

Bristol Diocesan Board of Finance

Audit Findings Report

For the Year Ended 31 December 2025

HaysMac[★]



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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 Bristol Diocesan Board of Finance (the DBF) for the year ended 31 December 2025.

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:

- Receipt of going concern assessment and supporting cash flow forecast
- Receipt of management’s assessment of glebe property valuation
- Finalise valuation of Pattern Church
- Financial statement disclosure note review
- Review of journals posted since receipt of trial balance for audit
- Completion of work over post-balance sheet events (to be finalised when the accounts are approved)

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
<p>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.</p> <p>We consider the risk applies to voluntary and other income, being recognised in the incorrect period. This is due to the relatively unpredictable nature of such income streams.</p> <p>We have rebutted this risk in relation to investment income as this can be agreed back to third party reports produced by the investment managers.</p>	<p>We have undertaken a review of transactions around the year end to ensure income as being recorded in the correct period including reviewing accrued and deferred income.</p> <p>We have assessed the appropriateness of the recognition policies to confirm they are in line with the requirements of the Charity SORP and FRS 102.</p>	<p>Our audit work on revenue did not identify any material issues.</p>
<p>Presumed risk of management override We are required to consider and respond to the risks arising from management override of controls.</p> <p>Specifically, the risk over the use of journal entries to mask fraud and the manipulation of management estimates and judgements to materially alter the financial results and position.</p>	<p>We reviewed the accounting estimates and judgements. We particularly reviewed the valuation of glebe property. Please see section 3.1 for further detail.</p> <p>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.</p>	<p>The results of our planned audit work are considered to be satisfactory in this area.</p>

In addition to the significant risks above we identified the following areas which, due to complexity or materiality of transactions and balances, required us to focus a significant portion of our audit work:

AREA OF FOCUS	HOW WE ADDRESSED THIS	COMMENTARY
<p>Valuation of property assets, including consideration of impairment</p> <p>Considering the scale and diversity of the DBF's investment and operational property portfolio, we confirmed the appropriateness of the valuation methodology, test checked the calculation of the fair value of the portfolio at 31 December 2025, and considered whether any individual property assets have been impaired.</p>	<p>We obtained and reviewed valuation reports prepared by external surveyors. We reviewed the terms of engagement with the Charity to consider the independence and objectivity of the valuers and the appropriateness of the valuation methodology they have adopted.</p> <p>We reviewed the valuation calculations for those properties valued internally, to ensure that management have adopted an appropriate market-based yield. We also reviewed management's assessment of impairment of the property portfolio.</p>	<p>Management have employed external surveyors to value the investment property portfolio this year. We are waiting for submission of the Savill's report and management's accompanying assessment.</p> <p>Freehold properties have been valued using the mid-point of the applicable council tax band, adjusted to 1st January 1993 by an appropriate index, or cost where known. This was performed when properties were first brought onto the balance sheet. See section 3.1 for further information.</p>
<p>Accuracy of fund accounting</p> <p>There is a risk, considering the diversity of the DBF's funds, that fund accounting may be incorrectly applied.</p>	<p>We confirmed that income, expenditure, and assets have been correctly allocated to the appropriate fund and reported in the financial statements.</p> <p>Where material we reviewed transfers between funds to appropriate supporting documentation.</p> <p>We confirmed the appropriateness of fund accounting in relation to sales and purchases of investment and property assets.</p>	<p>The results of our planned audit work are considered to be satisfactory in this area.</p>

3. Accounting and Audit Matters

3.1 Qualitative aspects of accounting practices and financial reporting

i. 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
<p>Investment property valuation – £2,818k</p> <p>Glebe land of £2,818k is included in Investment Properties which mainly relates to pasture land. This was most recently valued at 31 December 2024 at market value, using an appropriate value per acre under RICS valuation principles by Hannah Wray (MRICS) of Savills UK.</p>	<p>Management have employed external surveyors to value the investment property portfolio as at 31 December 2025.</p> <p>We are waiting for submission of the Savill's report and management's accompanying assessment.</p>
<p>Freehold property valuation – £37,263k</p> <p>Freehold properties have been valued using the mid-point of the applicable council tax band, adjusted to 1st January 1993 by an appropriate index, or cost where known. Depreciation is not provided on buildings as any provision (annual or cumulative) would not be material due to the very long expected remaining useful economic life in each case, and because their expected residual value is not materially less than their carrying value.</p>	<p>We obtained property price indices for the South West region from the Land Registry which showed an average 0.2% increase in prices for all properties. In addition, two properties were disposed in the year both realising a profit on sale.</p> <p>We understand that one property, Pattern Church, may be subject to further impairment. This is currently valued at £3.5m although costly structural works may be needed. A red book valuation has been obtained, which did not consider the condition and repairs needed, valuing the building at £1,815k. Management have then deducted costs of structural repairs of £1,375k to arrive at a value of £440k. An impairment of £3.1m has therefore been proposed.</p> <p>The recoverable amount of an asset is the higher of its fair value less costs to sell the asset and its value in use. It is not always necessary to determine both an asset's fair value less costs to sell and its value in use as if</p>

either amount is equal to or exceeds the asset's carrying amount then the asset is not impaired.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of its disposal.

The method used to determine the 'value in use' of an asset held by a charity will depend on whether the asset is primarily held to generate cash as a commercial return or for its service potential to the charity's beneficiaries.

Value in use can be measured on basis of an asset's service potential. Depreciated replacement cost is one method that may be used to provide a measure of an asset's service potential. The replacement cost of an asset is the lowest economical cost that would be incurred in replacing the asset's service potential. This value for replacement cost is then reduced to reflect the remaining economic life of the asset in its used condition.

The market value of a specialist asset may not reflect the cost that a charity avoids by using that asset in providing services. For example, the market value of a specialist building may be less than its recent construction cost. However, provided the building continues to meet its intended service potential then its value in use would be better reflected by its replacement cost (its construction cost) rather than the amount for which it could be sold in the market.

The method used to value an asset's service potential should be reliable, relevant to the asset and capable of measurement. Depreciated replacement cost is one method that may be used to provide a measure of an asset's service potential. The replacement cost of an asset is the lowest economical cost that would be incurred in replacing the asset's service potential. This value for replacement cost is then reduced to reflect the remaining economic life of the asset in its used condition.

We have asked management to consider the above treatments in their final analysis which we will need to review.

Subject to the property above there was no indication that freehold land and buildings were impaired. We are also satisfied that your judgement around non-depreciation is a reasonable one in light of the expected current value of the properties.

Staff retirement benefit scheme

Bristol Diocesan Board of Finance operates a defined benefit pension arrangement called the Bristol Diocesan Board of Finance Limited Staff Retirement Benefit Scheme (the 'Scheme').

The scheme has a surplus of £93k which has not been recognised in the accounts as a surplus cannot be recognised on the balance sheet with respect to the scheme

We have reviewed the assumptions used in the valuation of the scheme's liabilities by benchmarking against those used by actuaries of other defined benefit schemes. The assumptions used for the staff retirement benefit scheme fall within this range. We have also obtained independent confirmation of the valuation of assets in the scheme.

Under FRS102 the DBF is only allowed to recognise a surplus in its balance sheet to the extent that it can recover this either through reduced contributions in the future or through refunds from the plan.

Management has received advice that the surplus is not recoverable and therefore cannot be recognised in the financial statements.

We concur that the surplus should not be recognised.

Clergy pension scheme

The BDBF participates in the Church of England Funded Pension Scheme for stipendiary clergy. This scheme is administered by the Church of England Pensions Board, which holds the assets of the scheme separately from those of the BDBF and other Responsible Bodies.

We have obtained the FRS102 disclosure notice provided by the church of England Pension Board which provided this for all Diocesan Boards of Finance. This shows that the scheme is in surplus and therefore no deficit recovery payments to be made or reflected in the financial statements.

We concur that there is no further liability to recognise in the financial statements based on the latest valuation.

3.2 Accounting and audit matters

i. Summary of adjusted and unadjusted misstatements

We did not identify any misstatements above our clearly trivial threshold of £15.3k.

ii. 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 Bristol Diocesan Board of Finance.

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.	<ul style="list-style-type: none"> 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.	<ul style="list-style-type: none"> 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.	<ul style="list-style-type: none"> 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.	<ul style="list-style-type: none"> 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.

We wish to bring the following matters to your attention which arise from the current year audit as well as the latest status of outstanding issues arising from previous year audits:

Current year

ISSUE: JOURNALS – SUPPORTING DOCUMENTATION		CONTROL POINT RATING: IMPORTANT
Risk	Our comments & proposals	Management response
We identified several journals posted by an interim member of the finance team for which the underlying workings and supporting documentation could not be located, increasing the risk of management override of controls.	We recommend that management enforce a control whereby the journal upload, together with all supporting workings and evidence, is retained in a designated shared folder to ensure completeness and auditability.	We have a process whereby we check that we have all copies of journals and supporting documents in preparation for year-end. This currently only happens once a year, and in light of the issue raised, we will begin carrying out this check at each month-end close.

ISSUE: INVESTMENT RECONCILIATIONS		CONTROL POINT RATING: LIMITED
Risk	Our comments & proposals	Management response
We identified that the brought-forward listed investments balance did not reconcile to the 2024 Q4 investment manager reports by £30k. This creates a risk that not all investment transactions have been recorded.	We recommend that management perform quarterly reconciliations between Access and the investment manager reports.	We agree with the suggestions and had also reached the same conclusion independently. The first quarterly reconciliation will take place following June month-end closure.

ISSUE: PROPERTIES NOT REGISTERED WITH THE LAND REGISTRY		CONTROL POINT RATING: ADVISORY
Risk	Our comments & proposals	Management response
We identified three properties that had not been registered with the Land Registry. This creates a risk that any future disposals may be delayed if registration must be completed beforehand.	We understand that registering properties with the Land Registry can take up to 9–12 months. We recommend that management identify all properties requiring registration to avoid future delays.	The delay in this scenario is outside of our control. In all instances the relevant paperwork has been submitted and will be monitored to ensure that registration does happen.

Prior year

We identified the following issues in the prior year audit and made the following recommendations. We have followed up the status of the issue in the current year:

ISSUE: JOURNALS – SEGREGATION OF DUTIES		CONTROL POINT RATING: IMPORTANT
Risk	Our comments & proposals	Current year update:
We identified there is no segregation of duties in the preparation and approval of journals which increases the risk of management override.	We recommended that management consider what mitigating controls are already in place to address the risk of potential management override and whether these provide the necessary assurance.	<p>The DBF has a small Finance Team of 7, so there is a materiality and operational efficiency aspect to this. A separation of duties on journals would put an expensive burden on the Team without a commensurate benefit. Accordingly, we shall be relying on the reviews and analysis as part of our Management Accounts processes and quarterly Management Accounts reviews conducted by our Finance Committee.</p> <p>2026 Update – As per above, we continue to rely on our Management Accounts / month-end processes to reduce this risk. The management accounts team expanded toward the end of 2025, which increases the level of scrutiny over the transactions and movements during the period. Management accounts and transactions are typically reviewed in the first instance by JJ (Management Accountant) and then a final review is carried out by Grant Evans (Head of Financial Planning & Reporting).</p>

ISSUE: CREDIT CONTROL PROCEDURES		CONTROL POINT RATING: LIMITED
Risk	Our comments & proposals	Current year update:
<p>The trade debtor balance at year end was £761k of which £484k was greater than three months old.</p> <p>Our review of credit control procedures noted that management do not regularly review trade receivables for slow recovery of debt.</p>	We recommended that management implements a credit control procedure for the review of the debtor's ledger to ensure that old debts which are greater than 3 months old are chased up on a regular basis.	Management agrees that this activity has been neglected during the recent time of considerable staff and systems change. We have now instituted formal fortnightly Credit Control Meetings to determine rapid recovery actions and write-offs of any irrecoverable debts. The largest debtor balances have been with National Church and the Director of Finance (DoF) is taking an action to liaise at a higher level of

ISSUE: CREDIT CONTROL PROCEDURES		CONTROL POINT RATING: LIMITED
Risk	Our comments & proposals	Current year update:
	This would enable the DBF to better manage its cash flow and improve its cash position.	National Church Finance to resolve these delays. 2026 Update – following the above at the Year End 2025 £0.9m was received prior to Christmas 2025/6.

ISSUE: GRANT INCOME – MONITORING		CONTROL POINT RATING: LIMITED
Risk	Our comments & proposals	Current year update:
Management do not have a schedule of grants detailing all agreements in place. Recognition of grant income is primarily based on reviewing receipts in the bank statement and recording these in the nominal ledger. Income is then reconciled to expenditure to identify any that should be accrued or deferred at the year end. There is a risk that not all grant income receivable is recognised in the nominal ledger.	We recommended that management keep a schedule of grants external to the finance system. This should detail the purpose of the grant and scheduled receipts to ensure sufficient assurance that all income has been recognised in the nominal ledger.	This is the next stage of our “accounting for revenue” process review and will be drawn up for the second half of the 2026 calendar year. 2026 Update – The grants schedule has been prepared, and is being embedded into standard procedures. Additionally, national church have recently launched a grants portal which helps us manage and maintain grants provided by national church (which make up the bulk of our grant income)

ISSUE: STATUTORY FEES – MONITORING		CONTROL POINT RATING: LIMITED
Risk	Our comments & proposals	Current year update:
Statutory fees (for weddings and funerals) z fees are not monitored on a granular level increasing the risk that not all income has been reported and recorded in the nominal ledger.	We recommended that management perform some level of analytical review by Parish to understand trends and sense check what has been received in the year.	These do not form a material part of income and are highly variable. However, we shall start a process to compare them to prior years on a Quarterly Management Accounting basis. 2026 Update – Fees receivable are reviewed on a quarterly basis, which allows us to sense check the amounts versus prior periods.

ISSUE: CAPITAL ON SUSPENSE – SUPPORTING DOCUMENTATION		CONTROL POINT RATING: LIMITED
Risk	Our comments & proposals	Current year update:
<p>Within creditors over one year, there are capital suspense balances which relate to schools that have been sold and money held for projects that they may request. As these schools were sold a number of years ago management do not hold the supporting documentation to support these balances and what schools they relate to. There is a risk that these monies could be used for projects other than those intended.</p> <p>We understand that these monies will not be utilised until further documentation can be obtained to support the Schools they relate to.</p>	<p>We recommended that management obtain the necessary documentation to support these balances in advance of being utilised for future projects.</p>	<p>We have been trying to find the original documents, so far without success. We have a project for the second half of the 2026 year to review all the balance sheet accounts with material balances relating to Education and schools. We shall scour minutes of prior years' Fincoms and may have to consult legal archives.</p> <p>2026 Update: Following discussions between the Director of Finance and the Registrar it was clarified that these accumulated Creditors could be used set-off spend by the Educational Foundation generally. This was also clarified by reviewing postings in 2023 and prior to that. Adjustments were made in the 2025 accounts and a process is being written up so this is clarified for the future. Analyses have also been provided to the Audit Team.</p>

ISSUE: PAYROLL – MIGRATION OF DATA TO NEW SYSTEM		CONTROL POINT RATING: LIMITED
Risk	Our comments & proposals	Current year update:
<p>When payroll data was migrated to the new system we identified for one of the employees that their start date had been incorrectly inputted. There is a risk that payroll data is not accurately reflected in the new system.</p>	<p>We recommended that management review the data migrated to obtain assurance there are no further instances where this had not been correctly transferred.</p>	<p>Although we had an initial unhelpful response from the new Payroll provider Iris, we shall approach both them and the original provider to whom the transferred their business as they must have kept the records we need for HMRC purposes. The whole area of Payroll is under review with our People and Safeguarding colleagues as it requires better systems, which are under consideration.</p> <p>2026 Update – The Payroll Provider agreed that they could provide the old data if required. Additionally, we have recently</p>

ISSUE: PAYROLL – MIGRATION OF DATA TO NEW SYSTEM		CONTROL POINT RATING: LIMITED
Risk	Our comments & proposals	Current year update:
		appointed a dedicated Payroll Advisor within the HR team, and launched an internal HR system which will allow for more accurate and reliable management of personnel data.

ISSUE: PAYROLL – APPROVAL OF STIPEND PAY AND PENSIONS		CONTROL POINT RATING: LIMITED
Risk	Our comments & proposals	Current year update:
We understand that stipendiary pay is reviewed on a monthly and stipendiary pensions on a quarterly basis. However, there was no formal evidence of approval prior to the amounts being paid. There is a risk that payments are made to the wrong people and at the wrong rates.	We recommended that management evidence the approvals for both stipendiary pay and pensions to obtain assurance that the right clergy and correct amounts are being paid.	This is under consideration as part of the general Payroll review, see item above. 2026 Update – Following on from the comment above, now that the Payroll Advisor is in post, we shall implement and evidence further approvals.

ISSUE: PAYROLL – APPROVAL OF STAFF PAYROLL		CONTROL POINT RATING: LIMITED
Risk	Our comments & proposals	Current year update:
We reviewed the process for authorising the payroll for all twelve months of the year. For each month we could see that the payroll had been checked and queries raised although we could not obtain evidence that this had been approved for March, April and May 2025.	We recommended that management ensure there is evidence of approval for each month.	This is under consideration as part of the general Payroll review, see item above. 2026 Update –We shall start getting the Director of Finance to do an approval email every month to confirm both staff and Parish payroll.

ISSUE: PAYROLL – APPROVAL OF PARISH PAYROLL		CONTROL POINT RATING: LIMITED
Risk	Our comments & proposals	Current year update:
The DBF provides payroll services for some Parishes as they do not have the capability themselves. We identified that BACS payments were made without prior authorisation from the Parishes. There is a risk of incorrect payments being made.	We recommended that management ensure approval is obtained from Parishes before payment is made. Evidence of this approval should be retained.	This is under review as part of the general Payroll review, see item above, so that liaison with Parishes for such services can be automated. 2026 Update –see above on Staff Payroll.

ISSUE: IT – PENETRATION TESTING		CONTROL POINT RATING: ADVISORY
Risk	Our comments & proposals	Current year update:
We identified that IT penetration testing had not been performed in the last 12 twelve months. There is a risk that the DBF’s systems are more prone to a cyber attack.	We recommended that management consider whether penetration testing should be performed.	All our data is in an ITRIM protected Microsoft cloud. We ceased to use the in-office servers when we stopped using the National Church as our IT provider. As regards to Pen-Testing the frequency and use of this is being reviewed as part of our IT Strategy. An initial version of this strategy should be ready soon. 2026 Update –The IT Strategy is taking longer to conclude due to having to incorporate more work around GDPR and AI. ITRM have confirmed they can do a Pen-Test, but we are reviewing security settings as a matter of urgency prior to initiating this.

5. Emerging issues

Sector specific matters

A link to our most recent updates can be found here:

- [Social Purpose eNews](#)
- [Employment tax briefing](#)

Charity reporting and governance matters

Raising a concern with the Charity Commission

In June 2025 the Commission issued updated guidance which sets out when to raise concerns about a charity with the Commission as well as what it can do or cannot do within its remit of helping charities in England and Wales be accountable, well-run and meet their legal obligations. The guidance also covers where and how it can and will act and how it prioritises the most serious concerns that present risk of significant harm to, or abuse of, charities, their beneficiaries or assets or to trust and confidence in the sector.

An improved [online 'raising a concern' form](#) on gov.uk for members of the public, which still allows evidence to be attached, now provides new signposting to make it easier for a charity's trustees, employees and volunteers to raise concerns in the right way via alternative routes for whistleblowing, reports of serious incidents or matters of material significance.

Guidance on what is required in the 2025 Annual return

The Commission have issued a question guide to help charities understand the information that will be needed for their 2025 annual return submission. The guidance can be found [here](#).

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 the accounting standards applicable in the UK including FRSs 101 and 102.

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.

The Changes

These amendments seek to provide greater consistency and convergence, but not total alignment to international accounting standards. Areas and sections that are amended include the following.

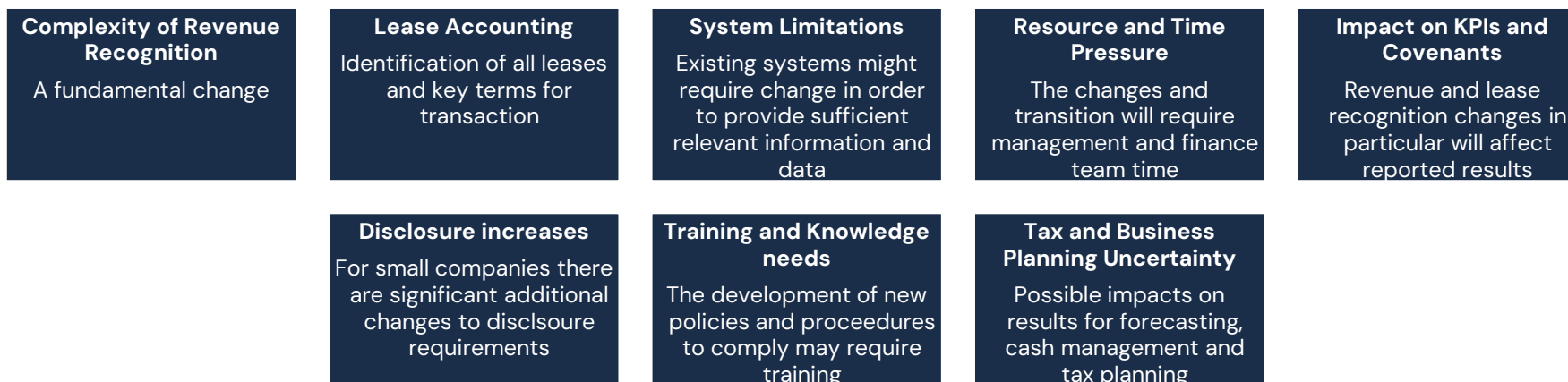


The impact of the changes is likely to be greatest for revenue recognition and lease accounting depending on an entity’s revenue type and use of leases as the FRS 102 changes are pervasive changes to recognition criteria. The changes marked orange above will impact entities differently depending on exposure to the transactions or balances covered. In many cases the changes add clarification or enhanced guidance to existing areas. Where management think the entity could be in scope and affected by the changes, they should review the relevant areas before assessing impact.

On transition, entities can choose whether they want to restate comparatives. If they decide not to, the cumulative effect of initially applying the standard will be recorded as an adjustment to opening retained earnings. Different requirements apply, and different practical expedients are available, depending on the transition approach adopted.

Through 2026 HaysMac will continue to publish guidance and explainers of key matters and issues for consideration.

Challenges posed by the changes



Planning for 2026 year-ends

The transition to the new requirements will take careful planning for many entities currently following FRS 102. Management should consider performing the following actions:

Performing an Impact Assessment

Identify which areas (for instance, revenue, leases, disclosures or other) will be affected and quantify potential impacts to EBITDA, other KPIs, ratios and covenants.

Updating Accounting Policies and Procedures

Align policies with the revised FRS 102 requirements, especially for revenue recognition and lease accounting and ensure systems capture necessary data.

Identifying Information Needs and Gather Data Early

Collect detailed contract information for revenue recognition assessment and obtain complete data on leases for the new on-balance sheet model.

Reveiwng Accounting Systems and Procedures

Ensure accounting systems can handle new requirements (e.g., five-step revenue model, lease calculations).

Training Finance Teams

Provide training on the new requirements where relevant

Communicate with Stakeholders

Inform boards, lenders, and investors about expected impacts on financial statements and ratios.

Reviewing Tax and Covenant Compliance Implications

Assess how changes affect tax planning and compliance with loan agreements.

With the changes to FRS 102, a new Charities' SORP has been issued and includes the changes noted above as they are relevant to charities, but has also introduced a three tier system categorising charities by size. The requirements of the SORP relevant to each size have then been clearly set out in the standard.

UK Corporation Tax

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

Pension salary exchange

The government announced in the Autumn Budget that from April 2029 only the first £2,000 of pension contributions made by each employee through a salary sacrifice scheme will be exempt from NICs. Currently no cap exists. Employer and employee NICs will be due for pension contributions made through salary sacrifice schemes exceeding that cap. The OBR estimates this will raise £4.7 billion in 2029/30, and £2.6 billion in 2030/31.

The changes will be introduced through primary and secondary legislation in due course and will take effect from 6 April 2029.

Government has not made any changes in tax relief on employees' pension contributions. Furthermore, NIC will not be levied on employer pension contributions, so pension salary exchange can be used to mitigate the increase in employers NIC until 5th of April 2029

Depending on the outcome of the draft legislation, if you do not provide your employer pension in conjunction with a pension salary exchange arrangement, then this will be an ideal time to consider implementing such an arrangement, the benefits of which include:

- Providing pensions in a National Insurance efficient manner.
- Encourage employees to think about their saving for their retirement.
- Increase employee engagement.
- Help employers to maximize their salary budget.

If you already have a pension salary exchange in place, given the Government's recent announcements, now will be an ideal time to see whether it is achieving all your objectives.

HaysMac[★]

10 Queen Street Place

London EC4R 1AG

T 020 7969 5500

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