Crowe Clark Whitehill

A Member of Crowe Horwath International

# General Osteopathic Council

## Year ended 31 March 2017
## Audit Findings Report

**St. Bride's House**
**10 Salisbury Square**
**London EC4Y 8EH**

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

6 June 2017

Dear Committee Members,

## Audit for the year ended 31 March 2017

Following the completion of our audit fieldwork on the financial statements of the General Osteopathic Council (referred to as “the GOsC” in this document) for the year ended 31 March 2017 we have pleasure in submitting our Audit Findings Report setting out the most significant matters which have come to our attention during our audits and 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 24 May 2017. Tim Walker and Matthew Redford have seen a draft of this report and we have incorporated their comments and/or proposed actions where relevant. Tim Redwood will be attending your meeting on 20 June 2017 and will be pleased to provide any further information or clarification you may require.

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 our 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 Clark Whitehill LLP**

# Contents

# 1. Audit overview

## Audit approach

Our audit is designed primarily to enable us to form an opinion on your financial statements and was carried out in accordance with International Standards on Auditing (UK and Ireland). Our work combines substantive procedures, involving direct verification of balances and transactions including obtaining confirmations from third parties where we considered this to be necessary, with a review of certain of your financial systems and controls. No restrictions or limitations were placed on our audit.

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 7 March 2017, subject to the matters set out below.

- Confirmation from Brewin Dolphin of investment balance.
- Completion of the post-Balance Sheet events review.
- Review of the final financial statements.
- Receipt of the signed letter of representation.

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

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

## Key audit matters

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

- Recognition of Registration Fees.
- Completeness of Liabilities in relation to Professional Conduct Committee Cases.
- Management Override of Controls.

## 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 activity of the GOsC and was set at approximately 2% of total incoming resources. We have reviewed this level of materiality based on the draft financial statements for year ended 31 March 2017 and are satisfied that it continues to be appropriate.

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

Crowe Clark Whitehill LLP has procedures in place to ensure that its partners and professional staff comply with both the Ethical Standards and the Guide to Professional Ethics issued by The Institute of Chartered Accountants in England and Wales.

We consider that there are no further developments in relation to these standards since the date of our Audit Planning Report 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.

- Financial Reporting Standard 102 (FRS 102)
- The Osteopaths Act 1993

## Financial statements

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

This report has been prepared for the private use of the Council members of the GOsC and its contents should not be disclosed to third parties without our prior written consent. We assume no responsibility to any other person who has access to this report.

# 2. Significant matters from our audit

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

## 2.1 Recognition of registration fees

Registration fees totalled £2.74m in the 2017 financial statements (2016: £2.65m). 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 to be recorded in the financial statements taking 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 treatment and recognition of registration fees. Fees for new registrants were recorded correctly, and there was only income recognised within the accounts for the months in the year in which they had been registered. We were able to agree all individuals' registration dates to the Integra database and to their authorised registration form with the exception of one individual. This individual joined a number of years ago and we understand it is likely that this was not scanned onto the system when the Council moved from a paper based system. This was one of 23 selected for testing and we were satisfied that this was not representative of any wider issue.

Our work over registration fees was satisfactory and we have no further matters to report.

## 2.2 Completeness of liabilities in respect of Professional Conduct Committee cases

The GOsC's activities include investigating and acting where claims have been made against registrants. 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, in respect of PCC cases to ensure that they were appropriately included within the correct period depending on the period which the work performed related to. We confirmed that all solicitor invoices relating to the 31 March 2017 year end were correctly recorded within the financial statements.

In addition to the completeness and cut off of solicitor fees, there is a risk around a need to pay legal costs in respect of the registrant, should a case be appealed requiring judicial review. This may require the GOsC to provide for costs, in accordance with 'FRS102 Section 21: Provisions and contingencies'. Under FRS 102 a liability should be recognised if there is an obligation as a result of a past (pre year-end) event at the reporting date, it is more likely than not that the entity will be required to transfer economic benefits in settlement and the amount of the obligation can be estimated reliably.

We reviewed the GOsC's records of open on-going cases at the year-end and discussed recent cases with the Regulation Manager to ensure that there are no potential liabilities that might require a provision. We understand that there have been no notifications of any intention to appeal any cases and that the last judicial review occurred in 2010.

## 2.3 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 identified the following for specific audit review:

- the assessment of impairment of assets;
- the assessment of the remaining useful life of assets;

We performed testing over each of these areas and are happy that the estimates used were reasonable.

### *Controls around journal entries and the financial reporting process*

We reviewed and carried out sample testing on the GOsC'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 reviewed and carried out sample testing on the GOsC's controls around the processing of journal adjustments (how journals are initiated, authorised and processed) and the preparation of the annual financial statements.

We understand that the Head of Registration and Resources (HORR) and the Registration and Resources Officer regularly post journals. On a quarterly basis, a listing of all journals from the quarter is printed and reviewed and authorised by the CEO. The journals are printed in numerical order, so that it could be identified if any journals were not included on the report.

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 GOsC'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. Other matters from our audit

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

## 3.1 Systems and controls and opening balances

*Systems*

As this is our first year as auditors of the GOsC, additional time was spent gaining an understanding of your systems particularly in relation to the main transaction cycles - income, expenditure, and payroll.

We understand that with a small finance team, there can be difficulties in ensuring that there is appropriate segregation of duties. We are happy to report that we did not identify any significant control weaknesses. However, we discussed with management potential issues around administrator access to online payment systems. This was also raised in our separate IT review. We have raised a recommendation in Appendix 1 that management investigate the rights of the administrator access to online banking and that segregation of duties in other areas are also considered.

*Opening balances*

As we did not audit the prior year figures, we also undertook additional audit tests on the opening balance sheet position. We reviewed breakdowns of debtor and creditor balances and agreed the year end bank balances to bank statements. We also performed analytical review over year end balances to understand any movements between the 2016 and 2017 year end balances.

We noted that there was a difference between the opening reserves position in the balance sheet and the opening reserves position in the reserves note within the 2016 financial statements. We understand that this relates to a transitional adjustment in the prior year which may have resulted in a minor presentational error in the note to the accounts. There was no impact on the financial statements for the year ended 31 March 2017.

## 3.2 Payroll

Payroll is the largest single expenditure item for the GOsC at £1.4m for the year ended 31 March 2017 (2016: £1.2m).

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. Our work was satisfactory.

As part of our detailed testing, we 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 the deductions- PAYE and NI, for a sample of individuals ensuring that the amounts deducted from their pay were in line with our expectation. No variances were identified through our testing.

To ensure that starters and leavers during the year had been correctly added/ removed from the payroll year, we obtained details of starters and leavers in the year and confirmed that they had been correctly added or removed from payroll in the correct month, in line with supporting documentation. No issues were identified.

We also agreed all monthly payroll reports to the total payroll expense recorded in the accounts with no issues noted.

Overall our work provided adequate assurance that there was not material misstatement. However, we identified that one individual did not have a signed contract on file. We understand that the individual is a long standing employee of the GOsC and there was no indication of an issues in relation to HR documentation for recent employees. We were able to obtain satisfactory evidence that payments made to this individual were at authorised rates.

Our work in relation to payroll expenditure was satisfactory.

## 3.3 Board and Committee allowances and expenses

GOsC Council members and individuals sitting on each of the GOsC's committees receive 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.

Council and Committee members are not employees of the GOsC and so are not recognised as staff costs in the financial statements. 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 are happy to report that no issues were noted in this testing.

## 3.4 Tangible fixed assets

The largest item on the GOsC Statement of Financial Position is the GOsC's freehold office premises, Osteopathy House with a net book value of £1.8m at 31 March 2017. As part of our audit we agreed the ownership of the property to land registry records and considered whether the useful economic life adopted for calculating depreciation was reasonable. The GOsC's policy is to depreciate the value of Osteopathy House (excluding land) over 50 years. We discussed with management during our audit that there was a substantial redevelopment of the property in 2009. We understand that this would have included installation of a lift and various other refurbishment work. Although the impact on the annual depreciation charge is unlikely to be significant, we have recommended in Appendix 1 that the GOsC consider the works completed during the redevelopment and whether the useful economic life of some of these may be less than the 50 years over which they are currently being depreciated.

## 3.5 Other expenditure

We reviewed a sample of other expenditure items, agreeing the expenditure amounts to invoice and verifying that the invoice was in the name of the GOsC, the expense related to the 2017 financial year and that the invoice had been appropriately authorised by a head of department. Our work in this area was satisfactory.

# 4. 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 members of the GOsC.

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 committee members, 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 letters of representation which we require from the committee members when the financial statements are approved.

- The Council members acknowledge their responsibility for the design and implementation of internal control to prevent and detect fraud and errors.
- The Council members have assessed that there is no significant risk that the financial statements are materially misstated as a result of fraud.
- The Council members are not aware of any fraud or suspected fraud affecting the GOsC 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 members are not aware of any allegations by employees, former employees, regulators or others of fraud, or suspected fraud, affecting the GOsC’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 2017 financial statements, or the period since the 2017 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

The following provides further information on the three kinds of fraud that charities such as the 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 GOsC make regular payments.

Insufficient due diligence around requests to amend supplier or payroll details has led to payments to unauthorised individuals so the importance of 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's website explains:

*"CEO fraud will typically start with an email being sent from a fraudster to a member of staff in a company's finance department. The member of staff will be told by the fraudster who is purporting to be a company director or CEO that they need to quickly transfer money to a certain bank account for a specific reason. The member of staff will do as their boss has instructed, only to find that they have sent money to a fraudster's bank account.*

*The fraudster will normally redistribute this money into other mule accounts and then close down the bank account to make it untraceable. Out of the £32 million reported to be lost by businesses to CEO fraud only £1 million has been able to be recovered by the victims. This is due to businesses taking too long to discover that they have been the victim of fraud and the lost money already being moved by fraudsters into mule accounts. Most businesses reported initially being contacted via emails with gmail.com and yahoo.com suffixes. (Note that: in some cases the email comes from a hacked email account).*

*How can businesses protect themselves?*

- *Ensure all staff, not just finance teams, and know about this fraud.*
- *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 the 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 GOsC becomes difficult.

# 5. Managing third party relationship risks

With increased regulatory scrutiny, continuing cost pressures and active stakeholders, organisations today must have a clear understanding of the risks that are inherent in external business relationships. By recognising and proactively addressing these third-party issues, organisations can reduce exposure to risk and achieve stronger relationships with service providers, suppliers, and delivery partners. A number of third party relationships were discussed in our recent IT review and it is good practice for there to be periodic oversight of the performance of third parties to ensure services are being delivered as expected.

## Trends

Many organisations are thinking more broadly about the risks they face. Inevitably, there is growing realisation that many of the most significant risks are driven by relationships with other entities. These relationships include:

- Service providers – such as donation collection and processing, investment management, IT and computer services, payroll processing, pension services, construction services, property, advertising, leasing, utilities and legal services;
- Supply-side partners – such as shared service organisations, external fundraisers, grant makers, commercial participators, statutory agencies and other funders;
- Demand-side partners – such as governmental organisations, other statutory bodies, funders, beneficiaries and other not for profits; and
- Other relationships – such as members, supporter groups, alliances, consortiums, joint ventures and employees.

Risks have always been inherent in third-party relationships, but some particularly dramatic examples of risk exposure have occurred in recent years. For example:

- Protection of systems and data. High-profile data breaches have shown how even businesses with robust data security systems can be at risk due to weaknesses in the security of third-party organisations entrusted with sensitive information.
- Reputation linked to others' actions. Unexpected revelations about distant suppliers' labour and environmental practices, which often catch retailers and distributors by surprise, demonstrate how quickly stakeholder confidence can be shaken, even in businesses with solid reputations for competence and integrity.
- Continuity of operations. Allegations of accounting fraud in one major outsourced provider of IT services ultimately had global repercussions, triggering the near collapse of the business.
- Financial dependency. Highly volatile commodity prices have led to rapidly changing cost structures for vendors in virtually all industries.

## Solutions

The broad array of risk-related challenges today's businesses face makes clear that an uncoordinated or case-by-case approach to third-party risk management is no longer adequate. At a practical level, a successful third-party risk management programme typically is implemented in three steps, as follows.

1. Establish ownership and buy-in. Planning for change is critical to successful third party risk management in organisations where the ownership of such risk is dispersed among multiple stakeholders and owners. This planning requires cross-functional coordination, executive leadership and oversight, and clear goals and objectives. The mission of most organisations often includes a focus on strengthening the overall relationship with the third party.

Success factors:

- Clearly establish risk ownership.
- Obtain cross-functional input from various stakeholders.
- Develop a third-party risk management road map.

2. Evaluate risks. Understanding the risk profile of the entire organisation helps focus efforts on the areas of highest risk, which allows the assignment of adequate resources to address specific clauses in an agreement or specific types of relationships or categories of risk. Developing a comprehensive risk landscape is often a helpful first step in evaluating the

various risks in a relationship. This step helps avoid taking a one-size-fits-all approach and instead drives focus on the areas of risk and reward to the organization.

Success factors:

- Identify the high risks inherent in the third-party relationships.
- Quantify identified risks.
- Establish a plan for moving forward.

3. Audit, monitor, and assess. The risk landscape spurs initiatives to audit, inspect, benchmark performance and costs, verify, and gain assurance or attestation. A successful third-party risk management program has an appropriate level of:

- Risk measurement and monitoring;
- Performance measurement and monitoring;
- Incident tracking; and
- Evaluation of the value received from the relationship.

These activities are important for determining when or whether to renegotiate the terms of the agreement. The companies that are most successful in this auditing and monitoring function are those that work to enhance the data they have about their relationships so that they can predict areas of risk more accurately and automate relationship monitoring more effectively.

Success factors:

- Customize the assessment to the relationship.
- Use automation to streamline the process.
- Analyse trends of incidents across relationships.

Board members, as part of their corporate governance responsibilities, should be asking management about third-party risks. The following suggested questions are a useful means of starting this process.

1. Do we have a full list of our relationships and agreements?
2. Have we assessed the risks to the GOsC of the relationships we have?
3. Who owns the assessment of these risks?
4. What are the key relationship risks and what are the processes we have in place to manage them?
5. How do we know that the third-parties with whom we have relationships are complying with the agreements we have in place?
6. What are our policies in relation to auditing agreements for compliance?
7. How do we know that the third-parties with whom we have relationships are complying with laws and regulations?
8. Which of our key relationships and agreements have not been reviewed by legal counsel in the last three to five years?
9. How do we re-assess the risks of a relationship prior to renewal? What types of risks do we consider at renewal?
10. Do our standard agreements address the key risks?
11. How do we know the reports we receive from key third-parties are reliable?
12. Have we tested our business continuity plans with our key third-party relationships?
13. How dependent are our third-parties on subcontractors?
14. What risks are associated with these organisations?

# Appendix 1 - Systems and controls issues

We have set out below certain potential improvements to the GOsC's processes and controls which we noted during our audit work and which we believe merit being reported to you. Our evaluation of the systems of control at the GOsC was carried out for the purposes of our audit and accordingly it is not intended to be a comprehensive review of your business processes. It would not necessarily reveal all weaknesses in accounting practice or internal controls which a special investigation might highlight, nor irregularities or errors not material in relation to the financial statements. In order to provide you with a clearer picture of the significance of issues raised, we have graded the issues raised by significance/priority before any corrective actions are taken: We have also included as a separate appendix a brief update on the matters we raised last year.

| | | |
|---|---|---|
| High | These findings are significant and require urgent action. | |
| Medium | These findings are of a less urgent nature, but still require reasonably prompt action. | |
| Low | These findings merit attention within an agreed timescale. | |

| Audit finding and recommendation | Priority | Management response |
|---|---|---|
| **1. Segregation of duties**<br>During our audit and our IT review we discussed issues around segregation of duties in relation to online bank payments. Most online banking systems have administrator access through which an individual can make changes including authorisation levels and the number of individuals required to approve a payment. The administrator access can be used to circumvent agreed authority levels. Although we understand that an individual cannot both raise a payment for approval and approve the payment through the banking system we have recommended that the GOsC obtain an understanding of the administrator rights and any risks connected to these. | | This matter will be considered by the Head of Registration and Resources and the new IT and Business Support and forms part of our response to the IT audit action plan.<br>Options, which are proportionate to the GOsC, will be presented to the Chief Executive and Registrar. |
| **2. Osteopathy House**<br>Osteopathy House is currently being depreciated over 50 years including significant redevelopment completed in 2009. The refurbishment completed in 2009 may have included some works with a shorter useful economic life than is currently being applied. The structure of the property may also reasonably considered to have a useful life in excess of 50 years. We recommend that the various components making up the current net book value of Osteopathy House are considered as well as whether there is a need for a change in accounting policy. | | We have noted the audit finding and we will consider this during financial year 2017-18. |



***Update from last year***

# Appendix 2 - Update from last year

We have set out below the systems and control issues on which we reported after our audit last year together with an update on how the points raised have been addressed including information on the progress made at the time of the audit of the 2017 financial statements.

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

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

| Observations in prior years | | Update 2017 |
|---|---|---|
| **1. Depreciation of land and buildings**<br>In the past, land and buildings were not split out for the purpose of depreciation. As part of the transition to FRS102, management obtained a valuation which included an estimate of the split between land and buildings. Whilst the valuation itself was not used in the accounts, the proportion of the split has been used as the basis for the split between land and buildings. | Green | We agreed the split between land and buildings to the report provided by the third party valuers. We have discussed with management and included a recommendation in Appendix 1 in relation to considering the useful economic life of Osteopathy House and the redevelopment in 2009. |
| **2. Current asset investment**<br>In previous years, no interest or movement to the investments had been accounted for. Under FRS102, investments must be measured at fair value and this resulted in a current and prior year adjustment to account for the fair value of the investments. | Green | We reviewed the movement on investments, agreeing the year end valuation to the investment manager report. All movements were correctly posted. |
| **3. Journals**<br>It was recommended that the administrator is provided with training to process routine journal entries, which would then be reviewed by the Head of Registration and Resources (HORR). Non routine adjustments could be posted by the HORR which would be reviewed by the Chief Executive. This would mean that the Chief Executive was only reviewing non routine journals making the journal process more efficient. | Green | We reviewed a sample of journals posted throughout the year and confirm that both the Head of Registration and Resources and Registration and Resources Officer post journals. All journals posted are reviewed on a quarterly basis by the Chief Executive. We understand that the Council are satisfied with the current process and we have no matters to report from our testing. |

| Observations in prior years | | Update 2017 |
|---|---|---|
| **4. Holiday Pay Accrual**<br>As required under FRS102, a holiday pay accrual was calculated and included within the 2016 accounts. The current calculation only includes employee's gross salary whilst all costs to the employer should be included, including national insurance. It was recommended that going forward, all costs to the employer were included within the calculation. | | The holiday pay accrual has been recalculated and deemed reasonable - we have traced the number of days to HR documentation and agreed salary in the calculation to payroll reports. |
| **5. Year-end adjustments to debtors and deferred income**<br>It was noted that a manual process is performed at the year end for adjustments to debtors and deferred income to account for changes such as if a registrants status changes. There is a risk that changes are not captured and therefore it was recommended that adjustments are posted as they occur. | | We understand that deferred income and debtor balances are posted annually, with the debtor balance being calculated a twice during the year. We have tested both of these balances in detail, testing both the overall calculations and a sample of individual amounts included within the balances to supporting documentation. No issues were identified and we understand that the Council are satisfied with the current process. |
| **6. Administration fee for direct debit payers**<br>It was noted that the direct debit administration fee is not initially recorded as a debtor and within deferred income. It is only at the year end, when a manual adjustment is made that they are reflected within debtors and deferred income. It was recommended that the full balance due from the registrant should be accounted for as soon as the individual starts paying by direct debit. | | We understand that from June 2016 the administration fee was included within the direct debit debtor balance. This transition will take a full 12 months before every member is treated in this way but we are satisfied with the process in place and noted no issues during our testing. |

## Appendix 3 - Reporting audit adjustments

International Standard on Auditing (UK and Ireland) 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 GOsC'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 £2,800 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 4 - External developments

We have summarised below some of the developments and changes in the 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.

## Charities (Protection and Social Investment) Act 2016

The Charities (Protection and Social Investment) Act 2016 received Royal Assent on 16 March 2016 with the first phase coming into force on 31 July 2016.

The purpose of the Act is to:

- protect charities from individuals who are unfit to be charity trustees,
- strengthen the powers of the Charity Commission,
- enable charities to more easily undertake social investment (investing their funds in a way that furthers their charitable purpose as well as providing a financial return), and
- reinforce the trustees' responsibility and accountability for fund-raising.

As part of the last purpose, the Act has introduced new reporting requirements for accounting periods commencing on or after 1 November 2016 which require charities which are required to have their accounts audited (income over £1m) to include a statement about the following in their trustees' annual report.

- The charity's approach to fundraising activity, and in particular whether a professional fundraiser or commercial participator was used.
- Details of any voluntary fundraising schemes or standards which the charity or anyone fundraising on its behalf has agreed to.
- Any failure to comply with a scheme or standard cited.
- Whether and how the charity monitored fundraising activities carried out on its behalf.
- How many complaints the charity or anyone acting on its behalf has received about fundraising for the charity.
- What the charity has done to protect vulnerable people and others from unreasonable intrusion on a person's privacy, unreasonably persistent approaches or undue pressure to give, in the course of or in connection with fundraising for the charity.

Although this required statement is not mandatory for the current reporting period, the trustees will need to ensure that the relevant information is available to enable them to comply with this requirement in the future.

Linked to this the Commission has issued new guidance on fundraising for trustees in CC20 as explained below.

The Act also gives charities a new specific and simple power to make social investments along with clear duties when doing so. This power has now come into force and to reflect this change the Charity Commission has updated its publication CC14 Charities and investment matters: a guide for trustees and also issued an interim guidance "Social Investment by charities - the new power introduced by the Charities (Protection and Social Investment) Act 2016". This guidance is available on the GOV.UK website:

https://www.gov.uk/government/publications/charities-and-investment-matters-a-guide-for-trustees-cc14

The Act can be seen on the GOV.UK website :
http://www.legislation.gov.uk/ukpga/2016/4/contents/enacted

## New Charity Governance Code

A major overhaul of the charity sector governance code was launched in 2016 with a period for consultation which ran until February 2017. The updated code includes new and more detailed guidance with an enhanced focus on delivering organisational purpose and direction.

The charity governance code is overseen by a working group comprising Acevo, ICSA, NCVO, SCC and WCVA with the Charity Commission being an observer to the group. In its response to the consultation the Commission has indicated that it is prepared to withdraw its CC10 good governance publication and refer charities to a new sector-created governance code instead.

The new version of the code starts from the principle that trustees understand their role and are interested in helping their organisations develop further. The aim is for the code to act as a tool for continuous improvement for charities of all sizes, including those who are already operating to high standards in governance.

Proposed new features include recommendations that:

- Boards will use the code as a tool for continuous improvement, rather than simply as an aide to meet minimum standards
- Boards promote a culture of prudence with resources but also understand that being overcautious and risk averse is itself a risk.
- Boards take account of wider voluntary sector in making sure that their charity operates responsibility and ethically
- Boards regularly review the external environment and assess whether the charity is still relevant. The code recommends trustees consider partnership working, merger or dissolution if others are seen to be fulfilling similar purposes more effectively.

The code also proposes higher standards in a number of areas and includes a recommendation that charities use their annual report to say how they apply the code and an explanation of any aspects which they do differently.

The consultation document with the proposed new code can be seen on the separate governance code website: http://www.governancecode.org/wp-content/uploads/2017/02/NC940_good_governance_11.pdf

## Charity Commission – Updated financial guidance in CC25

On 16 March 2017 the Commission issued an updated version of a key part of their financial guidance to trustees - CC25 Charity finances: trustee essential.

Although the Commission confirmed that trustees' legal duties regarding financial management haven't changed, the Commission is making a conscious push to ensure trustees are best placed to protect their charity's assets and resources. As part of this, it is urging trustees to read Charity finances: trustee essentials (CC25) which has been refreshed and made more accessible and readable. They also noted that it is vital that trustees are familiar with the charity's governing document, understand the finances, ensure control and procedures are in place and work, and ask the right - and sometimes difficult – questions.

Robust financial management is vital to ensure that charities are able to meet the needs of their beneficiaries and also to increase public trust and confidence in the charitable sector.

CC25 is available from the GOV.UK website:

https://www.gov.uk/government/publications/managing-charity-assets-and-resources-cc25 .

## Charity Commission – 15 questions trustees should ask

In addition to updating CC25 as above, the Commission at the same time have made some changes to their 15 questions checklist to improve the clarity in this document.

The 15 questions aim to help trustees whenever you review the way your charity operates, especially in changing or uncertain economic climates. In particular, it can help structure discussions about what your charity does and how it does it, make sure your charity is financially secure, even in tougher economic times, develop plans and timetables for action and demonstrate you are responding appropriately to change. It also provides links to more detailed Commission guidance where relevant.

The 15 questions can be obtained from the GOV.UK website https://www.gov.uk/government/publications/charity-trustee-meetings-15-questions-you-should-ask .

## Consultation on reporting serious incidents in charities

The Commission is currently analysing feedback on proposed changes to its reporting serious incidents guidance.

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

The key changes in the proposed guidance include the following.

- Making it clearer what to report, how and when – encouraging reporting at the time the incident occurs, or as soon as possible afterwards.
- An updated section to help with multiple reporting for larger charities, or those that report incidents on a regular basis, due to the risks arising from the nature of their work.
- Removing the need to report some types of incident, where these are risks rather than serious incidents, and where the relevant information about the risk is now requested in the annual return.
- Adding some new types of incidents – which charities are experiencing on a regular basis and/or struggling to manage properly.

More details of the proposed updated guidance can be seen on the GOV.UK website https://www.gov.uk/government/consultations/reporting-serious-incidents-in-charities-consultation .

## Charity Commission - What can we do to build public trust in charities?

Following the Charity Commission' Public Trust & Confidence research which showed a significant drop in trust in charities, they have published four blogs commenting on what can be done to build trust.

Public Trust 1: How can we rebuild public trust in charities?

Public Trust 2: How do you choose which charity to support?

Public Trust 3: How do charities tell the public what they want to know?

Public Trust 4: our action plan on Governance.

"If you know what matters to the public, and you act on it decisively, you can regain trust - we've seen that in other sectors," said Sarah Atkinson, Director of Policy & Communications.

The four blogs provide an analysis of what the report says about the drop in trust, comments on what charities can do to be more accountable to the public, what tools the public can use to find out more about the charity they are donating time or money to, and a look at governance in the sector and how it can be improved. The blogs are available on the GOV.UK website:

https://www.gov.uk/government/news/what-can-we-do-to-build-public-trust-in-charities

## Charity Commission – Take early steps to manage financial difficulties

The Commission in September 2016 published 2 reports as part of a proactive project exploring the financial resilience of the charitable sector and identifying wider lessons for charities who may be experiencing financial distress.

The case studies demonstrate that early steps to address financial difficulties and confront them pragmatically minimised the risk to beneficiaries. Charities have a number of different options to explore including the possibilities of mergers and collaborations to achieve positive outcomes despite financial difficulties.

There are some key messages from the reports.

- Being prepared to address financial difficulties effectively is an important part of a trustee's duties to act in the charity's best interests, manage the charity's resources effectively and ensure the charity is accountable.
- Charities that are able to identify pressures and risks early are best placed to address them.
- The Commission expect trustees to take seriously any concerns expressed by their charity's auditor or independent examiner and take appropriate action in response.

The Commission has provided guidance to help trustees identify and deal with situations of financial difficulty, in particular planning for and managing financial difficulties in CC12. The future outlook for charities remains challenging and trustees must stay alert to the risks of financial distress and manage them actively.

The reports are available on the GOV.UK website:

https://www.gov.uk/government/publications/accounts-monitoring-charities-with-audit-reports-identifying-that-they-may-be-in-financial-difficulty

https://www.gov.uk/government/publications/charities-at-risk-of-financial-distress-group-case-report

## Charity Commission - Charities and litigation: a guide for trustees

In August 2016 the Commission published new guidance on what charity trustees need to know when thinking about taking or defending legal action generally, and when the Commission needs to be involved.

The guidance applies to all types of legal action that a charity might have to take or defend but not to criminal cases or challenges to decisions by the Commission. It is relevant to all charities whether they are CIOs, companies, trusts, membership bodies or have another structure and also applies to both registered and unregistered charities.

The guidance is available on the GOV.UK website:

https://www.gov.uk/government/publications/charities-and-litigation-a-guide-for-trustees-cc38/charities-and-litigation-a-guide-for-trustees

## Brexit and Charities

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

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

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

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

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

https://www.croweclarkwhitehill.co.uk/wp-content/uploads/sites/2/2015/12/Brexit-and-charities.pdf

## Making digital work: 12 questions for trustees to consider

The Charity Commission in October 2016 published some key questions covering the use of digital technology that every board needs to talk about. The questions cover 12 areas, many of which are the bread and butter of board meetings such as governance, supporting new trustees and managing reputation.

However, as digital technology now cuts across everything that charities do, from fundraising to strategy to service delivery, the questions are provided as a starting point for discussions and cover the essentials and to help trustees ensure that they build digital technology into their discussions.

The 12 question areas are Governance, Induction of new trustees, People, Strategy, Culture, Service delivery, Brand, Reputation, Fundraising, Cyber security, Evaluation and success and Resources, and the questions are available on the Gov.UK website:

https://www.gov.uk/government/publications/making-digital-work-12-questions-for-trustees-to-consider .

## Raising awareness of mandate fraud

Mandate fraud continues to be a significant fraud loss to the charity sector. Mandate fraud occurs when the fraudster tricks a victim into changing bank account details, in order to divert legitimate payments intended for a genuine organisation (e.g. a charity supplier) to bank accounts instead controlled by fraudsters. This often involves the fraudster impersonating an organisation representative, either by email, direct mail or telephone communication. The fraudster may also use headed paper and/or the company logo to lend credibility and to gain the charity's trust. Liability for any financial loss normally falls to the charity.

FALCON, the Fraud and Linked Crime Online team at the Metropolitan police, have launched an initiative to raise awareness of this type of fraud. Police fraud prevention officers will provide charities with best practice advice and guidance on fraud reduction strategies. For further information contact sterling@met.police.uk, or download a mandate fraud awareness poster. For information on FALCON, guidance on protecting yourself against scams, and current police fraud alerts visit the Fraud Alert page on their website.

http://content.met.police.uk/Article/Mandate-fraud/1400013159214/1400013159214

# Appendix 5 - Upcoming Non Profits events, courses and briefings

We believe it is important to keep our clients up to date on the issues that affect them. As a part of our ongoing communication, we regularly hold seminars and courses. Below are details of our upcoming events – please visit our website or register to our mailing list to stay updated - nonprofits@crowecw.co.uk

## Breakfast briefings

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

| | |
|---|---|
| • Fundraising: from regulation to practice | 23 June 2017 |
| • Governance: what will the new code for good corporate governance mean for charities? | 11 July 2017 |
| • General Data Protection Regulation: why it's your priority | 12 Sept 2017 |
| • Managing investments | 26 Sept 2017 |
| • Fraud Resilience in the charity sector | 16 Oct 2017 |
| • Finance function of the future: from spreadsheets to strategy | 7 Nov 2017 |
| • Bond finance | 4 Dec 2017 |

## Tax updates

These free updates will be run by experts from our Non Profits team and the sessions take place between 16:30 and 18:00.

| | |
|---|---|
| • Charities VAT Update | 29 Nov 2017 |

## Trustee essentials

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

| | |
|---|---|
| • Trustee essentials | 22 Sept 2017 |
| • Trustee essentials | 30 Oct 2017 |
| • Trustee essentials | 21 Nov 2017 |

## Tax training courses

These interactive training courses are run with a small number of delegates at a cost *£165 **£225 ***£250 ****£330. The sessions commence at 9:00.

| | |
|---|---|
| • Introduction to charity VAT**** | 5 Oct 2017 |
| • Charities VAT reliefs** | 15 Nov 2017 |

## Other seminars and conferences in London

| | |
|---|---|
| • INGO conference 2017 | 8 Nov 2017 |

## Further information and registration

To register for any of the above events, please visit our website https://www.croweclarkwhitehill.co.uk/home/sectors-overview/not-for-profit/ or email nonprofits@crowecw.co.uk

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