

Charity Newsletter

April 2020

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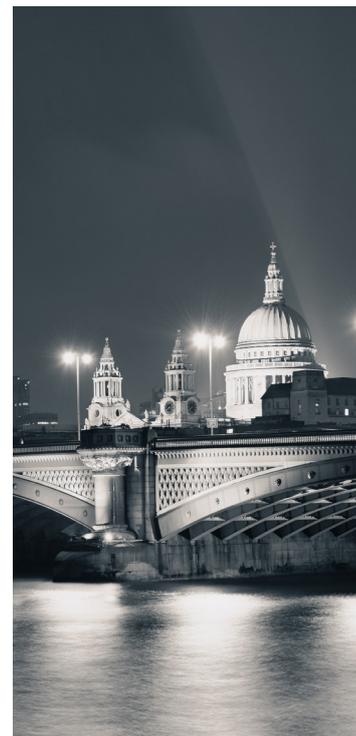


HAT
Group of Accountants

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CHARITY COMMISSION / OSCR GUIDANCE ON CORONAVIRUS (COVID-19)

The [Charity Commission / Scottish Charity Regulator \("OSCR"\)](#) have published a number of Frequently Asked Questions on their websites.

Given the unprecedented lockdown situation in force across the UK in conjunction with extensive volunteering, the most critical consideration is to ensure that staff, volunteers and beneficiaries (particularly vulnerable members of society who are self-isolating) remain safe. The Charity Commission's [safeguarding guidance](#) is a source of support on how to keep people safe and what should be done if concerns are identified.

The Charity Commission's approach to regulation during this period will be as flexible and pragmatic as possible in the public interest, whilst helping trustees to be aware of and think about the wider or longer impact of their decisions on their charity. During this period, registrations, permissions, reporting and other interactions related to COVID-19 will be prioritised.

As the current situation is likely to remain subject to change for some time, the FAQs will be continually updated and should be revisited for further guidance. Current FAQs include:

Can reserves and restricted funds be used to help a charity through the crisis?

Many charities are currently very concerned about their financial position, and trustees should consider what are their short / medium / long term priorities and see if they need to amend their plans given the current situation. Regarding cash balances, trustees should consider whether or not certain projects / costs can be deferred or cancelled to focus on essential spending.

Reserves can be spent to help cope with unexpected events like those unfolding at present and it should be clearly identified which reserves have limits on their use. If these are internal only - for example, where a charity has earmarked certain funds for a particular purpose - it may be able to re-prioritise these. If they are restricted funds, meaning they cannot be spent at the trustees' discretion, they may only be used for a particular and defined purpose.

If there are restrictions, these may sometimes be amended, but accessing or releasing restricted funds should only be considered if other options are not possible. The Charity Commission encourages trustees to also carefully consider the wider and longer term impacts of making such a decision on a charity's financial resilience and donor relationships. It will be as helpful as possible and offer what guidance it can.

Decisions on financial matters should normally be taken collectively with significant decisions and action points noted in writing. The Charity Commission also has guidance on [financial resilience](#); on [charity reserves](#); and a [tool to help trustees work out what to focus on](#) while OSCR's COVID-19 guidance covers [funding and finance](#).

CAN A CHARITY'S AGM OR OTHER KEY MEETINGS BE POSTPONED OR CANCELLED?

Coronavirus is having a major impact on charity events and the government's advice may lead to some charities having no choice but to postpone or cancel their AGMs and other critical meetings.

If trustees decide it is necessary to do so, they should record this decision to demonstrate good governance of their charity. This is particularly important if it is not possible to hold an AGM which may make it difficult for annual reports and accounts to be finalised.

Whilst charities are encouraged to file annual reports on time, where charities are due to submit an Annual Return imminently, but feel unable to do so, they can [contact the Charity Commission / OSCR](#) to request a filing extension.

CAN VIDEO, TELECONFERENCING AND THE INTERNET BE USED IN PLACE OF PHYSICAL MEETINGS?

It is becoming increasingly difficult to hold face-to-face meetings. Some charities have clauses in their governing documents that allow them to meet virtually or to use telephone facilities, so trustees should check their governing document. Where there is no such clause in a governing document and it is decided to hold meetings over the telephone or by using digital solutions, this decision should be recorded and that this has been done, in order to demonstrate good governance of the charity.

WHAT NEEDS TO BE REPORTED TO THE CHARITY COMMISSION / OSCR?

It is ultimately the responsibility of charity trustees to [report serious incidents / notifiable events](#) using current guidelines and trustees should use their judgement in deciding whether an incident is significant in the context of their charity. Regulators will prioritise those incidents that place individuals at risk or have had a significant impact on a charity's operations and therefore serious harm to the charity's work.

CHARITIES SORP GUIDANCE ON FINANCIAL REPORTING IMPLICATIONS OF COVID-19

The Charities SORP-making body has [published guidance](#) for trustees and preparers of charity accounts looking at the potential impact of the control measures to contain COVID-19 on financial reporting by charities. It should be noted that the guidance does not amend any existing requirement, but it explains how existing requirements can be applied to current circumstances.

Utilisation of the recently issued HAT Coronavirus Work Programme (which applies across all HAT Audit Manuals) will ensure that the key areas outlined within this guidance are addressed. The guidance considers:

- » The implications for the trustees' annual report, including adequate explanation of risks and / or how the charity's activities have changed;
- » Financial reporting considerations, including subsequent events, going concern, defined benefit pension schemes and completeness of liabilities; and
- » Reporting considerations (whether audit or independent examination) / whistleblowing obligations / filing deadlines.

CHARITIES SORP ~ SECOND EDITION PUBLISHED

The joint SORP-making body for charities has published a second edition of the SORP, and this is [available on their website](#).

For reporting periods starting on or after 1 January 2019, all charities must follow the Charities SORP (FRS 102) - second edition that applies the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102).

Two new Information Sheets are available on the Helpsheets page, and these are:

- » [Information sheet 3](#): The Companies (Miscellaneous Reporting) Regulations 2018 and UK Company Charities; and
- » [Information sheet 4](#): Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Multi-employer defined benefit plans.

UPDATED CHARITY COMMISSION GUIDANCE ON SAFEGUARDING

The Charity Commission has updated their [guidance on safeguarding](#), and how to protect people who come into contact with a charity through its work from abuse or mistreatment of any kind. Their updated guidance includes when to consider DBS checks and how to put into practice policies and procedures, along with new sector resource signposting.

The detailed guidance is included on the [Charity Commission website](#), although it summarises the ten actions that trustee boards need to take to ensure good safeguarding governance as being the following:

- » Safeguarding should be a key governance priority for all charities;
- » Ensure your charity has an adequate safeguarding policy, code of conduct and any other safeguarding procedures. Regularly review and update the policy and procedures to ensure they are fit for purpose;
- » Identify possible risks, including risks to your beneficiaries or to anyone else connected to your charity and any emerging risks on the horizon;
- » Consider how to improve the safeguarding culture within your charity;
- » Ensure that everyone involved with the charity knows how to recognise, respond to, report and record a safeguarding concern;
- » Ensure people know how to raise a safeguarding concern;
- » Regularly evaluate any safeguarding training provided, ensuring it is current and relevant;
- » Review which posts within the charity can and must have a DBS check from the Disclosure and Barring Service;
- » Have a risk assessment process in place for posts which do not qualify for a DBS check, but which still have contact with children or adults at risk;
- » Periodically review your safeguarding policy and procedures, learning from any serious incident or ‘near miss’; and
- » If you work overseas, find out what different checks and due diligence you need to carry out in different geographical areas of operation.

SERIOUS INCIDENT REPORTING WHEN IT INVOLVES A CHARITY’S PARTNER

The [Charity Commission has issued guidance](#) as to the actions to be taken by trustees when there is a serious incident which involves one of its partners. It states:

“Trustees should make a serious incident report when an incident has occurred involving one of the charity’s partners in the UK or internationally, which materially affects the charity, its staff, operations, finances and / or reputation, such that it is serious enough to be reported.

Partners in this context includes the following:

- » A delivery partner or sub-contractor of the charity;
- » A subsidiary trading company of the charity;
- » An organisation that receives funding from the charity; and
- » Another charity or organisation that is linked to your charity, for example as part of a federated structure.

The following is advice to help trustees apply this guidance in practice. Trustees need to consider what to report taking into account the charity’s activities, size, funding and the nature of the relationship with the partner, as well as the nature and severity of the incident, but the Commission suggests the guiding principles about what to report start from the following three different positions:

THE INCIDENT INVOLVES THE CHARITY'S FUNDS, BRAND, PEOPLE OR AN ACTIVITY THAT IT FUNDS OR IS RESPONSIBLE FOR

This category concerns incidents where:

- » The charity's funds and / or its staff / volunteers are involved; and / or
- » The incident occurs during an activity or programme which the charity funds, has responsibility for or is involved with as a joint activity / programme; and / or
- » The charity has the same branding as the partner.

This is the highest risk category due to the close links between the charity and the incident. These kinds of incidents are most likely to trigger the requirement to report a serious incident to the Commission.

However, not all incidents in this category will need to be reported; this will depend on how serious the incident is and how significant an impact the incident is likely to have on the charity, its operations, finances, people and / or reputation.

Where the charity has the same branding as the partner, to the extent that the public may identify them as the same entity, there may be a significant impact on the reputation of the charity or public trust and confidence in it because the public may not distinguish between the two organisations. This may mean that the incident needs to be reported even if there is little or no impact on the charity's activities, finances or people.

Where there is a federated structure of charities operating in different locations in England and Wales and an incident happens in one local charity, we would generally only expect that local charity and the national / umbrella body to consider whether to report.

It is a matter for the charity's trustees to decide whether an incident is serious enough to be reported. However, their starting point should be if they would have reported the incident if it had happened in their charity, they should carefully consider reporting any incidents involving partners which fall into this category.

THE INCIDENT DOES NOT INVOLVE THE CHARITY'S FUNDS, BRAND OR PEOPLE BUT COULD HAVE A SIGNIFICANT IMPACT ON THE CHARITY

This category concerns incidents where the charity's funds, staff / volunteers or branding are not involved but there is still a significant impact on the charity. Incidents are less likely to need to be reported to the Commission when the charity does not have close links to them. However, they may still need to be reported where the particular incident:

- » Causes or is likely to cause material reputational damage to the charity; and / or
- » Raises or is likely to raise material issues around due diligence in terms of whether the partner involved remains capable of delivering the charity's work or continues to be a suitable partner for the charity to work with; and / or
- » Is a trigger event (a matter or event type prescribed and defined within the charity's own funding or partnership agreement) that the charity considers to be so significant it would trigger suspension or termination of the agreement or arrangement.

The incident does not involve the charity's funds, brand or people and has little or no impact on the charity:

This category concerns incidents that do not involve the charity's funds, staff / volunteers or branding and are sufficiently remote from the charity's work that they have little or no impact on the charity's reputation or the partner's ability to deliver its work with the charity.

This type of incident would not usually trigger the requirement for reporting to the Commission. However, the charity should still consider whether there are any areas for improvement or changes required to policy or procedures in relation to such incidents.

Whilst the above provides a starting point for trustees to consider, in the event of an incident occurring each charity should undertake an assessment to determine whether the incident should be reported. This assessment should take into account the specific circumstances of the event or incident, the actual or likely impact and the risk to the charity.

The role of the Commission is to hold charities to account on behalf of the public. The public expectation is that a charity has got the right level of oversight in relation to incidents which materially affect its operations, finances, people, reputation or the reputation of charity as a whole. This includes assurance that the consequences and risks from incidents in partner organisations are being properly managed by the charity.

PREVENTING CHARITY FRAUD

A new survey [published by the Charity Commission](#) shows that many charities are not protecting themselves against the biggest risks of fraud ~ their findings have been published in conjunction with two reports, [Preventing Charity Fraud](#) and [Preventing Charity Cybercrime](#) which are available online. Their Press Release states:

“Over half (53%) of charities affected by fraud over the past two years knew the perpetrator, according to new research into the fraud and cybercrime risks facing charities. The research suggests over a third of those committing fraud were the charity’s own staff members; trustees and volunteers together were responsible for 28%; beneficiaries were identified in 13% of known frauds.

Charities can be at particular risk of insider fraud, because they often rely excessively on goodwill and trust in single individuals.

While there is no evidence that charities are at greater risk of fraud or financial crime than other types of organisation, the risk of fraud in charities appears to be growing, costing the sector millions – and potentially billions – of pounds each year. The potential impact of this on the reputation of charity and charities’ ability to deliver maximum benefit in pursuit of their causes cannot be ignored.

GAP BETWEEN AWARENESS AND ACTION ON FRAUD

The findings show that charities are not always recognising how vulnerable their own organisations are, and are not consistently putting basic checks and balances in place:

- » Over a third (34%) think their organisation is not vulnerable to any of the most common types of charity fraud;
- » 85% of charities think they’re doing everything they can to prevent fraud; but
- » Almost half don’t have any good-practice protections in place.

The Commission is concerned this gap poses a threat to a charity’s ability to deliver for beneficiaries if donors cannot be confident in charities’ stewardship of the money it receives. The Commission is calling on charities to take simple steps, including to:

- » Introduce and enforce basic financial controls [e.g. having at least two signatories to bank accounts and cheques, undertaking regular bank reconciliations];
- » Ensure no one single individual has oversight or control of financial arrangements; effective segregation of duties is a crucial method of preventing, and detecting fraud; and
- » Encourage staff, volunteers and trustees to speak out when they see something they feel uncomfortable about.

GROWING RISK OF CYBERCRIME AGAINST CHARITIES

The survey shows that more than half (58%) of charities think cybercrime is a major risk to the charity sector and almost a quarter (22%) believe cybercrime is a greater risk to the charity sector than other sectors. Larger charities are generally more likely to appreciate the risk of cybercrime and take action to prevent it.

All charities, regardless of size or type, are encouraged to adopt ‘Tackling Charity Fraud - Eight Guiding Principles’, a collective mission statement which the Commission has developed in partnership with the Fraud Advisory Panel.”

The [Eight Guiding Principles](#) to tackling charity fraud, as noted above, are as follows:

1. **“Fraud will always happen – simply being a charity is no defence:** Even the best-prepared organisations cannot prevent all fraud. Charities are no less likely to be targeted than organisations in the private or public sector. Fraudsters do not give a free pass to charitable activities;

2. **Fraud threats change constantly:** Fraud evolves continually, and faster, thanks to digital technology. Charities need to be alert, agile and able to adapt their defences quickly and appropriately;
3. **Prevention is (far) better than cure:** Financial loss and reputational damage can be reduced by effective prevention. It is far more cost-effective to prevent fraud than to investigate it and remedy the damage done;
4. **Trust is exploited by fraudsters:** Charities rely on trust and goodwill, which fraudsters try to exploit. A strong counter-fraud culture should be developed to encourage the robust use of fraud prevention controls and a willingness to challenge unusual activities and behaviour;
5. **Discovering fraud is a good thing:** The first step in fighting fraud is to find it. This requires charities to talk openly and honestly about fraud. When charities do not do this the only people who benefit are the fraudsters themselves;
6. **Report every individual fraud:** The timely reporting of fraud to police, regulators and other agencies is fundamental to strengthening the resilience of individual charities and the sector as a whole;
7. **Anti-fraud responses should be proportionate to the charity's size, activities and fraud risks:** The vital first step in fighting fraud is to implement robust financial controls and get everyone in the charity to sign up to them; and
8. **Fighting fraud is a job for everyone:** Everybody involved – trustees, managers, employees, volunteers, beneficiaries – has a part to play in fighting fraud. Trustees in particular should manage fraud risks actively to satisfy themselves that the necessary counter-fraud arrangements are in place and working properly.”

HAT COURSE DATES

To ensure that all members of your team who deal with the preparation and audit of charity financial statements are fully trained, the following are included on the [HAT CPD programme](#). These are:

- » [Charities Update for Auditors & Independent Examiners](#); and
- » [Introduction to Charities ~ A Practical Guide](#).

Both CPD courses have recently run on the HAT CPD Programme and will be scheduled to run again in Central London, or may alternatively be run, “in-house” at firm’s offices on a mutually convenient date.

For details of our charges and availability, please contact Roger Morris at the HAT Office at roger@hatgroup.co.uk.

HAT AUDIT MANUALS

HAT CHARITIES MANUAL

The HAT Charities Manual has been updated as part of our annual update cycle. The Manual is titled “January 2019” and should be used for all accounting periods commencing on or after 1 January 2019. For periods commencing prior to this, the HAT Charities Manual (June 2016 (12/18 Update)) should still be used.

In summary, the changes made:

- » Reflect the requirements of the updated Charities SORP (2nd Edition) and FRS 102 (March 2018) which are mandatory for periods commencing on or after 1 January 2019. These documents incorporate the changes made by SORP Update Bulletin 2 and the Triennial Review Amendments to FRS 102 and alter certain accounting treatments and disclosures. As a result, audit programmes and disclosure checklists have been updated; and
- » Update the disclosure checklist and S Section (Disclosures) work programme to deal with the new disclosure requirements stemming from Company Law for charitable companies which do not qualify as a ‘small company’.

Several other enhancements have also been made to the Manual. These are:

- » A new schedule at the planning stage (Ac14-1) to enable auditors to summarise the risks identified during planning;
- » An enhancement to Ac10 to separately document the design and implementation of controls relevant to the audit; and
- » An additional question regarding fraud at Ac18.

HAT REGISTERED SOCIAL HOUSING PROVIDERS MANUAL

The HAT Registered Social Housing Providers Manual has been updated as part of our annual update cycle. The Manual is titled “January 2019” and should be used for all accounting periods commencing on or after 1 January 2019. For periods commencing prior to this, the HAT Registered Social Housing Providers Manual (June 2016 (12/18 Update)) should still be used.

The Manual has been updated to reflect the requirements of ‘The Accounting Direction for Social Housing in England from January 2019’, published by the Regulator of Social Housing. All references to requirements and guidance (including the 2014 SORP) which are no longer relevant for current accounting periods has been removed.

IMPORTANT NOTE

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