



General Osteopathic Council

Year ended 31 March 2020

Audit Findings Report



Audit / Tax / Advisory / Risk

Smart Decisions. Lasting value.

The Audit Committee
General Osteopathic Council
176 Tower Bridge Road
London
SE1 3LU

11 June 2020

Dear Committee Members

Audit for the year ended 31 March 2020

Following the completion of our audit fieldwork on the financial statements of the General Osteopathic Council (“GOsC”) for the year ended 31 March 2020 we have pleasure in submitting our Audit Findings Report setting out the significant matters which have come to our attention during our audit of which we believe you need to be aware when considering the financial statements. The matters included in this report have been discussed with the GOsC’s management during our audit and at our closing meeting on 5 June 2020. Matthew Redford and Ben Chambers have seen a draft of this report and we have incorporated their comments and/or proposed actions where relevant.

The final audit fieldwork was conducted remotely using a secure cloud-based document sharing facility and Skype, this allowed the process to continue efficiently. We were able to obtain all the information we needed to complete our work remotely. All information was provided to us promptly and was supported by clear explanations to which we would like to express our appreciation for the assistance provided to us by the finance team and the other staff at the GOsC during this year’s audit.

Use of this report

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

Yours sincerely

Crowe U.K. LLP

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1. Audit overview

Audit scope and approach

Our audit work has been undertaken for the purposes of forming our audit opinion on the financial statements of the GOsC prepared by management with the oversight of the Council (who are also the trustees of the GOsC) and has been carried out in accordance with International Standards on Auditing (UK) ('ISAs').

Our work combined substantive procedures (involving the direct verification of transactions and balances on a test basis and including obtaining confirmations from third parties where we considered this to be necessary) with a review of certain of your financial systems and controls where we considered that these were relevant to our audit.

We have commented below on matters that need to be finalised before we complete our audit and also later in this report on our approach to the key audit risks. Subject to the satisfactory completion of the outstanding matters, we will have obtained sufficient audit evidence and that there have not been any restrictions or limitations on our audit.

Communicating significant findings from our audit

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

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

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

We also report to you any significant deficiencies in internal control identified during our audit which, in our professional judgment, are of sufficient importance to merit your attention. We confirm that we have no significant control deficiencies identified from our audit which we need to bring to your attention.

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

Audit completion

We have substantially completed our audit in accordance with our Audit Planning Report which was sent to you and the senior management team on 14th February 2020, subject to the matters set out below.

- Completion of the going concern and post-Balance Sheet events reviews.
- Review of the final financial statements.
- Receipt of the signed letter of representation.

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

Key audit matters

In Section 2 we have discussed in detail the findings from our work in relation to this year's audit.

Additionally, going concern has become an increased risk area for all organisations given the current unprecedented environment surrounding COVID-19 and we have considered in Section 2 going concern and the impact of COVID-19 on the Council's Report and financial statements

Materiality and identified misstatements

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

The audit materiality for the financial statements set as part of our audit planning took account of the level of funds held by the GOsC and was set at approximately 2% of total assets. We have reviewed this level of materiality based on the draft financial statements for the year ended 31 March 2020 and are satisfied that it continues to be appropriate with 2% of total assets being approximately £70,000.

We also report to you any unadjusted individual errors other than where we consider the amounts to be trivial, and for this purpose, we have determined trivial to be approximately 5% of our audit materiality.

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

Ethical Standard

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

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

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

Legal and regulatory requirements

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

- Charities Act 2011
- The Charities (Accounts and Reports) Regulations 2008 (or updated Regulations if enacted before completion of the financial statements)
- Financial Reporting Standard 102 (FRS 102)
- The Charities SORP (FRS102) (effective 1 January 2015)

Financial statements

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

2. Key Audit Matters

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

2.1 Impact of Covid-19 on disclosures and going concern

We explained in our Audit Planning Report that in preparing the financial statements to comply with Financial Reporting Standard 102, the Council are required to make an assessment of the organisation's ability to continue as a going concern. In assessing whether the going concern assumption is appropriate, the Council are required to consider all available information about the future of the organisation in the period of at least, but not limited to, twelve months from the date when the financial statements are approved and authorised for issue.

The Council's going concern assessment is a key area of emphasis and importance for our audit and, in accordance with the requirements of ISAs (UK), our audit report includes a specific reference to going concern.

Management have provided us with their assessment of the impact of Covid-19 on the GOsC's finances. We understand that there will be some adverse effect on the GOsC's income due to resignations from the register and Osteopaths applying for non practising status. However the fall in income is currently expected to be modest and the latest data shows that since the 31 March 2020, a total of 30 registrants have resigned from the register with a further 158 registrants having applied to convert to non practising status which if confirmed for the entire year would equate to a fall in fees of approximately £60k.

In terms of expenditure it is expected there will be cost savings in some areas connected to staff working from home. Importantly the GOsC has liquidity in the form of investments (currently valued at £1.1m as at 30 June 2020) and cash which will provide support in managing any unexpected fluctuations in income and expenditure. We also note the free reserves at the 31 March 2020 held were £573k which is within the target range set by the council of between £350k and £700k.

As such, management have concluded that the Covid-19 outbreak has not impacted on the going concern status of the GOsC due to the level of continuing

funds available and limited impact on income. Management have also concluded that there are no other material uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern which require disclosure in the financial statements. Accordingly, the Council have concluded that the going concern basis continues to be appropriate in preparing that the financial statements and that adequate additional disclosures have been included to explain the impact of Covid-19 on the GOsC.

We considered the assumptions adopted by management regarding going concern to be reasonable and have concluded that no changes need to be made to our audit report. We were satisfied with the disclosures included in the Annual Report in relation to Covid-19.

To assist our clients to identify the key reporting implications we have published a report "Coronavirus: financial reporting issues for charities" and most of the matters discussed will be of relevance to the GOsC. this is available on our website <https://www.crowe.com/uk/croweuk/insights/covid-19-financial-reporting-charities> Covid-19 and the financial statements.

2.2 Recognition of registration fees

Registration fees totalled £2.89m in the 2020 financial statements (2019: £2.84m). The GOsC does not have a fixed renewal date for all registrants and instead (as required by the Osteopaths Act) a registrants' registration period commences on the date that their name was entered onto the register. As the GOsC's registration fee covers a 12 month period it is necessary to pro rate each registration fee in order to recognise the correct proportion in each financial year.

We understand that whilst a registrant's fee is calculated to cover the correct portion of each financial year, fees are deferred on a monthly basis. This means that whether a registrant joined the register on the 2nd or 28th of a month, they have the same month of renewal and the amount of fees deferred is the same for both individuals. As registrants joining dates will be evenly distributed

through any month, income recognition is considered to be correct when all registrants are taken into consideration.

As part of our audit testing we:

- Documented our understanding of registration fees including how they are received and how it is ensured that all fees are recorded and appropriately recognised;
- Developed expectations over the level of fee income based upon information obtained external to finance. This took into consideration the number of individuals on the register at each level and published registration fee.
- Substantively tested a sample of fee income, ensuring that it was recorded in line with the individual's registration date and at the correct level.
- Re-performed the deferred income calculation and substantively tested a sample of deferred income, ensuring that it was correctly calculated based upon the month of the individual's registration.

We did not identify any issues with the recording and recognition of registration fees.

2.3 Board and Committee allowances and expenses

Council members and individuals sitting on each of the GOsC's committees received remuneration including honorariums and allowances as well as reimbursed expenses for travel and subsistence. Payments of this kind represent a significant expense for the GOsC.

As part of our work we selected a sample of payments made to members of the Council and Committees and traced the amount to supporting documentation, ensuring that they had been authorised appropriately. All expenses claimed by members have an authorisation sheet attached which must be authorised by a head of department prior to any payments being made. For attendance allowances paid, we ensured that the amounts paid were at the correct rate and for the appropriate number of days. These payments follow the same authorisation process as those for expenses.

We were satisfied with the results of our work in this area.

2.4 Payroll

Payroll is the largest single expenditure item for the GOsC at £1.44m for the year ended 31 March 2020 (2019: £1.34m).

Our approach to this testing was based on analytical procedures, which considered gross pay, deductions and staff numbers to ensure that all trends and relationships appeared reasonable and that the totals agreed with the ledger.

As part of our detailed testing, we also selected a sample of employees and agreed their pay per the payroll reports to supporting documentation, in order to confirm that they were being paid at authorised levels. This testing was satisfactory and no issues were noted. We also recalculated PAYE and NIC deductions for a sample of individuals ensuring that the amounts deducted from their pay were in line with our expectations.

We confirmed that a sample of starters / leavers had been correctly added or removed from payroll in the correct month, in line with supporting documentation. We also agreed all monthly payroll reports to the total payroll expense recorded in the accounts with no issues noted. We agreed the disclosures recorded in the financial statements to payroll records.

All our testing in this area was satisfactory

2.5 Investments

The GOsC holds investments in a diversified portfolio which was valued at £1.01m at the 31 March 2020. This includes £585k invested in the year, previously held within the 120-day bond at the prior year end. As part of our work on investments, we agreed the valuation included in the financial statements to reports received directly from the investment managers Brewin Dolphin. We also reviewed the AAF internal controls report for any deficiencies reported.

We noted that originally the GOsC has accounted for all the movements in the investment portfolio through the investment gain/loss line in Note 9 and the SOFA. Whilst the valuation at year end was correct, we noted some investment income had been accounted for through gains/losses in the SOFA. Following discussions with management it was agreed to reallocate £4.9k from gain / losses to investment income to show the actual income from investments being £12k for the financial year.

No other issues were noted from our work in this area.

2.6 Completeness of liabilities in respect of Professional Conduct Committees cases

The GOsC's activities include investigating and acting where concerns have been raised in respect of osteopaths. Legal costs are incurred by the GOsC as solicitors provide information to support decision making in respect of PCC cases.

As part of our audit we reviewed invoices received from solicitors around the year end, to ensure that they were appropriately included within the correct period. All legal costs reviewed were recorded in the correct year.

In addition to the completeness and cut off of solicitor fees, there is a risk around a need to pay legal costs or compensation in respect of the registrant, should a case be appealed.

Under FRS 102 section 21: Provisions and contingencies, a liability / provision should be recognised at year end where:

- a) GOsC has an obligation at the reporting date, as result of a past event; and
- b) Its it probable (i.e. more likely than not) that GOsC will be required to transfer economic benefits in settlement; and
- c) The amount of the obligation can be estimated reliably.

Following our review of minutes, legal expenditure in the year and discussions with management in the year, we are satisfied that there are no provisions or contingent liabilities existing at year end.

2.7 Management override of controls

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

Significant accounting estimates and judgements

Management have made a number of necessary significant accounting estimates and judgements which impact the financial statements.

We did not identify any estimates or judgements we considered significant.

Controls around journal entries and the financial reporting process

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

We did not identify any instances of management override of controls or other issues from our sample testing of the GOsC journals.

Significant transactions outside the normal course of business

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

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

3. Fraud and error

In our Audit Planning Report, we explained that the responsibility for safeguarding the assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with the Council of GOsC.

The trustees should be aware that the Charity Commission provides guidance (updated in October 2019) on how to protect your charity from fraud including information about fraud, how to spot it and what you can do to protect against it - <https://www.gov.uk/guidance/protect-your-charity-from-fraud> .

In accordance with International Auditing Standards, we planned our audit so that we have a reasonable expectation of detecting material misstatements in the financial statements or accounting records (including any material misstatements resulting from fraud, error or non-compliance with law or regulations).

However, no internal control structure, no matter how effective, can eliminate the possibility that errors or irregularities may occur and remain undetected. In addition, because we use selective testing in our audit, we cannot guarantee that errors or irregularities, if present, will be detected. Accordingly, our audit should not be relied upon to disclose all such misstatements or frauds, errors or instances of non-compliance as may exist.

As part of our audit procedures we made enquiries of management to obtain their assessment of the risk that fraud may cause a significant account balance to contain a material misstatement. Usually fraud in the charity sector is not carried out by falsifying the financial statements. Falsifying statutory financial statements usually provides little financial benefit, as compared to say a plc where showing a higher profit could lead to artificial share prices or unearned bonuses. However, falsifying financial statements can be used to permit a fraud or to avoid detection. As a generality, charities represented by its management and its trustees do not actively try to falsify financial statements as there are not the same incentives to do so. In the charity world fraud is usually carried out through misappropriation or theft.

We have reviewed and discussed the accounting and internal controls systems management has put in place to address these risks and to prevent and detect error. However, we emphasise that the Council, Audit Committee and management should ensure that these matters are considered and reviewed on a regular basis.

We have included the following statements in the letter of representation which we require from the Council when the financial statements are approved.

- The Council acknowledge their responsibility for the design and implementation of internal control to prevent and detect fraud and errors.
- The Council have assessed that there is no significant risk that the financial statements are materially misstated as a result of fraud.
- The Council are not aware of any fraud or suspected fraud affecting the charity involving management, those charged with governance or employees who have a significant role in internal control or who could have a material effect on the financial statements.
- The Council are not aware of any allegations by employees, former employees, regulators or others of fraud, or suspected fraud, affecting the charity's financial statements.

We draw your attention to bullet point 2 above which presupposes that an assessment has been made. We have not been made aware of any actual or potential frauds which could affect the 2020 financial statements, or in the period since the previous year end.

We emphasise that this section is provided to explain our approach to fraud and error, but the responsibility to make and consider your own assessment rests with yourselves.

Considering risks of fraud

There is evidence that during times of economic instability there is an increased risk of fraud. This may be because resource constraints can reduce internal controls and oversight and also because individuals facing hardship may be more likely to consider fraudulent practices.

The following provides further information on the three kinds of fraud that charities such as GOsC should consider.

a) Frauds of extraction

This is where funds or assets in possession of the charity are misappropriated. Such frauds can involve own staff, intermediaries or partner organisations since they require assets that are already in the possession of the entity being extracted fraudulently. This could be by false invoices, overcharging or making unauthorised grant payments.

Essentially such frauds are carried out due to weaknesses in physical controls over assets and system weaknesses in the purchases, creditors and payments cycle. The cycle can be evaluated by considering questions such as who authorises incurring a liability and making a payment. On what evidence? Who records liabilities and payments? Who pays them and who checks them?

The close monitoring of management accounts, ledger entries and strict budgetary controls are also generally seen as an effective way of detecting and deterring frauds in this area. Staff should be made aware of the increasing use of mandate fraud. This is where when the fraudster gets the organisation to change a direct debit, standing order or bank transfer mandate by purporting to be a supplier or organisation to which the charity make regular payments.

Insufficient due diligence around requests to amend supplier or payroll details has led to payments to unauthorised individuals so sufficient checks in these areas is of increasing importance.

Some charities have also been victims of what is being termed CEO fraud, although it does not involve the CEO. In this case cyber criminals spoof company email accounts and impersonate executives to try and fool an employee in accounting or HR into executing unauthorised wire transfers or sending out confidential information.

This type of phishing scam is a sophisticated scam targeting businesses working with foreign suppliers and/or businesses that regularly perform wire transfer payments. The scam is carried out by compromising legitimate business e-mail accounts through social engineering or computer intrusion techniques to conduct unauthorised transfers of funds. Action Fraud, the UK's national fraud and cyber-crime reporting centre has reported an increase in fraud and scams relating to COVID-19, including a rise in phishing emails where the fraudster attempts to trick people into opening malicious attachments which could lead to fraudsters stealing people's personal information, email logins and passwords, and banking details.

Charities should therefore ensure that they reiterate their procedures to employees and raise awareness of fraud preventions across their organisations. All employees should exercise real scepticism and not make any payments which are not properly supported and outside the normal payment mechanisms. To paraphrase Action Fraud's recommendations, which are particularly significant as staff are working remotely and some working different hours in order to manage the challenges of working from home:

- Ensure all staff, not just finance teams, know about current frauds and scams.
- Have a system in place which allows staff to properly verify contact from their CEO or senior members of staff; for example having two points of contact so that the staff can check that the instruction which they have received from their CEO is legitimate.
- Always review financial transactions to check for inconsistencies/errors, such as a misspelt company name.
- Consider what information is publicly available about the business and whether it needs to be public.
- Ensure computer systems are secure and that antivirus software is up to date.

All employees should exercise real scepticism and not make any payments which are not properly supported and outside the normal payment mechanisms.

b) Backhanders and inducements

There is also an inherent risk that individuals who are able to authorise expenditure or influence the selection of suppliers can receive inducements to select one supplier over the other. This risk can be mitigated by robust supplier selection and tendering procedures.

c) Frauds of diversion

This is where income or other assets due to GOsC are diverted before they are entered into the accounting records or control data. Essentially, it is easy to check what is there but very difficult to establish that it is all there.

Therefore, ensuring the completeness of income provided to a charity becomes difficult.

Appendix 1 - Reporting audit adjustments

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

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

For the purpose of reporting non-trivial items identified as a result of our audit work which have not been adjusted in the financial statements we set out in our Audit Planning Report that we would report unadjusted misstatements greater than £3,500 unless they are qualitatively material at a lower amount.

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

Appendix 2 - Draft representation letter

This letter must be typed on your official letterhead. It should be considered by the Council at the same time as the Annual Report and Financial Statements and the Minutes should record the Council's approval of the letter.

The letter should be dated at the date of the approval of the financial statements.

Crowe U.K. LLP
St. Bride's House
10 Salisbury Square
London
EC4Y 8EH

Dear Sirs

We provide this letter in connection with your audit of the financial statements of the General Osteopathic Council for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the charity as at 31 March 2020 and of the results of its operations for the year then ended in accordance with UK Generally Accepted Accounting Practice ("UK GAAP").

We confirm that the following representations are made on the basis of sufficient enquiries of management and staff with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation and that, to the best of our knowledge and belief, we can properly make each of these representations to you. If completion of the audit is delayed we authorise Matthew Redford to provide an update to all representations sought.

1. We have fulfilled our responsibility for the fair presentation of the financial statements in accordance with UK GAAP.
2. We acknowledge as Council our responsibility for making accurate representations to you.
3. We acknowledge our responsibility for the design and implementation of internal control to prevent and detect fraud and errors.
4. We have provided you with all accounting records and relevant information, and granted you unrestricted access to persons within the entity, for the purposes of your audit.
5. All the transactions undertaken by the charity have been properly reflected and recorded in the accounting records or other information provided to you.
6. In respect of accounting estimates and judgements, we confirm our belief that the significant assumptions used are reasonable.
7. We are not aware of any actual or possible litigation or claims against the charity whose effects should be considered when preparing the financial statements.
8. All incoming resources, the receipt of which is subject to specific terms and conditions, have been notified to you. There have been no breaches of terms or conditions in the application of such incoming resources.
9. We are not aware of any breaches of our charitable trusts and have advised you of the existence of all endowments and funds maintained by us.

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10. There have been no events since the balance sheet date which require disclosure or which would materially affect the amounts in the financial statements. Should any material events occur which may necessitate revision of the figures in the financial statements, or inclusion in a note thereto, we will advise you accordingly. We specifically authorise Matthew Redford, Chief Executive and Registrar, to provide an update for you to cover the time period between the signing of this letter and the date of your audit report.
11. We have assessed that there is no significant risk that the financial statements are materially misstated as a result of fraud.
12. We are not aware of any fraud or suspected fraud affecting the charity involving those charged with governance, management or other employees who have a significant role in internal control or who could have a material effect on the financial statements.
13. We are not aware of any allegations by employees, former employees, regulators or others of fraud, or suspected fraud, which would have an impact on the charity's financial statements.
14. We are not aware of any known or suspected instances of non-compliance with those laws and regulations which provide a legal framework within which the charity conducts its business.
15. We confirm that complete information has been provided to you regarding the identification of related parties and that we are not aware of any significant transactions with related parties.
16. We confirm we have appropriately accounted for and disclosed related party relationships and transactions in accordance with applicable accounting standards and with the recommendations of the applicable charity SORP.
17. We confirm that, having considered our expectations and intentions for the next twelve months and the availability of working capital, the charity is a going concern. We are unaware of any events, conditions, or related business risks beyond the period of assessment that may cast significant doubt on the charity's ability to continue as a going concern.

Yours faithfully

.....
Council Member
Signed on behalf of the Council
Date

Appendix 3 - External developments

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

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

Governance

COVID-19 (Coronavirus) - Managing the impact.

It is difficult to predict the financial or operational implications of the outbreak of COVID-19 on the UK economy or the organisations which operate within it. Evidence from other countries where there has been a significant outbreak suggests a slowdown in economic activity either as a result of governmental response or from changes in individual behaviours. This could therefore be significant for all organisations including charities. <https://www.crowe.com/uk/croweuk/insights/covid-19-hub>

More specifically for charities, reduced funding, an unavailable workforce or a drop in visitor numbers are just a handful of the issues that could affect different charities in the coming weeks as the impact of coronavirus becomes clearer. It is important for organisations to start scenario planning and revisit their strategies to reduce any potential impact. Our blog written for the Charity Finance Group on the 11th of March 2020 highlights a number of areas charities need to consider in their scenario planning, budgeting, forecasting and risk registers. You can read the full blog on the Charity Finance Group's website: https://www.cfg.org.uk/covid19_what_planning_should_charities_be_undertaking

We have also issued an update considering the potential impact of the new COVID-19 (coronavirus) on the yet to be published annual reports and financial statements of charities: <https://www.crowe.com/uk/croweuk/insights/covid-19-financial-reporting-charities>

We will be working hard to share any information and knowledge required by charities during this crisis and will update our website regularly and through our social media links.

The Charity Commission has published “Guidance to help with running your charity during the coronavirus (COVID-19) outbreak” <https://www.gov.uk/government/news/coronavirus-covid-19-guidance-for-the-charity-sector>. This guidance is updated regularly as issues are raised with the Commission pertaining to charities.

Workplace bullying in charities and the implications for leadership

The government, Charity Commission and umbrella organisations have initiated urgent work to address the safeguarding challenges within the charity sector in response to the reports in recent years of abusive organisational cultures as well as revelations about sexual exploitation and abuse of beneficiaries within the international aid sector.

Within this response a report ‘*In Plain Sight: Workplace bullying in charities and the implications for leadership*’ has been funded by the Department for Digital, Culture, Media and Sport (DCMS) and produced as a collaboration between ACEVO, the Association of Chief Executives of Voluntary Organisations, and Centre for Mental Health.

The investigation and report draws upon the voices of victims of bullying in charities to describe the conditions in which it occurs and might persist, and provides analysis and recommendations for what charity leaders should do to create safer working cultures.

As well as providing a summary of the results of a detailed anonymous online survey returned by over 500 respondents, in-depth interviews with 20 victims of bullying, and personal accounts of victims of bullying, the report also provides information on relevant government and Charity Commission policy and advice as well as other charity sector initiatives.

In its conclusions, the report identifies six sector-specific systemic stressors and three key cultural and relational factors linked to the management of conflict, which appear particular to charitable organisations' culture and behaviour.

- weaknesses in governance and senior leadership
- weaknesses in organisational policies, procedures and practices
- a lack of information, skills and confidence within the charity workforce to identify and respond to bullying
- uncertainty among victims and charities about the regulatory framework and the specific remit of the Charity Commission in relation to bullying
- the absence of any sector-wide initiative to respond to bullying or promote healthier workplace cultures
- the absence of internal or external recourse for victims of bullying, or for concerned charity leaders
- charities become preoccupied internally with the same kinds of conflict they deal with in their mission – 'mirroring'
- breakdown of trusting and respectful working relationships
- failure to acknowledge or resolve internal conflict over time, leading to patterns of emotionally abusive behaviour becoming established within organisational culture.

There is zero tolerance in the government response to safeguarding and addressing bullying cultures in both the international sector and domestic charities – it is an absolute requirement for charity leaders to put in place robust and effective systems for internal leadership and management to identify, report, investigate and deal with misconduct, and to remove wrongdoers. The report includes five detailed recommendations covering areas of governance, policy, the regulatory framework and sectoral cultural change.

The report is intended to be read by staff, managers and leaders within the charity sector, as well as policy makers and the victims of bullying who participated in the online survey and interviews.

The full report is available from the ACEVO website <https://www.acevo.org.uk/wp-content/uploads/2019/07/In-Plain-Sight.pdf>.

Safeguarding resources

The National Council for Voluntary Organisations (NCVO) has launched a range of free safeguarding resources, supported by other organisations, to help charities create and implement relevant safeguarding plans.

The NCVO resources site recognises that safeguarding is about making sure your organisation is run in a way that actively prevents harm, harassment, bullying, abuse and neglect as well as being ready to respond safely and well if there is a problem. It acknowledges that everyone in an organisation has a role to play in safeguarding and that this should become part of the day to day activities.

This resource is structured as a series of links to web-based resources which outline simple steps that charities can take to ensure that they are run in a way that actively prevents staff, volunteers and everyone they come into contact with from suffering harm, harassment, bullying, abuse and neglect.

The safeguarding resources are available on the NCVO knowhow website <https://knowhow.ncvo.org.uk/safeguarding>

The Charity Commission has also updated its guidance on safeguarding and protecting people which sets out what charities should do to protect people who come into contact with the charity through its work with abuse or mistreatment of any kind. Although much of the guidance remains unchanged, the updates include when to consider DBS checks and how to put into practice policies and procedures, along with signposting to new sector resources.

The full updated guidance can be accessed from the GOV.UK website <https://www.gov.uk/guidance/safeguarding-duties-for-charity-trustees>.

Charity Commission - Reporting a serious incident in your charity when it involves a partner

In December 2019, the Charity Commission issued new guidance for charity trustees on when to report incidents involving the charity's partners as a serious incident.

For this guidance, partners include:

- delivery partners or sub-contractors of the charity
- a subsidiary trading company of the charity

- organisations that receive funding from the charity
- another charity or organisation that is linked to the charity, for example as part of a federated structure.

The guidance states that “Trustees should make a serious incident report when an incident has occurred involving one of the charity’s partners in the UK or internationally, which materially affects the charity, its staff, operations, finances and/or reputation such that it is serious enough to be reported.”

Although the guidance recognises that it is for the trustees to determine whether an incident is ‘serious enough’, it looks at three scenarios, and incidents within these, which are most likely to trigger the requirement to report a serious incident. The three scenarios are:

- the incident involves the charity’s funds, brand, people or an activity that it funds or is responsible for
- the incident does not involve the charity’s funds, brand or people but could have a significant impact on the charity
- the incident does not involve the charity’s funds, brand or people and has little or no impact on the charity.

The full guidance can be seen on the GOV.UK website - <https://www.gov.uk/guidance/reporting-a-serious-incident-in-your-charity-when-it-involves-a-partner>

Preventing charity fraud

The Fraud Advisory Panel, supported by the Charity Commission, has recently published a report *‘Preventing Charity Fraud: Insights and Action’*.

Ten years on from a report by the Fraud Advisory Panel on fraud in the charity sector, the Commission (partnered with the Fraud Advisory Panel) repeated and extended the scope of that survey, contacting a representative sample of 15,000 registered charities across England and Wales. With a 22% response rate, this is the largest ever analysis of fraud committed against UK charities.

The report on Preventing Charity Fraud highlights a number of conclusions, including a significant increase over the 10 years in the detrimental impact of fraud on charities, especially on their reputation. The report also finds that excessive trust is the main contributory factor that allows fraud to occur,

suggesting more needs to be done to embed a culture of scrutiny and appropriate challenge.

In response the report highlights a number of actions for charities including the need to boost resilience, focussing on preventing fraud rather than waiting until after they’ve fallen victim, and reviewing their financial controls on a regular basis. It also highlights eight principles of good counter-fraud practice and provides a Fraud Prevention Checklist which lists nine actions to be assessed by charity Trustees, staff and volunteers. The full report can be accessed from the GOV.UK website <https://www.gov.uk/government/publications/preventing-charity-fraud-insights-and-action>

Preventing charity cybercrime

Linked to the survey and report on charity fraud, the Fraud Advisory Panel has also published a report *‘Preventing Charity Cybercrime: Insights and Action’*.

A positive conclusion from the report is that charities are increasingly aware of the risk of cybercrime. Perhaps not unexpected, larger charities are more likely to appreciate the threat, probably because they generally have a greater capability to detect cybercrime. Many small and medium sized charities are less aware of the cybercrime threat, and therefore likely to have fewer processes in place to help mitigate risk.

The report recognises that large charities are more likely to be the victim of a cybercrime than smaller charities, with phishing/malicious emails the most common method of attack. It highlights the need for charities to raise awareness of cybercrime and encourage Trustees, staff and volunteers to raise concerns, especially where phishing attacks and malicious emails are suspected. It also emphasises that charities should clarify responsibility for managing the risk of cybercrime and ensure it is a governance priority for the Board.

As well as providing various conclusions and actions, the report also emphasises that public trust and confidence in the sector relies upon good governance in charities and that within this, ensuring effective cyber security is a vital component. The full report can be accessed from the GOV.UK website <https://www.gov.uk/government/publications/preventing-charity-cyber-crime-insights-and-action>

Charity Commission - Fraud and cybercrime

Following the Fraud Advisory Panel reports, the Charity Commission has updated its guidance on protecting your charity from fraud and cybercrime by adding the eight guiding principles for tackling charity fraud:

- fraud will always happen – simply being a charity is no defence
- fraud threats change constantly
- prevention is (far) better than cure
- trust is exploited by fraudsters
- discovering fraud is a good thing
- report every individual fraud
- anti-fraud responses should be proportionate to the charity's size, activities and fraud risks
- fighting fraud is a job for everyone.

These eight guiding principles have been presented as a one-page summary which is available from the GOV.UK website https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/841056/8_Guiding_Principles_for_Tackling_Fraud_Final_Oct19.pdf

Fraud Advisory Panel resources

To provide access to the knowledge, skills and resources to protect against fraud and cybercrime, the Fraud Advisory Panel have set up an online resource centre - <https://www.fraudadvisorypanel.org/resource/> - to provide easy access to a collection of free guides and other tools designed to improve awareness and resilience in charities.

Advice line for whistleblowers

The Charity Commission, as part of its continuing aim to make it easier for charity workers and volunteers to draw serious concerns about their charity to our attention, have in June 2019 opened an advice line specifically for charity whistle-blowers.

Callers to this advice line will receive confidential advice to help them decide what to do about raising a serious concern about their charity, including whether and how to raise their concerns with the Commission. Although created by the Commission the advice line is being operated independently by the specialist whistleblowing charity Protect.

Further details for workers and volunteers on how to get advice from Protect on their free and confidential advice line (0800 055 7214) and on reporting to the Charity Commission can be obtained from the GOV.UK website <https://www.gov.uk/guidance/report-serious-wrongdoing-at-a-charity-as-a-worker-or-volunteer> .

Charity Governance Code - keeping the code up to date

In November 2019, the Steering Group responsible for updating and maintaining the Charity Governance Code published a consultation to inform the future development of the Code.

Following the publication of the new edition of the Code in summer 2017, the Steering Group intended to review the contents and impact of the Code at three-year intervals to make sure that it remained current. However, the Group have concluded that there is a balance to be struck between continually updating the Code and potential disruption to those using the Code, especially as it can take some time to work through all the recommendations. They are therefore proposing only a light 'refresh' of the Code in 2020, with more far-ranging changes taking place in 2023. In line with this they are looking to develop a 'route map' of suggested changes for implementation in 2023.

The current consultation process began 4 November 2019 and is set to run until 28 February 2020. Anyone interested in providing their input to the consultation can do this through the online survey www.surveymonkey.co.uk/r/TMRJFHF, or by email or post using the pdf copy of the consultation questions available on the Charity Governance Code website <https://www.charitygovernancecode.org/en/about-the-code-1/charity-consultation.pdf> .

However, we recommend that charities that necessarily send personal data from the UK should continue to monitor the guidance on the GOV.UK website <https://www.gov.uk/guidance/using-personal-data-after-brexit> .

Taxation

Off-payroll working new rules and how they affect you

In July 2019, new draft off-payroll working rules were published introducing changes to the current regime, known as “IR35”.

The new rules were due to take effect from April 2020 but have now been postponed to April 2021 in response to the outbreak of Covid-19. They require organisations engaging workers via a personal service company (PSC) or other similar intermediary to check whether the individual providing the services should be treated as an employee or self-employed for tax purposes. If these checks show that the relationship is effectively one of employment, and therefore IR35 will apply, the business paying the PSC will have to deduct PAYE and NIC from payments made for the worker’s services. Previously it was the responsibility of the PSC to make these deductions, but HMRC’s view was that fewer than 10% of these organisations actually complied.

Small businesses will initially be exempt. For incorporated entities a small business is defined as one that meets two of the following three criteria:

- a turnover of less than £10.2 million
- a balance sheet of less than £5.1 million
- fewer than 50 employees.

However, an unincorporated entity need only exceed the £10.2 million turnover figure to be considered “not small”.

It is essential that affected charities take action now to ensure that they are ready to comply with the new regime from April 2021 by identifying all off-payroll workers and reviewing the terms of engagement and the necessary policies and procedures put in place. This will include documenting the engagers’ conclusions regarding the employment status of the worker and issuing a “Status Determination Statement” to the worker, the PSC and any other intermediary (such as an agency) in the chain of engagement.

If a charity establishes that the new rules will apply and that it should be deducting PAYE and NIC from payments made to a worker, it will need to evaluate the cost of the employer’s NIC which will also apply, as well as any Apprenticeship Levy payments. This will need to be built into budgets going

forward, and many engagers may re-evaluate the rates they are prepared to pay freelance workers as a result.

If the charity continues to engage with PSCs, remember that it is the charity’s responsibility to perform and evidence an employment status check on the individual. Employment status is a subjective area based on case law rather than legislative tests and, as a result, there is an embedded risk.

The risk of getting the status wrong is expensive; not only would the charity, as the engager, be subject to interest costs and potentially penalties for failure to operate PAYE correctly, but it opens up the possibility of back taxes on the individual worker for four or six years, depending on the specific rules applied. NIC can also be charged going back six years.

VAT zero rating on digital publications

Charities or their subsidiaries who have been accounting for VAT on digital publications at the standard rate may have an opportunity to submit a claim for overpaid output tax. HMRC’s previous position that digital publications are not able to benefit from zero rating unlike physical/printed versions has been overruled in a recent Upper Tier Tribunal decision. It may also potentially allow charities to move to more digital publications in the future.

We expect that HMRC will appeal against this decision and so the matter is unlikely to be concluded in the near future. However, due to the four-year statutory limit on adjusting VAT claims and the length of time that may be taken if HMRC are to appeal, our recommendation is that protective claims are submitted to HMRC going back four years in order to protect any over-paid VAT going ‘out of time’.

Until the dispute is finally resolved and/or HMRC issues updated guidance, we would recommend that taxpayers continue to account for VAT on digital publications and submit further protective claims if necessary.

More information on this is available from our website <https://www.crowe.com/uk/croweuk/insights/overpaid-vat-digital-publications>

VAT is due on invoices from Google and Facebook

We have previously highlighted that HMRC was looking at the VAT position on advertising services that charities receive from suppliers such as Facebook and Google. HMRC has now interpreted these supplies to be VAT standard rated supplies of targeted marketing.

HMRC's main argument is that the provision of 'advertising' services, where suppliers such as Facebook/Google are able to target recipients by using their browsing history, is not 'advertising to the public' (a key condition for treating a supply to a charity as advertising). As a result, these services are not zero rated but are considered to be marketing services which are standard rated.

HMRC admit in its own published guidance that an element of 'targeting' can still be seen as advertising, for example an advertisement in a trade magazine only available to members of that particular trade body. However, the Facebook and Google targeting goes beyond what they deem 'an element'.

There is a perception that HMRC perhaps do not fully understand the technical provision by Facebook, Google and similar providers, and therefore cannot make a judgement as to the extent of targeting. However, based on this HMRC interpretation, and as most of the suppliers are based overseas, it is the responsibility of charities to account for standard rated Reverse Charge VAT if this is seen as a marketing supply; the Reverse Charge due on any advertising services received from overseas continues to be zero rated.

HMRC has not published proper clarification on its position on this and is still discussing matters with Charity Tax Group. However, visiting officers from HMRC are insisting that this matter is a 'done deal' and assessments are being issued; charities who receive these services should be prepared and make the necessary provisions, as HMRC can go back four years.

Compliance

Charity Commission guidance from the internet

In September 2019, the government published a new access page for the Charity Commission guidance. As well as providing a list of all Charity Commission 'CC' guidance (CC3 to CC49) it also lists the available guidance under six topics:

- Trustee role and board
- charity money, tax and accounts
- managing your charity
- staff and volunteers
- fundraising
- setting up a charity.

Within each topic the guidance is further segregated to help readers identify guidance that will be relevant to them, for example the 'Trustee role and board' guidance is presented under 'introductory guides', 'essential reading', 'detailed guidance' and 'other'. The other topics have different but relevant groupings for their guidance documents.

The page also has a link to a search facility which may be helpful to users looking for guidance on specific topics. The access page is on the GOV.UK website <https://www.gov.uk/guidance/charity-commission-guidance> .

Brexit and GDPR

One issue that Trustees will need to consider going forward will be the impact of Brexit on the GDPR requirements. Initial guidance from the Government was withdrawn and the website page now says "*The UK is leaving the EU. This page tells you how to prepare for Brexit and will be updated if anything changes*". It also says "*You do not need to do anything now to continue sending personal data out of the UK to the EEA after Brexit. UK organisations will still be able to legally send personal data from the UK to the EEA and 13 countries deemed adequate by the EU.*"

Appendix 4 - Non Profits events, courses and briefings

We believe it is important to keep our clients up to date on the issues that affect them and, as a part of our ongoing communication, we regularly hold seminars and courses. Unfortunately, due to the current Covid-19 restrictions, we have necessarily had to suspend our face to face courses and seminars.

Although we hope to be able to return to our seminars and courses in the not too distant future, we are currently working to replace some of these as webinars. We have a number of webinars currently in development and will make these available as soon as we can.

As a result the webinar sessions are likely to be put out with relatively short notice and we therefore encourage you to visit our website (<https://www.crowe.com/uk/croweuk/industries/webinars>).or register to our mailing list (nonprofits@crowe.co.uk) to stay updated on these. Any webinars which you have missed remain available on demand on our website.

Past and planned webinars

These sessions are run by experts from our Non-Profits team on topical issues. Full details of timing and how to register are on our website.

• Governance for non-profits in a VUCA world
• Demonstrating your charity's impact
• COVID-19 financial reporting issues for charities
• Bite sized Trustee Essential: Reserves, going concern and reporting
• Understanding and managing reserves
• Efficiency and Productivity
• Planning for recovery
• COVID-19 and cybercrime
• COVID-19 and fraud
• Making Tax Digital for VAT 2020
• Charity VAT update
• VAT bitesize webinars
• Managing your cashflow with CBILS and CJRS
• Off payroll working

We hope to be able to return to our direct seminar sessions in the future and have therefore retained a number of dates for these as below.

Trustee essentials

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

• Trustee essentials	9 Oct 2020
• Trustee essentials	9 Dec 2020
• Introduction to schools' VAT	7 Oct 2020
• Introduction to charity VAT	15 Oct 2020
• Charity VAT reliefs	25 Nov 2020
• Charity conference (Manchester)	23 Sep 2020
• INGO conference	Nov 2020

For further information on or to register for any of the above events, please visit our website <https://www.crowe.com/uk/croweuk/industries/non-profits> or email nonprofits@crowe.co.uk



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