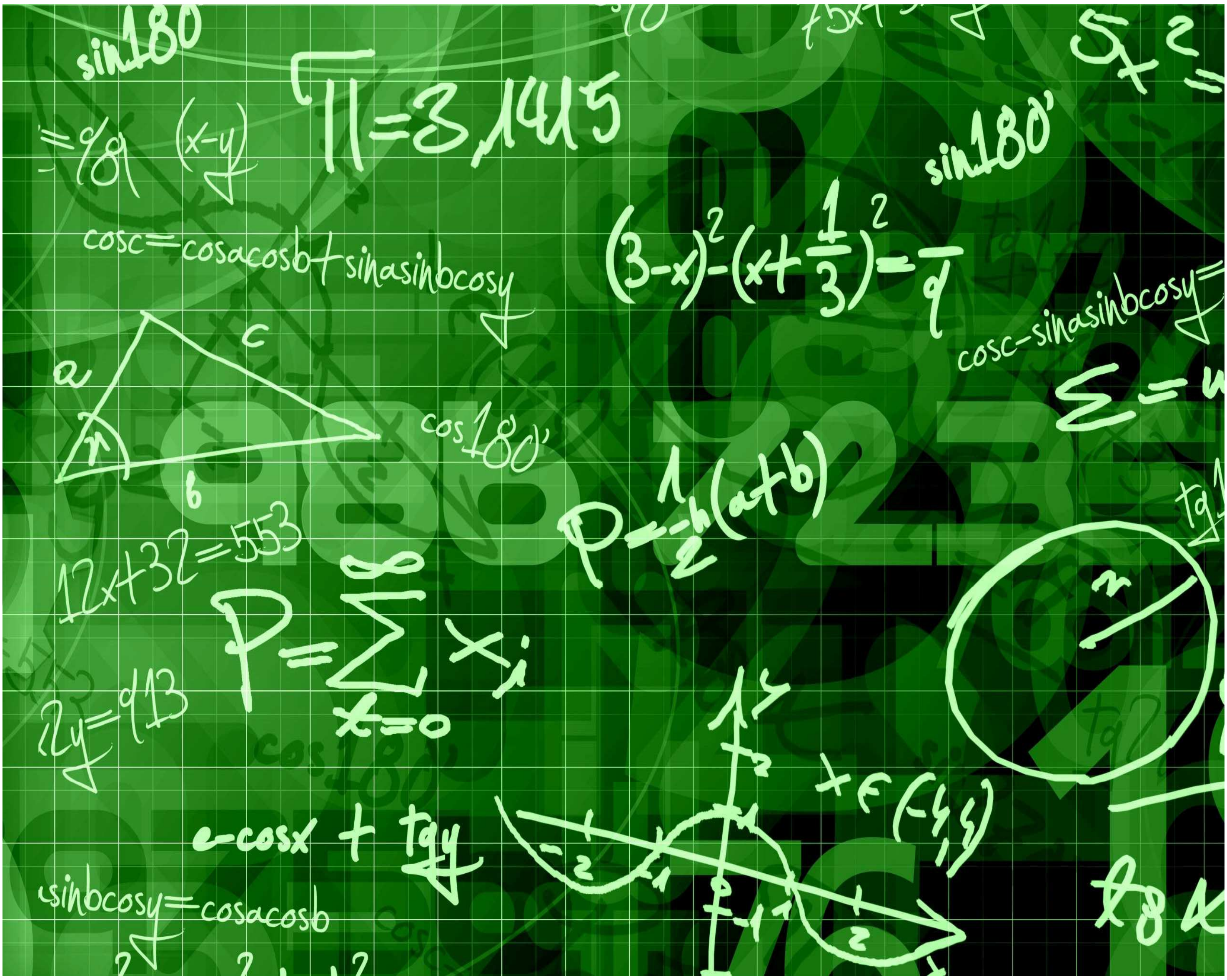
Audit Completion Report

Lincoln Anglican Academy Trust – year ended 31 August 2017

December 2017



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The Board of Directors
Lincoln Anglican Academy Trust
Edward King House
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LN2 1PU

12 December 2017

Dear Sirs / Madams

Audit Completion Report – Year ended 31 August 2017.

We are pleased to present our Audit Completion Report for the year ended 31 August 2017. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks, key audit matters and other areas of management judgement was outlined in our Audit Strategy Memorandum which we presented in September 2017. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks, key audit matters and other areas of management judgement remain appropriate. We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0115 964 4744.

Yours faithfully

David Hoose

Mazars LLP

1. Executive Summary

Principal conclusions and significant findings

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

In section 3 of this report we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks, key audit matters and other areas of management judgement. The key audit matters that were of most significance in our audit of the Financial Statements for disclosure in our auditor's report:

- Management override of controls;
- Revenue recognition;
- Going concern; and
- Classification of funds;

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

Status and audit opinion

We have completed our audit in respect of the financial statements for the year ended 31 August 2017.

At the time of preparing this report, there was no significant information outstanding.

At the time of issuing this report we anticipate issuing an unqualified opinion, without modification, as set out in Appendix B.

2. Significant findings

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

- Our findings on key audit matters, including:
  - Why the matter was considered;
  - Why the matter was considered to be one of the most significance in the audit and therefore determined to be a key audit matter;
  - How the matter was addressed in the audit including a summary of the auditor's response to those risks;
  - Where relevant, key observations arising with respect to those risks; and
  - A clear reference to the relevant disclosures in the financial statements.
- our audit conclusions regarding other significant risks, key audit matters and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 7 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management;
- any significant difficulties we experienced during the audit; and
- modifications required to our audit report.

Management override of controls

Description of the risk

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

How we addressed this risk

We addressed this risk through performing audit work over:

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

Audit conclusion

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

Revenue recognition

Description of the risk

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

How we addressed this risk

We have addressed these risks by testing a sample of revenue items outside of grant income to ensure that this is appropriately accounted for and appropriate control procedures are in place; and confirmed that grant income has been appropriately recognised and matched against the relevant income.

Audit conclusion

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

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

Going Concern	**Description of the risk** Both the private sector and the public sector face challenging times due to the current economic climate. Increased risks are face in many areas by the Trust, including: • Reduced levels of public funding • Demographic challenges and fall in student numbers • Expected reduction in funding for the next financial year • Increased national insurance and teachers' pension contribution rates The risk of these factors having a significant impact on the going concern opinion is moderate. It needs to be considered whether any factors impact on the Trust's ability to continue operations.
	How we addressed this risk Additional audit focus was made regarding the going concern opinion of the Trust (as is the situation with all trusts). We also considered and reviewed future funding.
	Audit conclusion We have noted that the Trust is technically insolvent owing to the deficit on funds within the balance sheet. The Trust has net current assets and total net assets excluding the Local Government Pension Scheme deficit. This LGPS deficit is highly unlikely to crystallise at any point within the next 12 months and we are therefore of the opinion that the Trust is solvent and able to pay its debts as they fall due. From the audit testing performed therefore, we did not identify any issues with regards to the going concern assessment made by management.
Classification of funds	**Description of the risk** There is a risk that income or capital (endowment)/ restricted income received has restrictions imposed by a third party and therefore should be recorded as restricted income or capital (endowment) in the SOFA. The related expenditure must be allocated against these restricted funds and any remaining funds at the period end must be carried forward within restricted funds.
	How we addressed this risk We have reviewed income documentation to ensure the classification is correct.
	Audit conclusion From the audit testing performed, we did not identify any issues with regards to the classification of funds as disclosed in the annual accounts.

Local Government Pension Scheme assumptions

Description of the management judgement

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

How our audit addressed this area of management judgement

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

Audit conclusion

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

a. Lincolnshire Pension Fund

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

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

b. East Riding of Yorkshire Pension Fund

Our team have concluded that the assumptions are reasonable with the exception of the salary growth assumption, which was set at RPI less 0.8% (i.e. 2.6%), compared to the lower-end of our expected actuarial range of RPI plus 0.5% (i.e. 3.9%).

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

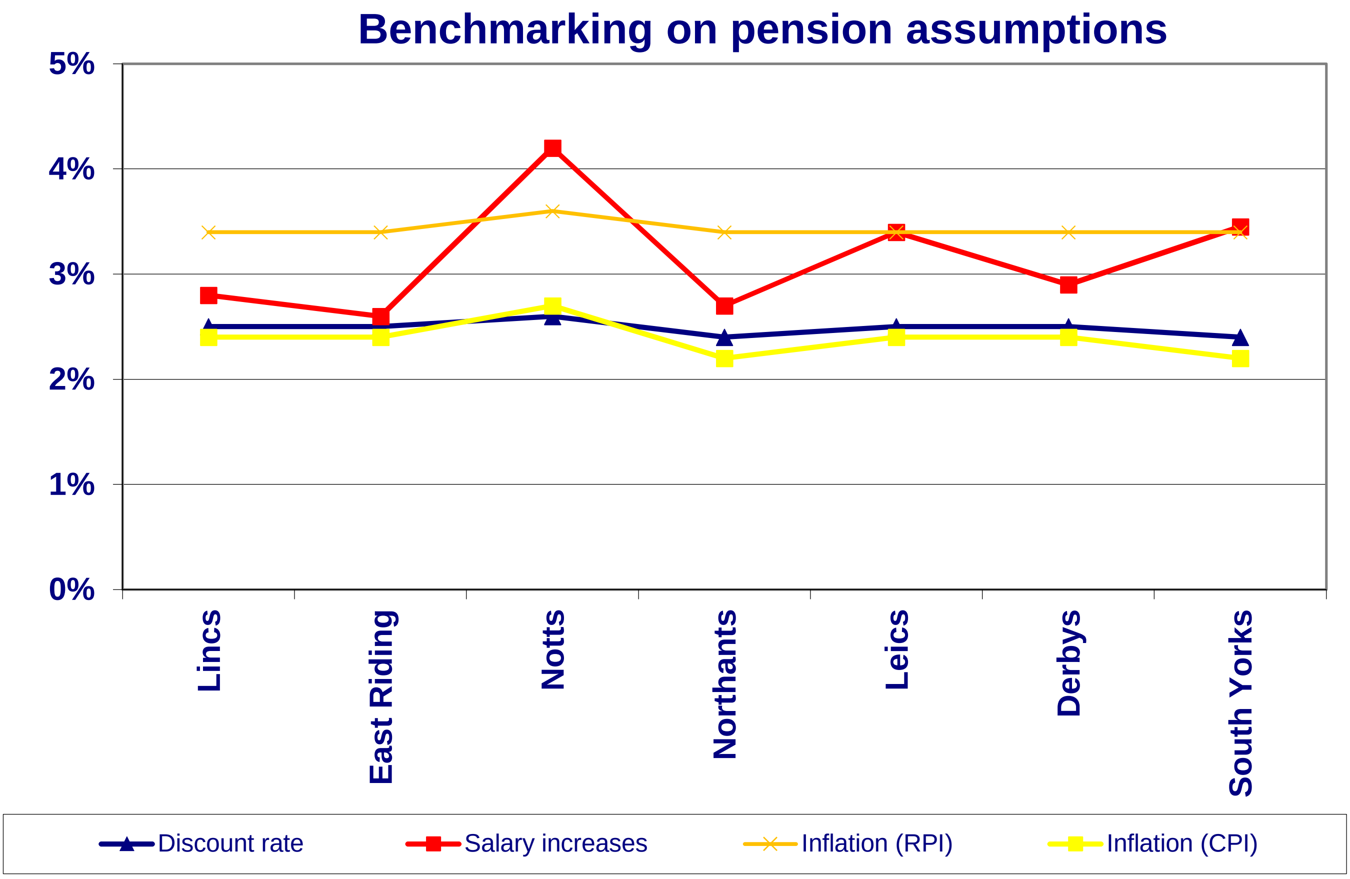
Adopting the higher salary increase assumptions would increase the Trust's LGPS pension deficit by c.£450k.

We are advised by Management that whilst they have recently agreed a pay increase of 2% on mainscale teachers pay only, this is not sustainable year after year without a significant funding boost from central government. They are therefore of the opinion that the salary increase assumptions are not unreasonable and are within the parameters used in the institution's financial forecasts.

A benchmarking graph in respect of the pension valuation assumptions is included on the following page.

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

FRS 102 Pension Benchmarking



The above data has been extracted from Educational Institutions all of whom have an August 2017 year end. Both CPI and RPI have been included.

Capitalisation of fixed assets

Description of the management judgement

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

How our audit addressed this area of management judgement

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

Audit conclusion

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

Depreciation

Description of the management judgement

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

How our audit addressed this area of management judgement

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

Audit conclusion

The depreciation charge has been recalculated based upon management's judgement of the assets' useful economic lives and is deemed to be reasonable.

Accrued and deferred income

Description of the management judgement

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

How our audit addressed this area of management judgement

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

Audit conclusion

The accrued and deferred income has been reviewed and the income has been correctly allocated to the relevant accounting period.

Accounting policies and disclosures

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

Audit Approach

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

The financial statement materiality for our audit was £203,000.

Significant matters discussed with management

Prior year adjustment

Following additional guidance within the 2016-17 Accounts Direction, the Board approved a change in accounting policy in relation to the treatment of Land and Buildings held on Church Supplemental Agreements. Following discussions with management it was clarified that this applied to all Land and Buildings within the Trust with the exception of Freehold Land at Ruskington Chestnut Street and Wainfleet.

As a change in accounting policy this has been applied retrospectively and as such a prior year adjustment has been raised to remove the value of the donated buildings from the comparative numbers and the brought forward reserves. The effect of the adjustment was to remove £9.8m of donated fixed assets and £0.4m of associated depreciation from brought forward reserves.

Land held on 125 year leases has been transferred to Long Leasehold Land and is being amortised over the remaining period of the lease.

We concur with this accounting treatment and confirm that it has no impact on our audit report.

Land and buildings valuations

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

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

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

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

Significant difficulties during the audit

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

Matters arising from our regularity assurance engagement

There were no matters arising from the regularity engagement.

Regularity assurance engagement findings and conclusions

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

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

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

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

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

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

3. Internal control recommendations

Relating to the 'true and fair' Audit

The purpose of our audit was to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

There were no internal control issues or recommendations noted relating to our "true and fair" audit work.

3. Internal control recommendations

Relating to the ‘regularity’ assurance work

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

There were no internal control issues or recommendations noted relating to our “regularity” assurance work.

4. Summary of misstatements

During our audit work we did not identify any misstatements, above the level of trivial, for adjustment.

Disclosure amendments

No disclosure amendments have been identified during the audit.

Appendix A – Draft management representation letter

Lincoln Anglican Academy Trust - audit for year ended 31 August 2017

This representation letter is provided in connection with your audit of the financial statements of Lincoln Anglican Academy Trust for the year ended 31 August 2017 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the Companies Act 2006 and relevant legislation, United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and Academies Accounts Direction 2016 to 2017 issued by the Education & Skills Funding Authority (ESFA).

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

Our responsibility for the financial statements and accounting information

We believe that we have fulfilled our responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Companies Act 2006 and relevant legislation, United Kingdom Accounting Standards and Academies Accounts Direction 2016 to 2017 issued by the ESFA.

Our responsibility to provide and disclose relevant information

We have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the trust you determined it was necessary to contact in order to obtain audit evidence.

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

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

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

Accounting records

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

Accounting policies

We confirm that we have reviewed the accounting policies applied during the year in accordance with the requirements of Section 10 of Financial Reporting Standard 102 and Academies Accounts Direction 2016 to 2017 issued by the ESFA and consider these policies appropriate to faithfully represent the effects of transactions, other events or conditions on the trust's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

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

Appendix A – Draft management representation letter

Contingencies

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

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

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

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the trust have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with United Kingdom Generally Accepted Accounting Practice Including the Financial Reporting Standard Applicable in the UK and Republic of Ireland for charities (FRS 102)., Companies Act 2006, and Academies Accounts Direction 2016 to 2017 issued by the ESFA.

Laws and regulations

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

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

Fraud and error

We acknowledge our responsibility as directors of the trust, for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

We have disclosed to you:

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

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

Related and connected party transactions

We confirm that all related and connected party relationships, transactions and balances, (including sales, purchases, loans, transfers, leasing arrangements and guarantees) have been appropriately accounted for and disclosed in accordance with the requirements of United Kingdom Generally Accepted Accounting Practice Including the Financial Reporting Standard Applicable in the UK and Republic of Ireland for charities (FRS 102)., Companies Act 2006, and Academies Accounts Direction 2016 to 2017 issued by the ESFA.

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

Impairment review

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

Appendix A – Draft management representation letter

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

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

Subsequent events
We confirm all events subsequent to the date of the financial statements and for which the United Kingdom Generally Accepted Accounting Practice Including the Financial Reporting Standard Applicable in the UK and Republic of Ireland for charities (FRS 102)., Companies Act 2006, and Academies Accounts Direction 2016 to 2017 issued by the ESFA, require adjustment or disclosure have been adjusted or disclosed.

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

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

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

Yours faithfully

…………………………….
Signed on behalf of Lincoln Anglican Academy Trust

Appendix B – Draft audit reports

Independent auditor's report to the Members of Lincoln Anglican Academy Trust

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

In our opinion, the financial statements:

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

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Appendix B – Draft audit reports

Matters on which we are required to report by exception

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

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

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

Responsibilities of Trustees

As explained more fully in the Trustees' responsibilities statement set out on page 12, the Trustees are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK). Those standards require us to comply with the Financial Reporting Council's Ethical Standard. This report is made solely to the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work, for this report, or for the opinions we have formed.

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

David Hoose (Senior Statutory Auditor)

for and on behalf of Mazars LLP

Chartered Accountants and Statutory Auditor

Appendix B – Draft audit reports

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

In accordance with the terms of our engagement letter dated 6th September 2017 and further to the requirements of the Education and Skills Funding Agency (ESFA) as included in the Academies Accounts Direction 2016 to 2017, we have carried out an engagement to obtain limited assurance about whether the expenditure disbursed and income received by Lincoln Anglican Academy Trust during the period 1 September 2016 to 31 August 2017 have been applied to the purposes identified by Parliament and the financial transactions conform to the authorities which govern them.

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

Respective responsibilities of Lincoln Anglican Academy Trust's accounting officer and the reporting accountant

The accounting officer is responsible, under the requirements of Lincoln Anglican Academy Trust's funding agreement with the Secretary of State for Education dated 27 July 2012 and the Academies Financial Handbook, extant from 1 September 2016, for ensuring that expenditure disbursed and income received is applied for the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

Approach

We conducted our engagement in accordance with the Academies Accounts Direction 2016 to 2017 issued by the ESFA. We performed a limited assurance engagement as defined in our engagement letter.

The objective of a limited assurance engagement is to perform such procedures as to obtain information and explanations in order to provide us with sufficient appropriate evidence to express a negative conclusion on regularity.

A limited assurance engagement is more limited in scope than a reasonable assurance engagement and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a positive opinion.

Our engagement includes examination, on a test basis, of evidence relevant to the regularity and propriety of the academy income and expenditure.

A summary of the work we have undertaken is as follows:

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

Appendix B – Draft audit reports

Conclusion

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

Reporting Accountant

Date

Appendix C – Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

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

Appendix D – Forthcoming accounting and other issues

ACADEMIES FINANCIAL HANDBOOK – EFFECTIVE FROM 1 SEPTEMBER 2016
Key changes from the previous edition (as extracted from the " 2016 Academies Financial Handbook")

Governance

- Boards of trustees should identify the skills they need and address any gaps in their skills through recruitment or training.

- In order to align with the terminology used in the Governance Handbook the ESFA are referring to the trust's publication of its governance structure and remit as its 'scheme of delegation for governance functions'.

- All trusts must have a senior executive leader who should also be appointed as accounting officer, and that these roles must not rotate.

-Trusts must publish the relevant business and pecuniary interests of their accounting officer regardless of whether they are a trustee. Local governors are included when identifying relevant interests from close family relationships.

- Trusts must use Edubase to notify the Department for Education (DfE) of the appointment and vacating of the positions of member, trustee, local governor in a multi-academy trust, chair of trustees, chairs of local governing bodies, accounting officer and chief financial officer.

Financial control

- Variances between budget and actual income and expenditure must be understood and addressed.

- Exposure to investment products must be tightly controlled so that security of funds takes precedence over revenue maximisation.

- Where there are concerns about financial management in a trust, the trust may be required to report information about its cash position to ESFA.

- It is now a requirement, rather than a recommendation, for trusts to have a whistleblowing procedure.

- Trusts should consider opting into the risk protection arrangement (RPA) unless commercial insurance provides better value for money.

- Trusts must implement reasonable risk management audit recommendations that are made to them by risk auditors.

- The audit committee's oversight of its trust must extend to the controls and risks at its constituent academies, where the trust has them. Oversight must also ensure that information submitted to DfE and ESFA that affects funding is accurate and compliant.

- When considering a staff severance payment trusts must satisfy the conditions in the handbook and obtain the required approval before making a binding commitment to staff.

Appendix D – Forthcoming accounting and other issues

ACADEMIES FINANCIAL HANDBOOK – EFFECTIVE FROM 1 SEPTEMBER 2017

Key changes from the previous edition (as extracted from the " 2017 Academies Financial Handbook")

Governance

- Information about the roles of members and trustees has been updated to provide greater understanding of expectations, including emphasis on having significant separation between the roles.

- A reminder to trusts that the 'seven principles of public life' apply to everyone holding public office.

- Confirmation that annual letters to trusts' accounting officers from ESFA's accounting officer about the accountability framework must be discussed by the board with action taken where appropriate to strengthen the trust's systems.

- Additional information included for trusts about improving efficiency.

- Emphasises the importance of addressing any skills gaps on the board at key transition points such as growth periods in the trust.

- Highlights the Department for Education's (DfE's) competency framework for governance to use when determining skills gaps.

- Explanation that trusts should refer to the key features of effective governance in the Department's Governance Handbook when assessing their effectiveness.

- Introduction of additional information about the appointment of the trust's statutory auditor.

- Emphasises the trust's record of key individuals on Edubase must remain up to date.

- Highlighting ESFA's investigation reports and to its guidance on reducing the risk of financial irregularity, which trusts should consider when managing their own risks.

Financial control

- Updated references to submission of budget information to ESFA to reflect changes in reporting requirements.

- Emphasising decisions about levels of executive pay must follow a robust evidence-based process.

- Explanation that repercussive transactions require ESFA approval, alongside those that are novel or contentious, and that ESFA may refer these to HM Treasury.

- Clarification that trusts' delegated authority to make non-statutory/non-contractual staff severance payments under £50,000 is before income tax and other deductions.

- The handbook has been updated to reflect the Department's introduction of an academies' sector annual report and accounts.

Appendix D – Forthcoming accounting and other issues

There are a number of accounting and other issues on the horizon of which you should be aware. Please do let David Hoose know if you would like to discuss any of these emerging issues further.

General Charity Sector update which maybe applicable to the academy trust

1. APPRENTICESHIP LEVY

From April 2017 the way the government funds apprenticeships in England is changing. Some employers will be required to contribute to a new apprenticeship levy and there will be changes to the funding for apprenticeship training for all employees.

Organisations will need to pay the apprenticeship levy if they are an employer in the UK, with a pay bill of more than £3m each year.

The levy represents a cost of 0.5% of the entire pay bill. However, a levy allowance of £15,000 each tax year offsets this, meaning that the levy is only payable on pay bills over £3m.

The levy allowance will operate on a monthly basis and will accumulate throughout the year. This means organisations will have an allowance of £1,250 per month where unused allowance is carried forward from one month to the next.

2. GENDER PAY GAP REPORTING

From April 2017 employers with a headcount of at least 250 must report certain calculations on both their website and a government website within 12 months.

The calculations required are:

- average gender pay gap as a mean average;
- average gender pay gap as a median average;
- average bonus gender pay gap as a mean average;
- average bonus gender pay gap as a median average;
- proportion of males receiving a bonus payment and proportion of females receiving a bonus payment; and
- proportion of males and females when divided into four groups ordered from lowest to highest pay.

Although commentary on the gender pay gap results is not required, charities should consider adding a narrative to help employees and the public understand their results, especially where gender pay gaps seem significant.

3. DATA PROTECTION ACT

The Information Commissioner's Office (ICO) monitors compliance with the Data Protection Act and issued a warning that charities were potentially more susceptible to serious data protection issues because of the often sensitive nature of the (paper and electronic) data handled.

Cases have highlighted what the ICO termed "entirely avoidable" issues and resulted in significant (up to £200,000) fines for the charities involved. It is important to recognise that the wider use of data holding devices such as tablets and phones only increases this risk.

The ICO's top tips to avoid issues are:

communication
training
passwords
encryption
retention

The ICO provides some useful guidance for charities on its website:
https://ico.org.uk/for-organisations/charity/

Appendix D – Forthcoming accounting and other issues

In December 2016, the Charity Commission issued a joint alert with the Fundraising Regulator about compliant with data protection laws. In brief, the alert stated:

"The Charity Commission, the independent regulator of charities in England and Wales, and the Fundraising Regulator, are issuing an alert to all charities. It reminds trustees that they must, in addition to following charity law requirements, ensure that there are systems in place at their charity to identify and comply with any data protection laws and regulations that apply to its activities.

Following data protection law is a critical compliance area for any charity that handles personal information. It includes, but is not restricted to, collection, use and storage of donors' personal data. The Commission's guidance, Charity fundraising: a guide to trustee duties (CC20), is clear that trustees are responsible for having systems and processes in place at their charity to ensure that its fundraising is compliant with this legislation. Two charities have been found to be in breach of the Data Protection Act and have been issued with monetary penalties by the Information Commissioner. Further charities are also under investigation.

The Commission and the Fundraising Regulator are therefore issuing this alert to support trustees as well as remind them of their legal duties and responsibilities in this area. This alert should be read in conjunction with our published guidance, the published guidance of the ICO and Fundraising Regulator alongside seeking professional advice where necessary. Below we also set out key steps as regulators we expect trustees and charities to immediately take:

- immediately cease any activity without explicit consent described and set out by the ICO notices of 5 December 2016 (published 9 December 2016) as being in breach of data protection law
- review and assess activities in the areas of data collection, storage and use to ensure it is compliant with data protection law - this should include reviewing fair processing statements to ensure they are explicit, clear, transparent and highly visible
- review and assess current data governance systems and processes to ensure they are fit for purpose and evidence sufficient oversight, control, are operating and effective - this includes ensuring there is a clear framework of ownership and accountability in place
- where breaches are identified ensure you review the requirements for reporting to the ICO and comply - where a notification of breach is required to also submit a notification to the Commission under the reporting a serious incident process
- where breaches have occurred consider the risk to those whose data has been breached and any action required to mitigate risks to those individuals and their data - this should include notification to those affected if appropriate following a risk assessment by the data controller
- notify the Commission about any investigation of their charity by the Information Commissioner by reporting a serious incident"

One of the key messages in the alert is the role they expect Trustees to play in ensuring compliance.

4. CONFLICTS OF INTEREST AND LOYALTY

Trustees must not get into a position where their personal interests and those of the charity conflict, unless the conflict is properly authorised and the conflict is managed effectively.

Trustees should be aware that conflicts which are not handled properly can damage a charity's reputation and also damage public trust and confidence in charities generally. Rightly, the Charity Commission takes this matter seriously and so should trustees.

The Charity Commission has prepared detailed guidance called Conflicts of interest: a guide for charity trustees (CC29). The link is:

https://www.gov.uk/government/publications/conflicts-of-interest-a-guide-for-charity-trustees-cc29

We have produced for our clients a model policy on conflicts of interest and loyalty, which includes a section on receiving gifts and hospitality and a register for recording these. Please let us know if you would like a copy.

Appendix D – Forthcoming accounting and other issues

4. EMERGING FRAUD RISKS

Trustees and management must continue to be aware of fraud risks within the organisation. A study undertaken by the Centre for Counter Fraud Studies estimated that fraud costs the large charity sector £1.65bn per year, representing 5% of the turnover of those charities sampled.
During 2015/16, 178 serious incidents reported to the Charity Commission related to fraud – the largest of which exceeded £1m. Analysis undertaken by the Charity Commission into these reported frauds revealed common factors included weak governance or poor financial controls, often combined with excessive trust placed in an individual.

Charities can help protect themselves by applying consistent financial controls, encouraging a culture of professional scepticism and appropriate challenge.

An increasingly important element of fraud prevention is that of cyber security, ensuring that digital information is robustly protected. The Charity Commission has published a document which covers its views on charities becoming more digital, which can be found here: https://www.gov.uk/government/publications/making-digital-work-12-questions-for-trustees-to-consider. Our cyber security services team can provide guidance and advice, further information is available here: http://www.mazars.co.uk/Home/Our-Services/Consulting/Cyber-security-services.

Examples of fraud to be alert to are shown below.

Supplier bank detail fraud
There has been increased fraud due to suppliers changing bank details. In these cases, your purchase ledger department receives a letter on what looks like official letterhead from your supplier requesting a change in bank details. A phone number is also provided on the letterhead to use to verify the change in details. Bank changes have been made in good faith by employees and the next payment is made to a diverted bank account.
We would suggest that, when requests for these changes are made, you do contact your supplier to check that their bank details have in fact changed. You should use the phone number you have on your system to contact the supplier, because the phone number listed on the letterhead will more than likely be linked to the fraudster. Staff should continue to be vigilant.

Email fraud
There have been a number of scams doing the rounds, whereby a company receives a fraudulent request to change a supplier's bank account details or a request to make an urgent payment on behalf of the Chief Executive who is away on business. Unfortunately, a number of businesses have fallen foul of these. This type of fraud is becoming increasingly sophisticated, with scammers using seemingly genuine email accounts, either by hacking them or by setting up very similar accounts.

VAT return email scam
HMRC are aware of a number of customers receiving emails, requesting them to review their VAT return. An example of the email received can be found on the HMRC's website:
https://www.gov.uk/government/publications/phishingand-bogus-emails-hm-revenue-and-customs-examples/phishing-emails-and-bogus-contact-hm-revenue-andcustoms-examples
HMRC have advised that this email is bogus and you should not respond to the email, click on any links or open the attachment, as this contains malicious software. Please forward the email to phishing@hmrc.gsi.gov.uk and then delete it.

Internal controls
Internal controls are really important to every organisation. They help to remove the opportunity to commit fraud. Most frauds are detected through a colleague being suspicious, often through internal control procedures being circumvented or records being incomplete or altered.

Donations and loans
Trustees should continue to be aware of suspect donations and loans, for instance an unusually large unsolicited donation where the source cannot be verified. The loan or donation could be a fraud or an attempt at money-laundering.

Appendix D – Forthcoming accounting and other issues

5. MODERN SLAVERY

The below applies to many organisations, commercial and otherwise, which belong to a group which has total annual turnover of more than £36 million. Some charities will fall into this category, but, even for those that do not, there are potential compliance implications where they might deal with such organisations

The UK Parliament passed the Modern Slavery Act in March 2015 with the objective of consolidating and extending current offences relating to slavery and human trafficking.

This act is a milestone as, for the first time, the UK has a law that attempts to have companies take responsibility for behaviours that take place in their supply chains, both in the UK and internationally. Whilst it is a domestic law, it implicitly has extraterritorial measures.

However, this law is the first of several that are due and will be binding on UK entities of various sizes to demonstrate their respect for some, if not all, human rights, both within their own corporate structure but also their supply chains.

Section 54 of the Act requires companies to prepare a slavery and human trafficking statement for each financial year. This is now also being referred to as the Transparency in Supply Chains Statement (TICS).

A TICS must be prepared for each financial year and is

- a statement of the steps the organisation has taken during the financial year to ensure that slavery and human trafficking is not taking place
    - in any of its supply chains, and
    - in any part of its own business, or
- a statement that the organisation has taken no such steps.

The Act suggests that this statement may include information about

1. the organisation's structure, its business and its supply chains;
2. its policies in relation to slavery and human trafficking;
3. its due diligence processes in relation to slavery and human trafficking in its business and supply chains;
4. the parts of its business and supply chains where there is a risk of slavery and human trafficking taking place, and the steps it has taken to assess and manage that risk;
5. its effectiveness in ensuring that slavery and human trafficking is not taking place in its business or supply chains, measured against such performance indicators as it considers appropriate;
6. the training about slavery and human trafficking available to its staff.

This statement must be signed by a director and approved by the Board and published in a "prominent" place on the company's website.

Further information can be found on our website at:

http://www.mazars.co.uk/Home/Our-Services/Publications/Consulting-publications/Human-Rights-publications/The-Modern-Slavery-Act-2015-FAQs

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6. DIRECT TAX UPDATE

Non-charitable activities
Under charity law, charities are not allowed to undertake non-charitable trading as it could put the assets of the charity at risk. Under tax law, 'Primary purpose trading', trading ancillary to that and other income within the small trading exemption are all exempt from corporation tax. 'Non-primary purpose' trading (often including gift shops, cafés and letting accommodation other than to charity beneficiaries) is, however, taxable. In an effort to generate funds for the charity, such taxable trading activities can be very attractive to charities.

To simplify the division of income and expenses between Primary purpose and Non-primary purpose trading, charities often decide to set up a trading subsidiary company through which the non-primary purpose activity is channelled. As a trading company, the subsidiary will be treated as an ordinary limited company, subject to normal company reporting requirements and tax on its profits. These costs may be offset by the maintenance of the charity's charitable status and associated tax exemptions, not to mention the simpler identification of transactions for separate reporting.

Gift aid distributions from subsidiaries
A trading company can pass up its trading profits to its parent charity using company Gift Aid. The trading company's profits chargeable to Corporation Tax are reduced by the amount of Gift Aid paid. Any such Gift Aid donations to a parent charity paid up to 9 months after the end of an accounting period may be included in the tax return for the period. This allows the company to effectively and efficiently plan the appropriate Gift Aid donation amount each period with the benefit of hindsight.

Although the Charity Commission and HMRC historically accepted such payments are not distributions, a technical release by the Institute of Chartered Accountants in England and Wales states Counsel's opinion that these are in fact distributions and subject to the restrictions within the Insolvency Act 1986, the Companies Act 2006 and any within the Memorandum and Articles of Association of the company. To reduce taxable profits to nil, in some cases subsidiaries have previously donated amounts that would be deemed illegal under the distribution rules. Subsidiaries should restrict any Gift Aid amounts to within the legal distribution limit. This may well result in an irrecoverable tax liability but will ensure no illegal distribution amounts need paying back in future and the company directors are correctly exercising their duty of care.

Gift aid declarations
In October 2015 HMRC issued a new model gift aid declaration which became mandatory from April 2016. These declarations are broadly the same as previously but now must explain that taxpayers are liable for the gift aid tax if they have not paid sufficient income tax when making the donation.

HMRC have said they will allow historic certificates to be used where the declaration clearly covers 'this donation and any future donations' or words to that effect. But, for new sign ups, the new wording must be used or a certificate is invalid.

HMRC have said if charities can prove they purchased declaration sheets before 21 October 2015 they can continue to use these until they run out, rather than have to replace them.

National Minimum Wage
For entities who employ staff who are remunerated in part via a sleep-in allowance, during which time they retain responsibilities, there are potential pitfalls for the employer in relation to National Minimum Wage.

In certain scenarios, the sleep-in allowances would be added to the employee's pay and compared to the number of hours worked including the sleep-in period, in order to assess whether the employer is compliant with National Minimum Wage. This assessment would relate to each pay period, both looking forward and historically.

This is a complex area. If it potentially affects your charity, please liaise with your Mazars contact.

7. VAT UPDATE

Since 1 April 2012 charities have been specifically defined for VAT purposes as, *a body of persons or trust that is established for charitable purposes only and*

- *Falls under the jurisdiction of the High Court, Court of Session, High Court of Northern Ireland (or the corresponding jurisdiction in another Member State);*
- *Complies with any requirement to be registered under Charities Act 2011, s29 (or corresponding provisions in other territories);*
- *Is managed by "fit and proper persons".*

Business and non-business activities

It is important for a charity to distinguish between its business and non business activities in order to determine both whether it will require a VAT registration, and, if registerable, to determine which of its supplies should be subject to VAT.

By way of example, admission charges are typically deemed to be in respect of business activities and therefore VAT must be accounted for on admission income, whilst grant funding received by a charity may be outside the scope of VAT if the charity does not supply anything in return for the income.

A common error is for a charity to assume that because its activities fall within its objects they are accordingly not business activities for VAT purposes.

VAT registration

A VAT registration will be a mandatory requirement if income from taxable business activities exceeds the VAT registration threshold of £85,000 per annum (this threshold applies from 1 April 2017 and is typically increased each year).

If VAT registration is not mandatory, but the charity has some taxable business income, it may be worthwhile considering whether an application should be made for a voluntary VAT registration, in order to enable VAT recovery on a proportion of costs. The financial benefit should be considered in conjunction with the compliance obligations that a VAT registration entails.

In recent years charities that historically received income categorised as "grant funding" have been required to submit tender documents (or similar) outlining the services they will provide in return for the funding. This has led to some confusion in terms of the VAT liability of such income on the basis that typically income received in return for the provision of services will be categorised as "business" income, and if taxable may lead to a mandatory VAT registration requirement.

VAT rates

Whilst there is no general VAT relief available to all charities, certain supplies to charities may be eligible for VAT at 0% (the zero rate) or 5% (the reduced rate):

- The zero rate may apply to the following supplies to charities: advertising, lifeboats, donated goods, aids for disabled persons, wireless sets for the blind and talking books for the blind and disabled.
- The reduced rate may apply to the following supplies to charities: fuel and power and energy-saving materials.

In addition, VAT relief on imported goods may be available to charities, depending upon the nature of the goods being imported.

Land and property

The rules around supplies of land and property for charities are complex and advice should be sought on a case by case basis. In general, a supplier should zero rate the supply of the first grant of a major interest in land or buildings to be used for a "relevant charitable purpose", which entails use other than for business purposes.

Appendix D – Forthcoming accounting and other issues

Annual VAT checklist
It is good practice to review VAT regularly. VAT for many charities is a complex area requiring constant thought to ensure full compliance and to minimise irrecoverable VAT.

Whilst it is impossible to provide a checklist that will cover all aspects, the list below is designed to help charities think about VAT, manage risk and minimise the cost of VAT. This list is a guide and will not cover all VAT risks.

- **Income review:** is the correct VAT treatment applied to income? Have changes to supplies, revisions of and new contracts been considered?
- **VAT registration:** are all entities registered for VAT either on a mandatory or voluntary basis?
- **VAT recovery:** is a business/non business apportionment of VAT incurred carried out and has this calculation been reviewed recently?
- **Partial exemption:** is the standard method used or is an agreed partial exemption method in place? Are partial exemption calculations made and reviewed? Does the charity apportion VAT incurred to taxable and exempt supplies under its method?
- **Recharges:** are there or should there be recharges between related or even unrelated entities? Have the VAT consequences of these charges been reviewed?
- **VAT reliefs:** if the charity is involved in any rescue, medical or research activity or uses funds to purchase medical or research equipment, does it consider the VAT consequences of such activity?
- **Welfare:** is the charity involved in any care or welfare services? The VAT rules can be complex and the VAT implications of activities in this area should be reviewed.
- **Capital item expenditure:** has the charity carried out property projects or refurbishments or invested in any major computer upgrades in the last 10 years? If so has the VAT capital goods scheme been considered?
- **Cost review:** does the charity review the VAT it incurs on costs to ensure that it has been correctly charged? For example:
    - Fuel & power - could the 5% reduced rate of VAT be applied?
    - Construction of new buildings used for qualifying use - could the zero rate be applied to the building works?
    - Conversion of building used for a residential purpose - could the 5% reduced rate be applied to any of the works?
    - Advertising - could any of the charge qualify for the charity relief and zero rating?
    - Fund raising income - could the relief apply in order that no VAT is due on sales of tickets etc?
    - Sale of donated goods - can any of the goods sold qualify for the reliefs?

The above questions are designed to create some key review considerations in respect of VAT for the charity. They cover a complex area and cannot guarantee full compliance but they will help identify many risks and opportunities. To obtain a view of its VAT compliance risks the charity may wish to carry out a more detailed review.

At all times a charity should bear in mind that HMRC frequently impose penalties on non-compliance, which could lead to 30% charge on any tax assessed (the standard penalty range is between 0%-100%). HMRC have limited resources and focus on areas which produce the greatest return. For each £1 HMRC have spent on tax investigations they have recovered £11 when investigating companies but £44 when investigating charities. In view of this, HMRC's focus on the charity sector is likely to be high.

Appendix D – Forthcoming accounting and other issues

8. EMPLOYEE OR VOLUNTEER

Many charities have both volunteers and employees and consider the distinction between the two groups to be clear.

Ensuring clarity of this distinction is both vitally important and potentially difficult.

The importance is due to the relative rights of the two groups. Volunteers have few rights whereas employees have extensive rights such as:

- the right to be paid at least the National Minimum Wage;
- those provided by the Equality Act 2010;
- protection against unfair dismissal; and
- sick pay, maternity pay and holiday.

Wrongly classifying an individual as a volunteer when, in the eyes of the law, they are an employee can result in significant cost and reputational implications.

A charity is at risk of individuals that are called volunteers being classified as employees if certain rules are not adhered to:

- Volunteers should not receive anything linked directly to their volunteering because in doing so there is a risk of the relationship becoming contractual. Certain reimbursement of reasonable expenses can be paid to volunteers. Providing benefits to volunteers (even if to thank them) such as "staff" discounts in charity shops risks tainting their volunteer status.
- The concept of voluntary workers creates further uncertainty. These volunteers may be provided with accommodation and basic living expenses. There are scenarios in which volunteers can correctly be provided with these but it is important to ensure they are applied appropriately.
- HMRC makes a distinction between volunteering and unpaid work. Where time spent by an individual is classified as unpaid work, the charity is at significant risk due to non-compliance with National Minimum Wage, amongst other issues.

This area is a complex one where obtaining professional advice is important. Should you be at all unsure if your charity is compliant, please discuss your situation with your usual Mazars contacts.