

# Audit Completion Report

Lincoln Anglican Academy Trust– year ended 31 August 2018  
November 2018



Strictly private and confidential



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Date: November 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 and other areas of management judgement was outlined in our Audit Strategy Memorandum which we presented in September 2018. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks 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 0115 964 4744.

Yours faithfully

David Hoose  
Mazars LLP

# 1. Executive Summary

## Principal conclusions and significant findings

As outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 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; there are no unadjusted misstatements.

## Status and audit opinion

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

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

- Final reviews of the draft financial statements

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

## 2. Significant findings

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

- our audit conclusions regarding other significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 7 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management;
- any significant difficulties we experienced during the audit; and
- modifications required to our audit report.

### Going Concern

#### 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:

- Anticipated 17/18 deficit
- Deficit budget for 18/19
- 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

From our audit procedures, no significant issues were noted in relation to going concern.

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

### Classification of funds

**Description of the risk**  
There is a risk that income or capital (endowment) / restricted income 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 have reviewed income documentation to ensure the classification is correct. We have also tested that funds were correctly classified and movements in funds comply with legal requirements.

### Audit conclusion

From the audit testing performed, we did not identify any issues with regards to the classification of funds as disclosed in the annual accounts.

### Management override of controls

### Description of the risk

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

### How we addressed this risk

We addressed this risk through reviewing:

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

### Audit conclusion

From the audit testing performed, we did not identify any issues with regards to management override of controls.

**Revenue recognition**

**Description of the risk**

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

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**How we addressed this risk**

We addressed this risk by reviewing and testing cut off procedures. We also reviewed revenue recognition policies for appropriateness.

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**Audit conclusion**

From the audit testing performed, we did not identify any issues with regards to revenue recognition.

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**Depreciation**

**Description of the management judgement**

To ensure that depreciation rates match the expected useful lives of the assets and that there is a level of consistency in the calculations applied.

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**How our audit addressed this area of management judgement**

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

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**Audit conclusion**

From the audit work performed, the depreciation charge has been recalculated based on management's judgement of the assets' useful economic life and is considered reasonable.

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## Description of the management judgement

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

## How our audit addressed this area of management judgement

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

## Audit conclusion

Our actuarial team have reviewed the actuarial assumptions used in the calculation of the Trust's share of the Local Government Pension Scheme deficit.

### *a. Lincolnshire Pension Fund*

Our team have concluded that the assumptions are reasonable with the exception of the salary growth assumption, which was set at RPI less 0.6% (i.e. 2.8%), compared to the lower-end of our expected actuarial range of RPI plus 0.5% (i.e. 3.9%).

Management has been advised by Lincolnshire LGPS that the salary increase assumption used is based on that from the last full triennial valuation of the scheme in 2016. The triennial valuation report states "The Fund set a salary growth assumption of RPI less 0.6%. This reflects both short term pay constraints and the belief that general economic growth and hence pay growth may be at a lower level than historically experienced for a prolonged period of time."

### *b. East Riding of Yorkshire Pension Fund*

Our team have concluded that the assumptions are reasonable with the exception of the salary growth assumption, which was set at RPI less 0.8% (i.e. 2.5%), compared to the lower-end of our expected actuarial range of RPI plus 0.5% (i.e. 3.8%).

Management has been advised by the East Riding of Yorkshire LGPS that the salary increase assumption used is based on that from the last full triennial valuation of the scheme in 2016. The triennial valuation report states "Due to the change to a Career Average Revalued Earnings (CARE) scheme from 2014, there is now a closed group of membership in the Fund with benefits linked to final salary. Following discussions with the Administering Authority the Fund have set a salary growth assumption of RPI -0.8%. This reflects both short term pay constraints and the belief that general economic growth and hence pay growth may be at a lower level than historically experienced for a prolonged period of time."

Adopting the higher salary increase assumptions would increase the Trust's LGPS pension deficit by c.£494k.

We are advised by Management that whilst they have reviewed the actuarial assumptions and believe them to be appropriate. Whilst recent months have seen wages rise faster than expected, they believe that the uncertainty around Brexit will continue to impact on wage growth and therefore the increases shown in the latest ONS reports should not be assumed to represent a continued upward trend. When determining pay increases for support staff, Directors take account of the challenging financial circumstances that our schools find themselves in and any pay increases must be affordable.

They are therefore of the opinion that the salary increase assumptions are not unreasonable and are within the parameters used in the institution's financial forecasts.

Whilst we have not raised an unadjusted error in respect of these, we would wish to discuss this matter further with the Trust's Audit Committee.

**Capitalisation of fixed assets**

**Description of the management judgement**

To ensure that the correct allocation has been made within the financial statements for the treatment of capital items purchased during the year.

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**How our audit addressed this area of management judgement**

We reviewed the methodology that has been used to ensure that this is appropriate for accounting for assets and in line with relevant accounting standards.

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**Audit conclusion**

From the audit testing conducted, the capitalisation of fixed asset has been deemed as reasonable and appropriate considering the capitalisation policy in place.

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**Accrued and deferred income**

**Description of the management judgement**

To ensure that the calculation of accrued and deferred income ensures that income is allocated to the correct accounting period.

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**How our audit addressed this area of management judgement**

We reviewed any provisions for accrued and deferred income to ensure that they meet the criteria of entitlement and measurement at the balance sheet date. We tested the calculations of material accruals and prepayments to ensure that costs are allocated to the correct accounting period.

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**Audit conclusion**

From the testing conducted, the accrued and deferred income has been reviewed and the income has been correctly allocated to the relevant accounting period.

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## Accounting policies and disclosures

We have reviewed Lincoln Anglican Academy Trust's 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.

## Audit Approach

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

The financial statement materiality for our audit was £247,000.

## Significant matters discussed with management

The following matters were discussed with management:

### Land and buildings valuations

For the schools that joined the Trust during the year, ESFA Desktop Valuations had not been received by the date of the audit, and were not expected to be received before the financial statements are due for filing. Discussions were therefore held with management to ensure that an appropriate provisional valuation was prepared for inclusion.

The existing portfolio of schools was examined, and an average land valuation calculated based on square meterage.

The provisional valuations and the calculations thereof have been reviewed and the assumptions behind them are deemed to be reasonable.

It is anticipated, that once the final valuations are received, the values in the accounts will be finalised as necessary.

### Unspent Capital Improvement Funding ("CIF")

At the year end the Trust had unspent CIF funding of £408,000. Management has identified that £86,000 of this may not be spent and therefore maybe repayable to the ESFA. The balance of £322,000 has been treated as income in accordance with the Charities SORP and carried forward within the Restricted Fixed Asset Fund on the balance sheet.

## Significant difficulties during the audit

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

## Matters arising from our regularity assurance engagement

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

# 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.

We have found no internal control recommendations in the current year.

## **Follow up of previous internal control points**

There were no internal control recommendations raised in the prior year

# 3. Internal control recommendations

## Relating to the 'regularity' assurance work

The purpose of our regularity assurance work is to provide a limited assurance report on the regularity of both income and expenditure. The matters reported below, are limited to those that we have identified during our normal procedures. Our work is not designed to provide an opinion that there are no issues with regards to regularity. If we had performed more extensive procedures, we might have identified more issues to be reported. Our comments should not be regarded as a comprehensive record of all regularity issues that exist.

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:

There were no internal issues or recommendations noted relating to our "regularity" assurance work.

## **Follow up of previous internal control points**

We did not find any instances of irregularity in the prior year.



## 4. Summary of misstatements

Other than the revision in accounting treatment noted on page 7, there were no adjusted or unadjusted misstatements.

# Appendix A – Draft management representation letter

Dear Sirs/Madams

## **Lincoln Anglican Academy Trust - audit for year ended 31 August 2018**

This representation letter is provided in connection with your audit of the financial statements of Lincoln Anglican Academy 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 the Companies Act 2006 and relevant legislation, United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice including FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” and the Academies Accounts Direction 2017 to 2018 issued by the Education & Skills Funding Authority (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 for the true and fair presentation and preparation of the financial statements in accordance with the Companies Act 2006 and relevant legislation, United Kingdom Accounting Standards and the 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 that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all management and directors’ 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 Paragraph 3 of Financial Reporting Standard Applicable in the UK and Republic of Ireland for charities (FRS 102) and the Academies Accounts Direction 2017 to 2018 issued by the ESFA and consider these policies appropriate to faithfully represent the effects of transactions, other events or conditions on the trust’s financial position, financial performance and cash flows.

### **Accounting estimates, including those measured at fair value**

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

### **Contingencies**

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

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

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the trust have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with United Kingdom Generally Accepted Accounting Practice Including the Financial Reporting Standard Applicable in the UK and Republic of Ireland for charities (FRS 102)., Companies Act 2006, and the Academies Accounts Direction 2017 to 2018 issued by the ESFA.

# Appendix A – Draft management representation letter

## Laws and regulations

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

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

## Fraud and error

We acknowledge our responsibility as 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 the Academies Accounts Direction 2017 to 2018 issued by the ESFA.

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

## Impairment review

To the best of our knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the fixed assets and intangible 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.

## 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 the 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

There are no unadjusted misstatements.

Yours faithfully

Director .....

# Appendix B – Draft audit reports – True & Fair

## Independent auditor's report to the Board of Trustees/Governors of Lincoln Anglican Academy Trust

We have audited the financial statements of Lincoln Anglican Academy Trust ("the 'trust'") for the Year ended 31 August 2018 which comprise the Statement of Financial Activities, the Balance Sheets, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. 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).

In our opinion, the financial statements:

- give a true and fair view of the state of the Academy Trust's affairs 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 significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Other information

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

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

We have nothing to report in this regard.

### 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' Annual Report including the incorporated strategic report prepared for the purposes of company law, for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Trustees' Annual Report including the incorporated strategic report has 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 Academy trust and its environment obtained in the course of the audit, we have not identified material misstatements in the Trustees' Annual 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 Trustees**

As explained more fully in the Trustees' responsibilities statement set out on page [X], the Trustees (who are directors for the purposes of company law) 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 trustees 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 trustees 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.

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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## **Use of the audit report**

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.

David Hoose (Senior Statutory Auditor)  
for and on behalf of Mazars LLP  
Chartered Accountants and Statutory Auditor  
Park View House,  
58 The Ropewalk,  
Nottingham,  
NG1 5DW  
Date:

# Appendix B – Draft audit reports - Regularity

## **Independent Reporting Accountant’s Assurance Report on Regularity to Lincoln Anglican Academy Trust and the Education and Skills Funding Agency**

In accordance with the terms of our engagement letter dated 11 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 Lincoln Anglican Academy 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 Lincoln Anglican Academy Trust and the ESFA in accordance with the terms of our engagement letter. Our work has been undertaken so that we might state to Lincoln Anglican Academy 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 any other than Lincoln Anglican Academy Trust and the ESFA, for our work, for this report, or for the conclusion we have formed.

### **Respective responsibilities of Lincoln Anglican Academy Trust’s Accounting Officer and the reporting accountant**

The Accounting Officer is responsible, under the requirements of Lincoln Anglican Academy Trust’s funding agreement with the Secretary of State for Education dated 24 December 2013 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.

The work undertaken to raw to our conclusion includes:

- Planning our assurance procedures including identifying key risks;
- Carrying out sample testing on controls;
- Carrying 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.

David House (Senior Statutory Auditor)

For and on behalf of

**Mazars LLP**

Chartered Accountants

Statutory Auditor


Park View House

58 The Ropewalk

Nottingham

NG15DW

Date:



# Appendix C – 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.

# Appendix D – 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 David Hoose 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 Helpsheets 3, which can be downloaded from:

<http://www.charitycorp.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.

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## 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).

### Scottish thresholds

- an annual income from all sources (income) of more than £500,000 (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).

Charities holding dual registration with both the Charity Commission and OSCR are required to have an audit where income exceeds £500,000 in order to be compliant with OSCR's requirement.

## 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.

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## 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>.

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## 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.

### 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.

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## 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."*

*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*

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- *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.

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## 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.

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## 8. PAYMENTS TO OVERSEAS BODIES

Charities have always had to take reasonable steps to ensure that payments to bodies outside the UK would be applied for charitable purposes. In addition, the charity must take such steps as HMRC consider reasonable to ensure that the money will be properly applied by the body outside the UK. HMRC will expect charities to have evidence of the steps they have taken.

The link to the HMRC guidance is:

<https://www.gov.uk/government/publications/charities-detailed-guidance-notes/annex-ii-non-charitable-expenditure#9>

Although the HMRC guidance is in a section covering non-charitable expenditure by a charity, which can result in a tax liability, the guidance is equally important in making sure that payments to overseas bodies do qualify as charitable expenditure.

HMRC's guidance states, with the key words underlined:

8.2 A charitable payment made to a body outside the UK will only be charitable expenditure for UK tax purposes by the charity provided the charity can clearly demonstrate to the Commissioners for HMRC that it has taken steps that the Commissioners consider are reasonable in the circumstances to ensure that the payment is applied for charitable purposes. If that condition isn't met, the payment is treated as non-charitable expenditure by the charity for UK tax purposes.

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## 9. 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.

### 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>

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## 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.

## 10. 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:

<https://www.fundraisingregulator.org.uk/code-of-fundraising-practice/code-of-fundraising-practice/>

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## 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>

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## 11. VAT Update:

### 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.

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## 12. 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.

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,

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## 13. 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>.