional fundraisers;
- fundraising conforming to recognised standards;
- monitoring of fundraising carried out on its behalf;
- fundraising complaints; and
- protection of the public, including vulnerable people, from unreasonably intrusive or persistent fundraising approaches, and undue pressure to donate.

In the cases of charities who use a professional fundraiser or commercial participator to raise funds, the compulsory written agreements between charities and these third parties must include extra information covering three main areas:

- the scheme for regulating fundraising or recognised fundraising standards that will apply to the professional fundraiser or commercial participator in carrying out the agreement;
- how the professional fundraiser or commercial participator will protect the public, including vulnerable people, from unreasonably intrusive or persistent fundraising approaches and undue pressure to donate; and
- how charities will monitor the professional fundraiser or commercial participator's compliance with these requirements.

Full details of these new requirements can be found here:

https://www.gov.uk/government/news/charities-act-2016-new-fundraising-rules

Appendix D – Forthcoming accounting issues

13. MODERN SLAVERY

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

1. a statement of the steps the organisation has taken during the financial year to ensure that slavery and human trafficking is not taking place

I. in any of its supply chains, and

II. in any part of its own business, or

1. 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.

The above 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, given 1.I. above.

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 D – Forthcoming accounting issues

14. 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 D – Forthcoming accounting issues

Social investment tax relief ("SITR")

SITR helps social enterprises attract investment by offering income and capital gains tax reliefs to individual investors. As all charities qualify as social enterprises, this could be seen as a new fund-raising opportunity for charities. However, as unconditional donations to charities generally attract tax relief for both the charity and donor through the gift aid scheme already, this may not be so attractive to charities as other social enterprises. Small and legacy donors are unlikely to see SITR as a reason to change from donating to investing, but this could impact charity income from larger donors who may wish to fulfil their social responsibility in a more commercial whilst still tax efficient way. For those charities with significant income from larger donors, we would recommend a review of those relationships to ensure your organisation remains the beneficiary of choice.

SITR is available to individual investors in social enterprises from 6 April 2014 onwards. Initially, the scheme has a five year lifespan, but this may be extended. The tax relief is important in growing the social investment market and providing a 'level playing field' compared with purely commercial investments. The link on our website for more detail is:

http://www.mazars.co.uk/Home/News/Latest-news/Tax-News/Social-investment-tax-relief

15. 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.

Appendix D – Forthcoming accounting issues

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.

How to claim VAT relief

A supplier of goods eligible for zero rating will need to ensure that the conditions for zero rating are met. In addition, HMRC suggest that suppliers obtain declarations of eligibility from customers claiming entitlement to VAT relief. As the customer, the charity should provide a declaration confirming its eligibility; examples of certificates are available as a supplement to HMRC Notice 701/6.

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.

Recent developments

Refund scheme for qualifying charities Since 1 April 2015 certain charities, including those providing palliative care, search and rescue and air ambulance charities, have been able to recover some or all of the VAT they incur in relation to statutory non-business activities, bringing the VAT position of such charities in line with that of the emergency services.

Longridge on the Thames In 2016 HMRC won a case at the Court of Appeal regarding use of property for a relevant charitable purpose. The charity, Longridge on the Thames, had previously successfully argued at both the first and upper tribunals that the zero rate should apply to the construction of property that it would use to run water based training courses, for which a charge was made. HMRC's win led to the charity suffering VAT on its construction costs and reinforces the need to consider all transactions in this area carefully, to try and mitigate VAT costs.

Adecco A case concerning the VAT liability of supplies of temporary staff is ongoing between HMRC and Adecco. The case centres on whether VAT is due on the wage element or only the commission element, when temporary staff are supplied. At present VAT should be accounted for on the total consideration received for such supplies, i.e. including the wage element, however if the outcome of this case is in favour of the taxpayer it may be beneficial in the charity sector.

Direct mailing In 2015 HMRC introduced new guidance in respect of direct mailing services. These changes related to the zero rating of supplies of printed matter when combined with other services. HMRC concluded that many of these supplies are liable to the standard rate of VAT and detailed the changes required in Brief 10 (2015). Charities affected should monitor their costs to ensure any revised VAT treatment does not create an unnecessary VAT cost and to check that the correct rate of VAT is applied to supplies received.

Appendix D – Forthcoming accounting issues

16. EMPLOYMENT

Close to 750,000 people work in the voluntary sector and, for many charities, employment costs represent the majority of their expenditure.

Ensuring that charities are both compliant and obtaining best value in relation to employment is incredibly important.

Auto Enrolment

Almost all charities will now have passed their staging date for Auto Enrolment. The purpose of this initiative is to ensure that employees can retire with a reasonable basic pension, without reliance on State benefit, by providing access to a pension scheme to which employers are obliged to contribute. The regulations require all firms to automatically enrol all eligible workers into a qualifying pension scheme. There are also strict rules around communications to all workers, and minimum payments to schemes for certain individuals.

Charities that do not comply with the requirements will be fined, with amounts up to £10,000 per day being charged in the most serious cases. There are already a significant number (above 1,000) of firms under investigation for non-compliance which indicates that many entities do not appreciate the extent of work involved and time taken to implement the new requirements.

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:

1. average gender pay gap as a mean average;
2. average gender pay gap as a median average;
3. average bonus gender pay gap as a mean average;
4. average bonus gender pay gap as a median average;
5. proportion of males receiving a bonus payment and proportion of females receiving a bonus payment; and
6. 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.

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.

Appendix D – Forthcoming accounting issues

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.

17. 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 a net cost is incurred on pay bills over £3m if the allowance is fully utilised.

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.

There are potentially complex administrative requirements in relation to the new regime.

Further details are available here:

http://www.mazars.co.uk/Home/Our-Services/Accounting-Outsourcing-Services/Payroll/Apprenticeship-Levy.