EDUCATION FOR THE 21ST CENTURY

Management Report for the Year Ended 31 August 2018

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This report is part of a continuing dialogue between the Academy Trust and ourselves and is therefore not intended to cover every matter discussed during the course of the audit. For this reason, the report is intended for the sole use of the Academy Trust. We do not accept responsibility to any of the Directors acting in an individual capacity, and do not accept responsibility for any reliance that third parties may place on the report.

It should be noted that the primary objective of our audit is to express an opinion on the truth and fairness of the Academy Trust's accounts as a whole. An audit does not examine every operating activity and accounting procedure in the Academy Trust, nor does it provide a substitute for management's responsibility to maintain adequate controls over the Academy Trust's activities. Our work is not designed therefore to provide a comprehensive statement of all weaknesses or inefficiencies that may exist in the Academy Trust's systems and working practices, or of all improvements that could be made.

1 EXECUTIVE SUMMARY

1.1 Purpose

The purpose of this report is to record the overall results of our work and to assist the Directors by commenting on those matters that came to our attention during the course of the audit. These matters cover:

- Independence
- Materiality and Audit approach
- Comments on the accounting policies and practices applied when preparing the Academy Trust's accounts
- Summary of corrected and uncorrected misstatements in the financial statements
- Suggestions for improvement to the Academy Trust's accounting and financial control systems

1.2 Independence

In accordance with auditing standards we can confirm that any relationships that may bear on the firm's independence and the objectivity of the audit engagement Partner and audit staff have been identified and assessed at the planning stage of our audit.

- We have no independence issues to bring to your attention.

1.3 Audit approach and materiality

Our audit planning was carried out taking account of the issues highlighted through discussions with you during the year, and our knowledge and understanding of the business.

In our planning we have taken account of the results of our own risk assessment made in accordance with the guidance set by International Standards on Auditing (UK and Ireland).

- The level of materiality for making adjustments to the financial statements, as set out in the detailed planning memorandum, was calculated at £554,000.

We are required to notify you of any potential adjustments identified during the course of our audit work unless they are trivial.

- For the purposes of this report we have taken trivial as being less than £27,700.

1.4 Accounting policies and practices

In preparing the financial statements of the Academy Trust, the Directors are required under FRS102 – Section 10 to review the Academy Trust's accounting policies on an annual basis to ensure they remain appropriate to the Academy Trust's circumstances and are being properly applied.

- We have reviewed the accounting policies and practices selected by the Academy Trust and are satisfied that the company operates acceptable accounting policies and practices.

Section 2 of this report summarises the main accounting issues that we have discussed with management and records the adjustments that have been made to the draft accounts as a result of matters arising during the course of the audit. This section also summarises the errors identified during the course of the audit which remain unadjusted.

- There are no accounting issues or adjustments that we wish to draw to the directors' attention other than those discussed in Section 2.

1.5 Accounting and financial control systems

We found that the business had robust operational and management controls.

- We have identified some areas where we believe controls should be strengthened further. These are detailed in Section 5 together with the management's responses to our recommendations for improvement.

2 SIGNIFICANT MATTERS DISCUSSED DURING AUDIT

2.1 Introduction

The following significant matters were discussed with management during the course of the audit. This includes the audit outcome of appropriate key risks identified within our audit planning memorandum.

2.2 Going concern

Forecasts and post balance sheet date transactions have been reviewed. This has also been discussed with the Management during the course of the audit. The current forecasts for the 2019 financial year are showing a predicted loss but there are plans to address this issue and ensure it is not an ongoing trend. These have been shared with the ESFA (see point below). The Trust has healthy cash and reserves to absorb this loss in the short to medium term.

2.3 ESFA Financial Notice to Improve

The ESFA placed the Trust under a financial notice to improve (dated 26 October 2018) in relation to the related party transactions surrounding the previous Accounting Officer, Paul Murphy.

As part of our closure procedures for this audit we have reviewed some of the processes that are being implemented (such as the monthly budget monitoring) in order to meet the requirements of the notice.

Management's response has thus far has been strong and they are tackling the points raised, although it will take time to fully update processes and address the issues they face.

2.4 William Willets Trust Bank account

We found that the bank account for the William Willets trust is still open and that transactions relating to Cooper's Academy are still being processed here along with William Willets transactions. We note that Management are monitoring this, but would expect this to be shut down and all remaining monies transferred to E21C as soon as the William Willets final accounts are agreed and signed.

3 CORRECTED AND UNCORRECTED MISSTATEMENTS

3.1 Corrected misstatements

There following actual audit misstatements were found and processed during the course of our audit. All adjustments were discussed and agreed during the audit.

Actual adjustments:	*Balance sheet*		SOFA	
	DR	*CR*	*DR*	*CR*
	£'s	£'s	£'s	£'s
Accruals not recognised through Sage		494,799	494,799	
Intangible assets reclassified out of expenditure	59,229			59,229
London Marathon Grant (Accrued income)	100,000			100,000
Grossing up of Chartwells catering income and expenses (Coopers and Mead)			81,619	81,619
WWLT (Coopers and Mead Road) assets on transfer	631,692	102,202		529,490
				-
Net impact of actual adjustments	**790,921**	**597,001**	**576,418**	**770,338**

3.2 Uncorrected misstatements

The following potential misstatements have been noted during the course of our audit but have not been actioned.

Potential adjustments:	*Balance sheet*		Sofa	
	DR	*CR*	*DR*	*CR*
	£'s	£'s	£'s	£'s
Unidentified error on VAT (see point below in section 5)		53,653	53,653	
Bank Reconciliation differences		157,146	157,146	
Dilapidation provision estimate for the Eden Park site demolishment		76,864	76,864	
Unidentified difference found on pupil premium grants	45,811			45,811
Net impact of potential adjustments	**45,811**	**287,663**	**287,663**	**45,811**

The above misstatements, if adjusted for, would decrease the trust's surplus by £241,852. All uncorrected misstatements below materiality are noted in this report unless they are trivial. We have defined 'trivial' as below £27,700.

4 UPDATE ON RISKS IDENTIFIED AT THE PLANNING STAGE

At the audit planning stage we established the key risk areas for the focus of our audit work. This annex includes the outcomes of our audit work in respect of these key risks.

Issue	Audit risk	Proposed audit work	Outcome
Fall in pupil numbers	Changes in demographics could lead to a fall in pupil numbers which would lead to a fall in GAG funding.	Review if there are any indications that the Academy has suffered from a fall in income.	Overall pupil numbers have increased due to 4 new schools joining the MAT this period and Eden Park opening during the period. For the schools that were already in existence (i.e. not Eden Park) a comparison of census numbers from 2017 and 2018 was carried out to ensure there was no risk of falling income due to a fall in pupil numbers. No material issues for concern were noted, with all increasing numbers on last year.
Reliance on key members of staff and possible management override of controls	Risk that segregation of duties could become difficult should members of the team be absent due to ill health for any length of time. Risk that management could override key controls.	Discuss with the client and review systems and controls.	No evidence of management override was observed during testing. Walkthrough tests of systems and controls were performed during the audit. Although a lot of systems are changing due to the new structures we are of the opinion that management have sufficient knowledge and expertise to manage this change.

Issue	Audit risk	Proposed audit work	Outcome
Errors and fraud	Risk of errors in the cut off of expenditure leading to the accounts not reflecting a true and fair view and thereby affecting management decisions based on the accounts. Risk of fraud from internal and external sources affecting the results.	Cut off to be tested. Review systems and control procedures through discussions with the accounts staff and complete a number of walkthroughs to confirm systems and controls in place. Discuss with management if any fraud has occurred and review any systems in place to mitigate the risks.	As in prior years some errors in the postings of transactions into Sage were noted but these were corrected during the accounts preparation process. Cut off was tested and adjustments have been raised to correct creditors and accruals (see points in section 5 below). See section 3 above for a summary of the adjustments made. No instances of fraud were identified during the course of the audit.
Income recognition	Risk that income could be understated.	Review cut off procedures and systems for income recognition.	No material issues in relation to the recognition of income were identified during testing and controls appear to be effective in this area.
Related parties and transactions	Risk that related party transactions may be missed from the financial statements.	Request a list of all related parties from the directors; Review transactions comparing to the directors register of interest and confirm no further related party transactions to be disclosed; Review systems and controls in this area.	This area has improved from last year but there are still points to recommend. The ESFA have also issued a notice to improve in relation to the treatment of related party transactions and we have summarised a few points in relation to this in section 2. The disclosure in the accounts has been updated for the information obtained during the audit in relation to related party transactions. Please see section 5 below regarding declarations.

5 ACCOUNTING AND FINANCIAL CONTROL SYSTEMS

5.1 Introduction

The table below summarises our recommendations for improving the effectiveness of the Academy's accounting and financial control systems in the following areas:

	Subject	Grade
1	**Risks identified in the prior year**	**n/a**
2	**Asset Inventory lists (Regularity)**	**3**
3	**Fixed Asset Registers (Blenheim & Spires)**	**3**
4	**Inconsistent processes within the academy trust**	**2**
5	**Accrual accounting**	**2**
6	**Bank reconciliation preparations**	**1**

We have used the following grading system to indicate the significance of the matters we have raised and the priority that we believe should be given to our recommendations:

Grade 1: We believe these observations are particularly significant and that management should take prompt action.

Grade 2: These observations are significant but of a less urgent nature than Grade 1 observations. We believe that action needs to be taken within the agreed timescale.

Grade 3: Observations that merit attention but are less significant than Grade 1 and 2 observations.

5.2 Issues noted

1	Risks identified in the prior year	Grade: n/a

Depreciation charged in the year
It was noted during the audit last year that no charge is made for depreciation through the year, only during the year end accounts preparation process. It was recommended that a monthly depreciation charge is put through the accounts in order that monthly management accounts better represent the likely performance of the Academy Trust in the year.

NOT RESOLVED: This continues to be the case that management accounts only show income and expenditure budgeting information. We continue to recommend that balance sheet items are included in reporting

Non-compliance with the Academies Financial Handbook
Three years ago it was recommended that before any further contracts are entered into with known related parties, or transactions undertaken, with said related entities that signed statements are obtained to gain assurance that the work provided by the related body is done so at cost with no profit element included and that an open book agreement is in place that requires the supplier to demonstrate, if requested, that this is the case. This is required in order to comply with the Academies Financial Handbook. We have raised this point in successive audits and last year received copies of letters provided to the Trust from two of the suppliers which state that they have charged the Trust at cost but none from the other suppliers.

NOT RESOLVED: This year, although the above still remained the same we did learn that the Trust has now taken the decision to review these arrangements and the Trustees will be considering whether to ban all such related party transactions going forward. Until such a decision is made we continue to make the above recommendation.

Processing of bank payments
It has been noted in prior audits that bank payments are posted onto sage in line with the receipt of the invoice and not in line with when the actual transaction was input onto the online banking system from payment. This caused the bank to have large reconciling items and trade creditors to be understated. We have recommended that the bank should only be processed on sage when the online banking transaction has been actioned. Prior to this the expense should be recognised in creditors.

NOT RESOLVED: The above issue was still found to be the case during the current audit and we continue to recommend the above. We do note that with the Trust expanding this period, and a new finance team in place, this is one of the processes that they intend to update.

1	Risks identified in the prior year (continued)	Grade: n/a

Committed expenditure
The accrual recognised for committed expenditure was reviewed in prior audits and understatements found. These have always been adjusted to correct the understatement. These adjustments are necessary to ensure the accruals concept is properly recognised in the statutory accounts. As a result we have always recommended that invoices are recognised on the purchase ledger when they are received regardless of when they are due to be paid.

NOT RESOLVED: This period there has been no change to this system and we continue to make this recommendation. Again, we note that with the Trust expanding in 2018, and a new finance team in place this is one of the processes that they intend to update. We also note that some of the new academies in the Trust operate a creditors ledger along accrual accounting principles and therefore have not had to use a committed expenditure report.

Website documents (Regularity)
Last year we noted that while the website contained relevant documentation to comply with the Financial Handbook such as the scheme of delegation, Governing body meeting attendance statistics and Trustee business interests we could not find details of the business interests (see section 2.5) for those Trustees of E21C who were not also Trustees of the individual schools. We recommended that the website was updated to show details of their business interests.

NOT RESOLVED: This year these are listed, however in some areas these were not complete records. We also noted that the internal records of these interests did not specify the 'nature of the interest' or show dates the interest began and/or ended. (section 3.1.17). We recommend that going forward they do contain these details.

VAT Return Errors
Three years ago a number of errors were found in the treatment of VAT leading to an overall difference of £24,622. Last year an unidentified error of £60,899 was found that on the face of it looked like an overclaim by the Trust. We recommended thorough checks and reviews of the VAT returns were carried out regularly and when errors were found that these are investigated and resolved as soon as possible

NOT RESOLVED: This period we found another unidentified error, this time for £53,653. We continue to make this recommendation. Management are investigating.

School trip monies (Mottingham Primary School)
It was noted during income testing that there is a lack of segregation of duties regarding the receipt of voluntary contributions by parents for school trips. We recommended that where there is handling of cash, there should be appropriate segregations of duties and checks put in place.

RESOLVED: This year Mottingham have moved onto Wisepay to handle monies received from parents and carers and now little to no cash is handled by the school and this is no longer an issue.

1	Risks identified in the prior year (continued)	Grade: n/a

Non public account expenditure purchase orders (Regularity)
We noted during expenditure testing that for Non Public expenditure items no Purchase orders are produced. We are aware from discussions with management that currently the system used does not allow purchase orders to be produced. However as this issue contravenes the Financial Procedures of the Trust we recommended that the systems were reviewed to see if there is something that can be set up that allows purchase orders to be produced as part of the purchasing procedures.

RESOLVED: Sage 200 has now been implemented across the trust and it is now possible to raise purchase orders on the non public accounts. Also, we note that this period, due to the expanding trust, a new purchase ordering system has also been purchased that management are planning on taking live soon.

Related party declarations

We noted that out of four governors who had interests in companies who provide services to the Trust only one declared on the Related Party declaration how much they had billed the Trust in the year ended 2017. Furthermore one governor did not declare their interest on their related party form at all. Under the Financial Handbook guidelines these interests need to be made public and displayed on the Trust's website for openness and clarity. We recommended that the disclosure of company interests be bought in line with the requirements of the Financial Handbook.

PARTIALLY RESOLVED: We noted there have been improvements in this area during the year. For example the website now has the name of the companies and how they are related disclosed. The signed declarations still need to state the full amount transacted with the Trust (not required on the website, but it is required on the declarations signed).

We also note that the Trust is now looking to minimise the level of transactions with related parties and Trustees will be meeting to discuss and agree on whether these should relationships should cease or if they are to continue how best to improve openness and governance over them.

2	Asset Inventory lists (Regularity)	Grade: 3

Issue

Across the schools there is disparity in the level of detail maintained regarding the overall assets in the school, and the systems for recording these also differ greatly. The Financial Handbook stipulates that Trustees must be in control of all assets in a Trust. They cannot demonstrate this if all the schools are recording these differently, and in many cases these records are incomplete. They also cannot demonstrate this where they are not being reported to about this area.

Recommendation	**Management response**	**Action by whom**
We recommend that the systems and processes surrounding the recording of all assets is standardised across the Trust We also recommend that a system of random spot checks is put in place and the results of these are reported back to governors (as happens in Ravensbourne and Scotts Park).		 **Deadline**

<table>
<tr><td>3</td><td colspan="2">Fixed Asset Registers (Blenheim & Spires)</td><td align="right">Grade: 3</td></tr>
<tr><td colspan="4">Issue

Although Blenheim maintains an inventory register (see point 2 above) it does not maintain a Fixed Asset Register that specifies exactly which assets have been capitalised, the depreciation rates applicable on them and their net book value. This is particularly important for the statutory accounts and reporting the financial position of the Trust.

In the Fixed Asset Register at Spires we found an unidentified ‘reclassification’ item of £75,469. No record is maintained of which asset this relates to.</td></tr>
<tr><td colspan="2">Recommendation

We recommend that every school maintains a Fixed Asset Register that records costs of items purchased, the depreciation charged against them and clearly shows what the items are and how long their useful economic life is.
When maintained properly these should agree to the year end statutory accounts.</td><td>Management response</td><td>Action by whom

Deadline</td></tr>
</table>

<table>
<tr><td>4</td><td colspan="2">Inconsistent processes within the academy trust</td><td>Grade: 2</td></tr>
<tr><td colspan="4">Issue

The Management in charge of the finance team are new to the Trust and within the different schools there has also been a lot of change in the finance teams. We also note that since the fieldwork the two finance assistants at Ravensbourne (effectively, the head office for the finance team) have also left the Trust for personal reasons so two new staff have been recruited.

There have been a number of financial areas and processes seen during the audit that differ across the schools leading to varying degrees of reporting and treatment.

These differences and the new staff members getting used to their roles and how E21C works leads to greater disparities between the different schools, which could make understanding the overall Trust accounts more difficult for Trustees.</td></tr>
<tr><td colspan="2">Recommendation

Management are aware of this and have started to look at areas they can update across the trust to bring everything in line (for eg: new purchase ordering system).

We recommend, that once new systems are in place a new set of financial procedures are written up to reflect the new standards expected and issued to all staff. Training should also be offered at each school to ensure everyone is using these new systems correctly and within expectations for the Trust.</td><td>Management response</td><td>Action by whom

Deadline</td></tr>
</table>

5	**Accrual Accounting**	**Grade: 2**

Issue

A number of areas in the financial systems do not follow accruals accounting principles. For example, prepayments are not calculated, a supplier ledger is not maintained and therefore trade creditors are understated. Accruals are not calculated either. The level of these records differs between the different schools in these thee areas and there is not uniformity across the Trust.

It is a Financial Handbook requirement to maintain accounts on an accruals basis.

Recommendation	**Management response**	**Action by whom**
This point was discussed several times with the new finance team management and they are aware of the issue and are already starting to implement some of these principles in the trust. As in the point above, we recommend that they run training for the different finance teams across the Trust to ensure they are all doing these things correctly and uniformly across the Trust.		 **Deadline**

6	Bank reconciliations preparation	Grade: 1

Issue

Year end bank reconciliations did not agree to nominal ledger balances with a total unexplained differences across the various academies of £157,146. It is clear that some staff preparing them do not understand the importance of ensuring no un

Bank reconciliations are a fundamental control and should show exactly what makes up any differences arising between the bank statement and the accounts; where differences occur, there may be other errors hidden.

Recommendation	Management response	Action by whom
We recommend that bank reconciliations are prepared on a monthly basis in all the schools and particularly that the final balance is agreed to the nominal ledger balance. We understand that the new FD and CFO will implement this process without delay.		**Deadline**

6 TECHNICAL UPDATE

6.1 Management of finance and resources – A governor's role

The Academies Financial Handbook, alongside the Governance Handbook, is clear in that governors need to be effective in financial matters and demonstrate this in their meetings. Holding the leaders of an academy trust to account is probably the key expectation of governors from the regulator.

To assist this process The Department for Education have provided additional guidance for governors through the publications of the *'**Top ten planning checks for Governors**'*. This provides guidance over the ratios that could be monitored and questions to ask. It expects an effective governor to understand their academy and the reason for the results that the governor expect to achieve from the expenditure decisions made.

Therefore the questions the ESFA expects governors to know about:

(1) Staff pay as a percentage of total income

This ratio normally runs at about 70% with anything at 80% or above regarded as high. Is the ratio due to staff mix or reflect the academy's trend in pupil numbers?

(2) Average teacher cost

This measure is calculated by dividing the total teaching cost by the full-time equivalent (FTE) number of teachers. Does the ratio mirror the staffing grade profile of the school or is there something else?

(3) Pupil to teacher ratio (PTR)

The PTR is calculated by dividing the number of FTE pupils on roll by the total number of FTE teachers. A relatively low PTR could suggest small class sizes

(4) Class sizes

The smaller the class size the greater the cost of delivery per pupil. Governors should ensure that class size plans are affordable while supporting the best outcomes for pupils.

(5) Teacher contact ratio

This measure is calculated by taking the total number of teaching periods timetabled for all teachers in the school and dividing that by the total possible number of teaching periods. How would changes to the teacher contact ratio impact on the overall budget?

(6) Proportion of budget spent on school leadership team

Academies have many different management structures and needs such that determining what is right for your academy is not straight forward. Therefore, any benchmarking in this area needs closer examination to ensure an accurate comparison can be made.

With public attention focused in this area, especially at the Executive Head/Head level then a key question could be: How has your academy made decisions on the proportion of its budget to be spent on the leadership team?

(7) Three to five year budget projection

Governors should ask to see 3 to 5 year financial projections and the assumptions made to cost them.

The assumptions should be the key area of challenge providing a better understanding over areas such as Pupil numbers and staffing needs.

(8) Spend per pupil for non-pay expenditure compared to other similar schools

The 'school financial benchmarking service' can provide comparatives to allow challenge. If benchmarking indicates a relatively high/low spend on a particular expenditure line do you know why?

(9) School improvement plan priorities and the relative cost of options

The budgetary process sits firmly within the strategic leadership framework and should link into the overall management and planning cycle, rather than being seen as an additional activity that is the responsibility of the finance manager. Therefore, are the academy's improvement initiatives prioritised, costed and linked to the budget?

(10) List of contracts with cost and renewal dates

Each year your academy must review its contracts for all of its services to check which ones are due for renewal.

Check that contracts are good value for money (VFM) and meet the academy's needs.

6.2 Key changes in the Academies Financial Handbook 2018 (AFH2018)

Changes made to guidance for 2018/19 range from small clarifications to headline topics that impact the sector as a whole.

The ESFA has helpfully summarised the changes on pages 6 and 7 of the Handbook so that they can be easily identified. Set out below are a selection of these changes that we believe should be drawn to your attention:

Related parties

A related party is defined as:

- Any member or trustee of the academy trust.
- Any individual or organisation related to a member or trustee of the academy trust

Trusts **must** report all transactions with related parties to the ESFA in advance of the transaction taking place using an online form where they exceed the present limits.

Trusts must obtain prior approval from the ESFA for contracts for the supply of goods or services to the trust by a related party where:

- The contract exceeds £20,000.
- A contract of any value that would take the total value of contracts with the related party beyond £20,000.
- A contract of any value, if there have been contracts exceeding £20,000 individually or cumulatively with the related party in the same financial year ending 31 August.

Trusts must also obtain ESFA's approval for transactions with related parties that are novel, contentious and/or repercussive. Definitions include:

- Novel transactions are those of which the academy trust has no experience, or are outside its range of normal business.
- Contentious transactions are those that might cause criticism of the trust by Parliament, the public or the media.
- Repercussive transactions are those likely to cause pressure on other trusts to take a similar approach and hence have wider financial implications.

The approval process is not intended to capture staff remuneration. For the purposes of reporting to, and approval by, ESFA, transactions with related parties do not include salaries and other payments made by the trust to a person under a contract of employment through the trust's payroll.

Executive pay

The board **must** discharge its responsibilities effectively, ensuring its approach to pay is transparent, proportionate and justifiable, including:

- process - that the procedure for determining executive pay is agreed by the board in advance and documented.
- independence - decisions about executive pay reflect independent and objective scrutiny by the board and that conflicts of interest are avoided.
- decision-making - factors in determining pay are clear, including whether performance considerations, and the degree of challenge in the role, have been taken into account.
- proportionality – pay is defensible relative to the public sector market.
- documentation - the rationale behind the decision-making process, including whether the level of pay reflects value for money, is recorded and retained.
- a basic presumption that non-teaching pay should not increase at a faster rate than that of teachers, in individual years and over the longer term.
- understanding that inappropriate pay can be challenged by ESFA, particularly in any instance of poor financial management of the trust.

Governance

Standards

Greater emphasis on trustees applying high standards of governance, the role of the chair and working with ESFA. The changes effectively reinforce the board's responsibility for effective oversight and challenge.

It has been emphasised that Trustees **must** apply the highest standards of governance and take full responsibility of their duties

Meetings

Boards are required to meet for a minimum of three times a year. However, there is now a presumption that they should meet for at least six times a year.

AFH2018 has introduced a reporting requirement to the accounts where boards meet fewer than six times a year. Where applicable, they must describe in the Governance Statement in the accounts how it maintained effective oversight of funds with fewer meetings.

Cash and budget management

The trust **must** mange it cash position robustly. It may be required to report to the ESFA on the cash position where there are concerns about financial management.

With regard to budget setting the wording has again been strengthened to promote greater governance. The board of trustees, and any separate committee responsible for finance, must ensure rigour and scrutiny in budget management.

Regularity

The ESFA has stressed to audit firms that it regards the purchase of alcohol with public money to be a breach of regularity, which would need to be reported on by the academy trust's Accounting Officer/auditor.

6.3 Taxation - Revised guidance for charitable trustees on financial matters

Every trustee of a charity (whether a registered charity, or as in the case of an academy, an exempt charity) has to be a "fit and proper person" under tax legislation. Trustees/Governors should confirm this at the time of their appointment.

HMRC has recently updated its fit-and-proper-persons declaration and accompanying help sheet. Two changes are worthy of note:

- it is now clear that anyone involved in a disputed tax-avoidance scheme could be caught by the rules;
- the tax and the charity regulatory regime are synchronised, as the fit-and-proper guidance now bans any person who has been either removed or disqualified from acting as a charity trustee by a charity regulator.

Trustees/Governors that have signed the old declaration do not need to submit an updated declaration

6.4 Taxation of termination payments

New rules regarding the taxation of termination payments have come into effect, with HMRC reminding employers they need to pay income tax and Class 1 National Insurance contributions (NICs) on an element of all termination payments from 6 April whether or not they are contractual payments

Previous rules: payments on termination that are made under a contractual PILON (pay in lieu of notice) clause in an employee's contract are taxed as earnings, but if there is no PILON an equivalent payment can often be made tax free (up to £30,000) as it is characterised as "damages for breach of contract."

The element that is now chargeable to Income Tax and NICs is the amount of the termination payment that represents payment in lieu of notice (PILON).

This change applies to payments, or benefits received on, or after, 6 April 2018 in circumstances where the employment also ended on, or after, 6 April 2018.

HMRC says the measure is intended to bring fairness and clarity to the taxation of termination payments by making it clear that all PILONs, rather than just contractual PILONs, are taxable earnings.

All employees will pay income tax and Class 1 NICs on the amount of basic pay that they would have received if they had worked their notice in full, even if they are not paid a contractual PILON.

Any remaining part of the termination payment, typically redundancy or ex-gratia sums, will still benefit from the £30,000 exemption as before. The Government is also proposing that payments over and above the £30,000 threshold which are often free from NIC will become subject to employer NICs, but this revision is not due to come into effect until April 2019.