

Charity Finance

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Shuffling the pack

M&A activity among mid-tier audit firms is creating new challengers in the charity audit hierarchy, finds Diane Sim.

Charity Audit Survey 2013

WITH JUST A year or so to prepare for the biggest charity accounting change in the last eight years, charities are fairly sanguine about the impact of the new Sorp, confident – for the most part – that their auditors will advise them of what they need to do and when they need to do it by.

Given the challenging funding environment, charities participating in this year's annual Charity Audit Survey seem much more concerned about raising funds than reporting on them, though this itself creates its own reporting challenges.

Key themes

The presentation of a true and fair view of financial performance and balance sheet position, in the face of uncertainties over income streams, has become an increasingly demanding task for many charities and their auditors.

Another key theme of this year's survey is the restructuring of the charity audit market, as mid-tier firms combine to launch powerful challenges to the top players.

There is also plenty of evidence this year of charities looking to their auditors for help not just on financial reporting but on the wider issues they face, resulting in a steady stream of non-audit enquiries, particularly in the areas of tax (especially VAT), governance and risk management, and sourcing alternative forms of funding.

Figure 1 opposite ranks audit firms by the audit fees of their charity clients. The data is derived primarily

from the 1,022 charities that participated in *Charity Finance's* 21st annual survey of the charity audit market and related reporting issues.

The survey data is supplemented by audit data from the top 350 UK charities based on income, which *Charity Finance* routinely tracks for the purposes of compiling the Charity 100 and Charity 250 Indices. This results in coverage of just over 1,300 charities, which collectively have annual income of £23.2bn and pay fees of £24.8m.

“M&A deals among mid-tier firms have shaken up the ranking of charity auditors”

Coverage of the larger UK charities is therefore comprehensive, while coverage of charities with annual income of less than £16.6m – the cut-off point for membership of the Charity 250 Index – is reasonably representative.

Charities with annual income of over £10m represent 35 per cent of all audit clients listed in Figure 1, while the remainder is split between charities in the £5m-£10m income bracket (11 per cent), charities in the £1m-£5m income bracket (25 per cent) and charities with income of below £1m (29 per cent).

Crowe Clark Whitehill (CCW) tops the league table for the fifth year running with audit fees of £3.9m from 130 charity clients, which collectively report annual

income of £3.9bn. It is followed by PricewaterhouseCoopers (PwC) with audit fees of £2.7m from 41 charity clients which together also generate total income of £3.9bn.

Leading firms

CCW and PwC have occupied the same top two positions in each of the last five years.

Together they account for 26.9 per cent of charity audit fees included in figure 1, up slightly from last year's figure of 26.4 per cent. Over the last four years their combined share has been comfortably over 25 per cent.

The composition of the top ten players has not changed over the last year, though the pecking order has changed markedly, largely as a result of merger and acquisition (M&A) activity among the mid-tier firms.

Earlier this year BDO completed its merger with PKF, creating the fifth-largest UK accountancy firm with fee income of almost £400m. The combined firm, which operates under the BDO brand, moves into third position this year with audit fees of £1.8m from 54 charity clients.

Last year BDO occupied sixth position, based on audit fees of £1.3m from 36 charities, while PKF occupied twelfth position based on audit fees of £600,000 from 23 charity clients.

Making way for the enlarged BDO are Grant Thornton and haysmacintyre, which each move down one place into fourth and fifth position respectively.

Baker Tilly, which in August acquired the operating companies in the RSM Tenon Group (including its audit practice), moves up three places into sixth position with audit fees of £1.3m from 56 audit clients.

According to Nick Sladden, head of charities and social enterprises at Baker Tilly, the combined firm

figure 1: Top 40 audit firms ranked by audit fees

	Audit firm (2012 rank in brackets)	Audit fees (inc VAT) £	Income of audit clients £	No. of clients
1	Crowe Clark Whitehill (1)	3,935,126	3,862,986,477	130
2	PricewaterhouseCoopers (2)	2,718,300	3,930,498,231	41
3	BDO (6)*	1,844,621	2,260,349,841	54
4	Grant Thornton (3)	1,825,237	2,180,998,997	39
5	haysmacintyre (4)	1,725,623	1,080,180,759	112
6	Baker Tilly (9) **	1,307,235	1,260,290,923	56
7	KPMG (7)	1,199,244	1,374,826,615	31
8	Sayer Vincent (10)	1,153,289	601,619,465	88
9	Kingston Smith (8)	1,101,819	694,643,384	69
10	Deloitte (5)	1,039,910	1,293,874,658	24
11	Public audit bodies (11)	769,900	964,905,000	13
12	Mazars (15)	581,260	298,601,573	31
13	MHA MacIntyre Hudson (16) ***	565,580	269,072,827	91
14	HW Fisher (14)	430,050	127,473,602	58
15	Buzzacott (13)	391,824	258,643,151	12
16	Scott-Moncrieff (18)	391,272	228,832,749	29
17	Chantrey Vellacott (17)	363,520	255,943,947	35
18	PKF Littlejohn (19)	229,486	96,909,841	9
19	Critchleys (21)	210,220	138,270,769	16
20	Knox Cropper (20)	169,000	202,640,000	2
21	Saffery Champness (23)	165,100	143,607,710	8
22	Barber Harrison & Platt (38)	144,409	82,398,595	19
23	Larking Gowen (22)	131,996	42,558,168	34
24	Price Bailey (-)	130,740	112,281,416	18
25	Lovewell Blake (-)	124,025	55,115,833	26
26	Russell New (24)	112,852	32,483,438	15
27	Henderson Loggie (28)	99,700	116,739,000	4
28	Reeves (-)	97,588	39,565,553	17
29	Bishop Fleming (32)	89,265	42,377,290	11
30	Peters Elworthy & Moore (27)	85,699	13,036,999	11
31	Ernst & Young (34)	85,100	85,688,000	4
32	James Cowper (37)	82,056	38,576,975	9
33	Frances Clark (-)	79,500	59,452,000	3
34	Goldwins (35)	69,945	12,593,274	19
35	Clark Brownscombe (-)	68,524	40,872,345	15
36	Nexia Smith & Williamson (29)	65,996	65,459,740	4
37	Broomfield & Alexander (33)	55,576	30,844,878	10
38	Menzies (36)	54,400	55,806,640	3
39	Griffin Stone Moscrop (30)	50,880	22,597,104	7
40	Fiander Tovell (-)	49,460	30,436,536	6
	Other firms	958,818	676,102,171	126
	Total	24,754,145	23,180,156,474	1,309

* Includes charities formerly audited by PKF

** Includes charities formerly audited by RSM Tenon

*** Includes charities formerly audited by Larkings

audits almost 300 of the top 5,000 charities, equating to a 6 per cent market share by client numbers.

Last year Baker Tilly occupied ninth position with audit fees of £1.1m from 58 charities, while RSM Tenon occupied 25th position with audit fees of £100,000 from 11 charities.

Further down the top ten Sayer Vincent moves up from tenth to eighth position, displacing Kingston Smith which moves to ninth. KPMG remains in seventh position, while Deloitte falls five places to tenth.

Other M&A activity

However M&A activity is not confined to the top ten players. Another significant transaction in the charity audit market was the July acquisition by MHA MacIntyre Hudson of Kent-based firm Larkings.

MHA MacIntyre Hudson moves up three places into 13th position with audit fees of £600,000 from 91 charities. Last year the firm was 16th in the table with audit fees of £400,000 from 48 charities, while Larkings occupied 31st position with fees of £100,000 from 11 charities.

Since its merger with Gotham Erskine in 2011, MHA MacIntyre Hudson has rapidly developed its presence in the charity sector. “The number of not-for-profit specialist partners has increased from eight to 18 in less than three years,” says charities technical partner Simon Erskine. “Over the same period the proportion of fees coming from the sector has almost doubled from 7 per cent to 13 per cent,” he adds.

In September the firm recruited Sudhir Singh, formerly head of charities and not-for-profit at Baker Tilly, where he managed the accounts of top-250 charities and large educational establishments. Following the recruitment of Sally Knight from Crowe Clark Whitehill

in April, MHA MacIntyre Hudson seems likely to set its sights on larger charities, in addition to its core clientele of small to medium-sized charities.

Another significant move in the charity audit market outside the top ten is Littlejohn joining PKF International as its UK member firm, replacing PKF since its merger with BDO. Newly branded PKF Littlejohn ranks 18th in figure 1.

The move is likely to lead to increased international activity by PKF Littlejohn, which is already active in 70 countries and has plans to set up an international group in PKFI serving international charities.

Reporting issues

Despite comprehensive discussions about the shape of the new Sorp, there have been no new accounting requirements this year.

“ Payments are often received in arrears, which can create cashflow problems ”

However, the difficult funding environment means that meeting existing requirements has proved challenging for some charities.

“There is not a great deal that is new in terms of issues but the most

common areas where we are finding clients requesting advice relate to front-end topics in the trustees’ annual report, most often on matters around going concern and also on reserves policy,” notes Jandy Stevenson, who leads the charities team at Henderson Loggie.

“Funding issues have resulted in a sustained need to consider going-concern matters and financial sustainability, alongside reserves-policy reviews and disclosures, and care in reporting on any material uncertainties,” observes Sudhir Singh, charities partner at MHA MacIntyre Hudson. “Such matters affect audit opinions and we have certainly had to consider whether our reports should be qualified or include ‘emphasis-of-matter’ wording,” he adds.

A related issue is the continuing shift from grants to contracts and payment by results, which in turn creates uncertainties over exactly how much funding will be received and by when. “Increasingly, payments are received at least partly in arrears, which can create cashflow difficulties,” notes Sayer Vincent partner Kate Sayer. ▶

figure 2: Number of years with auditor (percentage of respondents)

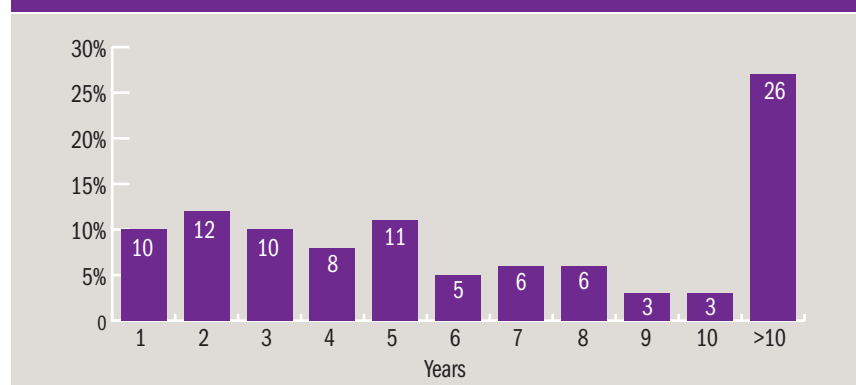


figure 3: Audit fees by charity income band

Income band (£m)	No. of charities	Highest fee £	Lowest fee £	Median fee				1-year change %	3-year change %	5-year change %
				This year	Last year	2010	2008			
< 0.1	76	8,829	50	1,428	1,500	1,100	699	-5	30	104
0.1 - 0.25	71	7,500	240	2,300	2,622	2,500	2,800	-12	-8	-18
0.25 - 0.5	82	12,360	250	3,720	3,888	3,751	3,781	-4	-1	-2
0.5 - 1	144	16,800	1,440	6,000	6,000	5,605	5,766	0	7	4
1 - 2	146	27,300	1,920	7,905	7,800	7,111	7,638	1	11	3
2 - 5	180	27,120	2,000	10,800	10,080	9,341	9,088	7	16	19
5 - 10	147	67,000	3,500	13,000	14,056	14,720	14,430	-8	-12	-10
10 - 25	225	76,000	5,000	19,000	21,440	20,332	20,000	-11	-7	-5
25 - 50	134	163,400	5,798	34,000	33,000	36,000	32,000	3	-6	6
50 - 75	45	150,000	12,600	41,000	45,000	44,150	49,500	-9	-7	-17
75 - 100	18	96,000	31,000	52,500	59,500	49,500	56,000	-12	6	-6
>100	41	300,000	32,000	98,000	87,000	84,500	81,000	13	16	21

A fairly new problem, widely reported this year by the audit firms surveyed, is the need to differentiate between grants and contracts, on which VAT is payable. “With the increasing number of contracts instead of grants, we have had to ensure that clients are aware of the need to consider the VAT implications early on in the negotiations,” comments Andrew Rich, who heads up the not-for-profit team at HW Fisher.

As charities balance the need to provide services to their beneficiaries and the requirement to set aside funds to safeguard their financial viability, “greater importance is being placed on reporting reserves

and, in particular, the use of designations to clarify the make-up of reserves,” notes Richard Weaver who heads up the charity and not-for-profit unit at haysmacintyre.

Sayer at Sayer Vincent also notes the higher incidence in the last year of “cases where charities have had to consider the impairment of tangible fixed assets, due to changing business models”. The drive to personalisation, whereby money is given directly to social care service users so that they can choose the support they buy, can – for example – lead to a fall-off in demand for existing facilities, resulting in a reduction in income for the charities that run them.

Difficulties in the funding environment faced by charities have undoubtedly created reporting challenges, but they have also had some positive effects.

“Charities that struggle to find income have become more aware of the need to report on the impact of what they are doing and raise awareness of their cause,” says Reza Motazedi, who heads up the charities and not-for-profit group at Deloitte. “We have noticed a definite shift recently in the balance between the qualitative first half of the trustees’ annual report and the quantitative second half, in favour of the former,” he adds.

Liz Hazell, who leads the charities team at PwC, similarly notes improvements in the clarity of purpose in reporting. “We’ve seen increasing efforts from our clients to cut clutter in their reporting, so as to get across their messages as clearly as possible,” she says.

“Some have moved impact reporting into separate documents, while others have made big efforts to converge their reporting into one document, but without losing the succinct messages they strive to communicate,” she adds.

figure 4: How was your auditor chosen? (percentage of respondents)

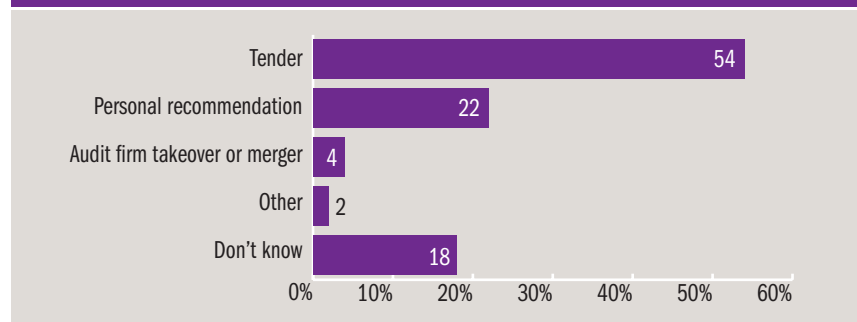


figure 5: What factors were important when choosing your auditor? (percentage of respondents)



Non-audit services

The vast majority of audit firms surveyed this year report a steady demand for non-audit services from their charity clients.

Firms of all sizes note increased demand in the areas of tax and VAT. “Many charities are setting up trading subsidiaries or social enterprise activities as a means of funding their activities and we are frequently called in to advise on the tax and VAT implications of these new initiatives,” says Sayer at Sayer Vincent.

“Requests for additional services are frequently tax-related,” concurs Weaver at haysmacintyre. “The ▶

figure 6: 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
Baker Tilly	35	10	17	2	0	3	0	6	2	2	1	1
Barber Harrison & Platt	19	4	7	1	0	3	0	2	1	0	0	0
BDO	22	3	4	0	0	3	0	1	0	0	0	0
Bishop Fleming	11	1	1	0	0	0	0	0	1	0	0	0
Broomfield & Alexander	10	0	0	0	0	0	0	0	0	0	0	0
Buzzacott	6	1	1	0	0	1	0	0	0	0	0	0
Chantrey Vellacott	33	7	12	0	0	3	1	6	0	2	0	0
Chiene and Tait	3	0	0	0	0	0	0	0	0	0	0	0
Clark Brownscombe	14	1	1	0	0	1	0	0	0	0	0	0
Critchleys	13	3	5	1	0	1	0	1	0	1	0	1
Crowe Clark Whitehill	85	16	23	2	0	6	0	5	3	1	2	4
Deloitte	6	4	15	1	1	1	1	3	2	2	3	1
Fiander Tovell	6	0	0	0	0	0	0	0	0	0	0	0
Goldwins	19	3	3	0	0	1	0	1	0	0	1	0
Grant Thornton	18	5	5	0	0	2	0	2	1	0	0	0
Griffin Stone Moscrop	7	0	0	0	0	0	0	0	0	0	0	0
Haines Watts	7	1	3	1	1	0	0	0	0	1	0	0
haysmacintyre	97	5	6	0	0	2	0	4	0	0	0	0
HW Fisher	58	7	11	0	1	1	1	5	3	0	0	0
James Cowper	9	0	0	0	0	0	0	0	0	0	0	0
Kingston Smith	62	11	27	1	0	6	2	5	3	4	3	3
KPMG	15	8	19	2	2	2	2	4	2	3	2	0
Larking Gowen	34	9	12	0	0	6	1	4	1	0	0	0
Lovewell Blake	26	1	1	0	0	1	0	0	0	0	0	0
Lubbock Fine	4	0	0	0	0	0	0	0	0	0	0	0
Mazars	23	4	5	0	0	1	0	2	1	0	0	1
MHA MacIntyre Hudson	91	21	26	0	0	16	0	4	0	2	1	3
Nexia Smith & Williamson	4	3	5	0	0	1	0	2	0	0	0	2
Peters Elworthy & Moore	11	3	6	1	1	1	1	1	0	0	1	0
PKF Littlejohn	8	1	1	0	0	1	0	0	0	0	0	0
Price Bailey	18	2	3	0	0	0	0	1	1	1	0	0
PricewaterhouseCoopers	8	6	9	1	0	1	0	4	1	1	0	1
Princercroft Willis	7	1	3	0	0	1	0	1	0	1	0	0
Reeves	17	3	4	0	0	2	0	0	1	1	0	0
Russell New	15	1	3	1	0	0	0	0	0	1	0	1
Saffery Champness	2	1	3	0	0	1	0	0	1	0	0	1
Sayer Vincent	84	16	25	2	0	10	1	6	2	1	1	2
Scott-Moncrieff	28	3	3	0	0	2	0	1	0	0	0	0
Slade & Cooper	4	0	0	0	0	0	0	0	0	0	0	0
The Kubernesis Partnership	3	0	0	0	0	0	0	0	0	0	0	0
Other firms	80	29	58	4	7	13	4	4	11	8	0	7
Total	1,022	194	327	20	13	93	14	75	37	32	15	28

figure 7: Satisfaction – how do you rate your auditor on the following? (percentage of respondents)

Audit firm	Total responses	Charity expertise			Commitment to the voluntary sector			Overall service		
		Good	Average	Poor	Good	Average	Poor	Good	Average	Poor
Baker Tilly	35	94	6	0	91	9	0	74	26	0
Barber Harrison & Platt	19	100	0	0	89	11	0	89	11	0
BDO	22	100	0	0	95	5	0	95	5	0
Bishop Fleming	11	100	0	0	90	10	0	90	10	0
Broomfield & Alexander	10	90	10	0	90	10	0	100	0	0
Buzzacott	6	83	17	0	83	17	0	83	17	0
Chantrey Vellacott	33	94	6	0	94	6	0	91	9	0
Chiene and Tait	3	100	0	0	100	0	0	100	0	0
Clark Brownscombe	14	86	14	0	93	7	0	86	14	0
Critchleys	13	92	8	0	92	8	0	92	8	0
Crowe Clark Whitehill	85	100	0	0	99	1	0	94	6	0
Deloitte	6	40	40	20	60	0	40	20	60	20
Fiander Tovell	6	100	0	0	100	0	0	100	0	0
Goldwins	19	100	0	0	100	0	0	100	0	0
Grant Thornton	18	100	0	0	100	0	0	89	11	0
Griffin Stone Moscrop	7	100	0	0	100	0	0	71	29	0
Haines Watts	7	71	29	0	86	14	0	86	14	0
haysmacintyre	97	99	1	0	100	0	0	97	3	0
HW Fisher	58	96	4	0	95	5	0	89	11	0
James Cowper	9	100	0	0	100	0	0	100	0	0
Kingston Smith	62	90	10	0	87	12	1	88	5	7
KPMG	15	80	13	7	87	0	13	73	27	0
Larking Gowen	34	94	6	0	81	19	0	88	12	0
Lovewell Blake	26	100	0	0	96	4	0	100	0	0
Lubbock Fine	4	100	0	0	100	0	0	100	0	0
Mazars	23	100	0	0	96	4	0	100	0	0
MHA MacIntyre Hudson	91	99	1	0	98	2	0	94	6	0
Nexia Smith & Williamson	4	50	50	0	25	75	0	50	50	0
Peters Elworthy & Moore	11	90	0	10	90	10	0	80	20	0
PKF Littlejohn	8	100	0	0	88	12	0	100	0	0
Price Bailey	18	88	12	0	82	18	0	94	6	0
PricewaterhouseCoopers	8	75	25	0	63	37	0	37	63	0
Princercroft Willis	7	83	17	0	83	17	0	83	17	0
Reeves	17	88	12	0	71	29	0	94	6	0
Russell New	15	100	0	0	93	7	0	93	0	7
Saffery Champness	2	100	0	0	0	100	0	50	50	0
Sayer Vincent	84	97	2	1	98	2	0	92	7	1
Scott-Moncrieff	28	100	0	0	100	0	0	100	0	0
Slade & Cooper	4	100	0	0	100	0	0	100	0	0
The Kubernes Partnership	3	100	0	0	100	0	0	100	0	0
Other firms	80	72	22	6	69	23	8	78	18	4
Total	1,022	94	5	1	91	8	1	90	9	1

Competition issues

Competition issues in the provision of audit services have come to the fore this year, since the Competition Commission ruled that there was inadequate competition in the FTSE 350. Only 15 of the FTSE 350-listed companies are audited by firms outside the 'Big Four' accountancy firms – namely Deloitte, Ernst and Young, KPMG and PricewaterhouseCoopers (PwC).

This level of concentration is clearly not the case in the charity audit market.

Analysis of the Charity 100 and Charity 250 Indices compiled by *Charity Finance* reveals that the 'Big Four' audit just 84 of the top 350 charities. Moreover, there are

ten other firms handling the audit accounts of charities in the Charity 100 Index and a further 34 charities handling the audit accounts of charities in the Charity 250 Index.

The overall consensus of the charities and audit firms surveyed this year is that the charity audit market is very competitive. However, there are some segments better served than others. "For larger charities, the market is very competitive but a number of audit firms only want the large fees, so smaller charities sometimes find it difficult to get a good quality service at a fee they can afford," says Sayer Vincent partner Kate Sayer.

As BDO head of not-for-profit Don Bawtree comments, this situation will not be helped by "the raising of audit thresholds in commercial audits which reduces the level of audit expertise on small entities available to charities, where the audit threshold is much lower".

Several charities comment on the concentration of specialist expertise in London and the South East and uneven provision elsewhere. "Quality audit firms are heavily centred on London and the South East. There is very little local competition, making access to the training offered time-consuming and expensive," comments a charity in the South West with annual income of £9m.

regulations around VAT for charities continue to be too complex and this is not helped by funding agreements which use wording that leaves the recipient – and their auditors – unclear as to whether it is a grant or a contract," he adds.

According to Erskine at MHA MacIntyre Hudson, "there is a new drive by HMRC to challenge charities on the basis of their VAT recovery, resulting in a number of clients looking for additional VAT support, or reviews of their current practices to ensure they do not fall foul of this new regime."

Governance and risk advice

Advice on governance and risk management is also very much in demand, according to the audit firms surveyed. These two areas account for "20 to 30 per cent of all our non-audit services for charity clients", says Motazed, at Deloitte. "Charities have always been ahead of their private sector equivalents in these areas," he adds.

Nick Brooks, who runs the not-for-profit group at Kingston Smith, also notes "steady demand for advice in the area of governance and the tightening up of policies and procedures", noting that "poor governance is the single biggest cause of charities' failure".

“ There is a new drive by HMRC to challenge charities on VAT recovery ”

A key driver of this demand is "the recessionary climate, which is forcing many charities to take on additional risks to maintain their income and service levels", he adds.

Hazell at PwC says that "many requests for non-audit advice are in response to the ongoing impact of the recession in one form or another". Typical recent projects undertaken for charities by PwC include "governance reviews, finance function effectiveness reviews, IT

security and data loss, IT systems reviews, fraud reviews, tax and VAT assistance".

Hazell also notes "more activity in broader business advice both to audit and non-audit clients, ranging from strategic reviews and discussions around merging to large-scale operational transformation projects".

Carol Rudge, head of not-for-profit at Grant Thornton, says that there has been high demand for assignments designed to achieve "performance optimisation", as charities try to identify the best ways of doing things. "Following the recession many of our clients had to rethink their strategies. Now they are looking at how they can implement those strategies in the most effective and efficient way," she says.

Sam Coutinho, a haysmacintyre partner, says many charities seeking non-audit advice are simply trying to up their game: "Their motivation is more about seeking ways to optimise effectiveness and less about responding to specific problems."

Many audit firms note increased interest on the part of their charity clients in innovative ways of fundraising. “The specialist areas of social impact investment and measurement have been our fastest-growing non-audit services in the last 12 months,” observes Sladden at Baker Tilly.

“We’ve seen a growing interest in social impact measurement as a means of demonstrating value and to support bids for funding, which are becoming increasingly competitive in the current climate,” he adds.

Sladden also notes increased interest on the part of charities in exploring new sources of funding, such as social impact bonds.

Along with services aimed at helping the organisation as a whole,

many charities are simply looking to their auditors for help in the finance function. “We have seen an increase in outsourced bookkeeping and assistance with preparing management reports,” says Neal Gilmore, charities principal at HW Fisher.

“A number of our clients have found that they have not only improved the quality of their reporting but they have also reduced costs and freed up office space for other activities,” he adds.

Looking ahead

The most significant change on the horizon is, of course, the new Sorp, based on the requirements of FRS 102, which will take effect for accounting periods beginning on or after 1 January 2015. Charities across

the board are fairly relaxed about the impact of the new Sorp and confident that their auditors will be able to advise them of what is required.

“I do not anticipate any problems if we work with our auditors well in advance of the audit to agree any contentious issues,” says the chief financial officer at a charity with annual income of £62m. “With the guidance of our auditors, we would hope for a smooth transition,” concurs the finance officer of a smaller charity with annual income of £3.5m.

Although the final version of the Sorp will not be available until next summer, this confidence reflects – in large part – the success of the consultation process.

“There are far fewer issues than I anticipated – the Sorp committee

has done a good job,” comments the director of finance at a charity with annual income of £14m.

That said, charities need to be prepared for the changes, even though they are not yet fully aware of exactly what they will be.

One measure that is likely to have a significant impact is the new requirement for disclosure of liabilities relating to multi-employer pension schemes, bringing members of such schemes in line with charities that run their own defined benefit schemes. “Communicating what these figures mean and their impact

on reserves in the trustees’ annual report will require careful explanation,” says Anthony Epton, charities partner at Goldwins.

“ **There is a lot of pressure to fix fees for three years when tendering** ”

There are also instances where changes to FRS 102 are not reflected in the Sorp but are binding on larger charities, and smaller charities that choose to apply FRS 102 instead

of the FRSSE, the financial reporting standard for smaller entities.

An example of this is the requirement for holiday pay accruals, which for charities with a high number of staff could represent a significant new liability. “Alignment of the financial reporting year with the holiday year will undoubtedly make this requirement much easier,” notes Brooks at Kingston Smith.

Fees under pressure

Some charities fear that the new Sorp could be used by audit firms as an opportunity to hike fees. However, as figure 3 shows, audit fees have clearly been under pressure in the last year at charities in most income brackets. Indeed, fee increases have only been sustained over the last few years at the largest charities with income exceeding £100m, and among charities in the £2m-£5m bracket.

Gilmore at HW Fisher notes that “there is a lot of pressure to keep fees static or to fix fees for three years when tendering”. Epton at Goldwins sees positive advantages to fixed fees in that they reward loyalty.

However, Stevenson at Henderson Loggie says: “Fees on the whole have been standing up fairly well. We have seen some renewals where there has been no inflationary increase but this is a trend across a number of sectors and not just charities. We have also had just a couple of clients where we have reduced fees slightly, but overall, charities appreciate quality of service and recognise value for money.” ■

Charity auditor awards 2013

With at least 90 per cent rating as good the charity expertise, commitment to the voluntary sector and overall service levels provided by their auditors, the charities surveyed enjoy a high level of satisfaction with the audit services they receive.

Nonetheless we have tried to identify firms worthy of special mention based on the ratings they have received and 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 less than ten clients rating them have been excluded from the rankings.

Overall service (30-plus responses)

1	haysmacintyre
=2	Crowe Clark Whitehill
=2	MHA MacIntyre Hudson
4	Sayer Vincent
5	Chantrey Vellacott

Charity expertise (30-plus responses)

1	Crowe Clark Whitehill
=2	haysmacintyre
=2	MHA MacIntyre Hudson
4	Sayer Vincent
5	HW Fisher

Overall service (10-30 responses)

=1	Lovewell Blake
=1	Scott-Moncrieff
=3	Goldwins
=3	Mazars
5	Broomfield & Alexander

Charity expertise (10-30 responses)

=1	Lovewell Blake
=1	Scott-Moncrieff
=3	BDO
=3	Mazars
5	Goldwins

Prize draw winner 2013

All charities responding to the survey in full were entered into a prize draw for a luxury Christmas hamper. Congratulations to Helga Edwards, director of corporate services at the Woodland Trust, who is this year’s winner.



Diane Sim is a research analyst at Charity Finance

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