

Charity Newsletter

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Edited by Roger Morris



HAT
Group of Accountants

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COVID-19 GUIDANCE ISSUED BY THE CHARITY COMMISSION

COVID-19 GUIDANCE ISSUED BY THE CHARITY COMMISSION: [Return to contents](#)

The Charity Commission has issued a range of [coronavirus \(COVID-19\) guidance for the charity sector](#), which supplements and is in addition to other guidance which has been issued by the public sector. It is continually being updated and is available on their website and covers the following areas:

- » Government financial support for charities;
- » Charity meetings – changes to the law on the number of people who can meet;
- » AGMs and other meetings: postponing or cancelling meetings;
- » Holding meetings online or by telephone;
- » Using reserves and restricted funds;
- » Insolvency help for charitable companies and charitable incorporated organisations;
- » Further advice on managing financial difficulties;
- » Charity objects: understand if you can help with coronavirus efforts;
- » Reporting serious incidents to the Charity Commission;
- » Keeping people safe;
- » Fundraising and coronavirus appeals;

- » Trading subsidiaries – financial support from parent charities;
- » Reducing or returning contractual fees in return for a modified service;
- » Working with a company or business to help with coronavirus;
- » Charity statement of recommended practice (SORP) guidance; and
- » Information from other organisations.

The Charity Commission wants to assure charities that their 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.

MANAGING FINANCIAL DIFFICULTIES IN YOUR CHARITY

In view of the impact that COVID-19 is having on charities, the [Charity Commission has set out some practical guidance for trustees](#), especially at smaller charities, who may need help facing difficult situations or decisions. The following provides a summary of this guidance, which supplements the Charity Commission's in-depth guidance, [managing a charity's finances](#), which covers the considerations and practical steps to take when a charity faces serious financial difficulties.

Summarised below are the key considerations and practical steps to be taken:

“CONSIDER THE BEST INTERESTS OF THE CHARITY:

In deciding how to proceed, your starting point is always what is in the charity's best interests. There are likely to be a number of factors that you will need to take into account to judge this, including:

- » The trade-off between:
 - Reducing costs in order to support users ('beneficiaries') in future, and
 - Meeting the immediate needs of the charity's users with the possibility that in future the charity will have to reduce its services or close entirely.
- » Are you able to [safeguard your users and protect them from harm](#) as the charity goes through potentially significant change?
- » If you decide to sell investments or other assets, you may raise less money from their sale than you would in more normal times. This may be in the charity's interests (it may be the best option available for meeting urgent needs or helping the charity to survive) but you should have clear reasons to support the decision. Borrowing against assets may be an alternative; and
- » Are the decisions you are making in line with your charity's purposes and any requirements in your charity's governing document? If they involve lifting restrictions on assets or disposals of land, have you checked if our permission is needed? See [guidance about charity land and property](#).

Working through the following suggested steps will help you in understanding your charity's financial position, creating a plan and making decisions.

STEP 1: CONSIDER YOUR CURRENT FINANCIAL SITUATION:

It is important to make sure you have as accurate a picture as possible of the current and immediate future operations and their financial implications on the charity. Focus on cash flow management. Identify:

1. All payments the charity will have to make over a range of different timescales (for example, the next few weeks / month / three months / six months);
2. What cash is currently available to cover payments as they fall due; and
3. What income the charity realistically expects to receive over the same timescales based on a best estimate.

This gives you a forward-looking view and should enable you to identify whether the charity is at risk of running out of cash and when that shortfall will happen.

If you believe your charity may not survive this difficult period, you should consider when to develop plans to close. Also agree who will do this and when to trigger closure if the recovery plan does not succeed. See [what to do if your charity cannot continue to operate](#).

STEP 2: OPTIONS FOR MINIMISING COSTS AND PROTECTING AND INCREASING INCOME:

Having sufficient cash flow to continue to operate is vital: minimising costs and maximising income will help improve your charity's position.

MINIMISE COSTS

If your charity will continue to operate, consider if it is possible to:

- » Stop or put on hold non-essential costs, taking account of cancellation costs;
- » Find alternative, cheaper ways of operating through, for example, use of technology or other efficiencies;
- » Team up with other charities with similar aims to share facilities or resources or negotiate cheaper deals – there can be VAT implications where this involves payments between charities so advice on this matter can be helpful; and
- » Re-allocate staff to priority tasks relevant to surviving the financial challenges.

Alternatively, is it feasible to reduce the charity's services or put it into 'hibernation' for a fixed period in order to reduce the charity's costs? For example:

- » Cancelling contracts where costs currently outweigh benefits. Check if there are any penalty charges and whether there is any option of waiving these; and
- » Using a government scheme to cover some of the cost of the salaries of any staff who will not be needed to deliver services.

Whatever level of activity you decide on, other options for reducing costs include:

- » Applying for any other government schemes that will help you reduce, spread or delay tax payments. See the [government's coronavirus business support guidance](#); and
- » Reducing immediate borrowing costs by rescheduling loan repayments over a longer timescale.

CONSERVE OR IMPROVE SOURCES OF INCOME

- » Talk to your funders at an early stage to let them know of your situation and plans. They may be able to help by, for example, relaxing restrictions or conditions they may have placed on how payments or grants are to be used. If your charity relies on regular payments from funders, will they agree to bring forward any of those payments?
- » Are you able to raise funds from an emergency appeal to your supporters or in new ways? See the [Institute of Fundraising coronavirus guidance](#);
- » Are you able to seek new or increased grants or loans at low or no interest, including from other charities or benefactors?
- » Consider if there are [short term commercial partnerships you could make with local businesses](#);
- » Can you bring designated funds (money that is earmarked for a purpose but not formally restricted) back into general use?
- » Do you have unrestricted reserves? If you do decide to use reserves, it may mean that you will have to take steps to cancel or defer projects or other commitments which might otherwise have been funded from them. If you hold reserves as financial investments, you will have to judge whether drawing them down is in the charity's best interests given the likely loss in value.
- » If the charity has some [funds that can only be used for restricted purposes](#), is it possible to use these?

- » Consider accessing your [charity's permanent endowment assets](#), if you have any, although you may need Charity Commission agreement.

STEP 3: KEEP THE CHARITY'S OPERATIONS AND FINANCES UNDER REGULAR REVIEW AND TAKE ANY ADDITIONAL ACTIONS:

Throughout the current crisis - and beyond - robust, frequent monitoring and review will help you manage your finances and assist you in deciding if you can continue to deliver your charitable activities. Where possible, maintain the cashflow forecast described in step 1 so that you have an up-to-date view of when money will be received and spent. Whilst it may be difficult it is this monitoring that will help you manage the situation. It is also helpful to plan for when you might either:

- » Be able to move the charity to recovery and a return to a more normal operating environment and what will indicate that this is achievable; or
- » Need to consider closing the charity. To support this decision, it is helpful to understand the likely costs of closure. The government has introduced some [relaxations to insolvency law for companies](#) and directors of charitable companies should take advice on how this may affect a decision to close.

You should report a 'serious incident' to us when your assessment reveals that either:

- » The scale of financial loss threatens the charity's ability to operate and serve its beneficiaries; or
- » The charity's financial reserves or other measures are not sufficient to cover the losses.

Use the [serious incident form](#) to report this information and the actions you are taking. We assess serious incident reports for various purposes, including whether to engage with your charity to ensure that the right actions are being taken.

WHAT TO DO IF YOUR CHARITY CANNOT CONTINUE TO OPERATE BECAUSE OF THE FINANCIAL PROBLEMS CAUSED BY COVID-19

If you decide that closure is necessary, prepare for an orderly closure and focus on the following key areas to protect the charity's best interests:

- » Check the charity's governing document for any requirements and restrictions covering closure. It may specify the process for closure and how any assets left after costs are to be used. If a charity [holds any permanent endowment](#) you may need to transfer it to another charity;
- » Decide on the type of closure. In addition to complete closure and cessation of the charity's activities, it may be possible to [merge with or transfer to another charity](#) – financial crisis does not prevent this;
- » Costs of closure. Build a picture of these costs: they could include unavoidable contract and leasing costs, redundancy payments, costs of transferring assets, or services or parts of a service to other providers. Gather this information, if possible while the charity is a going concern, so that you can use it to help you identify the point at which you cease operations and close the charity;
- » Communication. Let users and beneficiaries know in good time and, if possible, point to support to help them adapt to the loss of the charity's services and protect them from harm. It is also important to communicate the decision to funders, volunteers, staff, creditors and other stakeholders;
- » Advice. You should take professional or expert advice if you decide to close, particularly if your charity is a company or CIO because there are clear legal requirements to meet. Our guidance [managing a charity's finances: planning, managing difficulties and insolvency](#) provides some general advice about the processes to follow, depending on the charity's structure; and
- » If you do decide to close the charity, consider appointing administrators to take over and ensure that all the appropriate legal mechanisms are followed.

Our guidance has more advice about [closing a charity and what to tell us](#).

You should submit a serious incident report if your charity goes into insolvency or faces closure because of financial difficulties. This is not needed if you are closing your charity for other reasons. In these circumstances, use the charity closure form so that we can remove your charity from the register of charities.”

REPORTING MATTERS OF MATERIAL SIGNIFICANCE TO A CHARITY REGULATOR

The Charity Commission / OSCR / CCNI have issued updated guidance regarding matters of material significance which need to be reported to them. In usual circumstances, such matters include a qualification / emphasis of matter in an audit report and it is understood that charity regulators now review all modified reports included in Annual Reports that they receive to check compliance with reporting obligations. The guidance states:

“Auditors of charities in England and Wales, Scotland and Northern Ireland have a common statutory duty to report matters of material significance to charity regulators, and have agreed a common list of matters of material significance and common guidance to assist auditors or independent examiners in reporting important matters on a timely basis.

It was updated in April 2020, the main changes are:

- » Confirmation that difficulties in carrying out an audit or independent examination that are solely due to a national emergency need not be reported;
- » Amendment to the guidance on the timing of reporting to reflect the different circumstances when a report should be made; and
- » Clarification that the guidance only applies to internal audit engagements in very limited circumstances.”

The updated guidance states the following regarding issues which are (in the short term) no longer required to be reported as a matter of material significance:

“The charity regulators recognise that at times of national emergency the normal conduct of an external audit or an independent examination may be disrupted. In times of national emergency, unless the legal duty to report is relaxed by Government, the auditor or examiner must still report matters of material significance; however where a modified opinion, an emphasis of matter, or a matter identified by the independent examiner is solely due to the exceptional circumstances of the national emergency affecting the conduct of the audit or the independent examination then this is not considered to be reportable as a matter of material significance to the charity regulator. This is because remedying this situation is not in the power of the auditor or examiner, the preparer of the charity’s accounts, or the charity regulator.

Examples of such exceptional circumstances are:

- » Travel restrictions prevent the auditor or examiner from verifying the existence of physical assets such as stock;
- » Access restrictions prevent the auditor or examiner from reviewing accounting records and / or from obtaining the assurances required; and
- » Limitations of scope are identified due to the control measures imposed to deal with a national emergency.”

GUIDANCE FOR INDEPENDENT EXAMINERS

Charity regulators in the UK have issued supplementary guidance for independent examiners to highlight areas where current restrictions (or any other national emergency) may create challenges or pose difficulties for when an independent examination of a charity’s accounts is being performed. The following is an Executive Summary of the issues to be aware of:

“This guidance is to assist Independent Examiners with some of the considerations that may arise due to the impact of the COVID-19 virus. It has been issued jointly by the UK Charity Regulators.

The guidance considers the following areas:

- » **Impact of COVID-19 restrictions on access to records:** Examiners must consider how they will access records which will allow them to properly undertake their examination. They may need to rely on electronic means and this may take

additional time. Examiners will need to consider the implications when they accept new engagements in this period and how they will access the required information;

- » **Access to those in management and control of the charity:** In the absence of physical meetings with those in management and control, examiners will need to consider how they can access both trustees and key personnel within the charity to obtain the explanations and information needed to complete the examination. Greater reliance may need to be placed on verbal or written assurances received. The examiner should ensure that these conversations or assurances are fully documented;
- » **Risk factors:** COVID-19 may have a number of implications on the operations of the charity and the accounts which are being considered. The examiner will need to pay close attention to the following areas:
 - Any change in spending to assist with operational difficulties posed by COVID-19 and how this fits with the charity's purposes;
 - Restricted funds being used incorrectly;
 - Difficulty in maintaining financial controls due to the circumstances;
 - The risk of misstatement in the accounts if a charity has not allowed for all financial obligations;
 - Correct inclusion of COVID-19 related events subsequent to the year-end; and
 - Going concern issues due to the impact of COVID-19 on the charity's finances.
- » **Implications for the Examiner's Report:** Examiners will need to consider the impact on the conduct of their examination and on the charity and decide whether there are any matters that require reporting in their Independent Examiner's report; and
- » **Sign off and filing of accounts:** Examiners will need to consider whether they are able to complete their examination at this time."

TRANSPARENCY FOR LARGER CHARITIES

The [Charity Commission](#) has issued an alert to large service-providing charities to highlight the importance of transparent and accountable governance, which states:

"Whilst your charity may not have faced issues in how it is governed and managed, it is still crucial that you are aware of the risks which can result from governance or management failures. We want to help you mitigate these risks, and so are offering the following advice to help you avoid potential harm to people or to your charity's finances or reputation, which may undermine trust in the whole sector.

Identifying and mitigating these risks is even more important for charities facing economic difficulties as a result of the Coronavirus pandemic, and which may be considering restructuring or merging. It is crucial that charities making significant organisational changes such as these ensure that they have robust people protection and risk management arrangements in place, now and in the future.

YOUR CHARITY IS LARGE AND HAS A MORE COMPLEX GOVERNANCE AND MANAGEMENT STRUCTURE:

Large charities are often complex organisations, governed by a board of trustees and run by a group of executives. They may have sub-committee structures that operate under different levels of leadership. Complexity can increase the risk of communication breakdowns, especially if oversight is weak or compromised.

Weaknesses in trustees' ability to hold their executive to account, especially if coupled with a lack of expertise in the services that the charity provides, can lead to safeguarding, governance and other failures.

There are also dangers of a charity growing too quickly, or pursuing funding to take on complex projects, without putting in place effective governance and oversight to manage risks. Charities that have merged, or significantly expanded their operations should be mindful of this risk, especially when implementing new governance structures.

No charity is more important than its purpose. Neither size nor complexity should distract a charity from the needs and interests of the people it exists to serve, or the vulnerable people it cares for.

OUR ADVICE FOR YOUR CHARITY'S TRUSTEES

In a large and complex charity, it is normal for the executive to have significant decision-making authority – but the trustees must still be willing and able to hold the executive to account. As a trustee, it is your role to make sure you have robust oversight of your charity's operations and structure, considering the complexity, scale, nature and associated risks of its activities.

Here are some steps that you and your co-trustees can take to make sure you have the oversight you need:

- » Ensure there is a strategy for regular and effective communication with executives about the charity's purposes, values, work and achievements;
- » Regularly review the charity's process for identifying, prioritising, escalating and managing risks. Review the effectiveness of the charity's approach to risk at least every year;
- » Review whether your governance and management committees have suitable terms of reference and membership, with suitably skilled people, and the extent to which they have oversight of the charity's activities. Ensure there are clear lines of responsibility and reporting between all bodies involved; and
- » Ensure that there is a transparent, well-publicised, effective and timely process for making and handling a complaint. Handle any internal or external complaints constructively, impartially and effectively.

You can find more advice on how to govern your charity through the [Charity Governance Code](#).

OUR ADVICE FOR YOUR CHARITY'S EXECUTIVES

As an executive, you should feel confident that you can identify failures to protect people from harm, learn lessons from these incidents, and disclose them to trustees, regulators, and / or agencies. This helps build trust between the executive and trustees around how the charity is being run and its management of risks.

Here are some steps that you, as an executive, can take to have effective oversight:

- » Regularly report to the board on significant incidents occurring, including how you will manage, mitigate, and learn from them;
- » Consider how you provide assurance to the charity's trustees on the quality and safety of the charity's activities. Assess whether the current information you provide and are provided is adequate; and
- » Where your charity uses third party suppliers or services, make sure you can be confident about how they will carry out this work. Regularly review these arrangements so that they remain appropriate.

YOUR CHARITY EMPLOYS STAFF OR WORKS WITH VOLUNTEERS AND PROVIDES A SERVICE DIRECTLY TO BENEFICIARIES

Service-providing charities are those in which front-line staff or volunteers directly serve and interact with beneficiaries – some of whom may be vulnerable. While expectations around safeguarding for some charities may be higher, protecting people and safeguarding responsibilities should be a governance priority for all charities, not an optional overhead.

OUR ADVICE FOR YOUR CHARITY

- » Establish effective safeguarding policies and procedures that all trustees, staff and volunteers follow. Trustees, staff and volunteers should undergo regular training on the organisation's safeguarding policy and know how to manage and record risks adequately;
- » Ensure there are sufficient resources, including appropriately skilled and trained staff / volunteers / trustees, for safeguarding and protecting people;
- » Where relevant, appoint a senior safeguarding lead to help co-ordinate and drive your safeguarding strategy, and who can

engage with other agencies and partners. Create a plan for responding to concerns overseas, where appropriate. Embed a “speak up” culture throughout the organisation, so your staff feel acknowledged and protected when whistleblowing on misconduct by management, regardless of how senior the personnel involved may be. Set out clearly the process of reporting misconduct, and how you will investigate and manage misconduct with clear and proportionate consequences. Put in place anti-retaliation policies;

- » When you work with or through other bodies, have appropriate safeguarding procedures in place with clear lines of responsibility, reporting, and escalation; and
- » Regularly review the sufficiency of your charity’s arrangements for safeguarding and protecting people that come into contact with the charity.

If your charity delivers a service but has faced financial difficulties because of COVID-19, it remains essential that you consider and, if required, allocate sufficient resources to fulfilling safeguarding obligations.”

DISCLOSURE CONSIDERATIONS

NEW DISCLOSURE REQUIREMENTS FOR CHARITIES

The Charities SORP-making body has issued an additional two Information Sheets as follows, each of which will only apply in the UK in very limited circumstances:

- » Information sheet 5: The Companies (Directors’ Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018-UK, as applied to Charitable Companies: [PDF](#) | [Microsoft Word](#); and
- » Information sheet 6: Irish Charities - Merger Accounting and Republic of Ireland Company Law: [PDF](#) | [Microsoft Word](#).

ACADEMIES ACCOUNTS DIRECTION 2019 TO 2020

The [Education and Skills Funding Agency](#) (“ESFA”) has published the [Academies Accounts Direction 2019 to 2020](#). It applies to the financial statements of an Academy for the period ended 31 August 2020, and summarises the main changes as being:

- » “Reflecting new statutory elements in the trustees’ report, covering the success of the company, employee engagement and business relationships;
- » Reflecting new statutory requirements for streamlined energy and carbon reporting in the trustees’ report;
- » Clarifying that instances of irregularity, impropriety or non-compliance noted in the accounting officer’s statement on regularity, propriety and compliance, and in the reporting accountant’s report on regularity should state the relevant monetary amounts, if known;
- » Introducing a requirement for academy trusts to explain how their audit arrangements are affected by the newly revised FRC Ethical Standard, where applicable;
- » Referencing ESFA’s checklist to help trusts prepare for external audit;
- » Identifying legal costs in the notes to the financial statements;
- » Introducing an analysis of changes in net debt as a note to the financial statements, to comply with the updated SORP;
- » Updating the example funds notes to provide guidance where academies, who are part of trusts with multiple academies, have a zero balance on all funds in both the current and previous years;
- » Explaining that the transfer of activities to a wholly-owned subsidiary should be accounted for as a merger, to comply with the updated SORP;
- » Confirming that two or more subsidiaries may only be excluded from consolidation if they are not material when taken together, to comply with the updated SORP;

- » Where trustees have reviewed and taken account of the guidance in the Governance Handbook and competency framework for governance, encouraging them to explicitly state this in the governance statement;
- » Updating the Teachers' Pension Scheme notes to reflect the latest actuarial valuation; and
- » Clarifying that the requirement to have an accounting officer to sign off the regularity statement includes the period in the run-up to trust closure."

FRC ISSUES EXPOSURE DRAFT ON "CURRENT ISSUE" FINANCIAL REPORTING

The FRC has issued an Exposure Draft proposing amendment to UK and Ireland accounting standards. It reflects a topical issue and the [Press Release](#) accompanying its issue states:

"FRED 76 [Draft amendments to FRS 102 and FRS 105 – COVID-19-related rent concessions](#) proposes explicit requirements for accounting for temporary rent concessions for operating leases occurring as a direct consequence of the COVID-19 pandemic, and within a limited timeframe. They shall be recognised over the period the concession is intended to compensate, reflecting the economic substance of the concessions and their temporary nature.

The proposals in FRED 76 are expected to apply to accounting periods beginning on or after 1 January 2020. Early application will be permitted."

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](#) (next scheduled on 3 March 2021).

Both CPD courses can 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 ACADEMIES MANUAL

The HAT Academies Manual (which should be used for accounting periods ending on 31 August 2020) has been updated to reflect the requirements of the [Academies Accounts Direction 2019 to 2020](#) and [Academies Financial Handbook 2019](#), both published by the Education Skills and Funding Agency (ESFA). The changes made this year are generally minor in nature, however, it is important that assignment teams have access to these documents as the Manual cannot cover all relevant areas and is not a substitute for them.

Where external auditors provide any form of 'internal audit' service it is important to realise that the [FRC Revised Ethical Standard 2019](#) effectively prohibits this. For academies, this prohibition will generally be effective for periods commencing 1 September 2020 and it is important to discuss this issue with the client as soon as possible and where necessary resign from one of these engagements.

Finally, when undertaking work in the current year, firms should be aware of the updated ESFA [Financial Handbook 2020](#), which is effective from 1 September 2020.

IMPORTANT NOTE

With regards to the technical articles in this newsletter, every care has been taken by HAT in the preparation of these articles, HAT does not guarantee the accuracy or veracity of any information or opinions. No responsibility for loss occasioned to any person acting or refraining from acting as a result of material contained within these articles can be accepted by the editor, HAT, its officers or employees.

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