AUDIT • TAX • ADVISORY

Audit Planning Memorandum

Prepared for Wormwood Scrubs Charitable Trust

Audit for the year ended 31 March 2021

For circulation to the Trust Committee

Now, for tomorrow

mha MACINTYRE HUDSON

Contents

Introduction

We are pleased to be engaged to perform the audit of Wormwood Scrubs Charitable Trust (hereafter referred as ‘WSCT’ or ‘the Trust’) for the year ended 31 March 2021. The purpose of this Audit Planning Memorandum is to provide details of the key elements of our proposed audit strategy to “those charged with governance”, the Trust Committee.

International Standards on Auditing (ISAs), including in particular International Standard on Auditing (UK) 260, require that we communicate formally with “those charged with the governance” (as defined in the ISA) of the Charity regarding relevant matters relating to our forthcoming audit. Our formal written communication will comprise this Audit Planning Memorandum and an Audit Findings Report, agreed with you on completion of our audit fieldwork.

If matters arise whose significance is such that they should be brought to your attention sooner, we shall do as required by the ISA and outside these planned arrangements.

The objectives of this communication process are to:

- ensure that there is a mutual understanding of the scope and timing of the audit and the respective responsibilities of ourselves as auditor and those of the Trust Committee, as those charged with governance of the Trust;
- communicate information to assist both ourselves as auditors and Committee Members, to fulfill their respective responsibilities;
- provide to Committee Members timely and constructive observations arising from the audit process;
- encourage two-way communication between us on matters relevant to the audit (for example, on areas of risk and materiality) where you may request us to undertake additional procedures.

With regard to this final point, if there is any information that the Committee Members believe may be relevant to the audit and consider should be brought to our attention, please do let us know; our team’s contact details are set out in section 2. Such matters may include:

- Significant changes in the Trust and its environment over the past year (including the impact of any changes in financial systems)
- A significant change in the level of risk facing the Trust as a result of its future plans
- Instances of non-compliance with laws and regulations which are central to the Trust’s operations
- Changes in how the Committee Members oversee management’s fraud risk management procedures
- Any knowledge of actual, suspected or alleged fraud affecting the Trust

We recognise as a result of the Covid-19 pandemic the working arrangements for all of us have been understandably affected. We have planned to undertake part of the audit remotely and have established IT structures to enable us to do this. We appreciate that your ability to provide the information and explanations we require for our audit may be impaired, and we shall be understanding regarding this, and will seek alternative approaches if possible. We would appreciate sufficient warning from you where you have concerns in providing us with any of the deliverables and audit fieldwork information we normally require. Where this approach causes us difficulties this could result in limitations in the scope of our audit or the ability to obtain satisfactory assurance over certain matters, and in some instances may result in additional costs being incurred resulting in fees in addition to those set out in Section 6. Early communication will be sought in these circumstances.

To reflect the continued increased expectations of auditors at this time, and guidance issued by the Financial Reporting Council and other accountancy bodies, we have enhanced audit processes to adopt for this year’s audit. This will include an independent review of Covid-19 related matters by a second audit partner prior to completion of our audit.

Introduction

We also note that for accounting periods starting after 15 December 2019, there have been revised auditing standards in relation to reporting on fraud ISA 700 (see Section 4.1 below), Accounting estimates ISA 540 (see section 4.6 below) and Going concern ISA 570 (see section 5.1 below), which requires additional work during the audit and will be reflected in the auditor's report.

This communication has been prepared for the sole use of the Trust Committee, on behalf of the Corporate Trustee, in line with your governance structure. We accept no duty, responsibility or liability to any other person as this document has not been prepared, and is not intended, for any other purpose except as stated above. In the event that a third party asks to see this document in whole or in part, please ask for our consent before releasing it.

We are looking forward to working with you during the course of the audit.

MHA MacIntyre Hudson

6th Floor, 2 London Wall Place
London
EC27 5AU

T: 020 7429 4100
F: 020 7248 8939
macintyrehudson.co.uk

2 - Our team

2.1 Team members

Our team will be led by Stuart McKay as your Audit Engagement and Client Partner (who is responsible for the firm's audit opinion), supported by Joseph Sale as Audit Supervisor.

Stuart McKay FCA DChA
T: 0207 429 0516
E: stuart.mckay@mhllp.co.uk

Joseph Sale ACA
T: 0207 429 0507
E: joseph.sale@mhllp.co.uk

2.1 Independence and Objectivity

It is fundamental to our appointment as auditors that our independence and objectivity are preserved at all times. For this purpose, we are required to consider all relationships between the Trust, the Committee Members and ourselves that might impact on this firm's independence and the objectivity of the Audit Engagement Partner and staff. Threats to independence may include self interest threats, self review threats, advocacy threats, familiarity threats and intimidation threats. Safeguards can in many cases be put in place to counter such threats, including reviewing our own systems and procedures.

To ensure our independence is maintained we will take the following steps:

- Make an overall assessment of any potential threats to our independence and the safeguards required in the circumstances to protect independence;
- Communicate to you the results of this assessment and appropriate safeguards to be adopted;
- Communicate any other relevant information about our general policies and procedures within this firm that are adopted for maintaining objectivity and independence: and
- Consider if in our view you continue to have "informed management" as defined in Ethical Standards.

Our preliminary assessment of potential threats to our independence has not identified any threats that we need to communicate to you. MHA MacIntyre Hudson is engaged to perform a pure audit assignment and will not be conducting any non-audit services. We will re-confirm this position when we present our Audit Findings Report.

3 - Timetable

3.1 Timetable

We have agreed the following audit timetable and deadlines:

Date	Action	Responsibility
17/08/2021	Initial planning meeting	MH/ WSCT
31/08/2021	Provision of Audit Planning Memorandum for the Trust Committee – distributed electronically	MH
08/09/2021	Trust Committee meeting to review Audit Planning Memorandum	WSCT
10/09/2021	List of audit deliverables and related party documentation issued	MH
29/10/2021	Audit deliverables sent to MH alongside First draft financial statements (including first draft of Trustees' Report)	WSCT
08/11/2021	Audit fieldwork on WSCT to commence	MH/ WSCT
19/11/2021	Audit completion meeting	MH/ WSCT
19/11/2021	MH comments on first draft financial statements	MH
29/11/2021	Draft Audit Findings Report and representation letter for management to review	MH
03/12/2021	WSCT comments on the Audit Findings Report to be returned, and second draft accounts to be sent to MH	WSCT
07/12/2021	Final draft financial statements (if any adjustments arise from approval meeting)	MH/ WSCT
08/12/2021	Papers distributed to Committee	WSCT
15/12/2021	Trust Committee meeting to approve financial statements and letter of representation	WSCT
31/12/2021	Signed accounts to be sent to MH	WSCT
By 31/01/2022	Accounts to be filed at Charity Commission	WSCT

We shall assume that the Charity Commission annual return will be filed by WSCT. Please let us know if this is not the case and you require our assistance.

3.2 Information required

To ensure the audit run smoothly to timetable and in accordance with our quote, we have prepared a schedule of audit deliverables which has been provided separately. These cover all the main Balance Sheet and Statement of Financial Activities ("SOFA") areas we will need to audit, as well as disclosure information required for the financial statements. We ask that these be provided to us in agreement with the agreed timetable to avoid delays and possible additional costs.

We would like to receive the Trustees' Report alongside the draft accounts and audit deliverables because we report explicitly on whether the Trustees' Report content complies with the relevant legislation and is consistent with the accounts.

4 – Audit Approach

4.1 Scope of our audit

We have a statutory responsibility to form and express our opinion on the financial statements of the Trust, whether they give a true and fair view, have been prepared in accordance with the applicable legislation, and have been properly prepared in accordance with the relevant financial reporting framework.

In undertaking our audit work we will consider compliance with the following legal and regulatory requirements:

- Charities Act 2011
- Statement of Recommended Practice "Accounting and Reporting by Charities" – SORP
- Applicable UK Generally Accepted Accounting Practice (GAAP) being FRS102

We will also read the Trustees' Report and any other information that will be included with the financial statements to ensure it is properly prepared and the information therein is consistent and has been properly prepared.

Overall, we seek to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.

As per ISA (UK) 700 (Revised 2019), for accounting periods commencing after 15 December 2019, our audit report will also indicate the extent of the procedures that we have undertaken to detect irregularities, including fraud.

We are not aware that any limitations will be placed on the planned scope of our audit.

The financial statements on which we are to report are ultimately the responsibility of the Committee Members and we cannot relieve you of this responsibility. The Committee Members must be satisfied that the financial statements give a true and fair view before approving them.

Further details of our respective responsibilities are set out in our engagement letter. If needed and where possible, we shall seek to provide you with appropriate guidance and support in order to fulfil these responsibilities.

Matters we are required to communicate to the Committee Members as "those charged with governance" of the Trust are also relevant for you to consider in your oversight of the financial reporting process.

4.2 Obtaining an understanding of internal controls relevant to the audit

Auditing Standards require us to document our understanding of the Trust's business and assess the risk of material misstatement. For controls considered to be "relevant to the audit" we are required to evaluate the design of the controls and determine whether they have been implemented. The controls that are determined to be relevant to the audit are those:

- relating to identified risks (including the risk of fraud in revenue recognition) or other audit issues;
- where we are unable to obtain sufficient audit assurance through substantive (detailed) tests alone; and / or
- where we consider it more efficient to obtain assurance through controls testing.

Our audit is not designed to provide assurance as to the overall effectiveness of the controls operating within the Trust, although we will report to management and Committee Members any recommendations on controls that we may have identified during the course of our work.

We note that WSCT carry out all processes which relate to the financial reporting in-house.

We will ensure our approach is based on our understanding of the Trust its objectives, strategies, operational environment, governance structures and related risks. We will also establish our understanding of the classes of financial and other transactions, account balances, and disclosures to be expected in the financial statements.

We will consider the selection and application of accounting policies and confirm that they remain appropriate. We are not expecting there to be any changes to the accounting policies in the year.

We will review the Trusts systems for the purpose of our audit, and we will report to you any matters we consider necessary and appropriate, after discussing them with management. We shall also consider your business risk management processes. Our audit should not, however, be

4 – Audit Approach

relied upon to identify all systems deficiencies, which are your responsibility, and we shall only draw your attention to matters we have encountered as a part of our audit work.

As a matter of good governance, we find it helpful to meet with those charged with governance during the course of our audit. We suggest that this discussion takes place at your Trust Committee meeting in December 2021.

4.3 Our responsibilities in respect of fraud

Whilst the primary responsibility for the prevention and detection of fraud lies with Committee Members, we, as auditors, have a responsibility to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. In doing this we will follow the requirements of ISA 240 “The Auditor’s Responsibilities relating to Fraud in an Audit of Financial Statements”.

We are required to confirm during our audit whether the Committee Members have knowledge of any actual, suspected or alleged fraud affecting the Trust. In our planning discussions, management have not identified any material instances.

If any instances of fraud or theft arise we ask that you please inform us immediately. We will also ask for formal confirmation of the Trustees’ fraud risk assessment process and knowledge of any actual / suspected fraud in our letter of representation at the financial statements approval stage.

4.4 Audit materiality

The Committee Members have primary responsibility for ensuring that annual financial statements are free from material misstatement. As auditors 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 misstatements discovered during the audit (by you or us) require adjustment.

The assessment of materiality is a matter of professional judgment, but consideration will be given to the highest cumulative error which would not threaten the validity of the financial statements. A matter is material if its omission or misstatement would reasonably influence the economic decisions of a user of the financial statements.

Whether adjustments are material to the “true and fair” view can only be judged in the particular circumstances of the items and their impact on the financial statements to which they relate. Materiality will be considered having regard to the overall financial statement totals, the relevant individual balance, the type of transaction and the disclosures.

We will take into account certain functions of the following indices: income; surplus or deficit for the year; gross assets; and net assets. We will also determine a lower amount, “performance materiality”, for the purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. Performance materiality also refers to the amount or amounts set by us at less than the materiality level or levels for particular classes of transactions, account balances or disclosures.

4.5 Communication of misstatements and adjustments

We will discuss with Chris Harris and other staff as required, any misstatements, other than those that are clearly “trivial”, that we or you discover during the course of our audit work. Where such errors would have an impact upon the numbers reported in the statutory financial statements, but are not significant in terms of our audit, we will ask management if they wish to adjust the financial statements.

We will draw to the attention of the Committee Members all significant potential adjustments to the financial statements. We will not, however, bring to your attention matters that we consider to be “clearly trivial”. For these purposes, we propose that this would mean items of less than 5% of materiality.

4 – Audit Approach

4.6 Accounting estimates

Auditing Standards require us to identify areas of material "estimate and judgement" in the financial statements and assess management's process for determining the estimate and the validity of the underlying assumptions.

As per ISA540 (Revised 2019), part of this process may involve the following:

- identifying transactions, events and conditions that may give rise to estimates,
- reviewing requirements of the accounting framework,
- reviewing how the estimates apply in the context of the entity and its environment,
- assessing the skills and knowledge of "those charged with governance" in understanding the characteristics of particular method or model of relevant accounting estimates,
- reviewing as to whether "those charged with governance are aware of the parameters of the accounting framework for relevant accounting estimates,
- assessing if "those charged with governance" have evaluated and challenged the estimates made by management,
- obtain the understanding of the method of oversight over accounting by "those charged with governance"
- comparing the outcome of any similar estimates and judgments in previous periods to give an indication of the likelihood of accuracy (or not) of the current estimate,
- communicating areas of potential misstatements in accounting estimates whereby they are beyond our expected parameters.

Areas likely to be affected include contingent liabilities (and assets), provisions, asset valuations and certain aspects of income recognition.

5 - Key audit areas

5.1 Significant audit risks

Income
Auditing Standards require us to presume that fraud in revenue recognition is a "significant audit risk", unless this presumption is specifically re-butted. We will consider three aspects for each material income stream:

- Completeness (has all income been included in the accounts);
- Recognition (this considers three criteria of; "probable" (e.g. more likely than not), "entitlement" and "measurement"); and
- Fund accounting (are there restrictions on use and are these correctly recorded?).

Management override
We are required to design and perform audit procedures to respond to the risk of management's override of controls which will include:

- Understanding and evaluating the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements, and testing the appropriateness of a sample of such entries and adjustments;
- Reviewing accounting estimates for biases that could result in material misstatement due to fraud; and
- Obtaining an understanding of the business rationale of significant transactions that we become aware of that are outside the normal course of business or that otherwise appear to be unusual given our understanding of the Trust and its environment.

Future plans and going concern
Going concern is defined as being able to continue in 'operational existence' for at least 12 months from the date of signing the financial statements.

As per the revised International Auditing Standard (ISA) 570, there is now a requirement to document robust challenge of management's assessment of going concern, including the obtaining evidence regarding, and to conclude on, whether a material uncertainty relating to going concern exists. We also need to perform a final consideration of all evidence obtained relating to going concern.

As part of our audit work, we will need to obtain and review evidence of how the Committee Members have satisfied themselves that the Trust will remain in operation for 12 months from the date of approving of the financial statements. Such evidence would include business plans, budgets and cashflow forecasts up to at least that date, being December 2022. Due to the unprecedented situation regarding the Covid-19 pandemic we will consider the impact that this could have on the organisation and your planned response. This is considered further below.

Related party transactions
In order to comply with ISAs, we are required to consider the risk of fraud through related party transactions and our audit planning and detailed work will address the fraud risks arising from related party transactions. This is in recognition of the fact that many significant corporate frauds utilised related party transactions to some degree.

We will make enquiries as to the identity of related parties in respect of the Trust and management's systems to identify and record related party transactions including reviewing any related party declarations prepared and signed by the Trust members of the management team.

This means that the Charity should have:

- a comprehensive list of all related parties, and
- details of all transactions with them.

The definition of who comprises a "related party" now also includes these considered to be "key management personnel".

We will also look to identify any significant transactions outside the course of businesses – we are not expecting this to be an issue for WSCT, but will need to undertake specific procedures if these are in fact identified.

5 - Key audit areas

5.2 Key audit risks

The areas of audit focus are based on key risks which we have identified as part of our overall audit strategy as outlined in the table below:

	Audit Area and key risks	Our Approach
1	**Income recognition – Car Park Income** Risk that income is not complete.	• Confirm the systems and procedures which should be operating within the Car Park and the Council's review and monitoring processes thereof. • Consider testing the operation of procedures (council reconciliations per machine ID) on a sample basis. • Perform analytical review to budget/prior year for each Parking Machine. • Test a sample of Car Park machine records to receipt to ensure that income is complete. • Test online tickets (Ringo) issued to sales invoices and income allocation sheets.
2	**Income recognition – Rental income** Risk that income has not been accounted for in line with the terms and conditions of the rental agreements. Noting in particular that the KAA licence agreement has been extended again. We also note that the Pony Centre is currently operating on a peppercorn lease arrangement with the Council which might be subject to change.	• Ensure that rental income is accounted for in line with the respective licence agreements, noting any restrictions. • Ensure correct cut off has been applied in respect of rental advances or arrears.
3	**Authorisation, categorisation and allocation of expenditure (non-payroll costs)** Risk that expenditure is not authorised in line with the Trust's procedures. Risk that allocation of costs to each activity, and then between the service lines, is not accurate or consistent.	• Review the systems and controls around authorisation, monitoring and allocation of expenditure ensuring appropriate oversight was maintained during Covid-19 through appropriate alternative methods. • With reference to the Council's Financial Procedures, identify and test the key controls over expenditure authorisation; payment and allocation. • Review the controls in place over supplier set up and on-going due diligence. • Ensure there are effective controls in place to ensure that grounds maintenance contracts are monitored against work performed. • Review the cost allocation methods and sample test. We note that allocations of support costs are expected to be done on a consistent basis with the previous year • Ensure all contingent liabilities or provisions for future works/repairs are recognised as necessary or disclosed as appropriate with specific reference to any HS2 activity.

5 - Key audit areas

	Audit Area and key risks	Our Approach
4	**Fixed Assets** The Trust owns substantial assets. A significant proportion were passed to the Trust under the Wormwood Scrubs Act 1879. As such there is limited information regarding their value to the Trust. As such their carrying value in the financial statements is low. Other assets do have carrying values. There is a risk that assets have not been accounted for in line with the Charities SORP.	• Review the historical information held on the assets gift to the Trust. • Assess the treatment of the fixed assets held against the requirements of the Charities SORP. This review will include the provisions afforded to mixed motive investments and heritage assets.
5	**Financial reporting including Covid-19 reporting** There is a risk that Trustees' Report and financial statements are not fully compliant with the revised Charities SORP or are materially misstated through errors in their compilation. Effective for accounting periods starting after 15 December 2019, there have been revised auditing standards, one in particular is in relation to accounting estimates -revised ISA 540 (as noted in section 4.6). We will review the appropriateness of estimates used in the financial statements and ensure TCWG are aware of and satisfied with any significant estimates used. The Charity SORP-making body has issued advice on the financial reporting implications that may arise from the measures being put in place to contain the impact of the COVID-19 virus. https://www.charitysorp.org/media/648486/sorp-covid-19.pdf The advice is for Financial Statements that have yet to be approved. The advice looks at the considerations to be taken into account when producing the Trustees' report and also considers post balance sheet event reporting. This guidance must be considered when preparing the 31 March 2021 accounts.	We will review the financial statements to ensure that they properly reflect the underlying financial records and include the disclosures required. As part of our audit we will: • Check a sample of accounts to ensure there is a full audit trail to the financial statements; • Review the financial statements against legal, regulatory and the SORP 2015 requirements and sector best practice; • Review the assessment by the Trustees of the risk that the financial statements may be materially misstated as a result of fraud; • Ensure that the Trustees Annual Report is materially consistent with the financial statements and our understanding of the Charity; • Review the Charity's risk register and ensure any key issues for the financial statements have been considered in the context of our audit, and appropriately managed in the context of charity's governance; • Review the Trustees' Report for consistency with the financial statements and to ensure it complies with applicable regulatory and SORP 2015 requirements including revised ISAs (540, 570 and 700). • We will consider the organisation's response to the guidance issued by the Charity SORP Committee on Covid-19 as well as guidance issued by the Charity Commission. • Review the Trustees assessment of the Going Concern Assumptions • Critically review and evaluate the assumptions used in forecasts and budgets • Consider the disclosure relating to going concern in the trustees' report and accounting policies • Consider the explicit statements relating to going concern now required in our audit report. • The accounting policies of the charity will need to be considered in light of ○ Effect on key assumptions and estimates, including judgemental matters are and areas of future uncertainty.

5 - Key audit areas

	Audit Area and key risks	Our Approach
	Due to the unprecedented situation regarding the Covid-19 pandemic we will consider the impact that this could have on the organisation regarding going concern and your planned response.	○ Consideration of the going concern basis of preparation of the financial statements – use normal considerations hence existing Financial Reporting Council guidance is applicable and could be helpful. ○ Assessment of possible material uncertainties, adequacy of disclosures under these circumstances, or where conclusion is the charity is not a going concern, usual consideration of break-up basis approach.

6 - Fees

6.1 Fee proposal

Our proposed audit fee (excl. VAT) is:

Fee for the audit of the financial statements of WSCT for the year ended 31 March 2021 (2020: £9,750)	£9,950
This fee excludes VAT at the prevailing rate	

Our fee will be billed in line with completion of defined stages of our work – at the planning, fieldwork, reporting and completion stages.

6.2 Assumptions

Our proposed external audit fee is based on the following assumptions:

- We will provide you with a clear list of information required for the audit in accordance with the agreed timetable.
- All accounting work will be carried out by you; we will be provided with the draft statutory Report and Accounts for WSCT in accordance with the agreed timetable. The financial statements will be based on a format previously agreed between us and you will be fully responsible for the preparation and typing. We will ensure that we update you in advance of any changes in disclosures, formats or accounts structure, particularly in respect of the Charities Act and Charities SORP requirements (and related Regulations).
- You will provide an “audit file” with fully referenced supporting schedules tying back to the numbers in the ledger and those presented for audit. This will include a final, accurate trial balance, with clear mapping from the accounting software to the management accounts and to the statutory accounts, and clear rationale for the allocation of costs used.
- Your staff will be available to respond to our questions on a timely basis – we will arrange meetings in advance wherever possible to minimise disruption. You will provide us with necessary access to your records, contracts, files and working papers.
- You will provide us responses to requests for information and queries (via email or Inflo, our data sharing system) within 24 hours of receipt of the request during the interim and audit fieldwork.
- No significant changes to the draft financial statements prepared for audit are required.
- The nature, scale and scope of the activities of the Trust will not change materially from that which has been discussed with us during our planning meeting and
- As noted in the introduction section, due to the Covid-19 crisis, the majority of the audit fieldwork and meetings will be undertaken remotely.

Sector update

The Charities Bill

In May, the Queen's Speech saw the announcement of the Charities Bill, which is the result of several years of coordinated effort between the Government, the Law Commission, the Charity Commission, and a number of charitable organisations. The Bill aims to simplify the legal framework for charities, helping them dedicate more time and resources to their important work.

What are the key changes?

The main changes proposed by the Charity Bill are as follows:

1. **Property disposals**

Currently for most land disposals, charity law requires the engagement of a RICS qualified surveyor to write a detailed report on the property. The same standards are required of the sale of a small slice of land as for a complex development, which has been previously criticised as being disproportionate and burdens smaller charities with unnecessary costs.

By increasing the pool of advisory professionals and ensuring the report content will be matched to the nature of the transaction, the Bill seeks to break up this monolithic approach with one that is tailored to the scale of the transaction.

2. **Ex-gratia payments**

Trustees currently require the authorisation of the Charity Commission for all ex-gratia payments. However, the Bill will introduce a power that will allow Trustees to make small ex-gratia payments without prior consent from the Charity Commission.

The power will also allow Trustees to delegate ex-gratia decision making to a member of staff, though this carries with it further potential reporting obligations in such a case.

This regime allows further flexibility for Charities to respond to situations without incurring the additional expenses and delays associated with direct applications to the Charity Commission.

3. **Governing documents**

The process for charities and Trustees to amend their governing documents or Royal Charters will be simplified and streamlined, an area that has in the past been highly restrictive and particularly difficult for unincorporated charities.

The Charity Commission will now use a three-part test to decide upon any amendments:

- The original purposes of the charity
- The desirability to keep the proposed purposes close to the originals.
- The need for the charity to have purposes which are suitable and effective

Through these changes, Charities should gain greater flexibility when considering amendments to their governing documents, but without losing controls and assurances from the Charity Commission.

4. **Permanent endowment**

The Charities Bill will introduce a power which will allow Charities to spend up to 25% of their permanent endowment without prior approval from the Charity Commission, providing the Trustees can give assurance that they will recoup those funds over a period of 20 years.

In the case of permanently endowed investment portfolios, the Bill also introduces a power to release the permanent endowment restrictions on making investments with an uncertain return.

This will allow charities greater ability to leverage their assets for the furtherance of their charitable objectives and remove the time and resource costs associated with applications for Commission approval.

5. **Supply of goods to a charity by a Trustee**

Currently, Trustees can only be paid for the supply of services to a charity. However, the Bill seeks to allow trustees to be paid for goods provided to a charity, in certain circumstances. This covers a wide range of goods, and will hopefully allow greater opportunity for charities to access resources from Trustees when needed, without requiring the permission of the Charity Commission.

6. **Charity appeals**

Under the regulations proposed by the Bill, rules regarding failed fundraising appeals will be simplified and made more proportionate, rather than a one-size fits all policy. If a charity appeal does not raise sufficient money to be successful, the charity will be able to spend donations below £120 on similar charitable activities, without needing to contact the individual donors for permission to do so. This will greatly reduce the unnecessary administration costs associated with a failed charity fundraising appeal.

Conclusion

The Bill has had its first and second readings in the House of Lords, so no immediate changes have been made, but over the coming months the Bill will continue its journey through Parliament and subsequently take legal effect. As it does so, the MHA Not-for-Profit team will investigate further changes proposed.

Fundraising Regulator Self-Reporting

The Fundraising Regulator has announced plans to develop a self-reporting tool for fundraising incidents. This move comes after receiving responses to its Annual Complaints Report that showed a demand for a tool that would allow charities and other organisations involved in fundraising to report incidents that breach the Code of Fundraising Practice themselves.

What are the benefits?

The Fundraising Regulator hopes that the introduction of a self-reporting tool will streamline the process of reporting fundraising incidents. As it stands, there is no formal facility for organisations to report breaches of the Code of Fundraising Practice.

The “Self-Reporting” pathway will allow the Regulator to provide advice and guidance to users in a timely manner, building a closer relationship between organisations and the Fundraising Regulator.

The pathway will also hopefully increase reporting of said incidents, creating a larger pool of information, allowing the Fundraising Regulator to improve its understanding and ability to respond to incident and risks in the sector.

Concerns

In its announcement of these plans, the Regulator reassured users that it understands the present reporting requirements placed on charities, whether it be to the Charity Commission, ICO, Police or other bodies.

It has asserted that the self-reporting function does not seek to increase the burden on charities or duplicate reporting that already occurs, but rather to gain information in a co-ordinated fashion, and only where the regulators involvement would add value.

Next steps

The Fundraising Regulator plans to design criteria and guidance for self-reporting and build an expectation of what situations would self-reporting be appropriate for over the course of the next year. Further updates will be given as there is currently no timetable for this development.

Sector update

Restoring trust in audit and corporate governance

Following the findings of the Kingman Review, the CMA Study, and the Brydon Report, the Government has opened a consultation aiming at restoring trust in audit and corporate governance. This consultation is wide-ranging and considers a great many potential changes to regulation concerning these areas, some of which may influence charities and non-profit organisations.

How does this effect the Not-for-Profit Sector?

Whilst the majority of issues discussed in the paper impact all sectors through audit, there is one particular section that this edition of eNews will bring attention to. Specifically, a consideration of whether large third sector entities (including further education institutions, charities, housing associations and more) could be considered Public Interest Entities (or PIEs), given the often-public nature of charitable purposes.

Public interest Entities have greater reporting requirements than other entities, and up until now their definition has been limited to specific types of entities that the public has a vested interest in, for instance insurance providers.

The consultation shows that the Government is open to the possibility of larger charities meeting the definition of Public Interest Entities, with the caveat that they do not want to create a regulatory gap for the larger entities, and they also understand that there is already sector-specific regulation via the Charity Commission and related bodies.

A further consideration is that an appropriate measure to avoid these concerns might be a different threshold to be considered a PIE for third sector organisations given their relative size. A potential alternative threshold was placed at £100m.

Conclusion

The consultation is due to close on the 8th of July, and so no changes have yet been made. But we will be able to further investigate the impact of this movement depending on the results of the consultation.

Charity Commission – Improving the Register of Charities

Many of us reading our regular monthly Charity eNews letter will be familiar with the Charity Commission Register of Charities, and probably use it regularly.

The Register of Charities plays a vital role in helping people make informed decisions about which charities to support. You can use it to check the 170,000 charities which are registered, download data for research, find out whether donations are being spent in the way they should, and search for charities that might be able to help you.

The Commission updated the register to a new version back in September 2020 to give more useful information (such as employee benefits and income from Government sources).

What has been improved:

- Quick search to allow an easier search without having to return to the landing page
- Downloading of data (particularly for batch downloads) is easier to allow users to perform their own analysis of the Register's data.
- Where a charity has sought a filing extension, messaging to clearly identify where it has been agreed
- Detailed breakdown of financial history and prior 5 year's assets and liabilities in interactive charts
- Linking charities with fund transfers

The Charity Commission's new version of the Charity Register can be viewed and further feedback provided.

Sector update

We have also prepared a How to Guide for Charities and Covid-19 which can be found here https://www.macintyrehudson.co.uk/publications/article/how-to-guide-charities-and-covid-19 This provides some quick facts that charities need to be aware about and also sign-posts our more general guidance.

A briefing on the guidance issued by the Charity SORP Committee related to financial reporting matters can be found here https://www.macintyrehudson.co.uk/publications/article/how-to-guide-covid-19-charities-sorp-committee-guidance

We prepare regular updates on accounting, tax, regulations and legal charges affecting the sector. These include a monthly Not for Profit eNews update which can be found at:

http://www.macintyrehudson.co.uk/sectors/not-for-profit

Our further and higher education publications can be found here:

https://mha-uk.co.uk/insight/knowledge/fe-he-digest-summer-2021/

Other sector publications and guidance can be found at:

http://www.macintyrehudson.co.uk/publications

We have also recently established our MHA Trustee Hub – an online resource for good governance, which includes templates, checklists and guidance to help charities improve the effectiveness of their governance. See https://mha-uk.co.uk/charity-trustee-hub/

If you would like to subscribe to receive our publications electronically, please register at:

http://www.macintyrehudson.co.uk/subscribe