

Sustainability and Covid recovery dominate audit concerns

The environmental and financial sustainability of charities as they move into the post-pandemic world is a priority for their auditors, Ian Allsop finds

IN THIS survey 12 months ago, common concerns centred around remote audits. This year, this topic seems less of a challenge. But as both charities and auditors move to hybrid models of working, organisations still have plenty of issues to deal with, including new regulatory and reporting requirements, and ensuring sustainability as we move further into what will hopefully be a truly post-pandemic world.

This year, over 600 charities responded to Charity Finance's 29th annual charity audit survey, and once their information is augmented by data from the Charity Finance 100 and 250 Index charities, the survey covers 938 charities with combined income of £31.6bn, paying audit fees of £30.7m.

Crowe consolidated its position at the top of the table of firms ranked by audit fees (figure 1), having picked up 100 Index charity Aga Khan Foundation. BDO replaced PwC in third spot, largely due to two more Index charities, RNIB and WaterAid, changing hands between the two firms. BDO also won the Francis Crick Institute and Marie Curie, while other significant audits to move included Jewish Care to RSM and Fusion Lifestyles to McCabe Ford Williams.

Henderson Loggie returns as a separate firm in the table after leaving the MHA stable, along with Larking Gowen and Carpenter Box.

So, what have been the main audit and reporting issues for charities in the last 12 months? Nick Sladden, head of charities at RSM, says that many charities have reflected, and

refreshed or refocused their overall strategy. "They have considered how they deliver their charitable work and what the move to remote provision means for them. In some cases, this has resulted in increased investment in IT – after long periods of under-investment – and the disposal of premises that are no longer needed. This, along with significant variances

in income, has resulted in challenges with the accuracy and robustness of medium-term financial planning. Some charities have moved to six-month rolling budget processes to reflect the dynamic environment."

For John Howard, charity partner at Azets, going concern remains the single largest issue. "In many cases uncertainty over the future remains, which is a challenge for both boards and auditors. For a number of charities, the financial effect of the last 12 months has actually not been as bad as was first expected, because of the assistance provided by the job

“ In many cases uncertainty over the future remains, which is a challenge for both boards and auditors ”

Charity auditor awards 2021

With around 90% of respondents rating their auditors' charity expertise and overall service as "good", the charities surveyed are clearly satisfied with the audit services they receive. Nonetheless, we have highlighted a few firms as worthy of special mention based on the ratings they have received.

These firms are grouped by the number of clients rating them, on the basis that the larger the sample gets, the harder it is to maintain a consistently high rating. For this reason, firms with fewer than 10 ratings have been excluded from the rankings.

Overall service (>30 responses)

1	Garbutt & Elliott
2	Azets
3	Price Bailey
4	Moore Kingston Smith

Overall service (10-30 responses)

1	Godfrey Wilson
2	Buzzacott
3	Griffin Stone Moscrop
4	Goldwins

Charity expertise (>30 responses)

1	Crowe
2	Price Bailey
3	Azets
4	Garbutt & Elliott

Charity expertise (10-30 responses)

1	Godfrey Wilson
2	BHP
3	haysmacintyre
4	Chariot House

How can the Board get greater levels of assurance?



NICK SLADDEN,
Head of Charities



LIZ WRIGHT,
Charities Partner

As the Greek Philosopher Heraclitus identified “change is the only constant in life”. This is true for the charity sector who see increased demand for services, uncertainty around income streams and the impact of the pandemic on business as usual for their organisation. There are also wider changes affecting the regulatory and oversight environment of the sector.

The importance of gaining greater levels of assurance

The requirements for external audit are tightly defined in International Standards on Auditing (UK) (ISAs (UK)), applicable law and the FRC’s Ethical Standard. Consequently, an external audit provides a reasonable assurance opinion about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Ultimately, external audit is a specific opinion on a set of financial statements and nothing else.

As such, there has been a growing demand from charities for specialist advice to help them gain assurance in specific areas.

Much of this advice is requested from audit firms, firstly because auditors are trained to understand the dynamics of a charity from an external perspective and secondly because independent viewpoint can often shed light on problems that may appear intractable from within an organisation.

Over the last five years, charities have been interested in risk and assurance services, both in internal audit and wider risk consulting even pre-pandemic. Driven by reputational issues in the sector including whistleblowing, conflicts of interest and wider governance failings, Boards have increasingly requested greater levels of assurance over a range of internal controls and processes, wider than traditional finance areas.

How can RSM help?

RSM has enjoyed a long-standing presence in the charity sector providing audit, tax and consulting support. One in four top 250 charities use RSM for internal or external audit and we work with over 1,000 charities with income in excess of £2bn.

Risk profiles within charities have significantly shifted during the pandemic and our work helps charities to navigate topics such as risk appetite and setting of assurance needs. Our assurance mapping approach allows Boards to understand what assurances they currently receive both internally and externally and where potential gaps of assurance are:

- Strategic risk register
- Assurance map
- ICO
- External audit
- Charity Commission/OSCR
- Other regulators eg. CQC, Ofsted
- HSE
- Subject matter experts
- Dedicated core team
- Bespoke software
- Thought leadership
- Charity experience

RSM can provide that assurance and around 50 per cent of our charity clients have never had internal audit services before.

Alternatively, charities may be looking to support in house teams with sector expertise and technical expertise in areas such as digitalisation, cyber security and compliance with key regulation. Risks are increasingly complex to manage and RSM are able to bring an outside perspective to help charities navigate this.

RSM’s wide and diverse client base includes arts and heritage, health and social care, international, animal, education and membership-based charities. This allows us to highlight best practice and help good ideas spread across the sector.

Our insights into our clients also allows us to produce regular benchmarking reports to help Boards understand sector trends and how their charity compares. We have a regular and active events programme which over 3000 people have attended over the last two years. Recent topics have included the Apprenticeship Levy, which many charities underutilise and fraud, as Charities are experiencing heightened levels of fraud attempts.

RSM can support your charity in providing effective internal and external audit services alongside a wealth of other specialist support. If you would like to discuss options for your charity further, please contact either Nick Sladden, nick.sladden@rsmuk.com or Liz Wright, liz.wright@rsmuk.com. Phone: 020 3201 8000



retention scheme and other sources. Thoughts have now turned to the next 12-24 months as that government support ends and any reserves that have been built up as a result may be required to cover future funding uncertainties.”

BDO’s head of charities, Jill Halford, agrees about going concern, both in terms of reporting and cash flow tracking. “Charities have had the cushion of government funding for the last financial year and many have reported surpluses following restructures and robust cost control.

“ It is important to ensure that charities don’t shy away from being honest about what they achieved ”

Explaining this in the trustees’ report has been a challenge, as has accounting for and reporting government grants, especially those where the funding qualifies as State Aid. Charities are also still struggling to articulate the key judgements and estimates in the accounting policies, and the disclosures

in this area are surprisingly weak in many accounts.” She also highlights increasing demands on the finance team such as restructures, new systems implementation and cyber-attacks.

Stephen Dean, audit director at Grant Thornton, adds that the days of simple forecasts based on the annual budget are gone. “There is a need for scenario planning and reverse stress testing to really get an understanding as to what might need to happen for the charity to fail and how likely it is that this scenario might happen.

“From a financial reporting perspective, this all led to the need to enhance the disclosures in both the trustees’ report and in the accounting policies. Financial statements have moved from disclosing fairly bland statements to including much more detailed disclosures that really made clear the rigour that has gone on in the background in drawing the going concern conclusion. The bar has now shifted on going concern, and although the financial risk from the pandemic may be lessening, these enhanced requirements seem set to stay.”

He also raises the more general messaging that charities need to convey in their financial statements. “It is important to ensure that charities don’t shy away from being honest about what they achieved and failed to achieve as a result of the restrictions we have all suffered.”

Richard Weaver, head of charities and not-for-profit at haysmacintyre, suggests that the new standard causing the most additional work is the new one on judgements and estimate (ISA540). “It is the one area where by its very nature it is subjective, and the standard requires clients to consider and/or justify why the approach they take in these judgemental areas is reasonable and appropriate. Some areas such as depreciable lives of assets are easier to validate; it is the areas such as dilapidations provisions, pension assumptions and legacy debtors for example that are taking

FIGURE 1: TOP 35 AUDIT FIRMS USED BY SURVEYED CHARITIES, RANKED BY AUDIT FEES

Last year	Audit firms	Audit fees (£, including VAT)	Income of audit clients	No. of clients	
1	1	Crowe	4,454,289	4,887,738,712	109
2	2	Deloitte	3,710,800	4,337,189,000	19
3	4	BDO	3,444,019	4,195,731,458	57
4	3	PwC	2,769,100	3,674,169,534	26
5	5	RSM	2,261,421	1,647,902,590	46
6	6	Grant Thornton	1,929,900	1,977,804,000	21
7	7	Moore Kingston Smith	1,781,169	1,036,897,469	66
8	9	haysmacintyre	1,438,482	1,384,420,256	47
9	12	Public audit bodies	1,145,100	1,371,526,000	16
10	11	KPMG	1,136,700	1,605,713,827	14
11	13	Azets	713,675	398,617,009	93
12	14	Buzzacott	685,318	669,794,207	26
13	8	Sayer Vincent	627,991	466,209,680	20
14	17	Price Bailey	530,152	274,281,671	44
15	18	Saffery Champness	361,097	331,769,780	12
16	16	BHP	325,214	138,894,601	29
17	20	HW Fisher	321,411	139,022,475	18
18	15	Mazars	305,700	247,924,000	7
19	19	Knox Cropper	242,000	479,249,000	2
20	23	Garbutt & Elliott	195,911	70,402,841	35
21	21	Cooper Parry	187,360	160,793,378	12
22	28	PKF Francis Clark	157,520	139,938,961	10
23	10	MHA	140,196	93,564,812	14
24	27	PKF Littlejohn	133,532	69,557,000	2
25	-	Henderson Loggie	117,029	98,430,842	10
26	24	Godfrey Wilson	114,160	24,305,602	28
27	22	EY	110,700	198,864,000	3
28	29	Goldwins	110,200	31,851,711	20
29	25	Chariot House	105,910	31,090,879	17
30	26	UHY Hacker Young	90,777	126,255,070	11
31	30	Griffin Stone Moscrop	87,423	20,831,408	11
32	-	Bishop Fleming	80,845	20,890,450	7
33	32	DSG	63,000	60,662,000	1
34	-	Haines Watts	53,200	166,177,397	5
35	34	Calcutt Matthews	51,400	172,567,000	2
		Other firms	702,079	830,835,654	78
		Total	30,684,780	31,581,874,274	938

Buzzacott

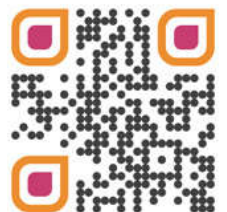
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more time to consider and document fully and evidence audit challenge.”

Daniel Chan, director at PwC, says that challenges have varied for charities of different sizes and across different sectors. “A key principle is that the running of charities, and the associated business decisions, drives their financial reporting – not the other way round. Some charities have changed their business model, including organisational restructures in some instances, and that will lead to different reporting considerations. Those that have turned their investments into cash when the pandemic hit are taking a closer look at their investment policies going forward. And there have been property considerations, such as how best to use their space, early termination of leases, sub-letting offices and dilapidation costs.”

Richard Hill, principal charity partner at Griffin Stone Moscrop, says that while his firm’s charity

“ Some charities have changed business model, and that will lead to different reporting ”

clients have been impacted by the pandemic in different ways, all have thankfully survived so far. “Where an entity’s income and activities are linked to being able to provide services in-person and the delivery of these has been disrupted by the pandemic, then naturally the management team and trustees have needed to carefully manage the finances and operations of the charity to plot a course to enable them to survive, utilising the support measures that have been made available to them by government and financial stakeholders.”

Nick Hume, director at Calcutt Matthews, adds that charities without hosted solutions or cloud accounting

have found it hard to coordinate information in time to make funding and reporting deadlines.

HORIZON SCANNING

Looking ahead, Helena Wilkinson, head of charities and NFP at Price Bailey, says that from the perspective of her involvement in the professional and technical strand for the SORP development process, she can see significant trustees’ reporting changes likely to arise as a result of the next SORP. “This ranges from impact reporting (on strategy and evidence around how it is delivered) to more disclosure on free reserves and Charity Governance Code compliance.”

As well as the SORP, the immediate headline requirement that charities should monitor, in the opinion of Tracey Moore, national head of charities and not-for-profit at UHY Hacker Young, is the triennial review of FRS 102, currently ongoing.

“This was delayed due to the pandemic so the timeline on both this and the SORP has shifted. The Charities SORP Committee appears to be aiming for a simplification of charity accounts, which have become quite cluttered in recent years due to the FRS 102 requirements. FRS 102 is becoming more and more targeted

FIGURE 2: NUMBER OF YEARS WITH AUDITOR (RESPONDENTS)

■ A quarter of charities have used the same auditor for more than 10 years ■

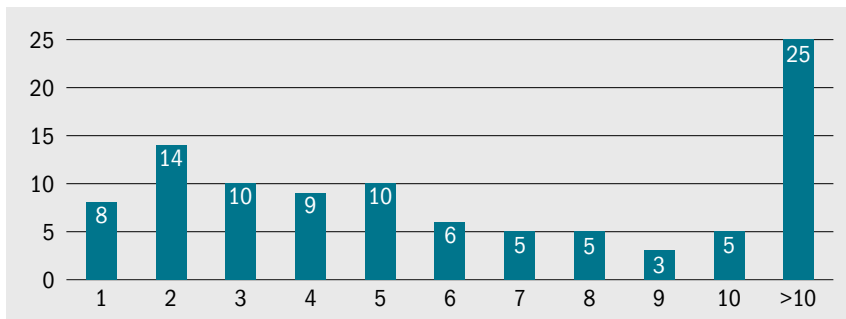


FIGURE 3: AUDIT FEES BY CHARITY INCOME BAND

Income band (£m)	No of charities	Highest fee £	Lowest fee £	Median fee						
				This year	Last year	2017	2015	1 year change	3 year change	5 year change
<0.1	27	7,200	175	1,420	1,700	1,200	1,095	-16	18	30
0.1 - 0.25	22	11,697	870	2,600	2,469	1,854	2,100	5	40	24
0.25 - 0.5	44	10,920	900	3,240	3,600	3,342	4,000	-10	-3	-19
0.5 - 1	85	18,000	1,400	5,100	4,920	5,375	6,453	4	-5	-21
1 - 2	102	38,400	2,268	7,335	8,038	7,320	7,875	-9	0	-7
2 - 5	150	46,200	1,400	11,640	10,037	10,450	10,833	16	11	7
5 - 10	80	62,000	2,500	15,800	15,072	13,000	14,400	5	22	10
10 - 25	73	98,700	4,380	23,000	20,045	19,380	22,000	15	19	5
25 - 50	187	905,000	3,900	35,000	34,000	32,000	33,300	3	9	5
50 - 75	65	262,000	3,300	47,500	46,300	44,500	43,000	3	7	10
75 - 100	30	272,000	15,000	58,050	51,000	49,000	43,900	14	18	32
>100	73	900,000	25,000	91,000	81,000	84,000	89,333	12	8	2

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Contact

MHA Not for Profit Sector Head
Sudhir Singh

T: 020 7429 4100

E: info@mha-uk.com

mha-uk.co.uk

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at large for-profits as opposed to smaller entities and is particularly excessive for most not-for-profits. This should be welcome news to the sector.”

She also cites the “exciting project of IFR4NPO” to develop a global reporting standard for not-for-profits. “This would be useful for large charities, which have a number of overseas operations.”

Edward Finch, partner in Buzzacott’s charity and not-for-profit team, identifies increasing numbers of financial instruments with some

“ One of the BEIS proposals is around what should be included in the definition of public interest entities ”

part of the return based on delivery of impact targets. “Accounting for these as complex financial instruments could be very costly in relation to the information benefit. It will be quite difficult to structure and ultimately not necessarily very meaningful

or reliable. It will be necessary to develop some consensus on what might be practicable and meaningful without resorting to overly convoluted methodologies.”

Anthony Epton, charities partner at Goldwins, raises the Department for Business, Energy & Industrial Strategy’s (BEIS) consultation on restoring trust in audit and corporate governance. “One of its proposals is around what should be included in the definition of public interest entities (PIEs). While the Charity Commission backs the government’s aim to enhance the UK’s audit and governance framework, it does not accept that the framework for the interest of shareholders can be aligned to the interests of the charity sector.

FIGURE 4: HOW OFTEN DO YOU REVIEW YOUR AUDITOR? (% RESPONDENTS)

■ Over half of charities review their auditor every five or six years ■

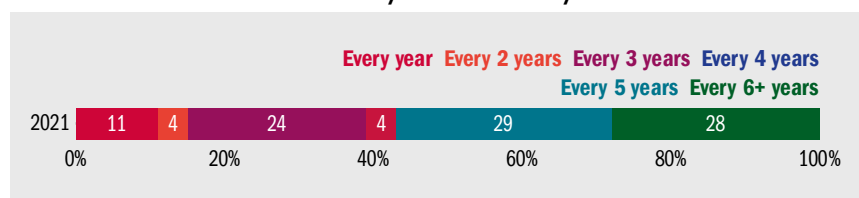
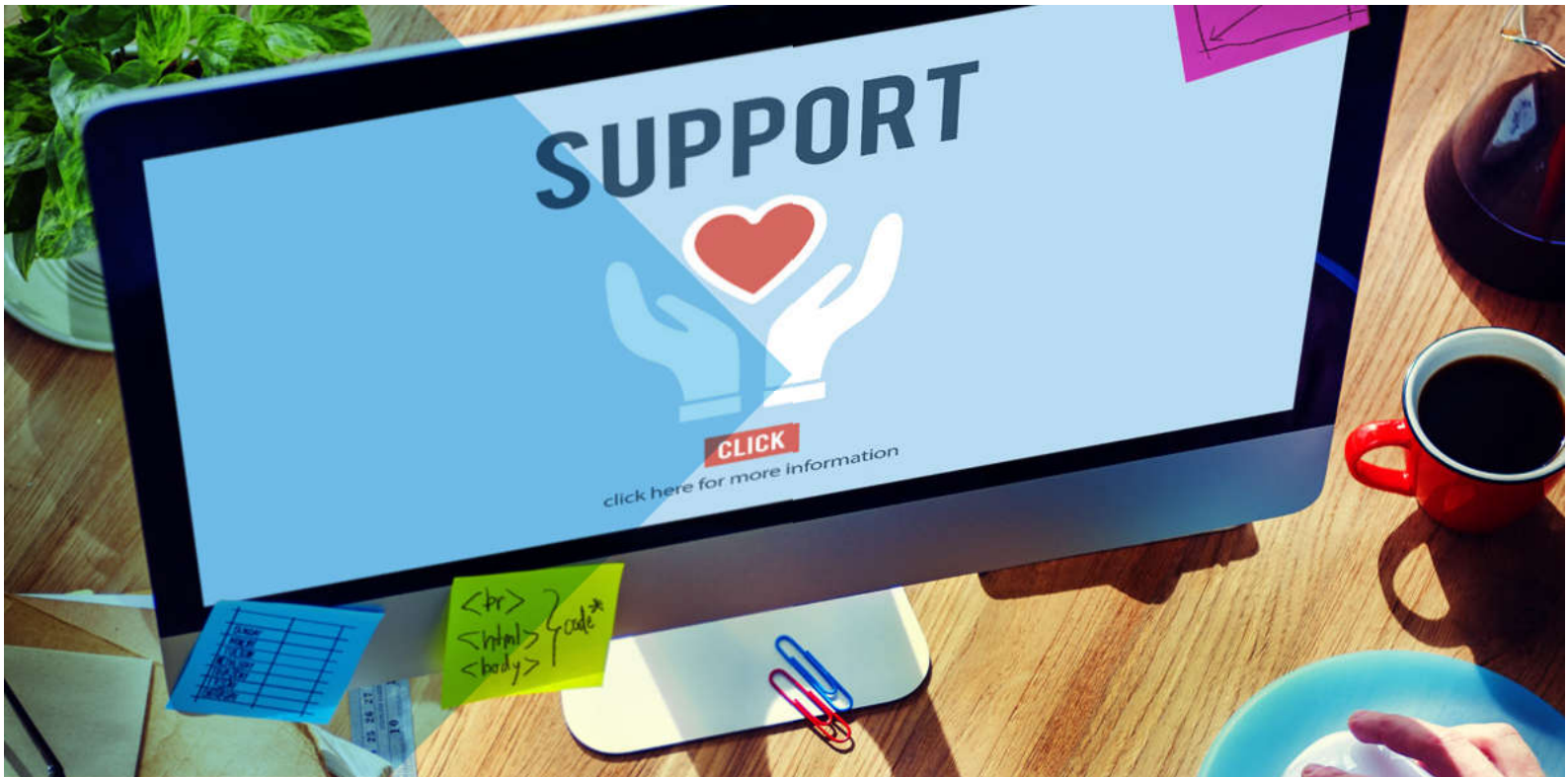


FIGURE 5: DO YOU HAVE ANY OF THE FOLLOWING PROBLEMS WITH YOUR AUDITOR?

Audit firm	No. of charities responding	No. of charities reporting problems	No. of problems reported	Poor understanding of own charity	Poor understanding of charity sector	Fees too high	Lack of technical competence	Staff changes	Slow to deliver	Poor liaison	Lack of access to partner	Other
Azets	90	7	13	0	0	5	0	1	1	3	1	2
BDO	13	9	33	2	1	7	1	9	6	4	2	1
BHP	27	1	2	1	0	0	0	1	0	0	0	0
Bishop Fleming	7	0	0	0	0	0	0	0	0	0	0	0
Buzzacott	16	1	3	0	0	1	1	1	0	0	0	0
Chariot House	17	1	3	0	0	0	0	0	1	1	0	1
Cooper Parry	12	3	4	0	0	1	0	0	2	0	0	1
Crowe	51	8	13	0	0	2	0	3	1	1	1	5
Garbutt & Elliott	34	2	4	0	0	1	0	1	2	0	0	0
Godfrey Wilson	28	0	0	0	0	0	0	0	0	0	0	0
Goldwins	20	0	0	0	0	0	0	0	0	0	0	0
Griffin Stone Moscrop	11	2	2	0	0	2	0	0	0	0	0	0
haysmacintyre	19	7	16	1	0	3	0	3	3	4	1	1
Henderson Loggie	9	0	0	0	0	0	0	0	0	0	0	0
HW Fisher	17	3	3	0	0	0	0	0	1	0	1	1
MHA	12	3	9	1	0	2	1	1	1	1	2	0
Moore Kingston Smith	54	10	16	1	0	6	0	4	2	2	0	1
PKF Francis Clark	7	2	5	1	1	1	1	0	0	0	0	1
Price Bailey	43	5	11	0	0	1	0	3	3	2	0	2
RSM	22	6	17	2	0	6	1	3	2	2	0	1
Saffery Champness	6	2	4	0	0	1	0	0	2	0	0	1
Sayer Vincent	10	2	4	0	0	1	1	1	1	0	0	0
UHY Hacker Young	9	1	1	0	0	0	0	0	0	0	0	1
Other firms	76	24	62	6	5	8	5	10	13	6	3	6
Total	610	99	225	15	7	48	11	41	41	26	11	25



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- GDPR and Cyber security
- Digital transformation
- Charity legal advice

Neil Finlayson, Head of Charities

+44 (020) 7566 3761
nfinlayson@mks.co.uk

“ Many of the recommendations in the consultation are about good governance, not just audits ”

It therefore concluded the charities should not be classified as PIEs. This is an area which larger charities, possibly with income exceeding £100m, should certainly monitor.”

Sudhir Singh, head of not-for-profit at MHA, also highlights the BEIS consultation. “The sector discussion concerning this has centred too much on the possible future definition of PIEs to include large third sector entities with public benefit purposes – potentially capturing charities, universities, colleges, academies and housing associations. We would certainly agree with the sentiment that regulation needs to be proportionate, though we should not forget that only five years ago the largest charity audits were subject to a very similar regime

which may have been unwelcome but was managed. And it is important to recognise that there are some charities which, for specific reasons, are currently already defined as PIEs. Instead, we consider it is important to recognise the potential positive actions that could, or perhaps should, arise when the government implements proposed changes.”

He also says that the Charity Commission has made it clear from reviews carried out in 2019 and 2021 that there are real concerns about the quality standards of some charity audits. “While the details remain confidential, the underlying concerns regarding the audit profession which led to the government consultation founded on shoring up the confidence

of the users of financial statements, must apply equally to the charity as the commercial sector. Furthermore, many of the recommendations in the consultation are about good corporate governance, not just audits and auditors.”

REPORTING ENVIRONMENT

There has been much written recently about environmental, social and governance (ESG) reporting, and it is an area that all charities should be monitoring. Streamlined energy and carbon reporting (SECR) on emissions and energy consumption has been mandatory for large unquoted companies, including larger charitable companies (those with two of the following: gross annual income of over £36m, balance sheet assets of over £18m and over 250 employees), for some time. Therefore, it isn’t an immediate concern for the majority of charities – only 16% of survey respondents are currently doing it (see figure 9, page 38). However,

FIGURE 6: SATISFACTION – HOW DO YOU RATE YOUR AUDITOR ON THE FOLLOWING?

Audit firm	Total responses	Charity expertise (%)			Corporate social responsibility (%)			Overall service (%)		
		Good	Average	Poor	Good	Average	Poor	Good	Average	Poor
Azets	90	99	1	0	70	30	0	93	7	0
BDO	13	77	15	8	23	77	0	38	31	31
BHP	27	100	0	0	74	26	0	93	4	4
Bishop Fleming	7	100	0	0	71	29	0	86	14	0
Buzzacott	16	100	0	0	75	25	0	100	0	0
Chariot House	17	100	0	0	94	6	0	94	6	0
Cooper Parry	12	100	0	0	75	25	0	83	17	0
Crowe	51	100	0	0	57	43	0	88	12	0
Garbutt & Elliott	34	100	0	0	71	29	0	100	0	0
Godfrey Wilson	27	100	0	0	85	15	0	100	0	0
Goldwins	20	95	5	0	90	10	0	95	5	0
Griffin Stone Moscrop	11	100	0	0	55	45	0	100	0	0
haysmacintyre	19	100	0	0	63	37	0	79	21	0
Henderson Loggje	9	100	0	0	89	11	0	100	0	0
HW Fisher	17	94	6	0	59	41	0	88	12	0
MHA	11	91	9	0	64	36	0	91	9	0
Moore Kingston Smith	54	96	4	0	74	26	0	91	9	0
PKF Francis Clark	7	86	14	0	29	57	14	57	43	0
Price Bailey	43	100	0	0	77	23	0	93	7	0
RSM	22	95	5	0	55	45	0	86	9	5
Saffery Champness	6	83	17	0	33	67	0	83	17	0
Sayer Vincent	10	100	0	0	80	20	0	80	20	0
UHY Hacker Young	9	100	0	0	100	0	0	100	0	0
Other firms	76	79	17	4	53	39	8	75	21	4
Total	608	95	4	1	67	32	1	88	10	2

Due to rounding some percentages may not add up to 100%

interestingly, a third were unaware of SECR reporting, even though further disclosure on environmental issues is clearly the direction of travel.

Such reporting can be regarded as using up valuable charitable time and resource – indeed, some auditors question the increasing desire to make public everything in the report and accounts and whether this the right media for some of these statements. However, post-COP26, political pressure will continue to grow.

new frameworks to ensure they are in a good place when the new requirements come in. Some charities may wish to adopt future reporting requirements even if they don't meet the size criteria, for example, where they have environmental objectives or to pre-empt stakeholder questions or concerns.”

However, Alison Godfrey, director at Godfrey Wilson, says its clients have not yet been affected by this. “We often struggle to get our smaller charity clients to meet the basic

piece of reporting, for others “it simply codifies what they have been reporting for many years as they already felt passionate about their environmental impact and have welcomed the focus brought by this legislation”.

Collating the information has been a challenge, says Halford at BDO. “Some charities have engaged a third-party firm to assist in this reporting and that has worked well. Charities need to be cognisant of their mission and objectives and what they are reporting in terms of their own environmental impact, as they are coming under more scrutiny to walk the walk as well as talk the talk.”

“ Some charities may wish to adopt future reporting requirements even if they don't meet the size criteria ”

Carol Rudge, head of not-for-profit at HW Fisher, says that while only large charities have to comply with SECR reporting, ESG goes considerably further than this. “Much of it is not mandatory yet but it is a fairly rapidly evolving area and some organisations are voluntarily adopting

reporting requirements of the SORP within their annual report, so additional SECR reporting, while an essential part of the future landscape, may be a step too far for smaller entities at this time.”

For Howard at Azets, while some see SECR as an onerous additional

FEES AND TENDERS

While the survey finds that fees are not regarded as important as sector knowledge when choosing an auditor, at 60% and 70% respectively (see figure 8, page 37), they are clearly still an understandably vital part of the relationship. The fact that high fees remain the most common cause for complaint (see figure 6, page 34) means they can often trigger a decision to put the audit out to tender.

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Within the last year, 17% of respondents reviewed their auditor, although over 70% stayed with the incumbent. Some 13% expect to change their auditor in the next two years though, so there is likely to be plenty of tender activity.

if we can't do the audit at a lower fee. Increasingly, firms are taking on audits based on whether they fit with their sub-sectoral expertise and client profile. They are being selective and this is polarising firms into concentrating on their sweet spots."

be interesting to see how this coming year's audit cycle is affected by this."

Godfrey at Godfrey Wilson notes a slight decrease in tenders in the first year of the pandemic. "This seemed logical given that charities were contending with much higher-priority issues. 2021 has seen a noticeable increase, which we attribute to postponed tenders from 2020, charities receiving new Covid funding which has taken them over the audit threshold, and charities feeling dissatisfied with the service provision of their incumbent auditors."

In the view of Epton from Goldwins, audit fees have remained quite stable although the significant increase in the number of charities going out to tender is because "the pandemic has made charities more aware of where they have been or have not been receiving value-for-money audits and a good service".

Weaver at haysmacintyre says that while the pandemic hasn't in itself

“ We have noticed that many firms have turned down tender opportunities because of a lack of staff resources ”

Liz Hazell, partner at Saffery Champness, confirms that the number of tenders is going up. "Some are simply from charities who have been with a firm for a number of years, so they are reviewing as a matter of good governance. Therefore, you have to be realistic about how many tenders you take on. We are upfront and say

Neil Finlayson, partner at Moore Kingston Smith, observes that while there appeared to be a delay in the tendering process due to the problems of the pandemic, in recent months this has corrected, as restrictions eased. "We have noticed that many firms have turned down tender opportunities because of a lack of staff resources, and it will

FIGURE 7: DURING THE COVID-19 PANDEMIC, HOW WOULD YOU RATE YOUR AUDITOR ON THE FOLLOWING?

Audit firm	Total responses	Proactive advice on technical accounting issues			Proactive advice on general financial support			Additional services			Being contactable			Online seminars/training		
		Good	Average	Poor	Good	Average	Poor	Good	Average	Poor	Good	Average	Poor	Good	Average	Poor
Azets	90	84	16	0	84	16	0	67	33	0	92	8	0	58	36	7
BDO	11	55	45	0	36	55	9	27	55	18	73	18	9	27	64	9
BHP	26	96	4	0	85	12	4	77	19	4	92	8	0	58	38	4
Bishop Fleming	7	100	0	0	71	29	0	57	29	14	100	0	0	71	14	14
Buzzacott	16	88	13	0	75	25	0	56	44	0	81	13	6	44	56	0
Chariot House	17	71	29	0	76	24	0	53	47	0	88	12	0	53	41	6
Cooper Parry	12	100	0	0	92	8	0	58	33	8	75	17	8	42	58	0
Crowe	51	84	16	0	71	29	0	59	41	0	90	10	0	71	27	2
Garbutt & Elliott	31	90	10	0	90	10	0	61	39	0	90	10	0	52	48	0
Godfrey Wilson	23	91	9	0	87	13	0	65	35	0	96	4	0	17	74	9
Goldwins	19	89	11	0	95	5	0	84	16	0	100	0	0	42	47	11
Griffin Stone Moscrop	11	91	9	0	55	45	0	27	64	9	82	18	0	0	64	36
haysmacintyre	19	74	21	5	58	37	5	37	63	0	79	21	0	42	42	16
Henderson Loggie	8	88	13	0	88	13	0	63	38	0	100	0	0	63	38	0
HW Fisher	17	82	18	0	76	24	0	53	41	6	88	12	0	35	53	12
MHA	10	80	10	10	80	10	10	60	30	10	90	10	0	80	10	10
Moore Kingston Smith	54	81	19	0	83	15	2	65	31	4	89	11	0	67	31	2
PKF Francis Clark	6	50	50	0	50	50	0	50	50	0	67	33	0	17	50	33
Price Bailey	43	77	19	5	74	23	2	56	42	3	88	12	0	51	37	12
RSM	20	80	20	0	70	25	5	45	55	0	90	5	5	60	30	10
Saffery Champness	6	67	33	0	50	50	0	17	83	0	100	0	0	33	50	17
Sayer Vincent	9	67	33	0	45	55	0	22	78	0	78	22	0	45	55	0
UHY Hacker Young	9	89	11	0	78	22	0	67	33	0	100	0	0	22	78	0
Other firms	73	55	33	12	52	34	14	37	45	18	74	21	5	16	49	34
Total	588	80	18	2	74	23	3	56	40	4	87	11	1	47	42	10

Due to rounding some percentages may not add up to 100%

FIGURE 8: WHICH OF THE FOLLOWING ARE MOST IMPORTANT TO YOU WHEN CHOOSING AN AUDITOR? (CHOICE OF UP TO THREE OPTIONS)

	%
Understanding of charity sector	70
Fee	60
Understanding of your charity	60
Technical competence	48
Personalities/attitude	42
Firm's breadth of expertise	29
Firm's reputation	17
Firm has similar clients	17
Non-audit specialist advice	7
Geographical location	5
Size of firm	3
Other	2

resulted in an increase in fees, new auditing standards for 2020/21 year-ends have led to increased costs and therefore fees. "Going forward, the pandemic has changed a charity's use of IT, the control environment and the business risks. As a result, the needs of trustees and principal audit risks will have changed. Tendering may be used

“ The pandemic has changed a charity’s use of IT, the control environment and the business risks ”

to ensure an auditor can meet these needs at the right price.”
 Pesh Framjee, global head of social purpose and non-profits at Crowe, says that while there may have been a temptation for firms to raise their fees due to extra work associated with the pandemic, his firm tried to make the point that charities were stretched financially so they shouldn't be charged extra. "Auditing remotely didn't cost more if you had the right processes in place, and we were used to digital auditing when dealing with our international NGO clients. Indeed, even if there were added costs, this was countered by a saving on travel."

STEPS TO SUSTAINABILITY

So, how can charities best equip themselves for the years ahead and maximise their chances of sustainability, both financially

and environmentally? Jane Marshall, partner at BHP, highlights how reporting requirements, especially in the trustees' report, have driven better governance. "For instance, if we look at reserves, I think far more charities are aware of the importance of this and the need to combine this with their strategic plans, risk management and financial management of their resources. This all then leads into improving their chances of sustainability by preparing forecasts of income and expenditure and cash flows for a two-year period, doing proper sensitivity analysis and monitoring the financial position by having up-to-date management accounts so that they can take appropriate action if things are not going to plan. Those that don't will find themselves going from one crisis to another."

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Murtaza Jessa
Co-head of Charities
+44 20 7969 5551
mjessa@haysmacintyre.com



Adam Halsey
Co-head of Charities
+44 20 7969 5657
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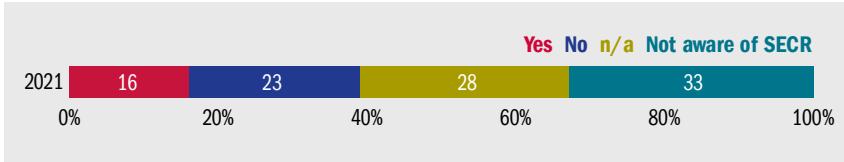

 Charity Finance

Top adviser to the top 5,000 charities, Charity Financials' league table 2021

Top ten by audit fees in the 2020 Charity Finance Audit Survey

FIGURE 9: HAVE YOU DONE WORK TOWARDS FULFILLING YOUR STREAMLINED ENERGY AND CARBON REPORTING (SECR) REQUIREMENTS? (% RESPONDENTS)

■ Auditors predict the trend to adopt environmental reporting will increase in the coming years ■



“Some have started to develop sustainability plans but are yet to define how these will be monitored”

Moore at UHY Hacker Young’s advice would be for charities to ensure that their recording of day-to-day transactions is as clear and transparent as possible. “Having that foundation makes anything else a lot easier to identify and adapt to. Charities can use these basic building blocks to prepare detailed cash flow forecasts for the future and identify potential cash flow pinch points, or to highlight areas of income which the charity is perhaps becoming too reliant upon so that it can potentially think about diversifying. Although forecasts are less reliable the further ahead you look, it gives charities time to put in place strategies to mitigate any potential issues they might be facing rather than being reactive. Taking the time to do this forward planning is just as important as the historical finances.”

Wilkinson at Price Bailey encourages charities to engage in the SORP-making process as it is likely to bring some fundamental changes in narrative reporting. “Charities also need to look at income generation opportunities and whether these need to be enhanced through active engagement, such as recruiting into the income generation team.”

RSM’s Sladden says that ESG and the need to have a clear strategy is still a work in progress for many charities. “Some have started to implement sustainability plans but are yet to define how these will be monitored and measured going forward. Charities cannot afford to ignore the net-zero carbon and social responsibility agenda. The best charities are driven by genuine commitment to sustainability, communicating values to their beneficiaries, and creating a

positive environment for staff. ESG is, however, more than just the ‘E’, even though most conversations inevitably gravitate towards this. Charities are already well-placed to promote the ‘S’ through public benefit and the ‘G’ through initiatives such as the Charity Governance Code.”

PwC’s Chan notes that some charities have been able to increase their impact during the pandemic. “For these charities, their work has made them more visible, with greater recognition of the difference they make, both locally and nationally. It’s important that this is fully reflected in their reporting.”

Framjee at Crowe concludes by observing that productivity has gone up. “There has been more board engagement, and many charities have taken a hard look at themselves out of necessity. A lot of CEOs and finance directors are saying that things that previously would have taken three years to get agreement on have taken three months. Therefore, many charities will come out of the pandemic stronger because they have been able to pivot to more agile and nimble decision-making.”

PRIZE DRAW WINNER 2021

All charities responding to the survey in full were entered into a prize draw for a luxury Christmas hamper. Congratulations to Nataliya Izedinova, finance director at the Verification Research, Training and Information Centre (VERTIC), who has won this year.



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