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AUDIT FEEDBACK REPORT

# Canopy

## Report for the year ended 31 December 2020

# Canopy
# Audit Feedback Report – Year ended 31 December 2020

## Contents





Garbutt + Elliott AUDIT



# 1. Introduction

This document has been prepared to feedback the key findings from our audit for the year ended 31 December 2020 to the Trustees of Canopy.

Our communication with the Trustees is important to:

- Provide feedback on the audit process to those charged with governance; and
- Receive feedback on the performance of the audit team.

We would like to take this opportunity of expressing our thanks to you and your staff for your assistance during the audit.

# 2. Independence

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

No further threats to our independence have been identified since our communication at the planning stage.

# 3. Going concern

Our work has confirmed the Trustees' judgement that the Society is a going concern, and that the disclosures within the financial statements are fair and appropriate.

# 4. Instances of fraud

Our work did not highlight any actual or suspected instances of fraud, other than as previously stated in our Audit Planning Report.

# 5. Related party transactions

The Trustees are required to disclose transactions with related parties of the Society where those transactions are material to either the related party or to the Society. As part of the letter of representation, we ask you, as Trustees, to confirm to us that the disclosure in the accounts is complete, except for where disclosure exemptions are available under FRS 102.

No new related parties were identified during the course of our work.

# 6. Limitations

Our audit is not designed to identify all significant weaknesses in the Society‵s internal controls but is designed primarily for the purpose of expressing an opinion on the financial statements of the Society. However, where, as part of our testing, we identify any control weaknesses, we will report these to you.

Our work did not encompass a detailed review of all aspects of the internal controls and cannot be relied upon necessarily to disclose all deficiencies or other irregularities or to include all possible improvements in internal control.

The Society‵s management is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance that it has done so.

We have applied our audit approach to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

# 7. Audit status and expected opinion

As at the time of preparing this report, there are no significant matters outstanding.

Subject to receipt of the signed letter of representation, we can confirm that we anticipate issuing an unmodified opinion on the financial statements.



# 8. Conclusions on significant risks identified during planning

Set out below are the significant risks noted in the Audit Planning Report to which we paid particular attention in order to reduce the risk of material misstatement in the financial statements. We have detailed below the work performed to address each risk and our conclusions.

| Significant audit risks | How we will address this risk | Audit conclusion |
|---|---|---|
| **Income recognition**<br><br>There is a presumption under the International Auditing Standard that there is a significant risk of fraud in the timing of revenue recognition leading to the material misstatement of revenue overall. This is because revenue is an area of particular focus by users of financial statements and can be subject to judgements as to when the full risk and reward of the ownership of an asset has passed.<br><br>Completeness and cut off are particular risks. Cut off testing has been planned and completeness will be tested for each material income stream by addressing each stream separately. | Income will be reviewed and testing will be carried out to ensure that all income is complete and recognised within the correct period. | Based on the results of our procedures we consider that income recognition is reasonable and has been appropriately applied, in line with the accounting policy described in the financial statements. |



| Significant audit risks | How we will address this risk | Audit conclusion |
|---|---|---|
| **Management override of controls**<br><br>Management override of controls is considered to be a key risk in all entities.<br><br>Journal entries and accounting estimates are particularly susceptible to override, manipulation or bias. | We will test the appropriateness of journal entries and other adjustments made in the preparation of the financial statements, reviewing any controls and tracing a sample to source documentation as appropriate.<br><br>Should we identify transactions outside the normal course of business, or that otherwise appear to be unusual, we will consider the business rationale to support these transactions.<br><br>Where accounting estimates are included in the accounts, including, but not limited to, those highlighted as key judgements below, we will consider whether they have been manipulated to achieve a desired financial result. | No evidence of management override or bias was noted during our testing, giving comfort that the risk has been mitigated. |
| **Variable rate funding**<br><br>The Society currently has a variable rate loan with Unity Trust and may therefore be sensitive to changes in interest rates. | We will review any forecasting calculating the potential impact of interest rate changes and the sensitivity thereof. | The impact of changes to interest rates has been reviewed and assessed. |
| **Allocation of costs to restricted funds and designation of restricted income**<br><br>There is a presumed risk in all not for profit entities that restricted income may not have been identified as such and that expenditure may not have been incurred in line with any restrictions imposed by the donor. | As part of our detailed testing we will ensure that allocation of costs to restricted funds is appropriate. | Allocation of costs to restricted funds has been performed on an appropriate basis. |

| Significant audit risks | How we will address this risk | Audit conclusion |
|---|---|---|
| **Depreciation**<br><br>Depreciation is not charged on the society's houses on the basis they are maintained in a good condition. | The appropriateness of this policy will be reviewed. | We conclude that this policy continues to be appropriate |
| **Support cost allocations**<br><br>Support costs are allocated across the Society's activities and this involves and element of judgement in finding an appropriate method of allocation | We will review the appropriateness of the allocation. | Allocation of support costs to activities is deemed appropriate. |

| Significant audit risks | How we will address this risk | Audit conclusion |
|---|---|---|
| **Going Concern**<br><br>During the year the COVID-19 virus was declared a global pandemic and the impact on the global economy has been unprecedented in both its speed and severity. The Trustees have continued to prepare the financial statements on the going concern basis of accounting in preparing the financial statements and believe on balance that the Society has sufficient funds to enable trading to continue for a period of at least 12 months from the date of approval of the financial statements.<br><br>Given the unprecedented nature and extent of the pandemic and that the consequences are yet fully unknown the going concern assertion is a heightened risk in all audits. The Trustees are required to assess the entities ability to continue to operate for the foreseeable future, and in any case a period of not less than 12 months from the date of approval of the financial statements. This assessment should be made with reference to current levels of reserves, available cash, the ability to borrow and budgets and cashflow forecasts over that period. Where the Trustees have assessed that the entity remains a going concern, disclosure in the financial statements should state the rationale for this assertion. | We will review the current financial position and budgets and cashflow provided, which must cover a period of no less than 12 months from the date of accounts approval. We will assess and corroborate the reasonableness of any underlying assumptions and the inherent sensitivity in the budgets. In light of the findings of the Trustees assessment we will ensure that the appropriate disclosure has been made in the financial statements ensuring that inherent uncertainties in respect of COVID-19 are disclosed as required. | Our review of budgets and forecast conclused that it is appropriate to prepare the financial statements on a going concern basis. |

# 9. Audit findings – Systems and control observations

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

We are pleased to report that we have no observations on your systems and controls to report.

| Observation | Potential effects | Recommendation | Management response |
|---|---|---|---|
| Volunteers are paid an allowance for each day they attend. | In the absence of receipts for expenditure incurred by the volunteers these amounts constitute taxable income. | We would advise you to obtain signed P46 forms from volunteers to confirm that no taxes are due. | Volunteers are now given a daily travel card and a small amount of cash for lunch. |
| For a number of properties the wrong address for Canopy was held at the land registry | The could lead to difficulties in selling, or being informed of any issues with the properties. | Details be updated at the land registry | Change of registered address request is ongoing. |



# 10. Audit findings – Significant qualitative aspects + other matters

| **Accounting policies** |
|---|
| • The appropriateness of the accounting policies as detailed in the financial statements, including management's assumptions around the going concern basis of preparation as detailed in note 1.2 are considered to be adequate and have been appropriately and consistently applied. |
| **Accounting estimates** |
| • Auditing Standards require that accounting estimates, including fair value estimates, are identified and the underlying assumptions and degree of uncertainty for each accounting estimate is assessed.<br>• During audit planning we identified that management uses accounting estimates in the following areas:<br>○ Depreciation<br>○ bed debts<br>• From our audit testing, we concluded that management estimates are being applied appropriately and do not give rise to a material misstatement in the financial statements. We are satisfied with the disclosure made for the Society's key accounting estimates and judgements in note 2 to the financial statements.<br>• Management should regularly review the methodology of all accounting estimates to ensure that they remain appropriate to the Society's circumstances and do not result in a material misstatement in the financial statements. |



## Financial statement disclosures

- We complete a disclosure checklist every three years, or more frequently where there are significant changes to accounting standards or the Society's circumstances. The last disclosure checklist was completed in respect of the year ended 31 December 2019. The financial statements are also subject to annual independent manager review for completeness and accuracy. We are satisfied that the disclosures comply with legal and accounting requirements.

- The financial statements are also subject to rigorous manager and partner reviews for completeness and accuracy and the draft accounts have been appropriately amended through this process.

## Matters of governance interest

- We noted the address held for Canopy at the Land Registry is still 114 Lady Pit Lane for a number of properties and for 38 Colonso Grove, the address for Canopy is showing at 38 Colonso Grove

## Adequacy of communication with those charged with governance

- No significant issues were encountered when communicating with those charged with governance.



# 11. Audit findings – adjusted misstatements

| Adjusted misstatements | Profit & Loss | | Balance Sheet | |
|---|---|---|---|---|
| | DR £ | CR £ | DR £ | CR £ |
| Grant Income | | 52,367 | | |
| Deferred Income | | | 52,367 | |
| **To release the income held from the COVID 'Power the Change' grant.** | | | | |

## 12. Audit findings - unadjusted misstatements

No potential adjustments in excess of triviality were noted during the audit.

General information

13. **COVID-19 Financial Support Available to Charities**

The government and other organisations continue to offer COVID-19 related support.

- The Voluntary and Community Sector Emergencies Partnership, a collection of voluntary and community sector organisations, which aims to help local people and organisations respond to emergencies. You can request support here https://vcsep.org.uk/request-support"

- The Arts Council National Lottery Funding Grants available to individual artists, community and cultural organisations, with a focus until April 2021 on the needs of smaller independent organisations and practitioners: https://www.artscouncil.org.uk/projectgrants"

- Resilience and Recovery Loan Fund is a new fund for social enterprises and charities who are experiencing disruption to their normal business model as a result of COVID-19 to make the CBILS scheme more easily accessible to these organisations. Application closing date 31 March 2021: https://www.sibgroup.org.uk/resilience-and-recovery-loan-fund"

- Animal welfare grants available through the DEFRA Zoo Animals Fund, applications open to 26 February 2021: https://www.gov.uk/guidance/coronavirus-covid-19-apply-for-the-zoos-support-fund"

The National Lottery Community Fund is also continuing to offer support during this period and outlines the following types of COVID-19 related projects they can fund:

- Where you need support to continue to deliver an activity in responding to the immediate crisis of supporting recovery activity
- Where you have had to change and adapt in order to respond to the pandemic.

You can apply for funding here: https://www.tnlcommunityfund.org.uk/funding/covid-19"

The Retail, Hospitality and Leisure Grant Fund for businesses and charities in the retail, hospitality and leisure sectors (such as charity shops) are eligible for business rates relief in the 2020/21 tax year for each property that has a rateable value below £51,000. This should have been applied directly by the local council (with no action needed by you). However if you think you are eligible for this relief but have not been granted it, you should contact your local council: https://www.gov.uk/contact-your-local-council-about-business-rates"

The Coronavirus Job Retention Scheme (CJRS) has been further extended to 30 April 2021: https://www.gov.uk/guidance/claim-for-wage-costs-through-the-coronavirus-job-retention-scheme"

The Coronavirus Business Interruption Loan (CBILS) scheme is still open to 31 March 2021, to help small and medium-sized businesses access loans up to £5m, with the government guaranteeing 80% of the finance to the lender and covering the first 12 months interest payments: https://www.gov.uk/guidance/apply-for-the-coronavirus-business-interruption-loan-scheme"

The Coronavirus Large Business Interruption Scheme (CLBILS) is also still open to 31 March 2021, with the government guaranteeing 80% of the finance to the lender: https://www.gov.uk/guidance/apply-for-the-coronavirus-large-business-interruption-loan-scheme"

**Insolvency Help**

The Corporate and Insolvency Governance Act 2020 has been introduced to avoid insolvency as a result of the COVID-19 pandemic, this applies to charitable companies, and most of provisions to CIOs also. This Act covers Moratoriums, supply contracts, suspension of wrongful trading claims, suspension of statutory demands and restrictions on winding up petitions, and support for charitable companies struggling with debt. More detail relating to these provisions can be found here https://www.gov.uk/government/publications/corporate-insolvency-and-governance-bill-2020-factsheets"

**Supporting trading subsidiaries**

If you have a charitable group including trading subsidiaries, you may also need to consider the support available from the parent charity to the subsidiary in times when the subsidiary is struggling financially. Typically



the subsidiary will gift aid profits to the parent charity so that they have been unable to build up any meaningful reserves to support itself in difficult trading conditions (such as caused by the COVID-19 pandemic).

The parent charity may be asked to make a short term cash injection/loan to support the subsidiary. Trustees should consider this carefully and put the interests of the charity first, considering whether this support can be justified as an investment. Trustees should have good grounds to believe that the subsidiary will become profitable within a reasonable timescale and that it can sustain the loss of income in the meantime. They also need to be comfortable that the charity is able provide the support and that its assets will be not be at an unreasonable level of risk. An interest charge should be charged by the charity on the loan.

**Fee reductions and refunds for contractual services**

As a result of COVID-19, some charities have been asked to reduce or return contractual sums, or may wish to offer a reduction because they are changing their usual service. This is especially relevant to training and education charities such as schools.

Even if there is no legal obligation (and there may be under consumer law), you may feel a moral obligation, or the Trustees may feel that the goodwill generated will protect the charity moving forward. If you want to reduce fees because you consider this to be in your charity’s best interest you can take this approach without Commission agreement unless it is not possible under your governing document. This won’t constitute an ex-gratia payment (which requires consent of the Commission) because the decision is not being made because of a moral duty towards an individual. It is made in the best interests of the charity.

The decision to reduce or return fee must be in the charity’s best interests and in line with the purposes. Key considerations include a cost-benefit analysis, contractual arrangements, the level of reduction in service financial position of your charity, long-term considerations including maintaining relationships with service users and your charity’s immediate and longer-term reputation. You should also consider whether your actions create a precedent for your charity which might cause challenges in the future and whether there are any alternative approaches that can be taken instead e.g. means testing, eased payment terms etc. Where decisions have a substantial impact, the decision must recorded carefully so you can demonstrate sufficiently good governance around the process.

**Further Charity Commission guidance and information**

- Trustee or member meetings should continue, including AGMs, via online video calls or telephone calls where possible, however where not possible, you can hold these meetings in person where necessary.

- The pandemic has no doubt made many organisations assess their resources and change the way they work to avoid closure and in some circumstances collaboration or merging may make the best use of these resources. The charity commission has issued guidance on this here: https://www.gov.uk/guidance/how-to-merge-charities" If you are looking for a like-minded charity to merge with you can also search the register of charities here: https://register-of-charities.charitycommission.gov.uk/"

- Trustees are encouraged to consider the pools of funds they have, with consideration paid to the short, medium and longer term. If your charity has any internally designated funds, you may be able to re-prioritise these. If there are restrictions around funds, there may be ways to amend these restrictions, but accessing or releasing restricted funds should only be considered if other options such as reserves are not possible and with great care around donor management.

During the pandemic, the Charity Commission has tried to be as supportive and flexible as possible to help charities through this challenging and uncertain time. Their offices are open for contact Monday to Friday 9-5, and can be contacted on 0300 066 9197. Should the inability to hold meetings or get into premises post a significant issue in terms of meeting statutory filing requirements the Commission is likely to take a pragmatic view if early contact is made with them to discuss the issues. To apply for a filing extension online you can email



filingextension@charitycommission.gov.uk including both your charity number and full name.

**Charities' small trading exemption limits**
Where a charity undertakes a trading activity which does not relate to its primary purpose or fall within another charity exemption, for example if a charity sells goods in order to raise additional funds, then provided the turnover does not exceed the small trading exemption limit, any profits will be exempt from tax.

The current small trading limits are as follows:

| ***Annual income*** | ***New limit*** |
| --- | --- |
| Under £32,000 | £8,000 |
| £32,001 - £320,000 | 25% of income |
| Over £320,000 | £80,000 |

**Gift Aid Small Donations Scheme ('GASDS')**
GASDS allows charities to claim gift aid on small cash and contactless donations without the need for Gift Aid Declarations from the individuals who have made the donation.

Currently the limit on the amount an individual can donate under GASDS is £30.

**Gift Aid on tickets for cancelled events**
HMRC have announced that theatres and other cultural venues recognised as charities by HMRC claim Gift Aid on tickets for cancelled events due to COVID-19 as long as the customer has waived the right to refund and for the same amount to be treated as a donation to the charity. The charity will still be required to obtain a Gift Aid declaration from the individual.

HMRC has published relevant guidance at https://www.gov.uk/guidance/processing-ticket-refunds-for-cancelled-charity-events-during-the-coronavirus-covid-19-pandemic for the charities on claiming which includes a six step process for charities to follow.

**VAT - Advertising on Social Media**
Many charities are unable to recover 100% of the VAT they have been charged on their expenses, leaving less funds that could be used for charitable purposes.

The government has assisted for many years by allowing charities to buy in advertising at the zero rate of VAT. In order to benefit from zero-rated VAT on advertisement services on someone else's space (channel, website or even any physical media), the advert must be available to the general public rather than selected targeted individuals. As per VAT Notice 701/58, "selectively targeted" means:

- selected by individual home, business or email address, whether named or not;
- individually named people, all those at the same address, such as family groups, or everyone in a particular building.

HMRC's view is that advertisement on social media is targeted if it is either based on their IP addresses or some specific activities such as online donation which is tracked. HMRC says that charity advertising on various social media and subscription websites does not qualify for VAT zero-rating because the person watching or accessing the advertising is selected. It means that advertisement suppliers will charge VAT. Any social media advert supplies received from outside the UK will be liable to reverse charge mechanism with 20% VAT.

However, the good news is that some forms of digital advertising still remain zero-rated for VAT purposes such as:

- Pay-per-click adverts - An example would be where an advert is displayed for goods or services when users enter relevant queries into a search engine. Advertisers are only charged when a user actually clicks on their advert link.
- Direct placements on third party websites, including when the advert is placed on a particular section on a website or alongside specific content.

HMRC has not officially confirmed whether it will be seeking to collect VAT retrospectively.
Presently the VAT relief is restricted by EU law but the UK would be free to amend the law as it sees fit once it leaves the EU.

**VAT exemption for fundraising events - when it doesn't count**
The VAT exemption for fundraising events is a valuable VAT relief for many charities, income from events can be one sixth (i.e. 20/120) more than they otherwise would be, although VAT cannot be recovered on the related costs.

On 27 June 2018 the First Tier Tribunal (FTT) released its decision that events organised by four Student Unions did not qualify for the exemption – Loughborough Students Union, Keele University Students Union, Nottingham Trent Students Union, The Students Union at Bournemouth University [2018] UKFTT 357 (TC).

The Student Unions, which are all charities, could therefore potentially have qualified for the VAT exemption. To quote an extract from the 25 July 2016 edition of HMRC VAT Manual VBNB60970 in the context of fundraising events, 'The Union may qualify for this exemption if it is a charity.'
The main issue for the Student Unions was that, apart from information on the tickets and on promotional material indicating that the events were fundraising events, they were very similar to many other events the Student Unions organised, as part of their normal activities.

The Tribunal decision is a reminder that the exemption is not intended to apply to the normal business activities of charities. One of the conditions for qualifying for the exemption is that not more than 15 of events of the same kind and at the same location can be held in a financial year, events at a location where the aggregate gross income during a week do not exceed £1,000 can be ignored. If the 15 event limit is exceeded then none of the events qualify for the VAT exemption for fundraising events.

In addition to the 15 event limit referred to above, the primary purpose of each event must be the raising of money and that must be reflected in how the events are promoted.

**Reporting serious incidents in your Charity**
The Charity Commission guidance 'How to Report a Serious Incident in your Charity' has been following the commission publishing the findings of its safeguarding taskforce. The taskforce found no serious concerns about how the commission or charities handled incidents, but that 98.5% of charities did not report any incidents and 65% of incidents that were reported were reported more than two months after the incident. It also found a lack of understanding by charities as to which incidents to report, leading to under and over reporting.

The guidance sets out the responsibilities of trustees, including how and what to report and data protection implications. The Commission requires incidents to be reported as part of their regulatory role, in order that they can ensure the incident is suitably managed, the impact limited and procedures put in place to prevent reoccurrence.

A serious incident is any adverse event (actual or alleged) which leads or could lead to loss of or damage to charity assets or property or its work, or harm to people who come into contact with the charity through its work. It also includes incidents which result in or risks significant harm to the Charity's work or reputation. Most incidents reported will involve financial loss or safeguarding issues but all serious incidents must be reported regardless of their nature.

The 'What to Report' section of the guidance gives information about what types of incidents the commission expects to be reported and the different authorities or agencies that may be involved.
There is a brief reporting checklist within the guidance so trustees can ensure that all necessary information has been provided to the Commission.

As part of the Annual Return there is a declaration that there were no serious incidents in the previous financial year that should have been reported to the Commission but were not. Trustees will be aware that to make a false declaration is an offence under section 60 of the Charities Act 2011.

The guidance can be found here: https://www.gov.uk/guidance/how-to-report-a-serious-incident-in-your-charity. The Charity Commission has launched a new online form at https://ccforms.charitycommission.gov.uk/report-a-serious-incident for reporting a serious incident. The form should be used to report a new serious incident or update an incident already reported.

**Updated Accounting Rules for Larger Charities**
Changes in the Companies Act, brought about by Parliament's approval of 'The Companies (Miscellaneous Reporting) Regulations 2018', will require charitable companies registered in the UK who qualify as large to include additional detail about their activities within the Trustees Annual Report. These requirements will apply to accounting periods beginning on or after 1 January 2019, with early adoption permitted. In summary the following statements are now required to be disclosed:

- How the Trustees have complied with their duties in relation to section 172(1) of the Companies Act (for a charitable company being to promote the success of the charity to achieve its charitable purposes); and
- How the Trustees have engaged with suppliers and customers. The SORP recommends extending this to cover the charity's relationship with other stakeholders such as service users, beneficiaries, funders and the wider community.

Additionally, the parent of a charitable group with more than 250 UK employees will need to disclose a statement regarding how the Trustees have engaged with employees and how they have had regard to employee interests, including subsequent action taken or decisions made.
For more detail, the Charities SORP has published guidance on how to apply these changes, which can be found at https://www.charitysorp.org/media/647775/information-sheet-3-the-companies-misc-reporting-regs-2018.pdf.

**Changes in audit ISA's**

There are upcoming changes to a number of the audit ISA's.

As part of the this the auditor's report will need to explain the extent to which the audit was considered capable of detecting irregularities, including fraud. This means that there will be a new section within the audit report that needs to be tailored to each individual client's circumstances, which will result in additional discussions between auditor and management.

With going concern, we will need to perform more work around your budgets and cash flow projections for the 12 months following sign off, more robustly challenging assumptions, supporting evidence and sensitivities. Please see our blog - https://www.garbutt-elliott.co.uk/wp-content/uploads/2020/12/Going-concern-flyer.pdf - for more details.

Auditing of accounting estimates have also been the subject of change. We will have to look at the key estimates in much greater detail on an entity-by-entity basis. Please see our blog - https://www.garbutt-elliott.co.uk/wp-content/uploads/2020/12/Accounting-Estimates.pdf - for more details.

**Cyber Security**
Although cyber security is an ongoing threat, recently there has been a trend to target companies in a more sophisticated manner, aiming at the weakness of individuals. Particular sectors are exposed to higher risks, such as legal practices and other professionals that hold client money and assets.
All businesses should take steps to address their exposure, through staff training, IT security, and systems & processes, as well as considering whether there is a requirement for specialist cyber insurance to cover losses in the event of a major breach.

**Off-payroll working rules from April 2021**
Due to the ongoing COVID-19 situation HMRC have postponed the introduction of new off-payroll working legislation. This places the responsibility on the entity to deduct PAYE and NIC if they engage with workers directly through Personal Service Companies ('PSCs'), where the worker would be employed were it not for the PSC.

The proposed rules will align the off-payroll working (or IR35) rules for the public sector, which saw similar changes introduced in April 2017. These changes significantly increase both compliance responsibility and risk for organisations. Failure to properly comply could expose the organisation to underpaid PAYE, National Insurance, interest and penalties.

The roll-out applies only to medium and large-sized entities. Small entities defined as those that meet two out of the following three tests are exempt from the reference.

1. Annual income – not more than £10.2m
2. Gross assets – not more than £5.1m
3. Number of employees – not more than 50

HMRC have enhanced the 'Check Employment Status for Tax' ("CEST") online tool. This should be used as standard in determining the employment status by all organisations to ensure they are treating their employees and contractors correctly for tax and employment benefit purposes.

**Restriction of the Employment Allowance**

In April 2014 the Government introduced a £3,000 Employment Allowance, claimable by most organisations as an annual deduction against their employer's NICs liability (secondary class 1 NICs). Groups of companies and connected entities which are under common control can only claim one allowance and may opt which entity claims the allowance.

From 5 April 2020 the Employment Allowance has increased to £4,000 but will be restricted to employers with a secondary Class 1NICs liability of less than £100,000 in the tax year to 5 April 2020. Employers will also have to complete a declaration and supply information to HMRC so that they can ensure that the granting of the Employment Allowance is made in accordance with EU state aid rule and the associated limits which apply.

**Zero-rating of personal protective equipment**

In a temporary zero-rating notice HMRC have announced that supplies of personal protective equipment (PPE) will be zero-rated between 1 May to 31 July 2020. The PPE must be as recommended for use by Public Health England 'Guidance, COVID-19 personal protective equipment (PPE)'.

## Emerging and topical issues

Regular updates on emerging and topical issues are published on our website here.

## Appendix 1 – Management representations

1 The society has a secured interest free loan with Leeds City Council. At 31 December 2020 the amount outstanding was £188,235. We confirm that Leeds City Council has agreed that the first repayment of £11,765 which was initially due in September 2017 was deferred until 2020 with the second installment due in 2021 and that the society is not in default of the terms of the loan.



## Appendix 2 – Audit key developments

Set out below are the key audit developments that will have an impact on how we will approach certain aspects of next year's audit and what information we may require from you in order to carry this out.

**ISA 570 – Going Concern**
The Financial Reporting Council (FRC) has revised it's going concern standard, ISA UK 570, in response to a string of corporate failures where auditors failed to warn that companies were on the brink of collapse.

The new standard is applicable for accounting periods beginning on or after 15 December 2019 with early adoption permitted. Likely to impact December 2020 year ends first.

Your responsibilities under Company Law (or other financial reporting framework):

To obtain sufficient appropriate audit evidence regarding, and conclude on:

- Whether a material uncertainty related to going concern exists; and
- The appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements

ISA 570 Revised provides auditors with a clearer framework for challenging management's assessment of going concern and to enhance communication of such matters with those charges with governance.

Key Changes:

- Definition of going concern has been strengthened to apply to any entity unless its management intends to liquidate the entity or to cease trading or has no realistic alternative to liquidation or cessation of operations.
- The revised standard requires greater work on the part of the auditor to more robustly challenge management's assessment of going concern, thoroughly testing the adequacy of the supporting evidence, and evaluating the risk of management bias. As part of this our audit work will now document and evaluate:
    - The process by which management makes it assessment of going concern and;
    - The oversight of this by directors/trustees

**ISA 540 – Accounting Estimates**
Developments in the business environment and introduction of new accounting standards have given rise to a greater use of accounting estimates. ISA 540 Revised establishes robust requirements for auditing accounting estimates and provides detailed guidance to enhance audit quality. This guidance requires auditors to perform appropriate procedures in relation to accounting estimates and related disclosures.

ISA 540 Revised is applicable for accounting periods commencing on or after 15 December 2019 and early adoption is permitted. Likely to impact December 2020 year ends first.

Although ISA 540 applies to all accounting estimates, the degree to which an accounting estimate is subject to estimation uncertainty will vary substantially. The standard provides a framework to apply scalability to the risks associates with each accounting estimate which will impact the persuasiveness of the audit evidence requires.

It is likely that we will need to undertake additional work and require more information from you in order to comply with the upcoming changes. In due course, we will begin to prepare an impact analysis of the changes and liaise with you accordingly.



## Appendix 3 – Marketing calendar

| | |
|---|---|
| *February* | **Brexit**: this will be the 5th instalment of our Brexit webinars, on ***11th February***, covering emerging topics and what this means for your business |
| | **IR35**: we will be holding a seminar on ***24th February*** covering the main changes in IR35 and what this means for you |
| | **Risk Register**: we will discuss the benefits of maintaining an up to date Risk Register, the basic content we would expect to see on here, and how this can be a really useful tool for any entity |
| *March* | **Budget Update**: we will be sharing our predictions in the run up to the budget update, covering the live budget update on the day ***(3rd March)***, and holding a post budget webinar to discuss the main changes |
| | **Trustees Annual Report**: we will review what information is required in the Report by the Charities SORP and why this is important |
| | **Payroll update**: we will be holding an event on ***16th March*** covering various emerging topics |
| *April* | **Estimates and Going Concern**: a refresher on the new auditing ISAs and how you can help the auditor make sure these requirements are met. |
| *May* | **Good Governance**: we will discuss the importance of good Director/Trustee governance and the responsibilities attached to this role |
| *August* | **Serious Incident Reporting**: we will look at the Trustees' Responsibility in making an SIR report |
| *September* | **Auditing for SMEs**: an introduction to audit for SMEs, how to prepare for future audits and the usefulness of assurance reports in the interim |
| *November* | **International Fraud Awareness week**: looking at fraud facts and statistics, what the audit requirement is around fraud, and what work this involves for the auditor |
| *December* | **Charity week**: Each day of charity week we will be publishing some useful information and facts, so watch this space! |