Imperial College Union

Year ended 31 July 2018

Audit Findings Report

Audit / Tax / Advisory / Risk

Smart Decisions. Lasting value.

Crowe

Aquis House
49-51 Blagrave Street
Reading RG1 1PL

The Trustees of Imperial College Union
Imperial College Union
25 Gordon Street
London
WC1 0AY

Dear Trustees

Audit for the year ended 31 July 2018

Following the completion of our audit fieldwork on the financial statements of Imperial College Union for the year ended 31 July 2018 we have pleasure in submitting our Audit Findings Report setting out the significant matters which have come to our attention during our audit of which we believe you need to be aware when considering the financial statements. The matters included in this report have been discussed with Imperial College Union's management during our audit and at our closing meeting on 24 September 2018. Malcolm Martin and Neha Gandhi have seen a draft of this report and we have incorporated their comments and/or proposed actions where relevant.

We would like to express our appreciation for the assistance provided to us by the finance team and the other staff at the charity during our audit.

Use of this report

This report has been provided to the Finance and Audit Committee to consider and ratify on behalf of the Board of Trustees, in line with your governance structure. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

Yours sincerely

Crowe U.K. LLP

Crowe

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1. Audit overview

Audit scope and approach

Our audit work has been undertaken for the purposes of forming our audit opinion on the financial statements of the Imperial College Union prepared by management with the oversight of the trustees and has been carried out in accordance with International Standards on Auditing (UK) (‘ISAs’).

Our work combined substantive procedures (involving the direct verification of transactions and balances on a test basis and including obtaining confirmations from third parties where we considered this to be necessary) with a review of certain of your financial systems and controls where we considered that these were relevant to our audit. No restrictions or limitations were placed on our work.

Communicating significant findings from our audit

We are required by ISAs to communicate with the trustees as “those charged with governance” various matters from our audit including:

- our views about significant qualitative aspects of the charity’s accounting practices, including accounting policies, accounting estimates and financial statement disclosures,
- significant difficulties, if any, encountered during the audit,
- any significant matters arising during the audit and written representations we are requesting,
- circumstances that affect the form and content of our auditor’s report, if any, and
- any other significant matters arising during the audit that, in our professional judgment, are relevant to the oversight of the financial reporting process.

We have included comments in relation to the above where relevant in the subsequent sections of this report.

We also report to you any significant deficiencies in internal control identified during our audit which, in our professional judgment, are of sufficient importance to merit your attention. We have reported a number of matters relating to the charity’s systems and controls in Section 4.

You should note that our evaluation of the systems of control at Imperial College Union was carried out for the purposes of our audit and accordingly it is not intended to be a comprehensive review of systems and processes. It would not necessarily reveal all weaknesses in accounting practice or internal controls which a special investigation might highlight, nor irregularities or errors not material in relation to the financial statements.

Audit completion

We have substantially completed our audit in accordance with our Audit Planning Report which was sent to you and the senior management team on date, subject to the matters set out below.

- Completion of the post-Balance Sheet events review.
- Review of the final financial statements.
- Receipt of the signed letter of representation.

These three items we have identified as outstanding are work we usually carry out just prior to us signing our audit report.

We will report to you orally in respect of any modifications to the findings or opinions contained in this report that arise on completion of the outstanding matters. On satisfactory completion of the outstanding matters, we anticipate issuing an unmodified audit opinion on the truth and fairness of the financial statements.

Significant matters from our audit

In Section 2 we have also discussed in detail the findings from our work in relation to the following matters.

- Income recognition
- Management override of controls
- Valuation of the USS and SAUL pension scheme deficit liability

Materiality and identified misstatements

As we explained in our Audit Planning Report , we do not seek to certify that the financial statements are 100% correct; rather we use the concept of “materiality” to plan our sample sizes and also to decide whether any errors or misstatements discovered during the audit (by you or us) require adjustment. The assessment of materiality is a matter of professional judgement but overall a matter is material if its omission or misstatement would reasonably influence the economic decisions of a user of the financial statements.

The audit materiality for the financial statements set as part of our audit planning took account of the level of funds held by Imperial College Union and was set at approximately 1% of total income. We have reviewed this level of materiality based on the draft financial statements for year ended 31 July 2018 and are satisfied that it continues to be appropriate.

We also report to you any unadjusted individual errors other than where we consider the amounts to be trivial, and for this purpose we have determined trivial to be £4,500.

We are pleased to report that there are no remaining unadjusted items identified from our audit in excess of the above trivial limit.

Ethical Standards

We are required by the Revised Ethical Standard 2016 issued by the Financial Reporting Council (‘FRC’) to inform you of all significant facts and matters that may bear upon the integrity, objectivity and independence of our firm.

Crowe U.K. LLP has procedures in place to ensure that its partners and professional staff comply with both the Revised Ethical Standard 2016 and the Code of Ethics adopted by The Institute of Chartered Accountants in England and Wales.

As explained in our audit planning report, in our professional judgement there are no relationships between Crowe U.K. LLP and Imperial College Union or other matters that would compromise the integrity, objectivity and independence of our firm or of the audit partner and audit staff. We are not aware of any further developments which should be brought to your attention.

Legal and regulatory requirements

In undertaking our audit work we considered compliance with the following legal and regulatory requirements, where relevant.

- Charities Act 2011
- The Charities (Accounts and Reports) Regulations 2008
- Financial Reporting Standard 102 (FRS 102)
- The Charities SORP (FRS102)

Financial statements

The trustees of Imperial College Union are responsible for the preparation of the financial statements on a going concern basis (unless this basis is inappropriate). The trustees are also responsible for ensuring that the financial statements give a true and fair view, that the process your management go through to arrive at the necessary estimates or judgements is appropriate, and that any disclosure on going concern is clear, balanced and proportionate.

2. Significant matters from our audit

We reported in our Audit Planning Report a number of areas we identified as having specific audit risk including the potential risk from management override of controls which auditing standards deem to be a significant risk for all audits. We have commented below on the results of our work in these areas as well as on any key additional risks, judgements or other matters in relation to the financial statements of Imperial College Union identified during our audit.

2.1 Income recognition

As noted in our planning report, the key risks in this area have been identified as follows.

- Completeness (has all income due been appropriately recognised in the period?).
- Benefit (has income been recognised in the appropriate period?).
- Fund allocation (have grant restrictions on the use of the income been appropriately captured in the financial statements?).
- Accuracy (where income is owed at year end, is it likely to be received or should it be provided against?).

We performed the following testing as part of our audit work:

- Analytically reviewed income balances year on year to ensure movements were in line with expectation and also our understanding.
- Performed detailed testing on a sample of income streams in the year.
- Agreed grant income balances to external confirmations.
- Reviewed deferred income balances.

No issues have been noted from the testing carried out.

2.2 Management override of controls

Auditing standards require us to consider as a significant audit risk areas of potential or actual management override of controls. In completing our audit we have therefore considered the following matters.

Significant accounting estimates and judgements

We were advised at the planning meeting that no significant estimates were expected to be employed in the production of the year end numbers and we can confirm that this remains the case.

Controls around journal entries and the financial reporting process

We reviewed and carried out sample testing on the charity's controls around the processing of journal adjustments (how journals are initiated, authorised and processed) and the preparation of the annual financial statements. We also considered the risk of potential manipulation by journal entry to mask fraud.

We did not identify any instances of management override of controls or other issues from our sample testing of Imperial College Union journals. However, we note that journal processing can be an area of potential risk and it is good practice to include consideration of this within the overall Imperial College Union risk assessment.

Significant transactions outside the normal course of business

We are required to consider the impact on the financial statements if there are any significant transactions occurring outside of the normal course of the charity's business.

No such transactions were notified to us by management, nor did any such transactions come to our attention during the course of our work.

2.3 USS and SAUL pension scheme deficit

We reviewed the assumptions used in the calculation of the FRS 102 pension liabilities in relation to the USS pension scheme deficit payments as the SAUL deficit is now nil. The discount rate used has been based on Mercer guidance and the basis for the estimate of staff increases has been reviewed and appears appropriate and in line with those used by similar organisations for similar pension schemes.

3. Other matters from our audit

In addition to matters relating to the key areas of accounting and audit focus as reported in Section 2, we have also noted the following matters from our audit work which we should bring to your attention.

3.1 Payroll

Payroll is the largest single expenditure item for the Union.

As part of our audit we carried out the following work:

- Reviewed the controls in place over monthly processing including the reconciliation of the payroll to the nominal ledger;
- Reconciled and agreed monthly payroll reports to the nominal ledger and draft accounts.
- Verified a sample of staff between the payroll and other HR records and agreed their costs to supporting documentation on a sample basis.
- Recalculated the PAYE and NI for a sample of employees.

No issues were noted from the audit work carried out.

3.2 Funds

Imperial College Union operates a number of different funds subject to various restrictions and designations. As part of our audit work we:

- Traced restricted grants and donations found in our income testing to the relevant fund account.
- Reviewed a sample of expenses allocated to restricted funds to ensure that the expenditure was spent in accordance with the objects of the fund.
- Reviewed the analysis of net assets to ensure that it had been correctly allocated across the funds.
- Reviewed the processes in place to ensure that restricted transactions were completely and accurately captured and reported within the organisation and review year end balances to ensure that they appropriately reflected the restrictions that should be in force.

No issues were noted from the audit work carried out.

3.3 Going Concern

As part of our work on going concern in 2018 we included the following:

- Reviewed the period used by Trustees to assess the ability of the Union to continue as a going concern.
- Examined detailed budgets and forecasts prepared by management covering the period of the going concern assessment to ensure these were appropriate.
- Reviewed any other documentation which the Trustees used in assessing the going concern.

No issues were noted from our work done on the budgets, but we await management's assessment of the period to 12 months from the date of sign off before completing our work.

3.4 Reconciliation of college balance

The balance due from the College could not be agreed directly with the college records due to some items being included correctly in the Union's ledger but omitted from the college and vice versa. The amount understated from the Unions ledger relates to £8,399 for accounts payable and overstated by £66,701 for accounts receivable. These amounts are on the Unions accounts receivable ledger but is not on the College ledger and the Colleges accounts payable ledger but not on the union's ledger. We have been informed that the difference is down to timings of the university entering the amounts onto their own ledgers and whilst they are slow payers they will always pay.

As this amount is not considered material and is likely to not be an error, this has not been adjusted for in the accounts.

4. Systems and controls issues

We have set out below certain potential improvements to the charity's processes and controls which we noted during our audit work and which we believe merit being reported to you.

Our evaluation of the systems of control at Imperial College Union was carried out for the purposes of our audit and accordingly it is not intended to be a comprehensive review of your business processes. It would not necessarily reveal all weaknesses in accounting practice or internal controls which a special investigation might highlight, nor irregularities or errors not material in relation to the financial statements.

In order to provide you with a clearer picture of the significance of issues raised, we have graded the issues raised by significance/priority before any corrective actions are taken: We have also included below a brief update on the matters we raised last year.

High	These findings are significant and require urgent action.	*(0 comments in this category)*
Medium	These findings are of a less urgent nature, but still require reasonably prompt action.	*(0 comments in this category)*
Low	These findings merit attention within an agreed timescale.	*(3 comments in this category)*

Audit finding and recommendation	Priority	Management response
1. Old items on the bank reconciliation It was found as part of the review of the bank reconciliations that there were a significant number of old reconciling items with £30,439 of uncleared payments and £22,565 uncleared deposits greater than 1 month. While the net effect of these amounts are immaterial it recommended that monthly reconciliations identify any aged balances and the progress of these to ensure they are genuine reconciling items.		We are aware of the aged items on the bank reconciliation. The items remained on the bank reconciliation as they were not matching up or netting off perfectly and thus required a lot of man hours devoted to deciphering the variances which unfortunately was not possible during 2017/18. We have now performed a lengthy exercise on this and resolved the matter.

Audit finding and recommendation	Priority	Management response
2. Unidentified Income held as a creditor It was identified that included within other creditors is a balance of £75,639 of income that has been received but not identified as union income. This account therefore is being used a suspense account and includes balances from the earliest of 2013. This balance has increased by £25k in the year and whilst immaterial in the current year if not reconciled will likely become material in future years. Depending on the nature of these items there may be VAT implications. It is recommended that this is fully reviewed to ensure that all income is correctly received and balances are chased up regularly to ensure this account is cleared.		We acknowledge that this is an area that has been somewhat neglected and requires reviewing and investigating. We intend to do so during this forthcoming year.
3. Bank account signatories It was identified that there is a bank account holding £25k on the trial balance that the union does not hold documentation for. The signatories on this account have not been reviewed for several years and as a result no signatories for the account currently work at the union. We recommend that all signatories are reviewed yearly for all accounts to ensure only staff who work at the union are included and all bank account documentation will be available.		Bank mandates for two of the three Union accounts are reviewed every year. However, administering the third, now dormant, bank account has been a highly frustrating matter as we have been unable to close down the said account and have the funds transferred to the Union’s main account as there are no authorised signatories left at the Union per the old mandate. Before the year end we did liaise with Natwest to update the mandate and hopefully will be getting the account closed and balance transferred in due course.

5. Update from last year

We have set out below the systems and control issues on which we reported after our audit last year together with an update on how the points raised have been addressed including information on the progress made at the time of the audit of the 2018 financial statements.

Recommendation fully implemented or no longer relevant	Green	
Recommendation partially implemented	Amber	
No progress on recommendation	Red	

Please note that these colour codings are based on the status of the actions taken rather than the severity of the observation which is shown against the observation itself.

Observations in 2017		**Update 2018**
1. Credit balances on the sales ledger From our review of the sales ledger we noted credit balances totalling £10,096 at the year end. Upon further review we found that the largest balance of £3,600 relates to monies received that the Union was not expecting. The balance is not material and so has not been adjusted for but we recommend reviewing the sales ledger on a regular basis for items such as this to ensure monies that the Union may not be entitled to are returned or the balances are reallocated to creditors at the year end.	Red	From our review of the sales ledger in 2018, we noted credit balances totalling £9,376 **This matter remains open and has been included on the unadjusted errors as per section 6.** ***Management Response 2018*** This point is duly noted, however, we believe it is not a major concern (£9,376 from a debtor balance of £174,968) but does deserve to be monitored regularly.

<table>
<tr><th>Observations in 2017</th><th></th><th>Update 2018</th></tr>
<tr><td>

2. Debit balances on the purchase ledger

From our review of the purchase ledger we noted debit balances totalling £51,758 at the year end. Larger debit balances have been reviewed, please see a summary of our findings below:

- Upon further discussion with management we found that £3,375 relates to an event which has actually been cancelled as discussed in more detail below.
- £18,449 relates to deposits paid for events that are taking place in the next financial year.
- £13,516 relates to payments made on proforma invoices for events that took place in July 2017. An automatic report is run to accrue for goods receipted purchase orders, we have agreed these balances noted to this report and therefore the expense has been recognised in the correct period. The entry in both trade creditors and accruals means that trade creditors are understated and accruals overstated however there is no net effect on the overall liabilities at the year end.

We would usually see debit balances reclassified, the amounts noted are not material and so no adjustment has been made. However, we recommend reviewing debit balances on the purchase ledger a regular basis to ensure balances are correctly recognised in debtors or creditors where applicable.

</td><td></td><td>

£151,371 of debit balances were identified during the audit. £51,980 of these relate to payment of a pro-forma invoice and have been netted off against the relevant accrual. The remaining £99,391 has been reallocated to trade debtors.

This matter remains open and has been included on the adjusted errors as per section 6. We recommend this is fully investigated and reconciled.

Management Response 2018

This is a valid point and we shall be reviewing this regularly, bringing the debit balances down. It should be noted that due to the nature of the business there will always be some debit balances that will sit in the purchase ledger and therefore need reclassifying at the yearend for statutory account purposes. A reclassification was under taken this year as part of the yearend review.

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<table>
<tr><th>Observations in 2017</th><th></th><th>Update 2018</th></tr>
<tr><td>3. Proforma Invoicing

When reviewing the aged creditors listing we noted a debit balance of £3,375 relating to an event which was held last year. This was discussed with managed and we understand the event was to be paid in three instalments. A PO had been raised for the first instalment, but an invoice for the full amount was presented for payment, and upon confirmation that the invoice was correct, the invoice was paid as a pro forma and the PO was cancelled. Per management, the PO ought not to have been cancelled but a second PO should have been created for the difference.

Management have noted that the circumstances are unusual and a number of control issues are highlighted, which they plan to address and rectify. Currently it is possible to cancel a PO connected to a pro forma without going through Finance. In light of the above, management have discussed with the Systems team a way to prevent this in future, and a job has been created to find a fix.

It is important to note that the Union was acting as agent for this specific transaction and as such the receipt of funds as agent is not recognised as income nor is its distribution recognised as the agent's expenditure in line with the SORP thus meaning there is no impact on the SoFA. We understand that the Union is in process of billing the affiliated association in order to recover this cost.</td><td></td><td>No such issues have been identified in the current year.

Therefore we consider this matter closed.</td></tr>
<tr><td>4. Supplier statement review

When reviewing the Greene King supplier statement there was a variance of £2,534 to the yearend aged creditor balance with the statement being higher. This variance is made up of two items:
1. Direct debit collection of £1,669 posted to the wrong supplier account
2. A missing invoice for £865 from 15/16 for which the payment was made but invoice not received, this has been posted this month as it has now been received.

Management have acknowledged that this does point to the need for greater speed and rigour in investigating and clearing old timing and reconciliation differences. We will provide an update on this matter at our next audit. Both amounts are highly trivial and no adjustments have been made in the accounts in respect of this.</td><td></td><td>This amount is still included on the supplier statement difference, however as the amounts are trivial we will not provide an update on this difference going forward.

We however still recommend that this is reviewed and cleared going forwards</td></tr>
</table>

6. Reporting audit adjustments

International Standards on Auditing (UK) require that we report to you all misstatements which we identified as a result of the audit process but which were not adjusted by management, unless those matters are clearly trivial in size or nature.

Our audit approach is based on consideration of audit materiality as explained in section 1 of this report. We determine materiality for the purposes of the charity's statutory reporting by our judgement as to what adjustments would influence the readers' perceptions of the financial statements. We do not therefore seek to review all immaterial amounts.

For the purpose of reporting non-trivial items identified as a result of our audit work which have not been adjusted in the financial statements we set out in our Audit Planning Report that we would report unadjusted misstatements greater than £4,500 unless they are qualitatively material at a lower amount.

Adjusted Errors	Net income increase /(decrease)	Assets increase /(decrease)	Liabilities increase /(decrease)	Opening reserves
	£	£	£	£
Net results / funds per financial statements initially presented	177,409			
Debit balances on purchase ledger	-	151,371	151,371	-
Total adjustments	-	151,371	151,371	-
Net results / funds per financial statements presented to the trustees	177,409			

In addition to these items we identified certain other items which have not been adjusted in the draft financial statements. We have summarised below the potential overall impact of these items on the financial statements.

Unadjusted Errors	Net income increase /(decrease)	Assets increase /(decrease)	Liabilities increase /(decrease)	Opening reserves
	£	£	£	£
Net results / funds per financial statements presented to the trustees	177,409			
Credit balances on sales ledger	-	9,376	9,376	-
Total adjustments	-	9,376	9,376	-
Potential revised results / funds per the financial statements	177,409			

Appendix 1 - External developments

We have summarised below some of the developments and changes in the charity sector over the recent period which we believe may be of interest and relevant to you. Please note that this information is provided as a summary only and that you should seek further advice if you believe that you have any specific related issues or intend to take or not take action based on any of the comments below.

We issue a regular technical briefing for charities by email. If you would like to receive this please email your details to nonprofits@crowecw.co.uk . Alternatively, these briefings are available in the resource library on our website.

Charity Governance Code

The new Charity Governance Code was published on 13 July 2017. At the same time the Charity Commission withdrew its publication CC10, The Hallmarks of an Effective Charity, and are now directing charities to the new Code.

The new Code has been designed as a practical tool to help charities and their trustees develop high standards of governance. It sets the principles and recommended practice for good governance and is deliberately designed to be aspirational – the guidance recognises that some elements of the Code will be a stretch for many charities to achieve.

The Code lays out principles for seven key areas of governance together with recommended practice for each principle.

- Organisational purpose
- Leadership
- Integrity
- Decision making, risk and control
- Board effectiveness
- Diversity
- Openness and accountability

There are several significant changes to the previous guidance including recommendations that:

- the board will review its, the individual trustees and the chairs performance each year with, for larger charities, an external evaluation every three years;
- there are formal, rigorous and transparent procedures for appointing trustees to ensure that the board has the appropriate skills and diversity;
- there should be specific reappointment procedures and reporting for any trustee who has served for more than 9 years;
- emphasise the key roles of the chair and vice-chair in providing leadership to the board and ensuring that it has agreed priorities, structures and processes.
- there is a strategy for regular and effective communication with stakeholders with an interest in the charity's work and that the stakeholders have an opportunity to hold the board to account; and
- the board should, as well as promoting a culture of sound management of resources, understand that being over-cautious and risk averse can itself be a risk and hinder innovation.

The Code's principles, rationale and outcomes are universal and apply equally to all charities, whatever their size or activities although the recommended good practice to meet these principles will vary between charities.

The Code is available on a separate website https://www.charitygovernancecode.org/en .

Fundraising VAT exemption Tribunal decision released. Potential blow for many Unions, Guilds and Associations

On 27 June 2018, The VAT tribunal involving Loughborough, Keele, Nottingham Trent and Bournemouth determined that none of the events run by any of the four Unions qualified for VAT exemption.

It should be noted that this as a First Tier decision and as such does not set a legal precedent. However, it is a potential body blow for many Unions, Guilds and Associations.

Some good news?

Frequently throughout the decision the Tribunal Chairman commented about the quality of the case he heard (and at some points the "discourteous" way the case was handled by Union representatives). However, there appears to be some limited good news:

- The Tribunal determined that the proviso in UK Law requiring events to be held out as fundraisers was “ultra vires” of EU VAT Law. That is, this condition went beyond what was allowed and could not apply.
- The Tribunal was satisfied that the main purpose of the Bournemouth Summer Ball was fundraising, although the VAT exemption still did not apply, as the event – as confirmed by the Counsel for the Appellants at the hearing – distorted competition.

Where does this leave you?

- Considering the financial exposure involved, two or more of the Unions may appeal the decision, and the Tribunal has left that possibility open. Therefore, the whole issue may be re-run with a different outcome resulting, almost undoubtedly with long delays.
- However, Unions which treat numerous events each year as exempt fundraisers may take a view as to whether they should continue to do so, and may be exposed for past years.
- Unions which treat a limited number of exceptional events as fundraisers (perhaps for example the Summer or Graduation Ball) may have a stronger argument, but only as long as their events do not represent distortion of competition, which appears to have been given a wide interpretation in the decision.

GDPR

The GDPR forms part of the data protection regime in the UK, together with the new Data Protection Act 2018 (DPA 2018). The main provisions of this apply from 25 May 2018 and charities should already have completed the 12 steps set out by the Information Commissioner's Office (ICO) https://ico.org.uk/media/1624219/preparing-for-the-gdpr-12-steps.pdf as part of their preparation for the new regime.

It will be important that charities continue to monitor the guidance as it develops and the ICO website has a separate page which they will update monthly to highlight and link to what’s new in their Guide to the GDPR https://ico.org.uk/for-organisations/guide-to-the-general-data-protection-regulation-gdpr/whats-new/ . We recommend that charities should monitor this to ensure they are aware of any updates to the guidance.

The Institute of Fundraising (IoF) and the Fundraising Regulator have also released some charity guidance on the GDPR which has been reviewed and co-badged by the ICO. This provides information on various areas including understanding what the GDPR means for charities and fundraising as well as giving some tools and templates to help charities put GDPR into practice https://www.fundraisingregulator.org.uk/information-registration-for-fundraisers/guidance/data-protection-library-general-data-protection-regulation-gdpr/ .

The ICO have also launched a dedicated GDPR helpline for smaller charities to provide a GDPR advice service (0303 123 1113 (local rate) or 0162 554 5745 (national rate), or email casework@ico.org.uk) .

Safeguarding in charities

In April 2018 the Charity Commission sent out an email to remind all charities and trustees of the importance of trustee responsibilities in relation to safeguarding. The Commission continue to emphasise that safeguarding is a key governance priority for all charities, not just those working with groups traditionally considered at risk and have advised that trustees should:

- carry out a thorough review of your charity's safeguarding governance and management arrangements and performance if you haven't done so within the last 12 months, and
- contact us about any safeguarding issues, or serious safeguarding incidents, complaints or allegations which have not previously been disclosed to the charity regulator.

This email follows up from the Commission's regulatory alert to charities on safeguarding issued in December 2017 following a number of serious incidents reported to the Commission and recent public interest about accusations of harassment in the work place, including media reporting about some safeguarding incidents.

The alert reminds charities of the importance of:

- providing a safe and trusted environment which safeguards anyone who comes into contact with the charity including beneficiaries, staff and volunteers
- setting an organisational culture that prioritises safeguarding, so that it is safe for those affected to come forward and report incidents and concerns with the assurance they will be handled sensitively and properly
- having adequate safeguarding policies, procedures and measures to protect people
- providing clarity as to how incidents and allegations will be handled should they arise, including reporting to the relevant authorities, such as the Commission.

The full alert can be seen on the GOV.UK website https://www.gov.uk/government/news/regulatory-alert-to-charities-safeguarding

Fundraising Regulator launches updated Public Register

The Fundraising Regulator has in February 2018 re-launched its Public Register to include several updates designed to improve transparency.

The register now states whether an organisation is a 'Registered Charity' (small charities below the scope of the levy) or for larger charities 'Levy Paid' or 'Levy Unpaid'. The Regulator is aiming with this change to allow members of the public to identify the charities supporting the independent regulation of fundraising across the sector.

The Public Register also now shows commercial fundraising organisations (not charities) that have completed registration with the Regulator.

The Regulator also records that, as at 31 January 2018, for Levy year 1 there were 1,400 payers and 199 non-payers and for Levy year 2 there are currently 1,208 payers and 503 non-payers.

The updated public register can be seen here https://fundraisingregulator.secure.force.com/directory

Consultations on and changes to the Code of Fundraising Practice

The Fundraising Regulator is continuing to make changes to the Code of Fundraising Practice including on 25 May 2018 to incorporate the GDPR and Data Protection Act 2018 requirements. Changes to the Code are published on a separate website page which can be seen here https://www.fundraisingregulator.org.uk/code-of-fundraising-practice/code-changes/ .

This website is also used by the Regulator to publish consultations on proposed changes to the Code. Full details of how charities can respond to the consultations are included at the end of the consultation document and further details can be seen on the Regulator website https://www.fundraisingregulator.org.uk/code-of-fundraising-practice/consultations/code-consultation-feb-2018/

Cyber security guide for charities

The Charity Commission have supported the National Cyber Security Centre in publishing in March 2018 the first cyber security guide specifically for charities. Although aimed specifically at smaller charities, the guide is likely to be relevant to all charities.

The Department for Digital, Culture, Media and Sport have also published their cyber security breaches survey for 2018 which shows that 1 in 5 charities suffered a cyber security breach or attack in the last 12 months.

The cyber security guide together with other charity fraud related publications are available from the Fraud Advisory Panel website https://www.fraudadvisorypanel.org/charity-fraud/resources/

Working with non-charitable organisations

The Charity Commission has prepared draft guidance for charities that work with other charitable and non-charitable organisations to help trustees understand the risks and challenges that such relationships can bring to set out what the Commission expect trustees to do to deal with them.

The draft guidance focusses on 8 key areas:

- Keep the charity separate – don't blur the boundaries
- Make independent decisions
- Manage the risks, review the relationship
- Use written agreements / contracts
- Be open and accountable
- Comply with your legal duties
- Avoid conflicts of interest and loyalty
- Personal benefits

The Commission is currently analysing the feedback it has received following a consultation period which closed on 15 May. The draft guidance may be updated following this consultation, but in the interim the guidance is available on the Commission website https://www.gov.uk/government/consultations/charities-that-are-connected-with-non-charitable-organisations-maintaining-your-charitys-separation-and-independence .

Grant funding an organisation that is not a charity

The Charity Commission in August 2017 published an updated version of its guidance to help charities decide whether to make grants to organisations that are not charities.

The guidance sets out the key steps and considerations for trustees, recognising that these grants can create opportunities for charities to further their purposes by reaching individuals or communities that they might not otherwise be able to reach. The guidance focusses on seven key areas:

- Understand your charity's purposes
- Have appropriate systems and procedures in place to consider grant applications
- Consider whether the other organisation is a charity or not
- Carry out an appropriate risk assessment and due diligence on the organisation
- Ensure that the grant is only for activities, services or outcomes that will further the charity's purposes for the public benefit and that any funding of support costs is limited to the specified activities, services or outcomes
- Ensure that there are appropriate terms and conditions in writing for the use of the grant
- Consider what monitoring arrangements are appropriate and proportionate

The guidance explains that a charity can grant fund the support costs of activities, services or outcomes delivered by another organisation that is not a charity, provided these are intended only to further the charity's own purposes for the public benefit. The charity must not fund any costs which are outside its purposes".

The guidance also highlights certain situations where extra care and scrutiny may be needed, such as activities overseas, but recognises that it is impossible to eliminate all risk.

The full guidance is available on the Government website (https://www.gov.uk/guidance/draft-guidance-grant-funding-an-organisation-that-isnt-a-charity#history)

Charity Annual Return for 2018

Following a period of consultation in the Charity Commission made a number of amendments to the content of the annual return for 2018 (AR18).

The Commission says that the new annual return will make for an easier user experience for charities, and stresses that it will be more proportionate than in the past, with many charities required to answer fewer questions, and only those with large or complex operations being required to provide more information.

However, some of the new questions may require charities to review what information is needed and how this is collected and this may particularly affect charities receiving income from or operating overseas. AR18 includes questions on:

- Whether commercial participators and/or professional fundraisers were used.
- The amounts received from contracts and/or grants from central or local government.
- The value of different types of income received from outside the UK by country.
- If the charity operates overseas, the expenditure by country and the methods used to transfer money if outside of the regulated banking system. This will also require a statement that the trustees are satisfied that the charity's risk management policy and procedures adequately address the related risks to the charity.
- The numbers of staff with remuneration in salary bands over £60k.
- Whether any payments have been made to trustees.
- Details of any of the charity trustees who are also directors of any of the charity's subsidiaries.

The Commission has decided not to ask charities whether they are claiming rate relief for the premises they use or the amount of gift aid they have claimed but will require charities to provide information about their highest paid employee, although that information will be held for regulatory purposes rather than made public.

AR18 applies to charities with financial years ending from 1 January 2018.

Review of HMRC VAT guidance on Grants and Contracts

HMRC in January 2018 updated the guidance in their internal manual on the often problematic question about whether a payment described as a grant is consideration for a supply or not.

The manual records that HMRC commonly understand a grant to be a freely given payment in return for which no specific services (or goods) are received. Such a payment is therefore not a supply for VAT purposes. However there is no one definition of a grant and the guidance recognises that payments which are described as grants may really be payments for supplies.

In response they have set out indicators derived from case law to help determine whether a payment is consideration for a supply. Although the conclusion will still be judgemental, the manual lists nine factors that may suggest that a payment is outside the scope of VAT and ten factors that suggest that it is more likely that the payment is a consideration for a supply.

Clearly the VAT position for "grants" both received and paid can have a material impact on a charity. It will therefore be important that charities adequately review the structure and wording of their grant agreements and take appropriate advice where the position may be uncertain.

The HMRC internal manual is available on the GOV.UK website https://www.gov.uk/hmrc-internal-manuals/vat-supply-and-consideration/vatsc51600

Making Tax Digital ('MTD')

A meeting in October 2017 between the Charity Tax Group and HMRC has confirmed that at present there is no proposed MTD charity exemption for VAT although there will be an exemption for corporation tax.

MTD will therefore apply for VAT from April 2019 for charities and their subsidiaries unless they are below the VAT registration threshold (currently £85k). This will have a number of potential implications for charity records including all prime records must be kept in electronic format, each step in the accounting process after inputting source data must be digitally managed, and functional compatible software will be required to communicate between the charity's digital records and HMRC.

There does still appear to be some uncertainty on the extent to which HMRC will require full digital automation, but it will be important for VAT registered charities or trading subsidiaries to monitor these requirements and review their software to ensure that they can meet the MTD requirements when these are implemented.

HMRC have confirmed that they will be piloting the changes from Spring next year and that they are keen that charities are involved with other organisations to ensure that everything is tested before April 2019.

Charity Trustee welcome pack

The Charity Commission have published an 8 page welcome pack which will be emailed to new trustees to introduce them to the role so that they have a basic understanding of their duties and responsibilities.

The guide:

- outlines the basics of trusteeship
- summarises what they can expect
- raises awareness of their duties and responsibilities
- explains what needs to be sent to us
- provides reference to more detailed guidance and information

Copies of the guide can be downloaded from the Commission website https://www.gov.uk/government/publications/charity-trustee-welcome-pack .

Taken on Trust - The awareness and effectiveness of charity trustees in England and Wales

Taken on Trust is a report commissioned by the Office for Civil Society and the Charity Commission and delivered by a consortium led by Cass Business School and the Cranfield Trust.

The report seeks to establish greater understanding of the characteristics of contemporary trustees in England and Wales and their awareness (or otherwise) of their responsibilities and duties. A random stratified sample of trustees (19,064) was extracted from the complete data set of the register of trustees maintained by the Charity Commission to provide more detailed analysis via a national survey of trustees carried out in January 2017. Around 3,500 trustees responded to the survey.

The research finds that men outnumber women trustees on boards by two to one. The majority (92%) of trustees are white, older and above average income and education.

The research also finds that charity trustees, who are overwhelmingly volunteers, feel positively about their role and about the personal reward and satisfaction it gives them. It also highlights that trustees' contribution to charities amounts to a monetary equivalent of around £3.5 billion a year.

The full report together with its list of 28 recommendations can be seen on the GOV.UK website https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/658775/Trustee_Awareness_Report__final__print_.pdf .

Reporting serious incidents in charities

In September 2017 the Charity Commission updated its guidance on 'How to report a serious incident in your charity'.

Charities have had to report serious incidents to the Commission since 2007 with the most common types of incidents reported being fraud, theft and confirmed safeguarding issues. However, the Commission is concerned that their casework continues to find serious incidents that should have been reported but where reports were not made.

The key changes in the guidance include the following:

- The inclusion of new tools, such as examples and checklists, to make it clearer to trustees what they should, and should not, report to the regulator.
- Greater clarity on incidents resulting in "significant financial loss", making clear that losing significant funding or contracts that the charity can't replace should be reported to the regulator.
- Making it clearer what to report, how and when – encouraging reporting at the time the incident occurs or as soon as possible afterwards.
- An updated section to help with multiple reporting for charities that report incidents on a regular basis due to the risks arising from the nature of their work.

- Removing the need to report some types of incidents, where these are risks rather than serious incidents and where the relevant information about the risk is now requested in the annual return.
- Adding some new types of incidents which charities are experiencing on a regular basis and/or struggling to manage properly.

The main categories of reportable incidents are:

- Financial crimes - fraud, theft and money laundering
- Large donations from an unknown or unverifiable source, or suspicious financial activity using the charity's funds
- Other significant financial loss
- Links to terrorism or extremism, including 'proscribed' organisations, individuals subject to an asset freeze, or kidnapping of staff
- Suspicions, allegations or incidents of abuse involving beneficiaries
- Other significant incidents, such as - insolvency, forced withdrawal of banking services or actual/ suspected criminal activity

More details of the proposed updated guidance can be seen on the GOV.UK website https://www.gov.uk/guidance/how-to-report-a-serious-incident-in-your-charity#history

Changes affecting Charitable Incorporated Organisations (CIOs)

The Charity Commission has announced a phased timetable allowing charitable companies to convert to CIOs following legislative changes in Parliament on 23 November 2017.

This service began from 1 January 2018 but will follow a phased implementation timetable by income bracket with applications by charities with income over £500,000 only being accepted after 1 August 2018. The Commission believe that in most cases the conversion process should be simple and straightforward but note that the new CIO Constitution and Special Resolution will need to be completed before submission to the Commission.

Any applications to convert a charitable company to a CIO will be made using an online form https://forms.charitycommission.gov.uk/apply-to-convert-a-charitable-company-to-a-charitable-incorporated-organisation-cio/ .

Guidance on the legislative changes can be found on the GOV.UK website https://www.gov.uk/guidance/legislative-changes-affecting-the-charitable-incorporated-organisation-cio#charitable-company-conversion--charitable-incorporated-organisation-cio

The Commission has also updated its guidance on how to change your charity structure and the updated guidance can also be seen on the GOV.UK website https://www.gov.uk/guidance/change-your-charity-structure#convert-a-charitable-company-to-a-cio .

Automatic disqualification rules for charity trustees and charity senior positions

From 1 August 2018 changes to the automatic disqualification rules mean that there will be more restrictions on who can run a charity. However, for most charities, taking some simple steps to update recruitment and appointment systems is all that will be needed to prepare for the rule changes.

There will be two key changes to the automatic disqualification rules:

- an increase in the number of legal reasons that disqualify someone from acting as a trustee. The new reasons include being on the sex offenders register, and certain unspent convictions - such as for terrorism or money laundering.
- people who are disqualified from acting as a trustee are also disqualified from holding certain senior manager positions at a charity

Relevant senior manager positions are both Chief Executive (or equivalent) positions and Chief Finance Officer (or equivalent) positions. Acting whilst disqualified will still normally be a criminal offence.

Hopefully this will not be an issue for most charities, but it will still be important that charities prepare for these rule changes. In particular:

- check and update your pre-appointment / recruitment procedures
- check and update your current procedures for people in post
- review employment or consultancy contract terms for any relevant senior manager positions.

Should any of a charity's trustees or senior managers become disqualified there may be an option to apply to the Commission for a waiver which would bring a person's disqualification to an end.

Further details on the automatic disqualification rules and on waivers can be found on the GOV.UK website https://www.gov.uk/guidance/automatic-disqualification-rules-for-charity-trustees-and-charity-senior-positions#what-a-waiver-is-and-who-can-apply

Brexit and Charities

Much has been written about the possible impact of the EU referendum on the UK economy, on business and charities. However given the uncertainties around the UK's exit negotiations it is not possible to fully evaluate the impact. This makes planning for the future hard particularly given other challenges the UK charity sector has been facing over the last year.

The only certainty then is that there will be uncertainty, at least in the medium term and charities like all other businesses need to factor this into in their future planning. Organisations that survive and even flourish will be those that cope with the uncertainties and make good lasting decisions.

We believe that there are six key areas that charity trustees may need to review following the Brexit referendum:

- Strategies and scenario planning
- Management structures and skills including those of Trustees
- Budgeting and planning
- Performance management
- Reserves policy
- Risk registers

We have published a paper with more detailed comments in each of these areas on our website.

https://www.crowe.com/uk/croweuk/insights

Appendix 2 - Non Profits events, courses and briefings

We believe it is important to keep our clients up to date on the issues that affect them. As a part of our ongoing communication we regularly hold seminars and courses and listed below are details of some of our events. Please visit our website or register to our mailing list to stay updated on these - nonprofits@crowe.co.uk

Breakfast briefings

These briefings will be run by experts from our Non Profits team on topical issues as they emerge. Registration and breakfast at these briefings is from 8:30, the sessions commence at 9:00 and aim to end at 10:15.

• Managing investments and reserves	3 Oct 2018
• Refreshing risk management	7 Nov 2018

Trustee essentials

Our Trustee essentials seminars have been developed to consider the issues facing trustees. We will take an in-depth look at the key areas of responsibility which will provide trustees with useful information, tools and techniques. These sessions are full day seminars and cost only £50 per delegate.

• Trustee essentials	12 Oct 2018
• Trustee essentials	9 Nov 2018

Tax training courses

These interactive training courses are run with a small number of delegates.

• Introduction to charity VAT	4 Oct 2018
• Charity VAT reliefs	14 Nov 2018

Other seminars and conferences

• INGO conference 2018	Nov 2018

Further information and registration

The CFG (Charity Finance Group) events above are hosted by C and are available to our clients even if not CFG members. Registration for these events is available through the CFG website http://cfg.org.uk/events.aspx .

To register for any of the other above events, please visit our website https://www.crowe.com/uk/croweuk/industries/non-profits or email nonprofits@crowe.co.uk

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