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# Charity Finance

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## SURVEY AUDIT 2020

# Completing an audit has been more taxing than usual

**Ian Allsop** looks at the difficulties of completing an audit when finance teams and auditors are working remotely

ORGANISATIONS RESPONDING to the 2020 Charity Audit Survey did so in circumstances far removed from those of the previous 27 years. As well

as the financial challenges exacerbated by Covid-19, both they and their advisers faced the necessity of preparing accounts and undertaking

## Charity auditor awards 2020

With over 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 | Azets                |
| 2 | Moore Kingston Smith |
| 3 | Price Bailey         |
| 4 | BHP                  |

### Overall service (10-30 responses)

|    |                       |
|----|-----------------------|
| 1  | Chariot House         |
| 2= | Cooper Parry          |
| 2= | Griffin Stone Moscrop |
| 4  | UHY Hacker Young      |

### Charity expertise (30+ responses)

|    |              |
|----|--------------|
| 1  | Azets        |
| 2  | Crowe        |
| 3= | Price Bailey |
| 3= | BHP          |

### Charity expertise (10-30 responses)

|    |                       |
|----|-----------------------|
| 1  | Chariot House         |
| 2= | Cooper Parry          |
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| 4  | UHY Hacker Young      |

audits in a remote and virtual world. Over 700 charities still found the time to respond, and once their information is augmented by data from the Charity Finance 100 and 250 Index charities, the survey covers 1,024 charities with combined income of £30.7bn, paying audit fees of £29.2m.

Crowe consolidated its position at the top of the ranking of firms ranked by audit fees (figure 1), while Deloitte moved ahead of PwC into second place. The other firms making up the top 10 remained the same, albeit with some ranking changes. Elsewhere, Baldwins, Wilkins Kennedy, Scott-Moncrieff and Campbell Dallas, which collectively rebranded as Azets in September 2020, have climbed to 13th.

## REMOTE AUDITS

We asked charities to rate the performance of their auditors during the pandemic, and the overall view has been positive (see figure 7). But what practical challenges has Covid-19 presented to the auditors' ability to undertake their role?

For Tracey Moore, director of charities and not-for-profit at UHY Hacker Young, the main one is essentially the need to perform

a remote audit rather than traditional onsite fieldwork. “Although in normal circumstances it is preferable to perform an audit at a client’s premises due to the benefits of it being more efficient etc, remote auditing isn’t a problem so long as you approach it in the right way,” she says. “The key thing is to be organised ahead of the audit and to ensure that you have good communication with your client, so that they are aware of what you are trying to achieve and the impact on any deadlines if information isn’t delivered at the right time. We have

been using Zoom and Microsoft Teams to talk to clients, and these have made the testing of systems and controls just as easy as doing it in person due to the ability to share screens.”

Martin Bailey, partner in the charities team at Goodman Jones, says that challenges have tended to be client-circumstance specific. “While it was no longer the norm that everything was paper based, one positive is that it has brought forward, for some clients, the digitalisation of processes and finance systems.”

This view is echoed by Neal Gilmore, charities principal at HW Fisher. “Understandably, many clients were concerned about the remote audit process and were keen to keep to original timetables,” he says. “We quickly put in place processes and procedures to ensure audits could remain as smooth as possible, identifying possible delays such as access to manual records.”

He adds: “Some clients had already embraced digital record keeping and cloud accounting, but for some it has highlighted weaknesses. These included retrieving information from accounting systems that were not as accessible as anticipated on a remote basis. As a firm, we have been advising and assisting clients to make these transitions for many years, but expect the pandemic to accelerate them.”

Liz Hazell, partner at Saffery Champness, says the remote way of working has increased the amount of work for finance teams. “Normally we scan what we need to keep, but this time finance teams have commented that they felt like they were the audit junior, having to do the scanning themselves,” she says, before adding: “However, for us having meetings by Zoom has enabled us to meet with more trustees than previously so there has often been better engagement with all.”

Alastair Duke, partner at PKF Littlejohn, says that if the pandemic had occurred 10 years ago it would have been a serious struggle to complete audits, but that recent investment in IT had enabled his firm to make a more seamless transition. “The information sharing platform we invested in last year was a resounding success enabling the exchange of documentation and clearing of queries very efficiently and securely. However, this only worked where clients held documentation electronically which was not always the case, causing some audits to be delayed until the lockdown was eased. Stock takes and asset verifications were also issues, but we have managed to find alternative procedures to overcome these.”

Sudhir Singh, head of not-for-profit at MHA, observes that charity audits seem to have been less affected by the pandemic than commercial ones. “Limitations caused by not being able

**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                 | 4,538,915                     | 5,038,282,260           | 124            |
| 2  | 3         | Deloitte              | 3,366,700                     | 3,918,647,000           | 20             |
| 3  | 2         | PwC                   | 3,158,100                     | 4,007,872,000           | 28             |
| 4  | 4         | BDO                   | 2,371,900                     | 3,321,280,138           | 47             |
| 5  | 5         | RSM                   | 1,979,436                     | 1,719,982,293           | 48             |
| 6  | 6         | Grant Thornton        | 1,681,275                     | 2,121,273,974           | 22             |
| 7  | 8         | Moore Kingston Smith  | 1,354,202                     | 859,642,141             | 55             |
| 8  | 10        | Sayer Vincent         | 1,210,221                     | 782,536,653             | 56             |
| 9  | 7         | haysmacintyre         | 1,187,763                     | 1,324,354,212           | 42             |
| 10 | 9         | MHA                   | 1,141,956                     | 498,512,867             | 124            |
| 11 | 11        | KPMG                  | 1,047,700                     | 1,737,301,642           | 16             |
| 12 | 12        | Public audit bodies   | 918,400                       | 1,244,709,000           | 15             |
| 13 | 16        | Azets                 | 896,934                       | 475,213,262             | 98             |
| 14 | 13        | Buzzacott             | 608,820                       | 616,142,884             | 17             |
| 15 | 17        | Mazars                | 360,006                       | 265,684,758             | 11             |
| 16 | 15        | BHP                   | 343,336                       | 126,196,935             | 32             |
| 17 | 18        | Price Bailey          | 319,481                       | 182,658,011             | 31             |
| 18 | 14        | Saffery Champness     | 308,500                       | 240,732,942             | 10             |
| 19 | 24        | Knox Cropper          | 300,000                       | 355,874,000             | 3              |
| 20 | 27        | HW Fisher             | 238,447                       | 85,682,946              | 19             |
| 21 | 40        | Cooper Parry          | 185,279                       | 105,771,404             | 13             |
| 22 | 26        | EY                    | 132,800                       | 199,957,000             | 4              |
| 23 | 33        | Garbutt & Elliott     | 110,100                       | 45,521,593              | 17             |
| 24 | 30        | Godfrey Wilson        | 105,189                       | 34,404,712              | 26             |
| 25 | 29        | Chariot House         | 100,722                       | 28,257,193              | 21             |
| 26 | 38        | UHY Hacker Young      | 97,968                        | 129,941,252             | 12             |
| 27 | 19        | PKF Littlejohn        | 88,900                        | 124,587,000             | 3              |
| 28 | 21        | PKF Francis Clark     | 88,500                        | 117,132,000             | 4              |
| 29 | 32        | Goldwins              | 82,820                        | 20,192,040              | 16             |
| 30 | 31        | Griffin Stone Moscrop | 80,369                        | 31,644,419              | 13             |
| 31 | -         | French Duncan         | 68,000                        | 78,785,000              | 2              |
| 32 | 37        | DSG                   | 63,000                        | 55,105,000              | 1              |
| 33 | 25        | Lovewall Blake        | 60,229                        | 9,959,421               | 17             |
| 34 | 34        | Calcutt Matthews      | 55,100                        | 156,449,000             | 2              |
| 35 | 36        | Menzies               | 46,500                        | 70,638,000              | 2              |
|    |           | Other firms           | 491,195                       | 567,083,088             | 53             |
|    |           | <b>Total</b>          | <b>29,188,763</b>             | <b>30,698,008,040</b>   | <b>1,024</b>   |

to undertake physical visits have not been particularly difficult in the sector where, often, assets such as stock or fixed assets are not significant,” he says. “For material assets, where in the past we would want to see them in the flesh but that now this hasn’t been possible, alternative audit procedures have included the use of video calls on mobile phones, with charity staff walking around their premises pointing things out. This can also be possible for fulfilment houses and valuable donated goods.”

For John Howard, charity partner at Azets, the “increased engagement” that has resulted from being able to hold video calls has been “heartening and a definite positive”, while Jonathan Orchard, partner at Sayer Vincent, says that the people factor has always been a key element of an audit. “We want to build relationships with clients and make sure that we speak to a wide range of staff as part of our audits,” he explains. “This has

inevitably been harder to achieve in a remote environment, but we have been supporting our audit team in finding ways of keeping that personal touch.

“The flip side of remote working has meant there are more opportunities to engage at governance level. Attending audit committees and board meetings has both been more important due to the crisis but also easier to do when meetings are held remotely.

“Having successfully won a significant number of new audits just prior to the lockdown, we were challenged in getting to know new clients in a remote environment. We recognised that this transition process would require additional time and effort, but we have been able to do that with positive results.”

Nick Sladden, head of charities at RSM, says that while remote auditing in the pandemic has become the norm, at the height of the lockdown in April it undoubtedly caused delays to most charities’

reporting timetables. The Financial Reporting Council (FRC) helpfully acknowledged that those charged with governance should not rush to sign financial statements at that most uncertain time.

He points out that auditing in Covid-19 has required an assessment as to how the pandemic may have impacted internal controls. “Inevitably we have seen changes in the procedures at charities due to their own remote working. We have assessed how business continuity plans were implemented and the impact these have had on the audit approach.”

Helena Wilkinson, head of charities and not-for-profit at Price Bailey, says that an exceptional year has meant everyone has had to develop ways of managing through the process. “For those already scanning documents it was relatively painless, but for those with manual records it was a lot of work. It perhaps made them appreciate just how much is involved in an audit.”

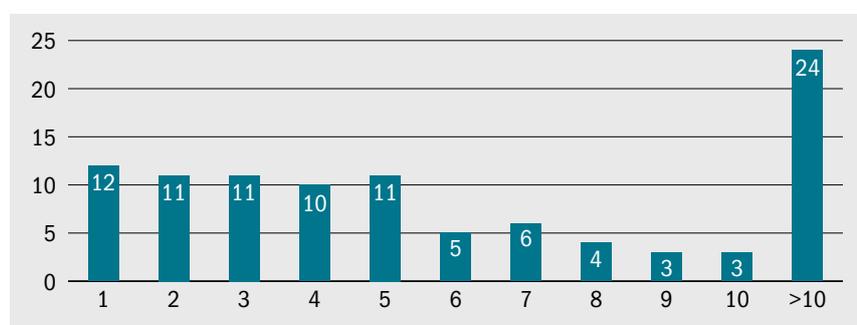
She also mentions systems and processes as a big risk to the sector. “With organisations working remotely and some finance teams not planning to return to the office, there is a real danger with things like email authorisations. Charities aren’t always great on systems and controls, and could become a target for more sophisticated fraud.”

### COVID-19 CREATES CHALLENGES

There have been a number of specific reporting issues for charities resulting from the pandemic. Pesh Framjee,

**FIGURE 2: NUMBER OF YEARS WITH AUDITOR (% RESPONDENTS)**

■ A quarter of charities have been used the same auditor for over a decade ■



**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             | 36              | 3,600         | 600          | 1,700      | 1,242     | 1,080  | 1,260  | 37            | 57            | 35            |
| 0.1 - 0.25       | 32              | 4,560         | 720          | 2,469      | 2,500     | 2,185  | 2,510  | -1            | 13            | -2            |
| 0.25 - 0.5       | 57              | 12,900        | 700          | 3,600      | 3,105     | 3,740  | 3,192  | 16            | -4            | 13            |
| 0.5 - 1          | 81              | 14,700        | 650          | 4,920      | 5,130     | 5,677  | 5,200  | -4            | -13           | -5            |
| 1 - 2            | 115             | 36,000        | 2,520        | 8,038      | 7,620     | 7,800  | 7,698  | 5             | 3             | 4             |
| 2 - 5            | 169             | 32,520        | 1,200        | 10,037     | 10,800    | 13,020 | 9,770  | -7            | -23           | 3             |
| 5 - 10           | 87              | 57,000        | 3,000        | 15,072     | 13,776    | 13,351 | 13,320 | 9             | 13            | 13            |
| 10 - 25          | 90              | 68,000        | 6,000        | 20,045     | 21,350    | 22,080 | 21,472 | -6            | -9            | -7            |
| 25 - 50          | 192             | 905,000       | 3,500        | 34,000     | 33,000    | 34,000 | 32,000 | 3             | 0             | 6             |
| 50 - 75          | 67              | 229,000       | 12,000       | 46,300     | 45,000    | 46,500 | 42,100 | 3             | 0             | 10            |
| 75 - 100         | 29              | 207,000       | 14,394       | 51,000     | 50,000    | 48,000 | 48,000 | 2             | 6             | 6             |
| >100             | 69              | 700,000       | 23,200       | 81,000     | 73,000    | 87,000 | 94,000 | 11            | -7            | -14           |

global head of non-profits at Crowe, says that while some charities have faced existential threats to their continuing existence, going concern reporting has been a key challenge for many more.

“Trustees will need to take particular account of the impact of Covid-19 and ensure they have the appropriate disclosures. This may also lead to a modified audit report,” he says. “Management and trustees will also need to carefully consider the impact of the pandemic on their financial statements and trustees’ annual report, to ensure that these continue to

reflect the financial activities and position of the charity in accordance with the Charities SORP.

“A key message to be considered is how they will adapt and change their plans going forward. Trustees will need to assess how they can best explain this, including making sure they discuss the impact on reserves policy and the level of reserves held.”

Richard Hill, partner at Griffin Stone Moscrop, says that there is a need to consider even more closely the actual and forecast financial impact of the pandemic on the financial periods post balance sheet date. “This so we

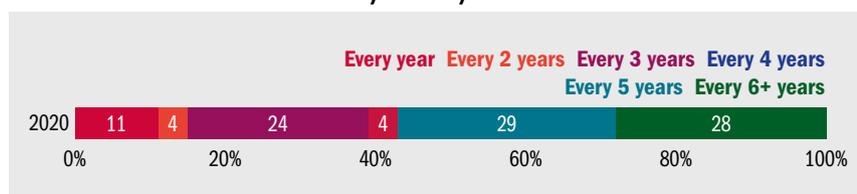
can evaluate the extent to which the financial statements we are working towards signing off on should have additional disclosures in their trustees report and notes to the accounts in order to present a true and fair view to the reader,” he explains.

Jill Halford, head of charities at BDO, adds that with regards to going concern, a lot of education was needed on the disclosures required in the financial statements, and the types of audit opinion. “Many charities were not adequately cash flow forecasting, and many were incorrectly using restricted funds to fund unrestricted operating cash flow, not realising that this was not allowed,” she says. She also highlights that Section 172 rules, which require an organisation to disclose how it had the interest of stakeholders in mind when making decisions, and carbon/environmental (SECR) reporting have both also come in for many this year, which has been “a challenge”.

Richard Weaver, head of charities and not for profit at haysmacintyre, points out that the industry was given a new going concern auditing standard

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

■ Nearly three-fifths of charities review their auditor every five years or more ■



**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                 | 96                          | 6                                   | 9                        | 1                                 | 0                                    | 3             | 0                            | 2             | 1               | 1            | 0                         | 1         |
| BDO                   | 5                           | 1                                   | 3                        | 0                                 | 0                                    | 1             | 0                            | 1             | 1               | 0            | 0                         | 0         |
| BHP                   | 31                          | 5                                   | 5                        | 0                                 | 0                                    | 3             | 0                            | 1             | 0               | 0            | 0                         | 1         |
| Buzzacott             | 6                           | 0                                   | 0                        | 0                                 | 0                                    | 0             | 0                            | 0             | 0               | 0            | 0                         | 0         |
| Chariot House         | 21                          | 0                                   | 0                        | 0                                 | 0                                    | 0             | 0                            | 0             | 0               | 0            | 0                         | 0         |
| Cooper Parry          | 13                          | 0                                   | 0                        | 0                                 | 0                                    | 0             | 0                            | 0             | 0               | 0            | 0                         | 0         |
| Crowe                 | 78                          | 12                                  | 21                       | 1                                 | 0                                    | 6             | 1                            | 6             | 2               | 2            | 0                         | 3         |
| Garbutt & Elliott     | 17                          | 2                                   | 2                        | 0                                 | 0                                    | 1             | 0                            | 1             | 0               | 0            | 0                         | 0         |
| Godfrey Wilson        | 26                          | 4                                   | 4                        | 1                                 | 0                                    | 0             | 0                            | 2             | 0               | 0            | 1                         | 0         |
| Goldwins              | 16                          | 2                                   | 2                        | 0                                 | 0                                    | 0             | 0                            | 0             | 1               | 1            | 0                         | 0         |
| Griffin Stone Moscrop | 13                          | 0                                   | 0                        | 0                                 | 0                                    | 0             | 0                            | 0             | 0               | 0            | 0                         | 0         |
| haysmacintyre         | 16                          | 3                                   | 3                        | 0                                 | 0                                    | 1             | 0                            | 0             | 1               | 0            | 0                         | 1         |
| HW Fisher             | 18                          | 1                                   | 2                        | 0                                 | 0                                    | 1             | 0                            | 1             | 0               | 0            | 0                         | 0         |
| Lovewall Blake        | 17                          | 2                                   | 3                        | 0                                 | 0                                    | 2             | 1                            | 0             | 0               | 0            | 0                         | 0         |
| Mazars                | 4                           | 2                                   | 2                        | 0                                 | 0                                    | 0             | 0                            | 1             | 1               | 0            | 0                         | 0         |
| MHA                   | 121                         | 21                                  | 29                       | 0                                 | 0                                    | 10            | 0                            | 6             | 8               | 2            | 1                         | 2         |
| Moore Kingston Smith  | 43                          | 7                                   | 8                        | 0                                 | 0                                    | 1             | 0                            | 3             | 2               | 0            | 0                         | 2         |
| Price Bailey          | 31                          | 2                                   | 4                        | 0                                 | 0                                    | 2             | 0                            | 0             | 1               | 1            | 0                         | 0         |
| RSM                   | 24                          | 9                                   | 16                       | 2                                 | 0                                    | 5             | 0                            | 5             | 1               | 2            | 0                         | 1         |
| Sayer Vincent         | 49                          | 9                                   | 14                       | 2                                 | 0                                    | 2             | 1                            | 4             | 1               | 2            | 1                         | 1         |
| UHY Hacker Young      | 10                          | 0                                   | 0                        | 0                                 | 0                                    | 0             | 0                            | 0             | 0               | 0            | 0                         | 0         |
| Other firms           | 50                          | 15                                  | 36                       | 4                                 | 2                                    | 11            | 0                            | 1             | 9               | 6            | 1                         | 2         |
| <b>Total</b>          | <b>705</b>                  | <b>103</b>                          | <b>163</b>               | <b>11</b>                         | <b>2</b>                             | <b>49</b>     | <b>3</b>                     | <b>34</b>     | <b>29</b>       | <b>17</b>    | <b>4</b>                  | <b>14</b> |

back in December 2019, which had already increased the work involved in documenting and evidencing going concern even before the pandemic. “Many March year ends in particular were only affected by two weeks of operations [under lockdown] and so the real impact has been post-year end. It has been difficult to forecast in an ever-changing environment. Many organisations, not just charities, reviewed their deadlines and pushed audit work back hoping for greater clarity later in the year, and this has put pressure on the industry to catch up with audits before the relevant filing deadlines are reached,” he says.

“Key to this area of audit is communication at the start of the process and being clear about the information that is needed. It’s not just cash flow forecasts but scenarios and narrative of the assumptions that underpin those scenarios so that they can be stress tested.

“In these discussions, trustees need to be more involved than they have been in the past as they ultimately approve the going concern status.

This information therefore needs their approval before the board meeting to approve the accounts to allow the auditors to then complete their work.”

RSM’s Sladden agrees that it is something of a myth that it’s the auditor’s role to make the going concern assessment. “Instead it is those charged with governance, the trustees, that are responsible for the assessment of the charity’s ability to continue as a going concern,” he says. “The role of the auditor is to obtain evidence to determine whether the use of that going concern basis is appropriate, which inevitably requires a judgment to be made.

“The period considered for the going concern basis by trustees and management is at least 12 months from the date of approval of the financial statements, and this has required increased scrutiny of financial forecasts usually extending simply beyond the next financial reporting period.” He adds: “One of the impacts of Covid-19 is that we have issued more audit reports with material uncertainty

paragraphs on going concern than would otherwise occurred.”

Jane Marshall, head of charities and not-for-profit at BHP, says that while there have been some difficult conversations regarding going concern, they have actually highlighted why it is important to have a properly-thought-out reserves policy and to scenario plan on a continual basis, not just to the next year end. “I think those that have been reluctant to do this in the past now realise this is an essential part of proper financial management,” she says.

Sayer Vincent’s Orchard agrees that the crisis has posed questions for reserves policies. “We have had many conversations around both the short and long-term implications. In the short term, these discussions have focused on cash flow management. The longer-term ones have shown an understandable tendency for trustees to want a higher reserves level to manage future shocks. This tendency needs to be balanced with other risk management measures such as income diversification and flexible business models.”

**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                 | 96              | 100                   | 0        | 0        | 76                                  | 24        | 0         | 96                  | 4        | 0        |
| BDO                   | 4               | 100                   | 0        | 0        | 0                                   | 100       | 0         | 75                  | 0        | 25       |
| BHP                   | 31              | 100                   | 0        | 0        | 68                                  | 32        | 0         | 94                  | 6        | 0        |
| Buzzacott             | 5               | 100                   | 0        | 0        | 60                                  | 40        | 0         | 100                 | 0        | 0        |
| Chariot House         | 21              | 100                   | 0        | 0        | 90                                  | 10        | 0         | 100                 | 0        | 0        |
| Cooper Parry          | 13              | 100                   | 0        | 0        | 85                                  | 15        | 0         | 100                 | 0        | 0        |
| Crowe                 | 78              | 100                   | 0        | 0        | 65                                  | 33        | 1         | 91                  | 9        | 0        |
| Garbutt & Elliott     | 17              | 100                   | 0        | 0        | 76                                  | 24        | 0         | 100                 | 0        | 0        |
| Godfrey Wilson        | 26              | 100                   | 0        | 0        | 85                                  | 15        | 0         | 96                  | 4        | 0        |
| Goldwins              | 16              | 100                   | 0        | 0        | 69                                  | 31        | 0         | 94                  | 6        | 0        |
| Griffin Stone Moscrop | 13              | 100                   | 0        | 0        | 69                                  | 31        | 0         | 100                 | 0        | 0        |
| haysmacintyre         | 16              | 100                   | 0        | 0        | 63                                  | 38        | 0         | 94                  | 6        | 0        |
| HW Fisher             | 18              | 89                    | 11       | 0        | 56                                  | 44        | 0         | 83                  | 17       | 0        |
| Lovewall Blake        | 17              | 82                    | 18       | 0        | 82                                  | 12        | 6         | 88                  | 12       | 0        |
| Mazars                | 4               | 75                    | 25       | 0        | 25                                  | 75        | 0         | 50                  | 50       | 0        |
| MHA                   | 119             | 98                    | 2        | 0        | 75                                  | 25        | 0         | 92                  | 8        | 1        |
| Moore Kingston Smith  | 43              | 98                    | 2        | 0        | 70                                  | 30        | 0         | 95                  | 5        | 0        |
| Price Bailey          | 31              | 100                   | 0        | 0        | 77                                  | 7         | 0         | 97                  | 0        | 3        |
| RSM                   | 24              | 96                    | 4        | 0        | 67                                  | 29        | 4         | 79                  | 17       | 4        |
| Sayer Vincent         | 49              | 98                    | 2        | 0        | 61                                  | 35        | 4         | 90                  | 10       | 0        |
| UHY Hacker Young      | 10              | 100                   | 0        | 0        | 90                                  | 10        | 0         | 100                 | 0        | 0        |
| Other firms           | 49              | 84                    | 14       | 2        | 51                                  | 45        | 4         | 73                  | 20       | 6        |
| <b>Total</b>          | <b>700</b>      | <b>97</b>             | <b>3</b> | <b>0</b> | <b>70</b>                           | <b>29</b> | <b>10</b> | <b>91</b>           | <b>8</b> | <b>1</b> |

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

MHA's Singh touches upon income recognition. "This is always a key consideration in charity reporting, and the pandemic has raised some new ones," he says. "Charities can have a very wide range of income sources, so each must be considered

"Those charities with December year ends wouldn't have had their balance sheet impacted, but they, and us as auditors, have had to consider whether the value of investments has become impaired since the balance sheet date at the time of signing our

Neil Finlayson, partner at Moore Kingston Smith, states: "One of the main issues has been the effect on trading subsidiaries and the profitability and sustainability of their operations, and whether they will have enough distributable reserves in the subsequent year to be able to pay over their Gift Aid. Another difficult area has related to the valuation of investment properties in the light of RICS' requirement for their valuers to include a blanket uncertainty caveat in their valuations."

## “ I think the frequency of tenders did reduce when the national lockdown was introduced ”

where Covid-19 could have an impact. Some of the income areas particularly affected from a reporting perspective include grant and contract funding, service delivery and legacy income.”

UHY Hacker Young's Moore says that for grantmaking charities which traditionally hold large values of investment assets on their balance sheet, one of the main audit and reporting issues has been the impact on the fair value of these assets.

audit report,” he says. “In turn, for a lot of those charities, their investment portfolio is the primary generator of their income to fund the expenditure on their charitable activities. Due to the timing of the pandemic, we haven't seen an impact on income in many of the sets of accounts produced as most charities traditionally have December and March year ends, however, this is something we are likely to see in subsequent periods.”

### FEES AND TENDERS

So, will the pandemic have any effect on audit fees and the frequency of the review/tender process? For example, there have been examples of charities delaying their usual audit tender cycle in order to prioritise other issues.

Marshall at BHP says that while this has been the case for some, her firm has still seen a reasonable level of tender activity over recent months. “Price will always be a key consideration in choosing an auditor,

**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                 | 96              | 81  | 19        | 0        | 78  | 22        | 0        | 61                  | 39        | 0        | 92                | 8         | 0        | 65                       | 31        | 4        |
| BDO                   | 4               | 100   | 0         | 0        | 50  | 50        | 0        | 0                   | 100       | 0        | 100               | 0         | 0        | 50                       | 50        | 0        |
| BHP                   | 31              | 81  | 16        | 3        | 84  | 13        | 3        | 48                  | 48        | 3        | 94                | 6         | 0        | 45                       | 48        | 6        |
| Buzzacott             | 5               | 80  | 20        | 0        | 80  | 20        | 0        | 60                  | 40        | 0        | 100               | 0         | 0        | 60                       | 40        | 0        |
| Chariot House         | 21              | 86  | 14        | 0        | 81  | 19        | 0        | 67                  | 33        | 0        | 86                | 14        | 0        | 43                       | 57        | 0        |
| Cooper Parry          | 13              | 77  | 23        | 0        | 77  | 23        | 0        | 54                  | 46        | 0        | 85                | 15        | 0        | 54                       | 46        | 0        |
| Crowe                 | 78              | 87  | 12        | 1        | 82  | 17        | 1        | 65                  | 35        | 0        | 91                | 9         | 0        | 63                       | 36        | 1        |
| Garbutt & Elliott     | 17              | 76  | 24        | 0        | 71  | 29        | 0        | 53                  | 47        | 0        | 94                | 6         | 0        | 53                       | 41        | 6        |
| Godfrey Wilson        | 26              | 62  | 35        | 3        | 50  | 46        | 4        | 50                  | 46        | 4        | 85                | 15        | 0        | 12                       | 80        | 8        |
| Goldwins              | 16              | 81  | 19        | 0        | 75  | 25        | 0        | 38                  | 62        | 0        | 88                | 13        | 0        | 13                       | 81        | 6        |
| Griffin Stone Moscrop | 13              | 69  | 31        | 0        | 77  | 23        | 0        | 23                  | 77        | 0        | 85                | 15        | 0        | 0                        | 85        | 15       |
| haysmacintyre         | 16              | 69  | 31        | 0        | 56  | 44        | 0        | 31                  | 63        | 6        | 88                | 6         | 6        | 50                       | 44        | 6        |
| HW Fisher             | 18              | 61  | 33        | 6        | 72  | 17        | 11       | 50                  | 33        | 17       | 89                | 6         | 6        | 33                       | 44        | 22       |
| Lovewall Blake        | 17              | 82  | 18        | 0        | 76  | 24        | 0        | 29                  | 65        | 6        | 88                | 12        | 0        | 18                       | 65        | 18       |
| Mazars                | 4               | 0   | 75        | 25       | 25  | 25        | 50       | 0                   | 75        | 25       | 25                | 50        | 25       | 0                        | 75        | 25       |
| MHA                   | 119             | 74  | 26        | 0        | 71  | 29        | 0        | 47                  | 51        | 2        | 84                | 15        | 1        | 39                       | 55        | 5        |
| Moore Kingston Smith  | 43              | 86  | 14        | 0        | 84  | 16        | 0        | 60                  | 40        | 0        | 91                | 9         | 0        | 63                       | 33        | 5        |
| Price Bailey          | 31              | 74  | 23        | 3        | 71  | 26        | 3        | 52                  | 45        | 3        | 77                | 19        | 3        | 55                       | 39        | 6        |
| RSM                   | 24              | 67  | 33        | 0        | 71  | 29        | 0        | 50                  | 50        | 0        | 92                | 8         | 0        | 54                       | 42        | 4        |
| Sayer Vincent         | 49              | 78  | 22        | 0        | 63  | 35        | 2        | 45                  | 53        | 2        | 88                | 12        | 0        | 53                       | 45        | 2        |
| UHY Hacker Young      | 10              | 90  | 10        | 0        | 90  | 10        | 0        | 70                  | 30        | 0        | 100               | 0         | 0        | 20                       | 80        | 0        |
| Other firms           | 49              | 49  | 41        | 10       | 43  | 47        | 10       | 20                  | 59        | 20       | 69                | 27        | 4        | 10                       | 55        | 35       |
| <b>Total</b>          | <b>700</b>      | <b>76</b>                                       | <b>23</b> | <b>1</b> | <b>72</b>                                     | <b>26</b> | <b>2</b> | <b>50</b>           | <b>47</b> | <b>3</b> | <b>87</b>         | <b>12</b> | <b>1</b> | <b>45</b>                | <b>48</b> | <b>7</b> |

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

however, we are finding that charities want someone who really understands them and can hold their hand during this difficult time,” she says.

Finlayson says that charities facing uncertainty about sustainability have required more extensive going concern work, which will have had an effect on the fees charged. However, this hasn't led to more tenders. “I think the frequency of tenders did reduce when the national lockdown was introduced, as charities focused on establishing how they could work from home. More recently tenders have increased but are still below normal levels as charities want to wait and see what the future holds.”

Weaver at haysmacintyre also believes that more time has been spent on audits, as they have not always been carried out as effectively, though they could have been with sufficient advanced planning. He adds: “Charities are taking different views on tendering. Some are going ahead and we are presenting virtually, while others are deciding that although the original tenure might be up, if the relationship is working well and they

are receiving value from their audit firm, they are extending arrangements. As an alternative, we are also seeing those that don't want to move firms, requesting changes of team to have a fresh pair of eyes.”

Duke says that while there has been additional time taken this year, PKF Littlejohn has not sought to pass these costs on to clients. However, he says: “Auditing standards are changing and there is increased emphasis from regulators on the auditor's work in respect of going concern. This will no doubt put pressure on fee increases.”

Similarly, Moore says that UHY Hacker Young purposely didn't increase audit fees due to Covid-19, despite extra work. “It just felt like the wrong thing to do. We did, however, see a big drop off in the review/tender process since the beginning of lockdown,” she says. “Things have started to pick up now with tenders coming through for March year-ends and, interestingly, some are wanting to continue with remote audits going forward as they have preferred this style of working.”

Hazell at Saffrey Champness says

the number of tenders has increased and that remote working has led to many charities reviewing their current relationship. “We have continued to see a large number of tenders coming through, with a sudden rush in the last few weeks. There is often seasonality as charities consider their own governance procedures, but remote working seems to have led a number to question whether they are getting what they need from their current auditors.”

HW Fisher's Gilmore argues that while charities might be looking to cut costs following higher than expected fees, they need to appreciate that auditors have to do much more. “Reducing costs will no doubt be a catalyst for retendering, but charities must look at the quality of the service and support they receive,” he argues.

#### WHAT WILL THE NEXT STEPS BE?

The effect of the pandemic will continue to be all encompassing, and that is without even getting into the further impact of what could yet still be a no-deal Brexit.

What steps should charities be taking to ensure future compliance with reporting requirements, as well as improve their chances of sustainability?

Halford at BDO urges early engagement with auditors and advisers to discuss areas of concerns. “Auditors come with a bank of informal benchmarking that can help clients not have to reinvent the wheel,” she says. “Ensure that the cash flow forecasting is robust and fit for purpose, and that you have some assurance over it.

board’s risk appetite is now. How does this feed into reserves being held?”

Crowe’s Framjee says that many charities are focusing on their core operations and reviewing their activities. “Strategy must be able to deal with uncertainty – and at a time when predicting the probable is difficult to say the least, it has to be developed on the premise that several different outcomes are possible.”

“If there is total uncertainty, which can happen when many issues interact, it becomes virtually impossible to

decisively at the right time.”

Wilkinson at Price Bailey concludes that while the focus has understandably been on the frontline, there is a need to consider the long term. “So far, the majority of charities have been ok, and have not closed yet. However, there is a risk that complacency will set in, with the real pain coming a year or so down the line, especially if there is a recession.

“I think the Charity Commission risks sending the wrong message on reserves. It doesn’t encourage innovation of funding streams if they say that ‘now is the rainy day’.” ●

## “ There is a risk that complacency will set in, with the real pain coming a year or so down the line ”

Understand the funds you hold and why. Be careful to factor this into cash flow forecasting and not use funds which are not accessible under trust law. If you feel you can release some funds that are classified as restricted then consult the Charity Commission about doing so. Understand where the

predict or even identify all the possible outcomes. In such cases, strategy and planning is focused on recognising that this stage of total uncertainty is often transitory, and that while you are firefighting and dealing with the present it is also important to try to identify triggers and trends, and be ready to act

### PRIZE DRAW WINNER 2020

All charities responding to the survey in full were entered into a prize draw for a luxury Christmas hamper. Congratulations to Robert Butler, director of finance and corporate resources at the Alzheimer’s Society, who has won this year.

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