



Charity Newsletter

April 2021

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HAT
Group of Accountants

COVID-19 GUIDANCE ISSUED BY THE CHARITY COMMISSION

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.

NEW CHARITY COMMISSION GUIDES FOR TRUSTEES

The Charity Commission has published a range of user-friendly, “five minute” guides for trustees, covering basic information that will help trustees run their charities effectively. They explain the fundamentals of:

- » [Controlling your charity’s finances](#);
- » [Keeping ‘on mission’ and within the rules](#);
- » [Decision making](#);
- » [Spotting conflicts of interest and dealing with them](#); and
- » [Sending information to the Commission, as well as what support you can get from us](#).

Contents

Page

COVID-19 Guidance Issued by the Charity Commission	1
New Charity Commission Guides for Trustees	1
Charity Commission Guidance to Help Trustees be Certain in Uncertain Times	2
Extension to Deferral of Exception from Registration	2
Brexit Guidance for Charities	2
Revision to Practice Note 14: Audit of Housing Associations	3
Disclosure Considerations:	3
» Amendment to UK GAAP	
» Academies Accounts Direction 2020 to 2021	
HAT Course Dates	4
HAT Audit Manuals	4



CHARITY COMMISSION GUIDANCE TO HELP TRUSTEES BE CERTAIN IN UNCERTAIN TIMES

The Charity Commission has updated guidance to help trustees in these uncertain times. Their [Press Release](#) states:

“A suite of 5 visually engaging animated videos has launched across social media channels, each promoting one of the regulator’s [5-minute guides](#), which launched in November 2020. The guides provide simple, easy to understand information on all the governance basics trustees need to know.

The regulator’s approach to the campaign is informed by [research into trustees’ knowledge and awareness of their responsibilities](#), and into trustees’ wider attitudes.

The past year has been incredibly tough for charities. The pandemic has meant they are facing unprecedented challenges and trustees are making very difficult decisions, often at pace. In these uncertain times, we want to help trustees feel more confident they are getting things right. This campaign is aimed at new and experienced trustees alike – all charities stand to gain from trustees who take active responsibility for acquiring and refreshing their knowledge of sound charity management.

This campaign also signals an important shift at the Commission, in line with our strategy – we are committed to ensuring our materials are user-friendly, and straightforward for busy trustees to access and engage with.

The campaign prompts trustees to consider their understanding of their key responsibilities by posing a question connected to each guide:

- » Does every decision help your charity with its mission? ([Charity purposes and rules guide](#));
- » Could your charity be drifting into activities that your charity is not set up to do? ([Making decisions at a charity guide](#));
- » Is your charity reporting the right things at the right time? ([What to send to the Charity Commission and how to get help guide](#));
- » Could you spot a conflict of interest and manage it? ([Addressing conflicts of interest in a charity guide](#)); and
- » Is there more you can do to prevent fraud? ([Managing charity finances guide](#)).”

EXTENSION TO DEFERRAL OF EXCEPTION FROM REGISTRATION

The [Charities \(Exception from Registration\) \(Amendment\) Regulations 2021](#) (SI 2021 / 55) has been enacted.

The [Explanatory Note](#) states that the Regulations amend the Charities (Exception from Registration) Regulations 1996 and extend the temporary exception granted to certain religious charities from the requirement to be registered under the Charities Act 2011 (the 1996 Regulations were made under the Charities Act 1993, which is consolidated in the Charities Act 2011).

The exception was originally due to expire on 1st March 2001 but has been extended by successive statutory instruments until 31st March 2021. These Regulations further extend the temporary exception until 31st March 2031.

BREXIT GUIDANCE FOR CHARITIES

As the UK has left the EU there are new rules from January 2021, which is set out in a range of areas for charities which:

- » [Receive EU funding](#);
- » [Employ EU staff or has EU volunteers](#);
- » [Receives personal data from the EU](#);
- » [Imports goods from the EU](#); and
- » [Exports goods to the EU](#).

There is also a range of [guidance for DCMS sectors](#) on GOV.UK.

REVISION TO PRACTICE NOTE 14: AUDIT OF HOUSING ASSOCIATIONS

The FRC has launched a revised Practice Note 14 (PN 14) (Revised March 2021): The Audit of Housing Associations in the United Kingdom. Its [Press Release](#) summarises the following:

PN 14 provides sector specific guidance on applying the FRC's auditing standards to the audit of Housing Associations.

They key revisions include:

- » Updating of the material relating to devolved regulatory regimes and the inclusion of links to key locations on regulator's websites where auditors can seek additional guidance;
- » Updating of the key business risks affecting housing associations, including the inclusion of new risks and the re-ordering of existing risks; and
- » Updating of ISA (UK) specific guidance to ensure it remains fit for purpose and provides helpful guidance to auditors of housing associations. This includes providing new guidance in relation to requirements found in ISA (UK) 570 and ISA (UK) 720."

DISCLOSURE CONSIDERATIONS

AMENDMENT TO UK GAAP

The FRC has issued an amendment to UK accounting and reporting standards, and their [Press Release](#) states:

"The amendment addresses some topical issues and is:

- » Amendments to FRS 102 and FRS 105 – COVID-19-related rent concessions – which sets clear requirements for recognising changes in operating lease payments arising from COVID-19-related rent concessions on a systematic basis over the periods the change in lease payments is intended to compensate. These amendments are effective for accounting periods beginning on or after 1 January 2020, with early application permitted."

ACADEMIES ACCOUNTS DIRECTION 2020 TO 2021

The Education and Skills Funding Agency ("ESFA") has published the [Academies Accounts Direction 2020 to 2021](#) which applies to accounting periods ending on 31 August 2021. There has been a major editorial change, in that instead of all guidance being in one document, it now comprises three separate documents:

- » [Academies Accounts Direction 2020 to 2021](#);
- » ["Coketown" model accounts](#); and
- » [Guide for auditors and reporting accountants of academy trusts](#).

The primary disclosure changes which have been made in the Academies Accounts Direction are:

- » **Trustees' report:** greater clarity on the content of the financial review section of the trustees' report is provided and there is a new requirement for academies who have had a Financial Notice to Improve in place at some point during the year to declare this and provide more information;
- » **Staff costs disclosure:** it is explained that where the academy has entered into an "off-payroll" arrangement with someone who is not an employee, the amount paid for that person's work in this role must be included as if they were an employee, with the prior year figure being restated if necessary;
- » **Note on funding received for the academy trust's educational operations:** it has been clarified which funding sources should be classed under each heading, to align more closely with the Academies Accounts Return; and
- » **Long-term commitments:** it has been clarified that service concession commitments (such as payments made under secondary agreements with local authorities) should be disclosed as part of the long-term commitments note.

The primary changes which have been made to the auditors' guide are:

- » The inclusion of feedback provided by ESFA to academies on compliance with the Direction, which external auditors should make themselves aware of;
- » Clarification of the requirements and guidance for external auditors and reporting accountants, with the terms "must" and "should" being used exclusively to describe actions or processes which derive from ESFA;
- » Reference has been made to the most common issues regarding related party transactions from ESFA's approval and review process;
- » The emphasis for reporting accountants to notify ESFA and the National Audit Office when they modify their report has been changed from guidance ("should") to a requirement ("must"); and
- » Clarification that academy trusts and reporting accountants must adopt the terms of engagement for regularity reviews set out in Annex A (which have been revised to remove references to a particular year and to reflect the change in how guidance for auditors of academies is now presented), with any substantial changes only being made with ESFA's prior written consent.

The updated HAT Academies Manual will be released early in Q3 / 2021.

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](#) (available as a recording); and
- » [Introduction to Charities ~ A Practical Guide](#).

Both CPD courses will be scheduled for a future date and 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 AUDIT MANUALS

HAT CHARITIES MANUAL:

The HAT Charities Manual has been updated as part of our annual update cycle.

The key driver of the update is the revision to Auditing Standards, with the following being the areas of most significant change:

- » ISA (UK) 540 Auditing Accounting Estimates and Related Disclosures;
- » ISA (UK) 570 Going Concern; and
- » ISA (UK) 700 Forming an Opinion and Reporting on Financial Statements.

The changes to the Auditing Standards are effective for accounting periods commencing on or after 15 December 2019. For periods commencing prior to 15 December 2019, the HAT Charities Manual – January 2019 should still be used.

The major changes to the HAT Charities Manual are summarised as follows:

RISK ASSESSMENT AT THE PLANNING STAGE:

The risk assessment part of planning has seen some fundamental changes:

- » The checklist-based approach to assessing inherent risk and control risk has been removed, meaning that such risk assessments must now be completed using a narrative-based, thought-led approach;
- » The inherent risk assessment and control environment assessment have been split– Ac10 now deals solely with inherent risk, whilst a new Ac11 deals with the assessment of the control environment, management override and the design and implementation of controls;
- » New risk assessment forms have been introduced relating to Going Concern and Accounting Estimates as a result of the revisions to ISA (UK) 570 Going Concern and ISA (UK) 540 Auditing Accounting Estimates and Related Disclosures. This has resulted in the old accounting estimates form (PAF A1-11/ Ac8/2) being removed; and
- » The changes referred to above have resulted in some re-referencing of the risk assessment documentation, as follows:

TITLE OF WORKING PAPER	NEW REFERENCE	OLD REFERENCE
Overall Inherent Risk Assessment (NARRATIVE ONLY)	Ac10 and Ac10/1	Ac10/1 and Ac10/2
Going concern risk assessment (NEW)	Ac10-2	N/A
Control environment assessment	Ac11	Ac10/3
Area specific risk assessment	Ac12-1	Ac11
Accounting Estimates risk assessment (NEW)	Ac12-2	N/A
Area specific control risk assessment (rarely used)	Ac12-3	Ac12

OTHER PLANNING CHANGES:

- » Changes to Ac2 to deal with the new Ethical Standard which applies for periods commencing on or after 15 March 2020;
- » A new client information request pack and a schedule to track the responses has been introduced to the planning stage; and
- » The Assignment Plan at Ac14 has been updated to include considerations re: accounting estimates, laws and regulation, fraud and going concern.

AUDIT PROGRAMMES:

In respect of the audit programmes:

- » A supplementary accounting estimates programme has been introduced, which must be completed for each accounting estimate in excess of performance materiality where the level of estimation uncertainty is anything but low;
- » Almost every other audit programme has been amended to introduce a new test requiring the estimates programme to be completed where appropriate; and
- » The law and regulation considerations on the N2 audit programme have been bolstered, with a particular focus on the new reporting requirement under ISA (UK) 700.

FINALISATION:

- » The Audit Control Record (Aa1) has new questions dealing both with accounting estimates and the extent to which the audit was considered capable of detecting irregularities, including fraud;
- » The Going Concern checklist (Aa3b) has been updated to reflect the additional requirements of the revised ISA (UK) 570 to support the new positive statement on going concern in the audit report;
- » The ISA Compliance Critical Issues Memorandum (Aa7) includes a new overall conclusion on accounting estimates; and
- » The Audit report templates have been updated per the FRC bulletin “Illustrative Statutory Audit Reports on United Kingdom private sector financial statements”.

HAT NOT FOR PROFIT ENTITIES / RSHP MANUALS:

The amendments which have been made to the HAT Charities Manual have also been reflected within documentation for not for profit entities and registered social housing providers.

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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