



CITY OF LONDON - SUNDRY TRUSTS

REPORT TO THE AUDIT AND RISK MANAGEMENT COMMITTEE

Draft Audit Completion: year ended 31 March 2021

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We have pleasure in presenting our Audit Completion Report to the Audit and Risk Management Committee (the “Committee”). This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance. This report will be updated at the sign off of the accounts.

It summarises the results of completing the planned audit approach for the year ended 31 March 2021, specific audit findings and areas requiring further discussion and/or the attention of the Committee. At the completion stage of the audit it is essential that we engage with the Committee on the results of audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

This report contains matters which should properly be considered by the Board as a whole. We expect that the Committee will refer such matters to the Board, together with any recommendations, as it considers appropriate.

We would also like to take this opportunity to thank the management and staff of the various entities for the co-operation and assistance provided during the audit.

Heather Wheelhouse
29 November 2021



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. This report has been prepared solely for the use of the Audit and Risk Management Committee and Those Charged with Governance and should not be shown to any other person without our express permission in writing. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

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This summary provides an overview of the audit matters that we believe are important to the Committee in reviewing the results of the audit of the financial statements for the Sundry Trusts for the year ended 31 March 2021.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

This report covers the following Sundry Trusts:

- City of London Charities Pool
- King George’s Field
- Guildhall Library Centenary Fund
- City of London Educational Trust Fund
- Combined Relief of Poverty
- Charities ICW CLFS
- CLS Bursary Fund
- CLGS Bursary Fund
- City of London Corporation Combined Education Charity
- Emanuel Hospital
- Sir William Coxen Trust Fund
- Wilson’s Loan Trust
- Vicker’s Dunfee Memorial Benevolent Fund
- City of London Almshouses Trust

Overview

Our audit work is substantially complete and subject to the successful resolution of outstanding matters we anticipate issuing an unmodified audit opinion on the individual financial statements for the year ended 31 March 2021 in line with the agreed timetable.

Outstanding matters are listed on page 19 in the appendices.

There were no significant changes to the planned audit approach and no additional significant audit risks have been identified.

No restrictions were placed on our work.

Audit report

We anticipate issuing an unmodified audit opinion on the individual Sundry Trust financial statements.



THE NUMBERS

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Final Materiality

Financial statement Materiality was determined based on 2% of total assets for most entities. Where Specific Materiality was used, this was based on either 5% of total income or total expenditure. See page 24 for details of individual trusts.

At the planning stage materiality was based on the 2020 figures but these were updated for actual results for the year ended 31 March 2021.

Unadjusted audit differences

We have identified audit adjustments in relation to The City of London Almshouses that, if posted, would increase the net income by £858, and increase net assets by £858.



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Financial reporting

- We have not identified any non-compliance with accounting policies or applicable accounting framework.
- No significant accounting policy changes have been identified impacting the current year.
- The draft Trustees Reports have been reviewed and we are currently undertaking our final review of these financial statements.



Other matters that require discussion or confirmation

- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation.

Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Sundry Trusts in accordance with the FRC's Ethical Standard.

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Significant audit risks

As identified in our audit planning report dated 12 March 2021 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the directing of the efforts of the engagement team.

Significant Audit Risk	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings	Specific Letter of Representation Point
Management override of control	Yes	No	No	No	No
Fraud in Income Recognition	Yes	No	Yes, unadjusted (see page 14)	No	No



 Areas requiring your attention

MANAGEMENT OVERRIDE OF CONTROLS

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ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud.

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Control Findings to be reported in Mgmnt letter

Letter of Representation point

Risk description

ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements requires us to presume that the risk of management override of controls is present and significant in all entities

Details

- We have worked closely with our IT team to gain an understanding of the financial systems in place and assess controls for potential scope for management override including the use of automated journals and administrator access accounts.
- We have used data analytics tools to inspect journals processed throughout the year and as part of the financial reporting closing process for any unusual transactions.
- We have also conducted a specific review of journals posted by admin users.
- We have reviewed the individual assessments of significant estimates and judgement as detailed in the financial statements. We concur with the assessment that there are none which are followed in the preparation of the financial statements.

Results and conclusion

- We have not identified any instances of inappropriate management override from our work on journals.
- We have not identified any significant estimates applicable to the Sundry Trusts.
- We have identified no significant or unusual transactions that may be indicative of fraud in relation to management override of controls.

FRAUD IN INCOME RECOGNITION

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ISA (UK) 240 presumes that income recognition presents a fraud risk.

Significant management judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Control findings to be reported in Mgmnt letter
Letter of Representation point

Risk description

Under auditing standards there is a presumption that there is a risk of fraud in income recognition. For charities, the risks can be identified as affecting the completeness of income.

The Sundry Trusts we consider there to be a significant risk in respect of the completeness of the contribution from City's Cash, grants, donations and legacies, fees and charges (including admissions), rental income and investment income. For grants, donations and legacies we also consider there to be a risk that any relevant restrictions are not correctly identified.

Details

We have carried out audit procedures to gain an understanding of the internal control environment for the significant income streams, including how this operates to prevent loss of income and have ensured that income is recognised in the correct accounting period.

Our audit procedures included substantive testing on the material income streams and cut off testing to ensure income is recognised in the correct period and appropriately classified as restricted (charity entities only) such as:

- We have reviewed the investment income that has been recognised in Charities Pool and ensured that for completeness the relevant income has been traced back correctly recognised in the Sundry Trusts.
- We have enquired as to completeness of grant income and considered post year end income for completeness. We have tested grant and donation income to ensure that a sample, including material items, have been properly recorded where restrictions apply.
- We have created an expectation of rental income in The City of London Almshouses and ensured that the amount recognised for the year is not materially different. We agreed a sample of rental income from the Orchard System to invoice and lease agreements. Where rental periods cross year-end, we have reviewed and documented incorrect application of cut-off at the year end (see unadjusted errors).
- We have performed cut-off testing for all revenue streams by reviewing transactions around the year-end date.

Results and conclusion

Our planned audit work was carried out satisfactorily in this area for all entities, except as noted above. As such, sufficient assurance has been gained that there is no material misstatement of income

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As identified in our audit planning report dated 12 March 2021 we assessed the following matters as being normal risks of material misstatement in the financial statements but areas of audit focus.

Audit Risk	Significant Management Judgement Involved	Use of Experts Required	Error Identified	Control Findings to be reported in Management letter	Specific Letter of Representation Point
Investment valuations	No	No	No	No	No



 Areas requiring your attention

INVESTMENT VALUATIONS

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There is a risk that investment valuations may not be correctly reported at year end.

Significant management judgement

Use of experts

Unadjusted error

Adjusted error

Additional disclosure required

Control Finding

Letter of Representation point

Risk description

- There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements

Details

Our audit procedures included the following:

- For pooled investments, we obtained direct confirmation of investment valuations from the fund managers and agreed independent valuations, where available, provided by the custodian;
- Obtained independent assurance reports over the controls operated by both the fund managers and custodian for valuations and existence of underlying investments in the funds; and
- Agreed the allocation of amounts for each fund where there is pooling of investments across the funds.

Results and conclusion

We have agreed investments within the financial statements to confirmations received from investment managers.

We have confirmed a sample of listed investment valuations to external published sources. We have also performed testing over purchases and sales of Investments.

Our review of the control environment of the investment managers we sampled noted that all firms received clean audit reports on internal controls. Furthermore, the specific controls related to the valuation and existence of investments did not highlight any anomalies with the testing performed by the associated auditors.

We are satisfied that the overall valuation of financial investments is materially correct.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

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Fraud

Whilst the trustees have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the audit plan on 12 March 2021.

As noted on page 17 our audit specifically refers to how our audit deals with material fraud and error.

Related parties

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud. Our audit approach includes the consideration of related party transactions throughout the audit including making enquiries of Management and the Board. We will also consider the adequacy of the procedures you have in place to identify such transactions and assess completeness and accuracy inline with the requirements.

The definition of related party also includes ‘an officer, agent or member of key management personnel of the group and ‘de facto’ directors.

We did not identify any significant matters in connection with related parties

Laws and regulations

The most significant consideration(s) for your business Charities Acts, VAT legislation, Employment Taxes, Health and Safety and the Bribery Act 2010. We made enquiries of management and reviewed correspondence with the relevant authorities.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

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OVERVIEW: AUDIT DIFFERENCES AND DISCLOSURES

Summary for the current year

Unadjusted audit differences:

We are required to bring to your attention unadjusted differences and we request that you correct them.

There were unadjusted audit differences identified by our audit work in conjunction with The City of London Almshouses. These would increase the net income for the year by £858 and increase net assets £858. Management consider the differences to be immaterial in the context of the financial statements as a whole. We request that the reason for not correcting is included in the letter of representation.

Details of the unadjusted audit differences can be found on page 14.

There were no further unadjusted audit differences identified for any of the other Sundry Trust by our audit work.

Unadjusted financial reporting matters

We are required to bring to your attention financial reporting disclosure omissions and improvements that the Committee is required to consider.

There were no unadjusted reporting matters identified at this stage, we are currently finalising the accounts for the Sundry Trusts.

Adjusted audit differences

There were no adjusted audit difference identified throughout the audit.

Adjusted financial reporting matters

We have reviewed the accounts and made comments regarding immaterial items. One adjustment that we have noted and which is being corrected in the accounts is the narrative on the Statement of Financial Activity which should include ‘Net income or expenditure’ as appropriate as well as ‘Net movement in funds’.

There were no other adjusted financial reporting matters identified during our review at this stage, we are currently finalising the accounts for the Sundry Trusts.

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year - City of London Almshouses

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	Income and expenditure			Balance sheet	
		Dr	Cr	Dr	Cr
	£	£	£	£	£
Unadjusted audit differences					
Net income for the year before adjustments	234,025				
Adjustment 1: Income relating to 2022 recognised in the current year					
DR Income	(2,631)	2,631			
CR Deferred income					2,631
Adjustment 2: Release of deferred income in relation to Sir Thomas Gresham not recognised in the current year					
DR Deferred income				3,489	
CR Income	3,489		3,489		
Total unadjusted audit differences		2,631	3,489	3,489	2,631
Surplus/(deficit)for the year if adjustments accounted for	234,883				

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	Issue	Comments
1	Significant difficulties encountered during the audit.	No exceptions to note
2	Significant matters that arose during the audit that were discussed or were subject to correspondence with management	No exceptions to note
3	Serious incident reporting	None
4	Written representations which we seek.	We enclose a copy of our draft representation letter
5	Any fraud or suspected fraud issues.	No exceptions to note
6	Any suspected non-compliance with laws or regulations	No exceptions to note
7	Any misstatements in opening balances that exist in the current period financial statements	No exceptions to note
8	Significant matters in connection with related parties.	No exceptions to note
9	Any other significant matters arising relevant to the oversight of the financial reporting process	No exceptions to note

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CONTROL ENVIRONMENT: SIGNIFICANT DEFICIENCIES

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the [Audit] Committee.

As the purpose of the audit is for us to express an opinion on the Group’s financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

Area	Observation and implication	Recommendation	Management response
Payroll Contract	During our sample testing of the City of London payroll, we have noted 6 out of 40 contracts have not been signed by the employees.	Signed contract ensures both parties (employer and employee) are in agreement to the terms and conditions of the employment and will serves to reduce the chance that one party will have grounds for legal action in future.	TBC
Fixed asset register for The City of London Almshouses	During our audit work it was noted that there was no fixed asset register splitting the details on the nominal ledger into the individual properties held. The implication is that the costs are not readily available should there be any future transactions in property.	The costs should be allocated between the relevant properties and updated as necessary on an annual basis.	TBC

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AUDIT REPORT OVERVIEW

Opinion on financial statements

We anticipate issuing an unmodified opinion on the financial statements.

There are no matters that we wish to draw attention to by way of ‘emphasis of matter’.

Going concern

Our report will:

- state our conclusion that management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate
- state that we have not identified a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Sundry Trust’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Irregularities, including fraud

Our report will contain an explain to what extent the audit was considered capable of detecting irregularities, including fraud. Irregularities in this context means non-compliance with laws or regulations.

Comments on the Trustees report and statutory other information

We have identified no material misstatements in the statutory other information accompanying the financial statements.

Other information

We have reviewed the other information accompanying the financial statements in the individual annual reports. We have not identified any material misstatements that would need to be referred to in our report.

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INDEPENDENCE

Under ISAs (UK) and the FRC’s Ethical Standard we are required, as auditors, to confirm our independence.

Under ISAs (UK) and the FRC’s Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2021.

Details of services, other than audit, provided by us to the Sundry Trusts during the period and up to the date of this report were provided in our planning report. We understand that the provision of these services was approved by the Audit and Risk Management Committee in advance in accordance with City of London’s policy on this matter.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our planning report.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, trustees, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC’s Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Group.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

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We have substantially completed our audit work in respect of the financial statements for the year ended 31 March 2021.

The following matters are outstanding at the date of this report and could impact our audit opinion. We will update you on their current status at the Board meeting at which this report is considered:

- Final review of financial statements for all entities
- Subsequent events review to date of signing the financial statements
- Receipt of signed letter of representation for all entities



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TRUSTEES’ RESPONSIBILITIES

The Board’s Responsibilities and Reporting

The Trustees are responsible for preparing and filing an Annual Report and financial statements which show a true and fair view, comply with the Charities SORP, prepared in accordance with UK GAAP.

Our audit of the financial statements does not relieve Management nor those charged with governance of their responsibilities for the preparation of the financial statements.

Further information regarding these responsibilities is provided in the engagement letter.

Trustee responsibilities	What this means
<ul style="list-style-type: none">Maintain adequate accounting records and maintain an appropriate system of internal control.Prepare the annual report and the financial statements which give a true and fair view and which are prepared in accordance with UK Generally Accepted Accounting Practice and Charities Act 2011.Safeguard the assets of the Sundry Trusts and take reasonable steps for the prevention and detection of fraud and other irregularities.	Further information regarding these responsibilities is provided in the engagement. We are happy to explain these in more detail to you.
<p>To make available to us, as and when required, all the Sundry Trusts’ accounting records and related financial information.</p> <p>To provide us with Board papers on key issues including but not limited to:</p> <ul style="list-style-type: none">Review of business risksGoing concern assessmentsImpairment reviewsAny key judgments and estimates.	
<p>Having made enquiries state in the Trustees’ reports that:</p> <ul style="list-style-type: none">So far as they are aware, there is no relevant audit information of which the auditors are unawareThey have taken all reasonable steps they ought to have taken as Trustees in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.	In addition to answering our queries, this requires proactive behaviour in order to make us aware of any relevant information. Relevant information is very broad and includes any information needed in connection with our report.

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OUR RESPONSIBILITIES

Responsibilities and reporting

Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your financial statements. We report our opinion on the financial statements to the members.

We report only those matters which come to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements.

We are also required to report on the consistency of the Trustees reports with the Financial Statements and our knowledge of the Sundry Trusts and their environment obtained in the course of the audit and whether they have been prepared in accordance with the requirements of the Charities SORP.

What we don't report

Our audit is not designed to identify all matters that may be relevant to the board and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.



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COMMUNICATION WITH YOU

Those Charged with Governance (TCWG)

References in this report to Those Charged With Governance are to the Trustee/Trustees Board of the individual boards for each Sundry Trust as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit and Risk Management Committee.

Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

MATERIALITY: ALL ENTITIES

The basis for setting materiality for the sundry trusts, is expenditure for all Trusts whose deficits are funded by City of London Corporation and gross assets for all other Trusts/entities.

A lower specific materiality has been set for those entities whose items of income and expenditure are significantly lower than the asset base.

The Audit and Risk Committee approved a de-minimis reporting level of £1,000 at the planning stage however our audit procedures have considered any items at the lower levels of clearly trivial (as set out below) both individually and in aggregate.

	2019/20			
	Materiality	CT	Specific materiality	Specific CT
	£	£	£	£
Charities Administered ICW the City of London Freeman's School				
Promotion of education through prizes	4,000	90	-	-
City Educational Trust Fund				
Advancement of education through grants	80,000	2,000	100	2
City of London Almshouses				
Almshouses for poor or aged people	67,000	1,000	14,000	300
City of London Corporation Combined Education Charity				
Advancing education by the provision of grants and financial assistance	24,000	500	-	-
City of London Corporation Relief of Poverty Charity				
Relief of poverty for widows, widowers or children of a Freeman of the City of London	11,000	200	-	-
City of London Freeman's School Bursary Fund				
Promotion of education through bursaries	30,000	600	-	-
City of London School Bursary Fund				
Promotion of education through bursaries, scholarships and prizes	80,000	2,000	-	-
City of London School for Girls Bursary Fund				
Promotion of education through bursaries, scholarships and prizes	96,000	2,000	43,000	1,000
Corporation of London Charities Pool				
Investments pool for Sundry Trusts	438,000	9,000	64,000	1,000

MATERIALITY: ALL ENTITIES

	2019/20			
	Materiality	CT	Specific materiality	Specific CT
	£	£	£	£
Emmanuel Hospital Payment of pensions and financial assistance to poor persons	65,000	1,000	-	-
Guildhall Library Centenary Fund Provision of education and training in library, archives, museum, and gallery services	400	8	-	-
King George's Field Open space for sports, games and recreation	400	8	-	-
Samuel Wilson's Loan Trust Granting of low interest loans to young people who have or are about to set up in business	55,000	1,000	5,000	100
Sir William Coxen Trust Fund Granting of assistance to eligible charitable trusts in the form of donations	55,000	1,000	-	-
Vickers Dunfee Memorial Benevolent Fund Financial assistance to distressed past and present members of the City of London Special Constabulary and their dependents	5,000	100	-	-

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BDO is totally committed to audit quality

It is a standing item on the agenda of BDO’s Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream’s objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council’s Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at www.bdo.co.uk

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LOOKING FORWARDS

Please note that we have issued a separate comprehensive publication : CHARITIES & COVID-19. This is available on our website <https://www.bdo.co.uk/en-gb/home>.

The following developments are therefore of general application to all larger charities, and are included because we recognise that trustees often have an interested in the wider sector.

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FINANCIAL REPORTING AND GOVERNANCE

Financial Reporting Council

The FRC has requested companies to provide more information about how boards have assessed the entity's going concern position, especially where there is any uncertainty over the financial future. Significant judgements should also be explained. At the same time they identified opportunities for companies to reduce duplication of material in the accounts and annual report. Although this is addressed to commercial entities, the same principles apply to charities. The FRC say that investors (supporters?) seek information relating to risks, uncertainties and opportunities that contributes to their understanding of a company's business model, longer term strategy, resilience and viability. The annual report should therefore cover context, form (how risks are identified and classified), approach, linkage to wider strategy, response, and scenarios and stress testing.

The FRC has also issued guidance for the 2021 year end reporting season. In particular they highlight the climate change disclosures required by premium listed companies that charities may wish to consider. The FRC expects material climate change policies, risks and uncertainties to be included in narrative reporting and appropriately considered and reflected in the financial statements.

Alternative Performance Measures

The FRC has conducted a review of the use by companies of Alternative Performance Measures (APM). These are measures that are usually derived from the financial statements and used to explain performance in a way the board feels is more relevant to the company's needs or situation. The report is not aimed at charities, but it is not uncommon for charities to include performance measures in their annual report which are not simply drawn from the Sorp based accounts. In that situation the FRC say that while companies generally provided good quality APM disclosures, their context needs to be better explained, particularly as profit-based APMs tended to be more favourable than their GAAP results. Companies should clearly define their APMs and explain why they are needed, but not give them greater focus than their GAAP equivalents.

Provisions, Contingent Liabilities and Contingent Assets

The FRC has also reviewed companies' treatment of Provisions, Contingent Liabilities and Contingent Assets. The review found scope for improvements in several areas, in particular in: explaining how the amounts of expected outflows have been estimated, identifying the key assumptions applied and describing the associated uncertainties; disclosing the phasing of outflows companies expect to see as they utilise their provisions; and describing the underlying costs for which companies make provisions.

Revised Audit standard on fraud

The FRC has issued a revised standard (ISA 240) for the auditor's responsibilities relating to fraud, effective for December 2022 year ends. The revisions clarify the auditor's obligations, and enhance the requirements for the identification and assessment of risk of material misstatement due to fraud and the procedures to respond to those risks.

FINANCIAL REPORTING AND GOVERNANCE

Amendments to FRS 102: COVID -19 related rent concessions

A further revision to FRS102 affects temporary rent concessions occurring as a direct consequence of the COVID-19 pandemic and within a limited timeframe. This now applies to rent concessions that reduce lease payments originally due on or before 30 June 2022. The change requires entities to recognise such changes on a systematic basis over the periods that the change in lease payments is intended to compensate.

Corporate Board Diversity

The FRC has published research (Board Diversity and Effectiveness in FT350 Companies) showing that diverse boards are beneficial in terms of boardroom culture and performance. To maximise these benefits boards should recognise that change takes time and that diversity without active inclusion is unlikely to encourage new talent to the board. The main findings of the research concluded that:

- It is the responsibility of the Chair of a board to drive inclusion.
- Organisations must focus on collecting more data on the types of diversity, board dynamics and social inclusion
- the Nomination Committee, or equivalent, should itself be diverse and access talent from wide and diverse pools.

Workforce engagement

The UK Corporate Governance Code asks companies to report on their engagement with the workforce. The Financial Reporting Council (FRC) has published research on recent annual reports concluding that an effective feedback loop between boards and the workforce is needed to achieve meaningful dialogue, those who act as an interface between the board and the workforce, should receive appropriate support, and energies should be focussed principally on the substance of the engagement, not the process.

Gift aid on loan waivers

Gift aid can now be claimed on waivers of loans or refunds, as well as on donations. In order for gift aid to be claimed there must be an auditable correspondence trail, or a formal waiver in the case of larger amounts. HMRC say that charities are expected in all cases to explain the options available to donors and that individuals “must positively choose to waive their right”.

HMRC Concessions for Retail Gift Aid

As a result of disruption caused by the pandemic, charities have not been able to meet all the HMRC’s requirements for the Retail Gift Aid scheme. As a result HMRC has provided limited concessions relating to end of year letters, returned mail, oral declarations, staff and volunteer training, and the scheduling of internal audit visits.

Budget 2021

The recent budget had little to offer charities. However trustees may wish to note the introduction of a new temporary business rates relief scheme for 2022-23, which may be of use to some charities. In addition there is an extension of the Museums and Galleries Exhibition Tax Relief (MGETR) for a further two years until 31 March 2024.

Tax increases

From 1 April 2022, there will be a temporary 1.25% increase in class 1 (employee) and class 4 (self-employed) national insurance contributions (NIC) paid by workers, as well as a 1.25% increase in class 1 secondary NIC paid by employers (to 2.5% in total). The 1.25% increase will also apply to class 1A and class 1B NIC paid by employers. The projected £12bn annual income is to be ringfenced to pay for health and social care. From the same date, dividend tax rates will increase by 1.25%, taking rates to: 8.75% for basic rate taxpayers, 33.75% for higher rate taxpayers and 39.35% for additional rate taxpayers

Charities will need to budget for the impact of these changes on their personnel costs, and consider any possible impact on donor income and tax to cover.

VAT partial exemption

HMRC Brief 4 was issued on 23 March 2021, relating to partially exempt VAT registered businesses affected by coronavirus (COVID-19). It outlines an accelerated process for VAT registered businesses to request temporary alterations to their partial exemption methods (including combined methods) to reflect changes to their business practices because of the coronavirus (COVID-19) pandemic.

VAT apportionment and outside the scope income

In a number of recent cases HMRC has argued that receipt of outside scope grants to support a business causes the input tax on all the business costs to be apportionable pro rata to the taxable income and outside scope income received. Charities often receive grants and donations that they use to support charitable trading activities. This currently seems open to attack by HMRC, although with no success reported to date.

VAT liability of coronavirus (COVID-19) testing services

An HMRC brief explains the rules for the VAT treatment of coronavirus (COVID-19) testing services. This is relevant to any organisation that provides or receives such services. Where the service of Covid -19 testing is treated as medical care the service would normally be exempt, and the same applies to the supply of test kits. However, this position is dependant on a number of detailed factors, and charities should consider their own situation carefully to ensure the Vat treatment applied is correct.

CHARITY FINANCIAL AND REGULATORY

Sorp example accounts

The Sorp example accounts available on the Sorp microsite, now include two examples dealing with the implications of the pandemic. Issues addressed include:

closure of services, accounting for furlough, deteriorating trade, contingent grant funding support, donations of cancelled tickets, a public appeal, changes in expenditure to reflect working from home, and revised annual report wording.

Whistleblowing

The Charity Commission has issued its latest report on whistleblowing reports received in its role as a prescribed person. Over 2021 disclosures increased by 75%, mainly from employees but increasingly from trustees. The main issues raised related to governance, safeguarding and financial management

Charities Bill 2021

The Charities Bill 2021 includes several changes that will affect any charity. Many of the proposals are technical, and relate to the Charity Commission's functions, or will be of specific interest to a limited class of charities. However the more wide ranging recommendations for charities, include:

- allowing trustees to be paid for goods, as well as services, in certain situations
- simplifying the process on ex gratia payments
- giving charities more flexibility to obtain tailored advice when they sell land, and removing unnecessary administrative burdens
- increased flexibility to use permanent endowment, with checks in place to ensure its protection in the long term
- removing legal barriers to charities merging, when a merger is in their best interests
- giving trustees advance assurance that litigation costs in the Charity Tribunal can be paid from the charity's funds

A more detailed analysis can be found here: <https://www.bdo.co.uk/en-gb/insights/industries/not-for-profit/charities-bill-briefing-proposed-changes>

Impact of Covid-19 on charities

The Charity Commission reported in October on the impact of Covid-19 on charities. Amongst their findings they note that there is a mixed view on charities' future viability. A significant minority (34%) expect to generate less revenue from fundraising and donations in 2022; over half (62%) anticipate a threat to their charity's financial viability in the next 12 months; however, a majority expect their charity to be in the same or better position overall.

Public Trust in Charities

The Charity Commission has released independent research, also referenced by the OSCR, showing that trust in charities is gradually recovering, to a 6-year high. The research shows that charities are among the most trusted groups in society, third only after doctors and the police. The findings also indicate that a decade-long decline in people's perception of charities' importance in society has partially reversed - 60% of those asked say charities play an important or very important role, compared to 55% last year.

This modest uptick may be linked in part to the COVID-19 pandemic, and charities' visible role in responding to the national crisis. Meanwhile, very high-profile scandals in household name charities appear to be retreating in the collective memory.

The findings confirm that the key drivers of trust in charities have not changed during the pandemic, and that people expect charities to show that they make a positive difference, spend a high proportion of funds on the end cause, and live their values, showing charity not just in what they do, but how they behave along the way

CHARITY FINANCIAL AND REGULATORY

Charity Commission blog

In a blog from the Charity Commission the following typical issues were identified for charities coming out of the pandemic: anticipated challenges with long-term funding, how hard it has been to plan long term, due to uncertainty over restrictions, difficulties with recruitment, the time it will take to be able to return to ways of operating from before the pandemic, and challenges in returning to pre-pandemic levels of engagement when working with vulnerable people. Charities often have more in common with other organisations than they expect, and may benefit from sharing how they have responded to these issues

CCNI and COVID 19 reporting

The Charity Commission of Northern Ireland has issued a checklist covering COVID-19 disclosures. A key message in the Trustees Annual Report will be the impact of the coronavirus on the charity and how the charity will need to adopt and change its plans going forward. Charities registered in Northern Ireland should consult this guidance in respect of their annual report and accounts.

Remuneration practices

There continues to be interest in the levels of pay for higher paid staff in charities, both from the media and the regulators. The FRC has commented on reporting remuneration practices in the FTSE 350, and some of its comments could equally apply to charities. The FRC comment on the trend to disclose more information on remuneration, that most companies link rewards to long term performance, but that there is still a lack of detail on the principles relating to remuneration setting. Rob Wilson, sometime minister for civil society, has called for salary disclosure to be compulsory on charities' websites and annual reports if they have an annual income of over £500,000.

Government funding

The Public Accounts committee has published its report into how DCMS distributed coronavirus support funds to charities. It has noted that there was insufficient attention given to charities' impact and benefit to taxpayers, and an implication that subjective decisions were taken. One can expect that any future funding will be allocated more transparently, based on measurable outcomes.

Fundraising

The Fundraising Regulator reports that online fundraising is now the most complained about technique, which probably reflects changes in activity during the pandemic. However, complaint levels are generally low, at less than one in 1.9m contacts. Charity bags and mail were the next biggest sources of complaint. Trustees are reminded that information relating to fundraising standards is required in the annual report of all charities subject to audit.



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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the charity and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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