Winchester Diocesan Board of Finance

Audit Findings Report

For the Year Ended 31 December 2024

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1. Introduction and Executive Summary

This report summarises our key findings in connection with the audit of the financial statements of Winchester Diocesan Board of Finance for the year ended 31 December 2024.

We would like to take this opportunity to thank Mark Teahan, Mike Lalley and all the finance team for their assistance during the audit.

Our audit approach

Our work was planned and performed in order to issue an audit opinion on the financial statements in accordance with International Standards on Auditing (UK) ("ISAs") and the terms of our letter of engagement. Our audit approach is a risk-based approach founded on us gaining a thorough understanding of the entity and its business in order to allow us to identify the risks of material misstatement within the financial statements. To do this, we consider both the risk inherent in the financial statements themselves and the control environment in which the entity operates. We then use this assessment to develop an effective and efficient approach to the audit.

Limitations

Our audit procedures, which have been designed to enable us to express an opinion on the financial statements, have included an examination of the transactions and the controls thereon.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

We have included in this report only those matters that have come to our attention as a result of our normal audit procedures and, consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Overall conclusion and opinion

At the time of issuing this report we anticipate issuing an unqualified opinion on the financial statements, subject to the following:

- Receipt of cash flow forecasts and latest management accounts to enable us to complete our testing of going concern
- Review of post balance sheet events up to the date of signing the audit report
- Receipt of the signed letter of representation (to be signed at the same time as the accounts)

2. Significant audit risks, and other focus areas identified during audit planning

We set out below the significant audit risks identified at the planning stage and the conclusions of our audit work:

SIGNIFICANT AUDIT RISK AREA	HOW WE ADDRESSED THIS	COMMENTARY
Presumed risk in revenue recognition Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. We are required to consider and respond to the risks of improper revenue recognition. We rebutted this risk in relation to • Parish contributions – due to the predictable nature of the income • Investment income – due to the limited number of institutions used by the charity and consistent timing of the receipt • Legacy income – due to the limited number of legacies received during the year.	We have undertaken the following procedures to verify the appropriateness of revenue recognition: • Tests of detail • Cut-off testing • Tests of supervisory controls	Our audit work on revenue did not identify any material issues.
Presumed risk of management override We are required to consider and respond to the risks arising from management override of controls.	We reviewed the accounting estimates and judgements and considered their reasonableness. We have analysed the journals made in the year and determined the risk criteria for identifying higher risk journals. Subsequently significant, unusual or unexpected journal postings have been investigated and verified.	The results of our planned audit work are considered to be satisfactory in this area. We have not identified any evidence of material management override.

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3. Accounting and Audit Matters

3.1 Key accounting estimates

Accounting estimates are defined by ISA 540 as monetary amounts for which the measurement, in accordance with the requirements of UK GAAP, is subject to estimation uncertainty. We set out our comments on the key accounting estimates relevant to the current year below.

SIGNIFICANT ACCOUNTING ESTIMATE & DETAIL	COMMENTARY
Valuation of freehold properties	The DBF's portfolio of freehold properties is recognised in the financial statements under the revaluation model as permitted by FRS102 and the Charities SORP. The DBF's practice is to formally revalue 20% of the portfolio each year so that every property is valued at least every five years. In 2021 the whole of the portfolio was revalued. In 2022 –2024, 20% of properties were reviewed and revalued. In 2024 a total of 68 properties were reviewed and revalued, representing 33% of the portfolio based on the number of properties. 32 have been revalued by the DBF's Diocesan Property Manager, using the same methodology as in 2022 and 2023; which involves reviewing sales prices of other similar properties, combined with knowledge of the individual properties and local housing market. The remaining 36 properties were reviewed by your new property management company, Savills, in quarter 4 as part of their preparation for quinquennial inspections. This was not a full 'red book' valuation, and we understand that the methodology used for assessing each property's value was based on average sales in the local area, and the internal square footage of each property. The average uplift across each of the reviewed properties in the year was 12.52% – however, there is a wide range of percentage changes, with both increases and decreases in value, and there are several outliers where properties have increased considerably in value since their last valuation review. As part of our audit work, we have reviewed regional data from the Land Registry, which indicates property increases in Hampshire of 4.5% since December 2023. We also note that during the year, 8 properties were sold, generating a net deficit on disposal of £54k. We have reviewed the disposals and note that 6 out of the 8 properties were sold at a surplus, with the remaining 2 having specific reasons as to why they were sold at a loss: unusual concrete construction of one property, reducing purchase ability to obtain a mortgage (loss of £215k), and one which needed more work than anticipated (loss of £185k). As with the prior year, management have prepared a paper setting out their review of the property valuations which considers the whole portfolio. This concludes that the is no material change in value to the properties which have not

	been individually assessed this year. We are satisfied that your review of the property valuation has been performed in line with accounting standard requirements, and that the risk of material misstatement is low.
Valuation of investment properties	The investment property showing in the financial statements is glebe land with a combined value of £1.4m at 31 December 2024. During the year, the entire portfolio of assets has been reviewed by the DBF's property manager, resulting in an immaterial uplift of £26k. For the majority of investment assets, the valuation has been calculated based on 12 times the annual rental income of the land, which is consistent with prior years, except where there is evidence of a marketable value such as a land currently under offer. As the rental income generated by the assets remains largely unchanged across the land since the previous revaluation, the revaluation gain has changed trivially this year. The value of investment property is not material to our audit opinion. We recommend that that an annual review of the valuation of glebe land continues to be conducted each year.

3.2 Accounting and audit matters

i. Letter of representation

International Standards on Auditing require us to obtain written representations from the trustees when you approve the financial statements. The letter contains only standard matters with no additional items specific to the charity.

ii. Data analytics

As part of our audit work, we have used data analytics software to interrogate the transactions making up the financial statements. This was performed as follows:

- We extracted the full transaction listings from your accounting system.
- We confirmed the completeness of the population by reconciling the transaction listing to your closing trial balance.
- We used characteristic-based data analytics and a multi-dimension risk scoring logic which analysed every transaction in the population against a set of potential risk identifiers, highlighting the transactions we deemed to pose a heightened risk of fraud, error or misstatement.

Our testing also included a review of your accounting transactions for other risk indicators, including, items posted by unusual users, at unusual times, and containing certain key words.

We have not identified any areas of concern arising from this testing. We have provided a summary of our key findings below:

High value transactions: During the period there were a total of 10,541 transactions within Xledger. When combined, 567 unique general ledger code combinations were found. A total of 8 combinations were flagged in the highest risk category, being those occurring fewer than 4 times having a material impact on the reported surplus. There were 11 transactions within these combinations. The transactions here related to:

- Monthly payroll journals
- Monthly stipends
- The annual adjustment of the property revaluations

These transactions were reviewed as part of our audit work and have been appropriately accounted for.

Review of Suspense accounts: We reviewed the use of suspense accounts during the year. The movement in the year is in nominal ledger 62810 - Suspense Account and relates to transfers to and from bank accounts for the amounts held on behalf of other entities i.e. custodian funds. At the yearend the balance on this account was nil. We have discussed this movement, and we are satisfied these relate to business transactions, and that the use of the suspense account is appropriate under these circumstances.

4. Detailed control points

During the course of our audit, we identify detailed control points that we feel need to be brought to the attention of the Trustees and certain recommendations for improvements and/or corrective action. Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation. The matters and detailed control points that we have identified are graded within the following framework to assist the Trustees in assessing their impact.

RATING	RATING TYPE	CHARACTERISTICS OF RATING TYPE
Significant	These findings are considered to be significant to the management of risk in the business. The finding represents a serious weakness in systems and controls currently in place or a potentially fundamental control that has been omitted from the risk management systems as currently in operation.	• Key control omitted • Key control not designed or operating effectively, for example as indicated by multiple exceptions found during our review work • Evidence of override of controls in place with significant or potentially fraudulent outcomes • Non-compliance with laws and regulations
Important	Important findings that should be reviewed by management, pending corrective action and or updates to systems and controls.	• Errors and exceptions noted during our testing that had corrected retrospectively during the year by management. • Potential improvement to existing control noted • Possibility for override of controls exists • Our review noted numerous exceptions but not in key controls
Limited	Findings that identify non-compliance with established systems and controls.	• Minor control weakness, for example limited exceptions noted during our review work
Advisory	Items requiring no immediate action, but which may be of interest to management or best practice advice.	• Information for department management • Control operating but scope for efficiency and/or effectiveness improvements exist • Control operating but not necessarily in accordance with best practice • Recent or anticipated developments may necessitate new controls.

The following are matters on which we wish to bring to your attention from the current year audit. There are no points to follow up from last year.

CURRENT YEAR

ISSUE: HISTORIC ERRORS IN RECORDS FOR IFIXED ASSET PROPERTIES		CONTROL POINT RATING: IMPORTANT
Risk	**Our comments & proposals**	**Management response**
During the year we have noted there has been several adjustments to the value of properties in your financial statements to account for: 1) 4 duplicated properties on the fixed asset register 2) 2 properties which had been missed off the register	These adjustments have been discussed with management during the audit. We note that as part of the transfer of property management to Savills, a review was undertaken of all properties which identified these duplications/missing properties. We understand that the duplicate properties had been entered onto the register with different details, for example different postcodes, meaning that their duplication was not easily identifiable. Following this review, one list of properties is now maintained by the finance team and your controls have been updated so that the duplications should not occur again. Management are confident that the list of properties is now complete.	As part of the due diligence work carried out as part of the outsourcing the management of our property portfolio to Savills, we became aware of a small number of historical discrepancies in our property register. The discrepancies arose when houses were transferred from a Benefice House to a DBF House, without removing the Benefice House from the property register (i.e. it was showing twice). There were also historical anomalies in terms of how the houses were described in the property register, meaning that it was difficult to ascertain that there were duplicates in the records. The review that led to these discoveries has meant that there is now a single definitive record of properties that is complete and up to date. This is used by Savills and by the WDBF team to manage our portfolio and is reviewed on a regular basis by our Property Working Group.

<table>
<tr><th colspan="2">ISSUE: XLEDGER ACCESS RIGHTS</th><th>CONTROL POINT RATING: ADVISORY</th></tr>
<tr><th>Risk</th><th>Our comments & proposals</th><th>Management response</th></tr>
<tr><td>It is noted that users with administration rights can change their own user permissions (or other users') without dual authorisation. This creates a risk that the inbuilt system controls around authorisations could be amended without other users being notified.</td><td>As this is a function of the XLedger system, we recommend that you contact Xledger to establish if dual authorisation can be added in order to make changes to permissions around payments, authority limits and new users, or that notifications are sent to another individual when changes are made.</td><td>The finance system used by WDBF is Xledger. This is a trusted and robust system and is used by 21 Dioceses and 3 Cathedrals and Xledger are a valued business partner. We contribute to a number of user groups and forums with our finance colleagues from other Dioceses to share best practice, guidance, and support.

The Domain Administrator function is managed by the two Head of Finance roles for the Dioceses of Winchester and Portsmouth. This function is essential in controlling user rights, setting up new users, removing leavers and ensuring that the financial controls are managed in line with the Dioceses' Standing Financial Instructions (SFI).

We have met with our Relationship Manager at Xledger, and they have confirmed that there is no mechanism within Xledger to require a second user to approve any changes made by the Domain Administrator. There are a number of controls and other tools that we use to mitigate our risk in this area:

a) Every invoice processed on Xledger will only be considered for payment once it has been fully approved by the budget holder (including by the Diocesan Secretary if above budget holder approval limit) in line with the SFI.

b) Every payment on Xledger requires approval by two senior finance personnel – this authority is restricted to Head of Finance, Finance Manager and Finance Officer. Changes to this list can only be made by Xledger.

c) Reports are available from Xledger to show all changes made to workflow set-up (budget holder</td></tr>
</table>

ISSUE: XLEDGER ACCESS RIGHTS		CONTROL POINT RATING: ADVISORY
Risk	**Our comments & proposals**	**Management response**
		approval limits); changes made to supplier bank details; and changes to User Role Access. d) We have updated our quarterly Management Accounts process to include a review of the above reports from Jun 2025.

There were no control findings from 2023 which we need to update and bring to your attention.

5. Emerging issues

Charity reporting and governance matters

Updated guidance on decision-making for charity trustees (CC27)

In September 2024 the Charity Commission published updates to its guidance on making trustee decisions. The aim of these updates is to make the guidance more accessible and easier to use, however the backbone of the guidance remains the seven principles developed by the courts when they reviewed decisions made by trustees, which we have set out below.

When making decisions, trustees must:

- act within their powers
- act in good faith
- be sufficiently informed
- take into account all relevant factors
- identify and disregard any irrelevant factors
- manage conflicts of interest
- ensure their decision is within the range of decisions that a reasonable trustee body could make

The revised guidance can be found here.

Updated guidance on “improving your charity’s finances” (CC12)

In September 2024 the Charity Commission published updates to its guidance on “improving your charity’s finance”. These updates are aimed at making the guidance more accessible and provide advice on actions that can protect charities against financial difficulties, as well as understanding what to do if a charity is insolvent, or at risk of insolvency.

The updated guidance, which is separated depending on the legal structure of the charity, can be found here.

Charity Commission guidance for charity meetings

The charity commission guidance on charity meetings was also updated in July 2024 to make it more accessible and easier to use. The guidance covers how meetings should be planned, run and recorded, and sets out the ways in which meetings can be held (face to face, virtual or hybrid). The guidance emphasises that you must check your governing document to ensure that you are acting in accordance with its rules about meetings, to ensure that decisions are not invalidated.

The guidance can be found here.

Charity Commission guidance on Charity Banking

In July 2024 the charity commission published information on charity banking and the support available to charities who are struggling with accessing adequate banking services. This follows on from an open letter which the Commission wrote to the Chief Executives of UK banks, requesting their urgent action on issues that charities are facing with their banks which include:

- Having accounts closed or suspended suddenly for long periods of time
- Facing a reduction in bespoke banking services
- Experiencing poor customer service and administrative delays
- Finding that online banking is not designed to match the way charities operate

The guidance can be found here.

Volunteers

The Social Purposes sector relies heavily on its volunteers. Typically, these are unpaid and may in certain circumstances be paid out of pocket expenses. This is usually limited to food, drink, travel or any equipment they need to buy to undertake their duties. Normally, there are no employment taxes implications for reimbursement of these out-of-pocket expenses as long as they are reasonable.

If the volunteers are paid expenses that do more than reimburse the costs incurred, then HMRC may contend that they are receiving remuneration for their services. In which case, the payments will be taxable as employment income if it can be shown that they either hold an office or employment. If they do not hold an office or employment, the payments may be Miscellaneous Income.

In a recent Employment tribunal case M Groom v Maritime and Coast Guard Agency, the volunteer was judged to be a worker which confers employment rights such as holiday pay, National Minimum/Living wage etc. It is therefore imperative that the correct policies, controls and governance are in place to avoid any possible successful employment status challenge by HMRC.

Financial Reporting

Financial reporting framework

UK GAAP Developments – FRS 102

Following the recent Periodic Review and other amendments to UK and Ireland accounting standards, the Financial Reporting Council (FRC) has issued now revised versions of FRSs 100, 101, 102, 103, 104 and 105. The FRC has also revised the "Overview of the financial reporting framework".

The changes to FRS 102 include the significant revisions made to leasing and revenue recognition which arose from the Periodic Review 2024. Most of these amendments are effective for accounting periods beginning on or after 1 January 2026, although those changes that relate to "supplier finance arrangements" have an earlier effective date of accounting periods beginning on or after 1 January 2025.

These amendments seek to provide greater consistency and more (but not total) alignment to international accounting standards including:

- A new 5 step model for revenue recognition, which is aligned to IFRS 15: Revenue from Contracts with Customers, (with some simplifications);
- On balance sheet lease accounting for lessees, aligned to IFRS 16: Leases, (with certain practical exemptions); and
- Other modifications to fair value measurement, uncertain tax positions, business combinations, and a revised Section 2 aligned with IASB's Conceptual Framework.

The effective date for most amendments is periods beginning on or after 1 January 2026, with early adoption permitted. The new standard sets out the requirements for the restatement of comparative amounts. There are choices available in some areas of change but others are more prescriptive so you will need to take care to ensure that you have complied with each relevant requirement and made the appropriate disclosures.

The transition to the new requirements will take careful planning for many organisations currently following FRS 102. For instance, many organisations will see leases (and debt) hit their balance sheets for the first time. For some this will seem strange and for most will require careful planning to ensure, amongst other things, that all leases are captured, the financial effects are known, effects on reporting requirements e.g. covenants are understood.

The new accounting standards are available on the FRC website here. Note that despite the effective dates in the future, the new versions are described as the "current edition" with versions that are still in use described as "superseded editions".

With the changes to FRS 102, there will also be changes to the Charities SORP, which had its last major revision in 2015 along with amendments in 2019. We are expecting its release in 2025, with an effective date from 1 January 2026 in line with the changes in FRS 102. An exposure draft of the new SORP was issued on 28 March, and the public consultation process is open until 20 June 2025. The draft SORP, a summary of the key changes, and a link to participate in the consultation process can be found here.

UK Corporation Tax

Intra-group arrangements

Charities must ensure that records and documentation are kept for all transactions with group companies. This includes management charges, service level agreements, licences for use of space, loan arrangements and calculations of recharged amounts.

In particular, any loans or investments that are made to group companies, should only be made as a result of a full financial investment assessment, as for any other investments made. There are no specific concessions or exemptions available for loans and investments made within a group and we are increasingly seeing HMRC show an interest in this area.

Corporation Tax self-assessment

As a reminder, every charity is required to perform a self-assessment each year to determine whether it is liable to pay corporation tax. This is regardless of whether HMRC have issued a formal notice to file a corporation tax return (usually issued periodically for charities registered with HMRC).

A return should therefore be prepared and filed with HMRC if either:

- a return has been formally requested; OR
- it has been established that the charity has a corporation tax liability.

In most circumstances a charity will not be liable to pay any corporation tax, as there are a number of charitable exemptions which cover the majority of the typical income streams that charities receive. Please note that all the exemptions only apply so far as the income is applied for charitable purposes only.

The main exemptions include:

- profits from trading that directly furthers the charity's objects;
- rental income from land and buildings
- investment income
- income from VAT exempt fundraising events
- miscellaneous and other non-charitable trading where the total turnover does not exceed £80k per annum

If you have any concerns about a possible liability to corporation tax or are unsure whether a particular stream of income falls within the exemptions noted above, please get in touch with your normal HaysMac contact for advice.

Employment Tax

Increase in employer's National Insurance contributions (NIC)

The Government, as part of the Autumn Budget, announced an increase in employer's Class 1 National Insurance contributions (NIC) , rising by 1.2% to 15% and the reduction to the threshold at which employers will start to pay NIC to £5,000. It is intended that threshold limit will be fixed until 5 April 2028 and will increase in line with CPI.

The increase will also apply to Class 1A NIC (benefits in kind) and Class 1B (PAYE settlement agreements) also applies from 6 April 2025.

The Employment Allowance increased from 6 April 2025 from £5,000 to £10,500. The increased allowance will be available to all employers, not just those with a Class 1 NIC liability of less than £100,000.

Increase in National Living Wage

Ahead of the Autumn Statement the Government announced increases in the National Minimum Wage and National Living Wage rate increases which will came into effect from 1 April 2025.

Details	NMW rate £	Increase £	Percentage increase %
National Living Wage (21 and over)	£12.21	£0.77	6.7
18-20 year old rate	£10.00	£1.40	16.3
16-17 year old rate	£7.55	£1.15	18.0
Apprentice rate	£7.55	£1.15	18.0
Accommodation offset	£10.66	£0.67	6.7

As part of the announcement the minimum hourly rates of pay for those aged between 16-years of age and the apprentice rate have been aligned.

Employers will need to ensure that their payroll data is fully updated to reflect the increases.

Mandating the reporting of benefits in kind via payroll software

The government confirms that the use of payroll software to report and pay tax on benefits in kind will become mandatory, in phases, from April 2026. This will apply to income tax and Class 1A NICs.

Other matters

Changes to Companies House filing arrangements

One consequence of the Economic Crime and Corporate Transparency Bill 2022 is that Companies House will have extended powers to mandate how companies submit their accounts for filing. Companies House has published proposals to move to a fully digital, software-based filing process for all registered companies, including dormant companies.

The detailed timetable for implementation will be published in due course, following the passage of the Bill to Royal Assent, but Companies House has indicated that there will be a phased implementation to enable all accounts filers to obtain suitable software.

We will provide updates on this as the Bill proceeds through the legislative process.

HMRC "customer" service standards

There are increasing delays in obtaining responses from HMRC ranging from delays in the region of six months in processing applications for VAT registrations, delays in obtaining repayments, a decision to cease acknowledging option to tax notifications. If you anticipate having any interaction with HMRC then factor in additional time.

Auditing developments

IAASB proposes increased auditor responsibility on fraud

IAASB proposes increased auditor responsibility on fraud The International Auditing and Assurance Standards Board (IAASB) has issued an Exposure Draft to revise ISA 240 "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements". The main change is to clarify the auditor's role in identifying fraud during an audit and reminds auditors of the need to maintain professional scepticism. The Exposure Draft includes, inter alia, the need to strengthen the identification and assessment of material misstatement due to fraud, increased audit documentation, increased communication with management and those charged with governance regarding fraud and increased transparency on the auditor's responsibility on fraud in the audit report. Comment is open until 5 June 2024.

Materiality in practice

The FRC has published "Materiality in practice: applying a materiality mindset", a report looking at how companies can improve their reporting by being more focused and strategic when assessing materiality. The report, in four sections, recognises that removing irrelevant information strengthens the value of an entity's reporting and encourages preparers to think about investors' needs and decision making and take a holistic approach towards materiality. It also encourages preparers to focus on the key issues that management and the board are prioritising across the short, medium and long-term. Read more here.

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