

**Buzzacott**

## **European Association for Cardio-Thoracic Surgery**

**Post-audit management report**

**Year ended 31 March 2021**

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## Executive summary

The purpose of this report is to bring to your attention the findings from our recent audit of the financial statements of European Association for Cardio-Thoracic Surgery (EACTS) and its subsidiary undertakings (EACTS Trading Company Limited, EACTS Publishing Limited and European Academy for Thoracic and Cardiac Surgery Limited) for the year ended 31 March 2021. We appreciate that you will already be aware of some of the matters contained in this report. However, in accordance with International Standards on Auditing (UK) (ISAs) we are communicating them to you formally.

### Purpose of the external audit

Our work during the audit was performed with a view to expressing an opinion on the financial statements for the year ended 31 March 2021 and other matters required by legislation.

Our audit work included consideration of the internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of your system of internal control.

The matters being reported are limited to those that were identified during the audit and that we conclude are of sufficient importance to merit being reported to those charged with governance.

### Audit progress

We are pleased to report that the audit of the financial statements, from our perspective, went well and in accordance with the agreed timetable subject to the items noted as outstanding below.

We would like to take this opportunity to thank all those with whom we dealt during the audit for their assistance and co-operation, in particular Nicoleta Marasescu, Vanessa Hill and Brendan Eley.

## Key audit findings

### Annual Report and Financial Statements format

The financial statements have been prepared, as last year, in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice (Charities SORP FRS 102).

There are no significant changes to the format of the financial statements this year. The financial statements comply with the additional guidance on the implications of COVID-19 and charity financial reporting which was released by the Charities SORP Committee in March 2020.

### Auditor's report

We do not propose any modifications to our audit report for the group and the charity and, therefore, we intend to issue an unqualified opinion in our auditor's report. Following recent changes to the International Standards on Auditing (UK), our auditor's report has been updated to include:

- an explanation as to what extent our audit was considered capable of detecting irregularities, including fraud; and
- revised wording for our conclusion relating to the trustees' use of the going concern basis of accounting and the identification of any material

uncertainties that may cast significant doubt on the charity's ability to continue as a going concern. Our report will confirm that no material uncertainties have been identified.

Similarly, the audit report within the accounts for EACTS Trading Company Limited is unmodified.

Please note that given the level of net liabilities in both EACTS Publishing Limited and European Academy for Thoracic and Cardiac Surgery Limited, we have, as last year, included a specific section within our auditor's report to draw the readers' attention to the support being made available by EACTS. We have requested that a letter of support be provided by the trustees of EACTS to evidence this support for the two companies.

### Adjustments made during the audit

A list of the adjustments which have been made to the figures presented to us for audit is attached in Appendix 1. These have all been discussed and agreed with Nicoleta Marasescu and Vanessa Hill.

We will obtain written representations from you, as trustees, that you concur with these adjustments.

## Unadjusted misstatements

A list of misstatements identified during our audit which remain unadjusted is attached in Appendix 1. The list does not include items which are considered to be clearly trivial. We will obtain written representations from you, as trustees, that these are not to be adjusted, due to their lack of significance to the overall result portrayed by the financial statements.

## Significant deficiencies in the accounting and internal controls systems

Our work during the audit included an examination of some of the charity's transactions, procedures and controls with a view to expressing an opinion on the financial statements for the year ended 31 March 2021.

We found no significant deficiencies in the accounting and internal control systems during our audit.

## Other observations in respect to the accounting system and financial reporting function

Our observations and recommendations as a result of our audit work are given in Appendix 2. Each comment has been given a priority rating ranging from A to C. 'A' (red) indicates that, in our opinion, immediate action is required; 'B' (orange) indicates items that should be addressed shortly; and 'C' (yellow) indicates that the matter, although important, does not warrant urgent attention.

The detailed observations and recommendations included in the Appendix relate to:

\*Indicates points that are repeated from last year.

Priority	No of points	Relating to
A	5	<ul style="list-style-type: none"> <li>● Lack of bad debt policy and procedures</li> <li>● Lack of supporting evidence for the payments to University of Freiberg*</li> <li>● Lack of documented financial policies and procedures*</li> <li>● Authorisation of purchase invoices*</li> <li>● VAT review</li> </ul>
B	7	<ul style="list-style-type: none"> <li>● Simplification of group structure*</li> <li>● Lack of evidence of review of credit card statements</li> <li>● High cash balances*</li> <li>● Review of investment and reserves policies*</li> <li>● Access to bank account</li> <li>● Historic debtors and creditors*</li> <li>● Membership data</li> </ul>
C	0	

The matters have all been discussed with Nicoleta Marasescu, Vanessa Hill and Brendan Eley.

## **Accounting policies, accounting estimates and disclosures**

The accounting policies used in preparing the financial statements are unchanged from the previous year.

Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies and estimation techniques adopted by the charity. We found the disclosed accounting policies, significant accounting estimates and the overall disclosure and presentation to be appropriate for the charity. However, we wish to note the following:

### Bad debt provision

During the audit we noted that the bad debt provision has not been updated since the previous year. The finance team are unclear on the bad debt policy. There also does not appear to be a credit control system in place. An adjustment has been raised in Appendix 1 to update the provision and a recommendation has been included in Appendix 2. Further details are included on page 6.

## **Prior year's post audit report**

We are pleased to report that progress has been made against some of the recommendations raised in the prior year's report, particularly in the areas of historic debtors and creditors and missing documentation. However, several recommendations have not yet been fully resolved and we have therefore raised these points within Appendix 2.

## Key audit risks and outcomes

As part of our pre-audit planning process, we identified those areas where we believe there is a higher possibility that a material error may appear in the financial statements. In the pages which follow we have provided a brief summary of the outcome of our audit work in relation to those higher risk areas.

Risk area	Summary and conclusion
<p><b>Income recognition</b></p>	<p><b>Risk:</b> The charitable group receives a variety of different income streams through the charity and its three trading subsidiaries. There is a risk that the timing of revenue recognition is incorrect or revenue is incomplete.</p> <p><b>Conclusion:</b> We have reviewed the charity's income accounting policies and ensure that these are appropriate for the organisation. As part of our work, we have tested a sample of income transactions to ensure that the accounting policies are being correctly and consistently applied. Detailed testing was performed on a sample of income from each material income stream.</p> <p>During our testing of publishing income we reviewed publishing invoices and contracts to ensure that cut off had been applied correctly, this led to an adjustment to recognise an additional €150k in the year in relation to the new contract signing fee being raised and this is included in Appendix 1.</p> <p>During our testing on membership income, we were unable to complete a proof in total because reliable membership numbers could not be provided. We recommend that the membership number records are reviewed over the coming year. Our other tests on membership income were satisfactory.</p>

Risk area	Summary and conclusion
<p><b>Significant accounting estimates</b></p>	<p><b>Risk:</b> There is a greater risk of misstatement in the financial statements where the value of items is estimated by management. The assumptions and methods chosen in making significant estimates have a potentially material impact on the reported results and financial position of the group. The principal areas of estimation identified are the useful economic lives of fixed assets for depreciation purposes, provisions for bad debts, the allocation of costs and any further provisions included at 31 March 2021.</p> <p><b>Conclusion:</b> We reviewed the depreciation and amortisation policies and consider the charges to be appropriate. We note, following our recommendation last year, that the land element of the leasehold property is no longer being depreciated. However, an adjustment has not been made for depreciation incurred to date. This would equate to approximately £40k, this has been included as an unadjusted item in Appendix 2.</p> <p>We note that the bad debt provision had not been updated from the prior year. The charity’s policy is to provide for any outstanding debts from members which are over two years old. An adjustment was raised to update the provision in line with this policy. From subsequent discussions with management, it was agreed that the provision needed to be further increased to also cover all debtors over 6 months old, which are likely to be irrecoverable. An adjustment has been made to increase the provision to a total of €297k. This is included in Appendix 1.</p> <p>The finance team were unable to quantify the amount of income received in respect of debtors previously provided for. We have been unable therefore to assess the accuracy of the prior year’s estimate. A recommendation on bad debt policy and procedures has been included in Appendix 2.</p> <p>There were no other accounting estimates that were material to the accounts.</p>
<p><b>Related party transactions</b></p>	<p><b>Risk:</b> In all organisations, there is an inherent risk that transactions with related parties could be undertaken on terms that benefit those who control the entity at the expense of other stakeholders or the entity itself. For this reason, UK GAAP requires transparent disclosure of any significant transactions and balances arising between the group and its related parties.</p> <p><b>Conclusion:</b> The group’s procedures for identifying related parties, associated transactions and potential conflicts of interest were reviewed. This includes the requirement for each trustee/director to update their declaration of interests annually.</p> <p>Review of documentation did not identify any further potential related party transactions to be included in the financial statements.</p>



Risk area	Summary and conclusion
<p><b>Management override of controls</b></p>	<p><b>Risk:</b> There is an inherent risk in all organisations that management may be in a position to override any controls in place to manipulate results or conceal unauthorised or inappropriate transactions. This risk can be partly offset by the transparency of financial information and scrutiny by management and the Board.</p> <p><b>Conclusion:</b> We carried out specific procedures, including using computer assisted auditing techniques, over journal entries, suspense accounts and accounting estimates. We considered the potential for management override of controls and any overt or implied incentives for management to influence the reported results. We also assessed the validity of expenditure by substantive testing and by using computer assisted auditing techniques to identify and investigate any large or unusual items. We have no suspected instances of management override of controls to report.</p>
<p><b>Follow up to 2020 audit</b></p>	<p>Within our post audit report for the year ended 31 March 2020, we made a number of recommendations relating to the governance of the charity and the systems and controls in operation during 2019/20.</p> <p>As part of our audit work for the year ended 31 March 2021, we have reviewed progress against these recommendations. As noted on page 4, we note that progress has been made in some areas, however there are a number of control weaknesses that still exist and these have been included in Appendix 2.</p>

## Other information

### Letter of representation

We enclose the final draft letters of representation which we will request the trustees/directors to approve and sign at the same time as the financial statements.

### Professional ethics

In accordance with our profession's ethical guidance and further to our letter to you for the year ended 31 March 2021 confirming audit planning arrangements there are no further matters to bring to your attention in relation to Integrity, Objectivity and Independence.

### Current developments

We have attached a summary of recent and ongoing developments as Appendix 3 to this report.

### Updates, insights and seminars

As part of our commitment to the charity sector, during the year the Charity Team issues occasional Updates and Insights on matters of relevance to the sector and also holds a number of seminars free of charge throughout the year. We would be delighted to welcome representatives of your charity to our

seminars or to add trustees and management to our email distribution lists if this would be welcome.

### Conclusion

This report has been prepared for your private use only. It has been prepared on the understanding that it will not be shared with any third party without our prior written consent and we can therefore assume no responsibility to any other party. The advice contained herein is based on the information you have provided and UK law and judicial and administrative interpretation as of the date of this report. Should the facts provided to us be incorrect or incomplete or should they change, our advice may be inappropriate. Buzzacott LLP accepts no liability for losses arising from changes in UK law, interpretation or practice or in public policy that are first published after the date of this report.

If you require any further information or assistance, we shall be very pleased to help you.

**Buzzacott LLP**

## Appendix 1: Audit adjustments and unadjusted misstatements

### Audit adjustments

	Description	Statement of financial activities		Balance sheet	
		Debit (€)	Credit (€)	Debit (€)	Credit (€)
1	DR Exchange differences CR Income – Charitable activities <i>Being the credit exchange gain being incorrectly included within expenditure.</i>	344,033	344,033		
2	DR Salaries DR Salaries DR Salaries CR Income – Publishing CR Income – Charitable activities CR Income – Publishing <i>Being the reclassification of staff costs included within income.</i>	408,610 163,652 11,888	408,610 163,652 11,888		
3	DR Salaries Control DR Salaries Control CR Other debtors CR Other debtors <i>Being an 'other debtor' relating to 2020 which was left in both debtors and creditors salaries control. Net result was nil.</i>			3,615 18,462	3,615 18,462
4	DR Deferred income CR EPUB income <i>Being reversal of the deferral of income which should be included within 2020-21.</i>		150,000	150,000	

	Description	Statement of financial activities		Balance sheet	
		Debit (€)	Credit (€)	Debit (€)	Credit (€)
5	DR Computer equipment cost DR Depreciation expense CR Software development costs CR Computer equipment acc. Dep. <i>Being the capitalisation of an asset (and associated depreciation) included within revenue expenditure.</i>	22,456	68,048	68,048	22,456
6	Dr Exchange differences CR CCLA – Charity Deposit Fund <i>Being the exchange movement on translating CCLA bank account at the year end.</i>	92,607			92,607
7	DR Bad debt provision CR Bad debt expense <i>Being the movement on the bad debt provision for the year.</i>		19,780	19,780	
8	DR Publishing – Journal costs DR Charity – Council expenses DR Academy – Domain & Committee costs CR Retained earnings <i>Being moving journal into the prior year.</i>	531,824 21,563 71,682			625,069
9	DR Wages and salaries – Trading Ltd CR Other income – Trading Ltd <i>Being grossing up the furlough income.</i>	8,217	8,217		
10	DR Trade creditors control account – Trading Ltd CR abstract submissions – Trading Ltd <i>Being the write-off of a creditor balance, which has been present since 2017</i>		57,281	57,281	

The above adjustments have increased the group's surplus by €271,615.

## Unadjusted misstatements

Description	Statement of financial activities		Balance sheet	
	Debit (€)	Credit (€)	Debit (€)	Credit (€)
<b>1</b> DR Depreciation expense CR Building depreciation <i>Being the depreciation on the building at the cost, not fair value price.</i>	3,876			3,876
<b>2</b> DR Building depreciation CR Depreciation expense <i>Being the brought forward adjustment for the land element depreciated over the previous eight years.</i>		40,960	40,960	
<b>3</b> DR Prepayments CR Award expenditure <i>Being the prepayment of an item of expenditure which relates to six months in the next financial year.</i>		16,401	16,401	

If adjusted for, the above items would have increased the group's surplus by €53,485.

## Appendix 2: Audit observations and recommendations

	Observation	Implication	Recommendation	Management comment
A	<p><b>Bad debt policy and procedures</b></p> <p>Trade debtors included on the year end listing have all been outstanding for over 120 days. The bad debt balance has also remained unchanged from 2020, despite membership debtors increasing. There has been no review of bad debts in the year.</p>	<p>There is a risk that weak controls over debtors mean that additional bad debts will arise.</p>	<p>We <b>recommend</b> that a credit control system is implemented.</p>	<p><i>Over the coming year, EACTS will be reviewing unpaid memberships and instigating a strategy of payment chasing and enhancing the 'membership offer' to encourage timely subscription payments going forward.</i></p>
A	<p><b>Finance policy and procedures manual</b></p> <p>No finance policy and procedures manual has been developed yet.</p>	<p>There is a risk that the activities of the charity are not monitored closely or abiding to the charity's objectives.</p>	<p>We <b>recommend</b> that these policies and manuals are developed and approved by the trustees.</p>	<p><i>A Financial Controls &amp; Procedures Manual is now in draft. This will be taken forward by the Finance &amp; Operations Committee and it is hoped will be in force before the end of December.</i></p>
A	<p><b>Authorisation of expenditure</b></p> <p>Three (out of a sample of 12) expenditure invoices for over £50k had not been signed off by the appropriate personnel.</p>	<p>There is a risk that expenditure could be incurred which is not in line with the charity's objectives.</p>	<p>We <b>recommend</b> that a financial procedures manual is implemented which give clarification on the authorisation process and this is then adhered to.</p>	<p><i>See above. Expenditure authorisations although currently formally agreed through ad hoc policies, will be collated in a more formal, Trustee approved Manual.</i></p>

	Observation	Implication	Recommendation	Management comment
<b>A</b>	<p><b>University of Freiburg office costs</b></p> <p>For a portion of the year there was no contract in place and there is no supporting documentation available for the employees of the Freiberg office.</p>	<p>The head office of the charity does not have clear oversight or control of these costs.</p>	<p>We <b>recommend</b> that the charity requests a breakdown of the monthly costs and reviews these prior to payment being made.</p>	<p><i>A detailed breakdown of these costs will now be sought from the University of Freiburg. For the 21/22 period, a more formal contract is in place and it is the intention that the relationship with Freiburg ends this year.</i></p>
<b>A</b>	<p><b>VAT review</b></p> <p>The procedures for accounting for VAT and the nominal codes for all entities need to be reviewed. At the year end the VAT balance was a creditor of €193k.</p>	<p>There is a risk that VAT balances in the accounts are misstated or incorrect balances could be paid over to/claimed from HMRC.</p>	<p>We <b>recommend</b> that the charity seeks specialist advice regarding the treatment of VAT and fully reviews the VAT nominal codes.</p>	<p><i>Agree. Buzzacott will be engaged for this review which was being taken forward by Laura Wakefield before her departure.</i></p>
<b>B</b>	<p><b>Simplification of group structure</b></p> <p>There is scope for EACTs to simplify its group structure. Discussions are currently ongoing.</p>	<p>The group's activities and reporting are unnecessarily complicated.</p>	<p>We <b>recommend</b> that the charity seeks specialist advice regarding the simplification of the group structure.</p>	<p><i>Charity specialist lawyers Bates Wells &amp; Braithwaite continue to advise on and progress this matter. Currently, an audit of major agreements is under way in order to understand the full extent of the impact of winding up the companies. It is the intention that only one (possibly two) trading subsidiaries will survive in 2022/23.</i></p>
<b>B</b>	<p><b>Review of credit card statements</b></p> <p>There is no evidence of review and authorisation of credit card statements.</p>	<p>There is a risk that credit card expenditure could be incurred which is not in line with the charity's objectives.</p>	<p>We <b>recommend</b> that the review and authorisation process is formally documented.</p>	<p><i>A new policy is agreed that the credit card statements of Sharon Pidgeon and Kirsty Clarke (and any others during the year) will be DocuSign approved by Brendan Eley. Brendan Eley's statements will be sent for authorisation to Rafa Sadaba.</i></p>

	Observation	Implication	Recommendation	Management comment
<b>B</b>	<p><b>High cash balances</b></p> <p>We note that, although €6 million has been invested with Insignis during the year, EACTs still has very high balances of cash held by its bank.</p>	<p>The charity is exposed to increased risk by not diversifying its reserves and is potentially missing out in investment income and gains.</p>	<p>We <b>recommend</b> that the charity reviews its investment and reserves policies and considers further investing its surplus cash.</p>	<p><i>Although some steps have been taken to diversify investments (through the Insignis Cash Platform) more needs to be done. This has been paused in order to better understand the currency/exchange costs and implications. The Finance &amp; Operations Committee will also be tasked with identifying Investment Managers as well as placing other cash amounts with multiple institutions (eg through Insignis).</i></p>
<b>B</b>	<p><b>Access to bank account</b></p> <p>At the audit date the charity was unable to access one of its bank accounts (Endowment Fund EACTSEF-CHF1, balance €105k). In addition the charity does not have control of the EBTCs bank account.</p>	<p>The charity does not have control or oversight of funds within this bank account.</p>	<p>We <b>recommend</b> that the charity works with the bank to regain control over these bank accounts.</p>	<p><i>The CHF account is now under the control of EACTS. Further steps are being taken, liaising with the staff at Leiden University (where the EBCTs account signatory is believed to be based) in order to bring all outstanding funds and accounts under EACTS control.</i></p>



	Observation	Implication	Recommendation	Management comment
<b>B</b>	<p><b>Historic debtors and creditors</b></p> <p>During the testing of trade creditors, one of the balances tested related to invoices received in 2017. The creditor (€52k) has now been written off through an audit adjustment.</p> <p>In addition, within other creditors there is a balance of €163k which appears to relate to historic VAT entries.</p> <p>Also, the 'Registration system control' accounts in the charity and Trading Ltd (€161k debtor) require further investigation.</p>	<p>There is a risk that the debtors and creditors control accounts contain items which should have been written off.</p>	<p>We <b>recommend</b> that regular reviews of the creditor and debtor listings take place and that these are reconciled back to the TB.</p> <p>We <b>recommend</b> that this balance is investigated as part of the VAT review and the appropriate treatment is ascertained.</p> <p>We <b>recommend</b> that the Registration System control accounts are reviewed, historic entries investigated, and the appropriate treatment is ascertained.</p>	<p><i>Recommendation accepted.</i></p>
<b>B</b>	<p><b>Membership data</b></p> <p>During our testing of membership income, the proof in total using membership numbers could not be tied back to the income recognised in the accounts. The finance team are uncertain whether the membership numbers are accurate.</p>	<p>This makes it difficult to track which members have paid and which debts require chasing.</p> <p>It also means that the income in the accounts cannot be verified back to the number of members.</p>	<p>We <b>recommend</b> that the data and procedures surrounding membership income are reviewed and fully understood by the finance team.</p>	<p><i>A full of review of membership data, unpaid subscriptions and future policy on debt and unpaid subscriptions is long overdue. A full review will precede the developments already outlined, above.</i></p>

## Appendix 3: Current developments

### Trustees' Annual Report and Accounts

#### Government proposes stricter audit rules for large charities

Under proposals published by the government in March, some of the country's largest charities will face much stricter rules on financial reporting. The proposed reforms said that ministers are "open" to the idea of applying rules to big charities which previously only applied to firms, meaning senior staff at charities with incomes over £100m could become personally liable for any errors in the accuracy of financial reporting.

Under the proposal, "large third sector entities" may be classed as "public interest entities" (PIEs), adding "Until 2016, the Financial Reporting Council inspected the audits of charities with incoming resources exceeding £100m. A similar threshold might usefully be applied to third sector entities for present purposes."

It proposed creating a new regulator, the Audit, Reporting and Governance Authority (ARGA), with stronger powers to act. The Charity Commission said that its existing regulations could be extended, instead of introducing a new body. They believe there are ways to strengthen the transparency of larger charities using existing reporting processes that do not create additional regulatory and reporting burdens.

The reforms contained in the white paper can be found here:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/970673/restoring-trust-in-audit-and-corporate-governance-command-paper.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/970673/restoring-trust-in-audit-and-corporate-governance-command-paper.pdf)

#### Pension scheme deficits

The Charity Commission has reviewed 100 charities, each with a reported pension deficit with a combined deficit total of £557.4m. A detailed review was carried out of 40 of these charities, looking at

whether trustees were carrying out certain actions including:

- Obtaining actuarial valuations as they become available;
- Considering the implications to the charity's finances from the latest available actuarial valuations;
- Reviewing the charity's ability to continue to deliver its charitable objects;
- Seeking suitable specialist/professional advice;
- Ensuring that a clear explanation about the position is provided within the charity's accounts to provide transparency (especially important if the pension liability is a material amount); and
- Ensuring that for larger charities the Trustees Annual Report details any risks of uncertainties relating to the pension scheme and the trustee's plans to manage those risks.

Most were found to be handling risk appropriately but did not report the matter in enough detail in their annual accounts and trustee's annual report as required or recommended by the Charities' Statement of Recommended Practice (SORP).

The Charity Commission are mindful that reporting can feel like a burden, but it remains important to ensure that charities taking an active approach to managing significant financial risks like pension deficits, and that it is reflected and explained transparently in their accounts.

Specific advice on managing a pensions scheme deficit can be found via the pensions regulator: <https://www.thepensionsregulator.gov.uk/en/trustees/managing-db-benefits/funding/deciding-your-funding-approach>

## Policy and Governance

### Charity Governance Code – what has changed?

The Charity Governance code is a simple tool for charity trustee boards to ensure their governance structures are fit for purpose. It sets out seven

principles of good governance for charities of all shapes and sizes in England and Wales. A consultation on refreshing the Charity Governance Code was launched by its "steering group", made up of ACEVO, the Association of Chairs, the Chartered Governance Institute, NCVO, SCC and WCVA, in November 2019 and came to an end on 28 February 2020.

Following the consultation, the steering group have refined two of the seven principles: the Equality, Diversity and Inclusion (EDI) Principle and the Integrity Principle.

The steering group believe that great EDI practice sits at the heart of good governance, and that in order to effectively deliver their public benefit, boards must focus on achieving equality of outcomes carrying out their charitable purpose. To make better and more informed decisions, boards must be diverse. Societal power imbalances must be prevented from playing out in the boardroom. In addition to this, the steering group believe EDI has the power to create social justice, in boardrooms,

organisations, across the charity sector as a whole and ultimately throughout society.

It is recognised that all charities are at different stages in their ongoing diversity journey. Four stages of recommended practice for charities have been set out. Boards should:

- Think about why EDI is important for their charity and assess the current level of understanding.
- Set out plans and targets tailored to each charity and its starting point.
- Monitor and measure how well a charity is doing, based on context specific goals set by the charity.
- Be transparent and publish the charity's progress.

Alongside EDI, the Code's Integrity principle has been updated. In the last couple of years, the charity sector has learnt a lot about integrity and safeguarding, and the harm that can be caused when integrity is abused. Integrity in charity

governance is much more than managing funds and financial assets well. It is also about values, ethical principles in all decision-making and creating a welcoming and supportive culture.

Following the Charity Commission's safeguarding regulatory alert last year, the steering group have put further emphasis on the right of everyone who comes into contact with a charity, including staff, volunteers, partners and beneficiaries – to be safe and to know how to speak up and raise concerns.

More information on the Charity Governance Code, and the updated principles, can be found at:

<https://www.charitygovernancecode.org/en>

## Charity Commission guides

The Charity Commission has launched a campaign aimed at helping trustees refresh their knowledge of charity governance and be “certain in uncertain times”.

A suite of 5 visually engaging animated videos promoting one of the regulator's 5 minute guides has been developed. The guides provide simple, easy

to understand information on all the governance basics trustees need to know. The campaign prompts trustees to consider their understanding of their key responsibilities by posing a question connected to each guide:

- Does every decision help your charity with its mission?
- Could your charity be drifting into activities that your charity is not set up to do?
- Is your charity reporting the right things at the right time?
- Could you spot a conflict of interest and manage it?
- Is there more you can do to prevent fraud?

Further information is provided at:

<https://www.gov.uk/government/news/regulators-new-5-minute-guides-will-support-charity-trustees-to-meet-duties>

## Charities Bill

The government has implemented the recommendations made by the Law Commission in 2017 in the reformed Charities Bill. There are four main amendments relating to powers around governing documents, improving how land transactions are carried out, making more use of the permanent endowment and simplification of incorporations and mergers. There are also changes to what charities can do with funds raised from failed fundraising appeals and removing the requirement to seek Charity Commission permission for small ex gratia payments.

A summary of the Bill can be found at:

<https://www.gov.uk/government/publications/charities-bill-factsheet/charities-bill-factsheet#what-the-bill-does>

## Responsible investment guidance

The Charity Commission has published guidance to help trustees make decisions on responsible investment. Trustees at all charities can decide

whether or not to adopt a responsible investment approach that reflects the charity's purposes and values, and not just focus on the financial return.

The guidance states "You can decide that rather than just focusing on the financial return on an investment, your approach will also take into account your charity's purpose and values.", i.e. health charities avoiding investments in companies whose products harm public health/environmental charities actively seeking to invest in renewable energy.

The full published guidance can be found here: <https://www.gov.uk/government/consultations/charity-responsible-investment-guidance/responsible-investment-draft-guidance-for-consultation>

## **Transparent and accountable governance**

In June 2020, the Charity Commission issued an alert for charities emphasising the importance of transparent and accountable governance. This alert was sent to trustees of large charities with complex governance and management structures that are in

a service-providing industry (e.g. health, education, disaster relief etc).

The alert was prompted following a Charity Commission investigation into the Royal National Institute of Blind People (RNIB) which found that some beneficiaries were being placed at undue risk of harm through what it describes as systematic weaknesses at senior levels including having a culture of dismissiveness toward Ofsted or CQC criticism, inadequate staff training and an overreliance on agency staff leading to poor recruitment practices. The full report can be read at: <https://www.gov.uk/government/news/rnib-failures-led-to-some-children-in-the-charitys-care-being-harmed-says-watchdog>

As a result of the RNIB investigation, the regulator has provided an alert to remind trustees, senior executives and staff of such charities on the best practice approach to good governance.

## **Trustees**

The role of a trustee is to ensure robust oversight of the charity's operations and structure. Trustees may

choose to delegate significant decision-making authority to senior executives and communication needs to be regular and effective. Trustees should also undertake an annual review of the charity's approach to identifying, prioritising and managing risks and establish a timely process for making and handling any complaints against the charity. The alert also suggests that clear lines of responsibility and reporting between all governance and management committees need to be made and that each body has the right mix of skills and is guided by appropriate terms of reference.

## **Executives**

An executive should have effective oversight of the charity's operations and have the confidence to fully disclose any incident to trustees, regulators or agencies on a timely basis. The Charity Commission encourages regular reporting to the Board on significant incidents which should also include a summary of how such incidents are managed and mitigated. Executives also need to provide assurance to trustees on the quality and safety of the charity's

activities and need to have confidence in third party suppliers if used on how they carry out their work.

## *Staff*

Service-providing charities make use of front-line staff or volunteers who serve and interact directly with beneficiaries, who are often vulnerable, and it is important that safeguarding responsibilities remain a top governance priority. The alert highlights the following points for charities to consider:

- Establishing safeguarding policies and procedures that all stakeholders follow;
- Ensuring there are skilled, trained staff/volunteers/trustees to protect people;
- Appointing a senior safeguarding lead to help co-ordinate the charity's safeguarding strategy through engagement both internally and with other agencies and partners; and
- Reviewing the charity's safeguarding arrangements on a regular basis.

The Charity Commission's full alert can be read at:

<https://www.gov.uk/government/publications/alert-for-charities-the-importance-of-transparent-and-accountable-governance/alert-for-charities-the-importance-of-transparent-and-accountable-governance>

## **Fraud and cybercrime**

The Government has published a comprehensive guide on how charities can protect themselves against fraud and cybercrime. The guide covers all aspects of fraud and cybercrime with useful links to relevant organisations that combat fraud in charities.

The guidance determines eight overarching principles for tackling fraud:

1. Fraud will always happen, even at charities;

2. Threats are constantly changing so it is important for charities to be able to adapt defences quickly;
3. Prevention mechanisms are better than cure;
4. Fraudsters exploit the trust and goodwill of a charity;
5. It is good to discover fraud as this is the first step in fighting fraud;
6. Report all fraud on a timely basis to Action Fraud, the relevant regulator or police;
7. Responses to fraud should be proportionate to the charity's size, activities and fraud risks;
8. Everybody involved in the charity should help fight fraud, especially trustees.

The fraud section of the guidance covers a broad range of issues, including how fraud should be reported if a charity is a victim of fraud, how a charity should protect itself from fraud and example policies on anti-fraud, whistleblowing and investigations.

As an ever evolving threat to all organisations, the guidance on cybercrime covers an array of topics. Of particular significance, the National Cyber Security Centre (NCSC) has produced an electronic learning training package covering top tips for staff that covers four key areas: defence against phishing, passwords, device security and incident reporting. The NCSC has also designed a toolkit specifically for boards to encourage wider discussions throughout the charity which contains information on how to plan a response to a cyber-incident. In the event of a cybercrime attack, Action Fraud, the national policing lead for fraud, has launched a 24/7 live cyber-attack helpline which is connected with the National Fraud Intelligence Bureau (NFIB).

The detailed guidance can be found at:

<https://www.gov.uk/guidance/protect-your-charity-from-fraud>

## Compliance

### Companies House reforms

In September 2020, the Department for Business, Energy and Industrial Strategy ('BEIS') published its findings in relation to a consultation on Companies House reform which it launched in May 2019. The government's response contains an overview of the proposed reforms. The key areas are as follows:

- Knowing more about who is setting up, managing and controlling companies  
The government plans to introduce compulsory identity checks on directors of companies, general partners in Limited Partnerships, designated members in LLPs and people with significant control (PSCs).
- Reforms to Companies House powers  
The government plans to extend the powers of Companies House to query, seek evidence for, amend or remove information on the register, and to share it with law enforcement if certain conditions are met.

- Protecting personal information on the register

The government plans to improve the processes for removing personal information from the register.

- Improved data accuracy and digital tagging  
The government proposes a further consultation on how to introduce full digital tagging of accounts to ensure consistency, easier identification and comparability of information on the register.

### Workplace etiquette

The Equality and Human Rights Commission has recently released guidance on how employers are able to take action to protect working relationships and the culture of organisations. A seven step plan has been recommended:

1. Develop an effective anti-harassment policy
2. Staff engagement
3. Assess and mitigate risks in the workplace
4. Reporting systems

5. Training
6. Handling complaints
7. Sexual harassment and third parties

More information can be found at:

<https://www.buzzacott.co.uk/insights/identify-tackle-and-prevent-inappropriate-banter-in-the-workplace>

## Tax

### Gift Aid

HM Revenue and Customs have updated their Gift Aid guidance to clarify that voluntary waivers of refunds and loan repayments can now be treated as eligible for Gift Aid. HMRC's previous concession last year in relation to waived refunds for events cancelled due to Covid-19 has effectively been converted into a permanent rule.

There must be an audit trail kept as evidence that the loan or refund was voluntarily waived by the donor as a Gift Aid donation. The level of evidence and documentation depends on the amount being

waived. All of the usual conditions of Gift Aid also need to be met, including obtaining a Gift Aid declaration from the donor.

### VAT – Digital advertising

HMRC have for some time insisted that most digital advertising supplied to charities should be subject to VAT because it is targeted. However, following a campaign by the Charity Tax Group, HMRC has now accepted, in Business Brief 13/2020, that VAT is not due on the majority of digital and web based advertisements, with the exception of social media advertising and advertising on subscription websites where adverts can be targeted at individual users.

This is welcome news for charities who were charged VAT passed on by advertising agencies, and for those who were also required to account for VAT under the reverse charge procedure where advertising was purchased from overseas. As the position has been quite unclear for a considerable amount of time, some charities may have been charged VAT which they should not have been on supplies of zero-rated online advertising service or have accounted for too much reverse charge VAT,

and they should review their past position in the light of the policy change.

Further information can be read at:

<https://www.buzzacott.co.uk/uploads/200720-digital-advertising-hmrc-response.pdf>

### New off-payroll working rules (IR35)

New rules were introduced from April 2021 for organisations who pay contractors using personal service companies. The off-payroll working rules are designed to stop the avoidance of payroll taxes where a client pays a worker via the worker's personal service company.

From April 2021, the responsibility of assessing whether contracts fall under the IR35 rules and implementing payroll deductions were extended to cover many private sector charities and other organisations. Previously the responsibility only affected organisations meeting the definition of 'public authorities'. New requirements have also been introduced that will affect both public authorities and other organisations. In addition to



public authorities, large and medium\* size entities also fall under the new IR35 rules.

Charities and organisations under the new rules must review their contracts to determine whether the IR35 rules apply. A 'Status Determination Statement' (SDS) must be prepared, explaining the charity's decision and reasoning for it. This SDS must then be given to the worker and their personal service company/agency. If the outcome is that the IR35 rules apply, the worker must go onto the charity's payroll with tax and NICs deducted, before the net payment is made to the worker's personal service company. The charity is also required to establish a disagreement process for any workers that wish to challenge the SDS they have been sent.

HMRC's online Check Employment Status for Tax (CEST) tool is useful in determining whether IR35 applies, however it is not definitive and it may be worth seeking further advice on uncertain engagements.

Further information can be found at:

<https://www.buzzacott.co.uk/insights/new-off->

[payroll-working-rules-ir35-what-your-charity-needs-to-do-before-april-2021](#)

*\*An incorporated entity is large or medium if any two of the following apply:*

- *Annual turnover (excluding donations and voluntary income) is more than £10.2 million*
- *Balance sheet total is more than £5.1 million*
- *Average number of employees is more than 50*

## Common Reporting Standard

Most charities have little to no compliance requirements under the Common Reporting Standard, but there is not a blanket exemption for the charity sector.

The Common Reporting Standard (CRS) is a reporting model imposed from 2016 in the UK by European Directive on Administrative Cooperation (DAC) to enable the exchange of certain financial information between tax jurisdictions under the Organisation for Economic Co-operation and Development (OECD).

The reporting requirements mainly catch financial institutions - however the scope is broad and can cover other types of organisation. Whether a charity is required to report at all, and what needs to be reported, depends on the charity and its activities.

A step by step guide to give an indication of what charities may need to do in order to comply with the CRS can be found at:

<https://www.buzzacott.co.uk/insights/common-reporting-standard-what-do-charities-need-to-do>