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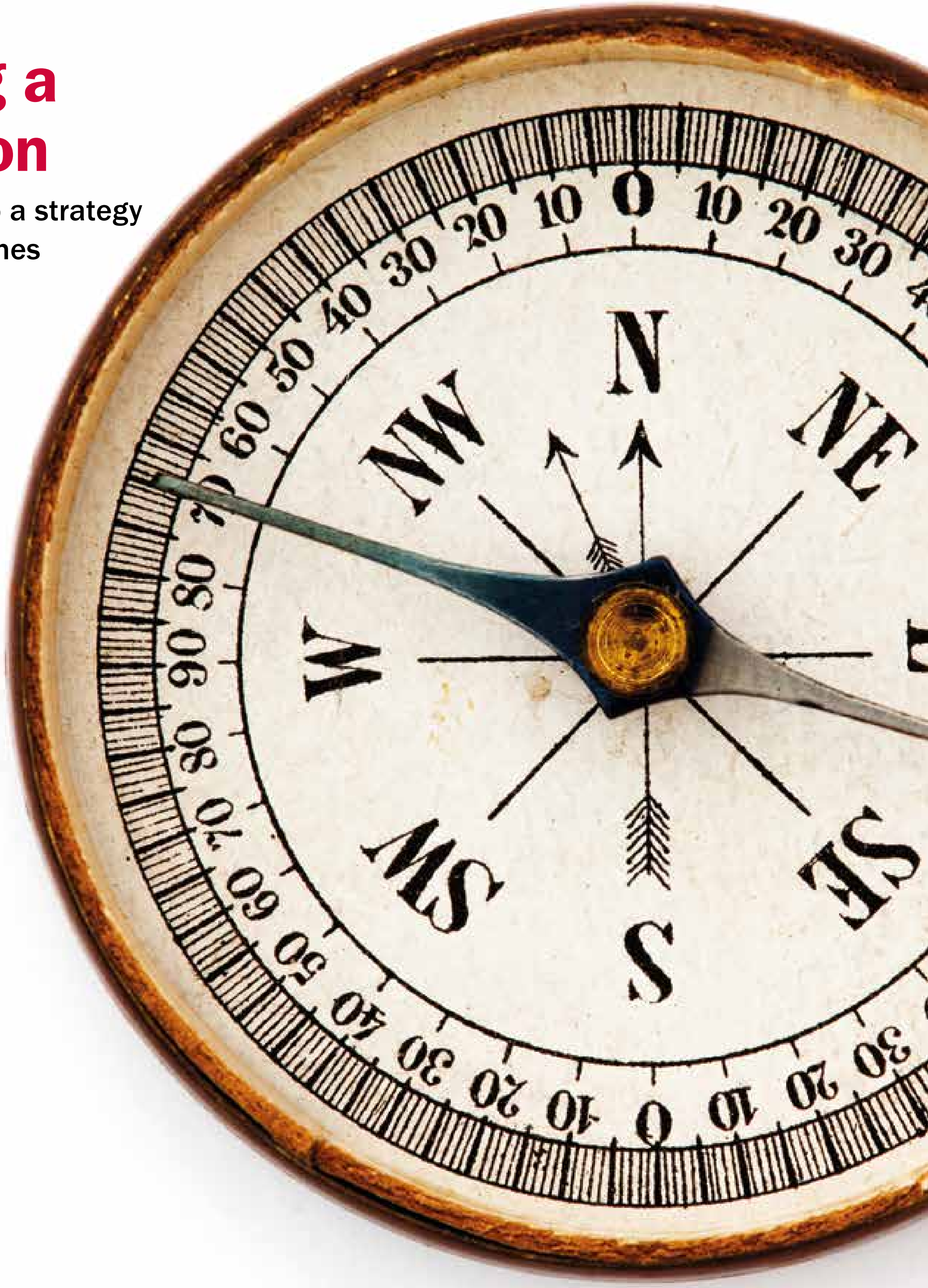
Setting a direction

How to develop a strategy in uncertain times



audit survey · fundraising ethics · impact investing · employment law update

A perfect storm

A difficult funding environment, enhanced reporting requirements and hostile media attention are creating a challenging climate for charities, finds Diane Sim.

Charity Audit Survey 2016

THESE ARE TOUGH times for charities, both in terms of raising income and reporting on it. As charities get to grips with the first year of implementing the new SORP, there are already new requirements in the pipeline. These range from additional rules on fundraising practices, which came into effect just last month, to proposed changes to whistleblowing regulations, which if implemented as they stand, could have a major impact on the relationship between charities and their auditors.

Along with increased reporting requirements in sensitive areas such as pension deficits and senior management remuneration, and negative media scrutiny, there is the potential to create a perfect storm for charities already feeling the financial pinch.

However, when the going gets tough, the tough get going, and the challenges, particularly in reporting, also provide an opportunity to pre-empt concerns and misconceptions and set the record straight. "Making impact reporting best practice rather than mandatory in the new SORP was a missed opportunity," says haysmacintyre partner Sam Coutinho. "With the decline in public trust and confidence in charities outlined in the Charity Commission's report in June, there has never been a more pressing time for charities to be proactive in demonstrating their value.

"We are encouraging our clients to develop their trustees' reports so that they actively address the issues raised. They need to demonstrate clearly how the finances are managed and how decisions are made, and what their fundraising practices and ethical policies are," she says.

> It has never been more pressing to be proactive in demonstrating value

Charity auditors

Figure 1 opposite ranks audit firms by the audit fees of their charity clients. The data is derived primarily from the 692 charities that participated in *Charity Finance's* 24th survey of charity audit and reporting.

The survey data is supplemented by data on the auditors used by the top 350 UK charities by income, which is routinely recorded for the purposes of compiling the *Charity Finance* / haysmacintyre Charity 100 and Charity 250 Indexes. This results in coverage of 1,003 charities, which collectively have annual income of £26.4bn and generate fees of £25.1m.

Coverage of the larger UK charities is therefore pretty comprehensive, while coverage of charities with annual income of less than £20.6m – the cut-off point for membership of the Charity 250 Index – is reasonably representative. Charities with annual income of over £10m represent 43 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 (26 per cent) and charities with income of below £1m (20 per cent).

Crowe Clark Whitehill (CCW) tops the league table for the eighth year running with audit fees of £3.1m from 93 charity clients. These charities collectively report annual income of £3.4bn.

According to Pesh Framjee, who heads up the not-for-profit team at CCW, "it's been a very good year for new charity audit wins, which include Asthma UK, Diabetes UK, Change Grow Live, Fauna & Flora International, the Institute of Mechanical Engineers, United Response and VSO".

Just behind CCW is PwC. It received audit fees of just under £3.1m from 34 charity clients, with these charities together generating total income of £4.9bn.

CCW and PwC have occupied the same top two positions in each of the last seven years, and together they account for 24.6 per cent of audit fees included in our sample. Their combined share, which peaked at 28.5 per cent in 2011 and has been comfortably above 25 per cent over the last seven years, is slightly down this year.

The composition of the top ten players is pretty stable, with just two new entrants and exits: Moore Stephens and public audit bodies move into positions 9 and 10 respectively, occupied last year by Kingston Smith and Sayer Vincent, which move into positions 11 and 12 respectively.

The pecking order in the top ten has changed very slightly with Grant Thornton and haysmacintyre switching position, taking up third and fourth place respectively.

The "big four" accountancy firms – Deloitte, EY, KPMG and PwC – have a significant presence in the charity audit market, accounting for 23.5 per cent of fees in our sample. Of the four, PwC leads with a 12 per cent share, followed by KPMG with 6 per cent, Deloitte with 5 per cent and EY on less than 1 per cent.

According to charities and not-for-profit group head Reza Motazedi, Deloitte has enjoyed a particularly successful run over the last couple of years. This year it won the audit of the Charities Aid Foundation from KPMG, while last year it won the Wellcome Trust and the Royal British Legion from PwC. These changes will be reflected in next year's charity auditor rankings.

Reporting issues

The single topic that has dominated conversations between charities and their auditors this year has of course been the implementation of the new SORP, which came into effect for accounting periods beginning on or after 1 January 2015. While the nature of those conversations will vary from charity to charity depending on the make-up of their income, expenditure, assets and liabilities, it is possible to identify common areas where charities have sought guidance.

"As a firm we have collated information on areas where we have seen issues arising in more than one client in order to avoid re-inventing the wheel and providing a consistent solution," says Nick Sladden, head of charities at RSM. "These areas have included: key management personnel disclosures; cash flow statements; holiday pay accruals; mixed-use premises; and the implications of deemed cost elections for the residual values of appreciating assets."

figure 1: Top 40 audit firms used by surveyed charities, ranked by audit fees

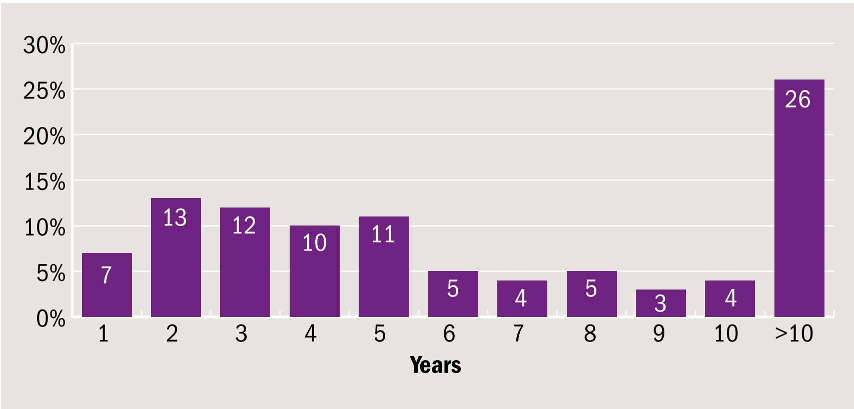
	Audit firm (2015 rank in brackets)	Audit fees (inc VAT) £	Income of audit clients £	No. of clients
1	Crowe Clark Whitehill (1)	3,101,609	3,367,243,182	93
2	PwC (2)	3,071,919	4,921,221,705	34
3	Grant Thornton (4)	2,526,900	3,249,009,000	32
4	haysmacintyre (3)	1,993,995	1,374,775,810	105
5	BDO (5)	1,844,194	2,218,988,502	56
6	KPMG (6)	1,449,200	1,802,033,000	22
7	RSM (7)	1,437,010	1,159,073,804	42
8	Deloitte (8)	1,211,300	1,836,541,000	21
9	Moore Stephens (11)	862,027	621,681,274	61
10	Public audit bodies (12)	797,700	936,266,000	13
11	Kingston Smith (9)	758,209	692,512,424	42
12	Sayer Vincent (10)	625,077	548,085,796	28
13	Buzzacott (14)	590,750	530,569,204	19
14	MHA MacIntyre Hudson (13)	472,317	211,321,470	50
15	Scott-Moncrieff (15)	341,708	231,718,230	30
16	Saffery Champness (18)	326,000	299,671,132	9
17	BHP (26)	310,692	147,971,707	29
18	Price Bailey (24)	267,728	75,480,122	31
19	Mazars (17)	255,920	147,185,118	9
20	HW Fisher (16)	205,054	83,557,086	20
21	Knox Cropper (21)	186,000	237,912,000	2
22	PKF Littlejohn (22)	174,000	83,314,000	3
23	EY (37)	163,400	168,244,000	5
24	James Cowper Kreston (28)	157,267	61,384,907	14
25	Bishop Fleming (19)	131,260	33,619,861	19
26	Monahans (20)	119,509	21,036,986	21
27	Critchleys (34)	112,796	65,319,782	12
28	Lovewell Blake (33)	108,123	45,057,030	18
29	Clement Keys (31)	101,400	53,725,000	1
30	Henderson Loggie (23)	95,276	145,987,000	4
31	PKF Francis Clark (30)	84,800	64,627,648	4
32	Griffin Stone Moscrop (38)	80,161	34,480,813	11
33	Goldwins (32)	74,774	14,569,162	18
34	UHY Hacker Young (-)	53,000	74,921,000	2
35	Godfrey Wilson (-)	49,092	7,919,664	18
36	WMT (-)	48,670	13,341,181	5
37	Duncan Sheard Glass (-)	48,000	42,541,000	1
38	Menzies (-)	47,900	63,226,000	2
39	PKF Cooper Parry (-)	45,000	49,727,000	2
40	Kreston Reeves (39)	42,263	9,425,373	13
	Other firms	690,712	658,306,860	82
	Total	**25,062,712**	**26,403,591,833**	**1,003**

Simon Erskine, charities technical partner at MHA MacIntyre Hudson, adds: “Perhaps the single most complicated issue has been that of transitional adjustments where the new accounting policies have resulted in different numbers in the accounts.

“Working out what has changed, how, and the effect on comparative amounts and reserves has been a major exercise – particularly where there are multiple adjustments such as multi-employer pension schemes, holiday pay accruals, changes to legacy recognition, or donated goods.”

According to Nick Simkins, head of charities and education at Moore Stephens, charities particularly affected by the new SORP are those which have to make deficit funding payments under a recovery plan for multi-employer pension schemes. “FRS 102 has required the liability for the deficit funding to be brought onto the balance sheet and this has had an impact on the net assets presented, which, in some cases, has required further discussion on the going concern position and appropriate disclosure in the trustees’ report and accounting policies,” he says.

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



Take up of the FRSSE SORP

The majority of charities have been eligible to use the FRSSE SORP, based on the Financial Reporting Standard for Smaller Entities, which has fewer disclosure requirements than the FRS 102 SORP, which is based on Financial Reporting Standard 102. In practice, however, only a small minority – including 10 per cent of charities surveyed this year – have chosen to do so. The main reason for this is the short shelf life of the FRSSE SORP, which has been superseded by a new section of FRS 102 for small entities with accounting periods beginning on or after 1 January 2016.

“As it was already clear last year that the FRSSE was to be withdrawn, the majority of eligible charities opted for the FRS 102 SORP rather than have one change with the FRSSE SORP this year and another change to FRS 102 SORP next year,” says Sudhir Singh, not-

figure 3: Audit fees by charity income band

Income band (£m)	No. of charities	Highest fee (£)	Lowest fee (£)	Median fee (£) This year	Last year	2013	2011	1-year change %	3-year change %	5-year change %
<0.1	39	6,300	250	1,095	1,260	1,428	1,746	-13	-23	-37
0.1–0.25	44	6,900	120	2,100	2,510	2,300	1,763	-16	-9	19
0.25–0.5	52	15,000	540	4,000	3,192	3,720	4,000	25	8	0
0.5–1	68	12,000	1,500	6,453	5,200	6,000	5,000	24	8	29
1–2	102	27,918	3,000	7,875	7,698	7,905	7,440	2	0	6
2–5	155	41,400	3,720	10,833	9,770	10,800	9,792	11	0	11
5–10	107	35,280	3,000	14,400	13,320	13,000	12,660	8	11	14
10–25	145	78,000	6,900	22,000	21,472	19,000	20,000	2	16	10
25–50	158	104,000	3,600	33,300	32,000	34,000	34,000	4	-2	-2
50–75	50	148,000	9,250	43,000	42,100	41,000	42,000	2	5	2
75–100	28	151,000	16,300	43,900	48,000	52,500	62,500	-9	-16	-30
>100	55	600,000	32,000	89,333	94,000	98,000	87,000	-5	-9	3

for-profit partner at MHA MacIntyre Hudson.

There are a variety of motives given by our survey respondents for using the FRSSE SORP for just one year. In some cases it is simply to have more time to phase the transition to the FRS 102 SORP, which can be useful for gathering comparative data or to learn from the ways in which other charities have handled the new requirements.

In other cases, however, it has been expressly to put off various requirements such as key management personnel disclosures or the preparation of a cash flow statement, required for all charities with income of £500,000 or more.

"The main issue has been the requirement for a charity providing a final salary pension scheme to show liabilities for historic deficits on the balance sheet," says Gillian Donald, partner at Scott-Moncrieff.

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

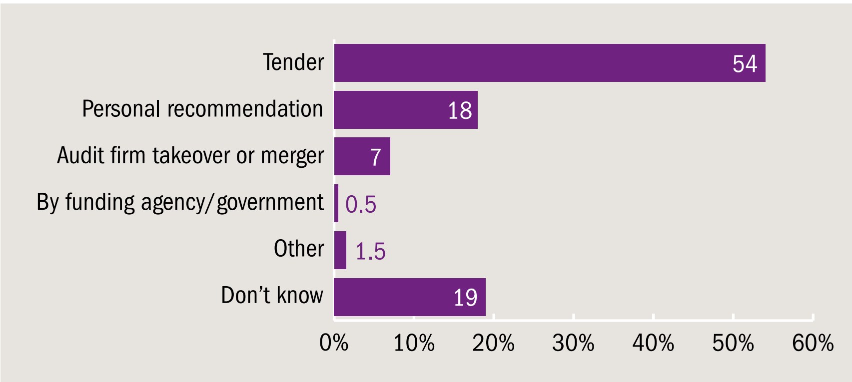
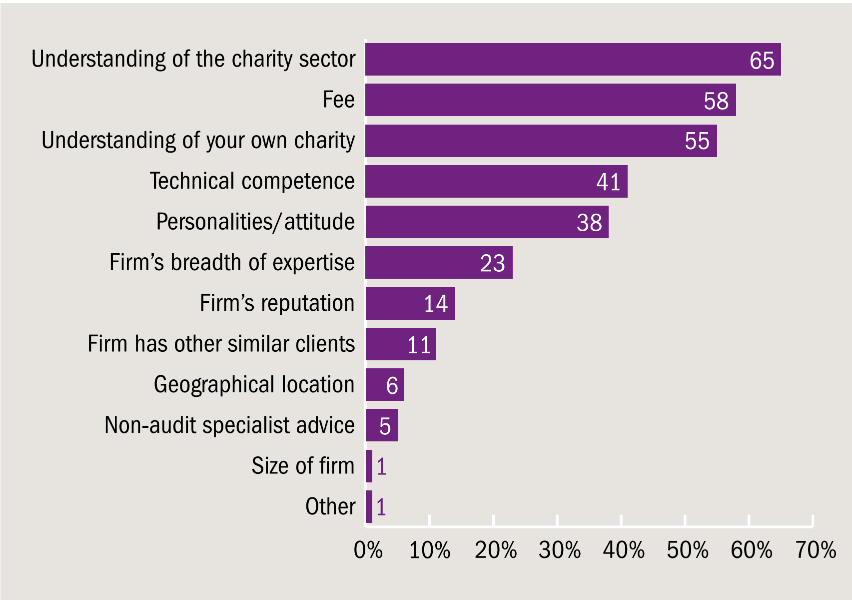


figure 5: What factors were important when choosing your auditor? (percentage of respondents)



"Some of our clients have delayed accounting for these liabilities as doing so triggers a discussion around going concern, cash flow and long-term solvency, because these liabilities are in many cases taking charities below acceptable reserve levels," she says.

Going concern

Several auditors interviewed in the course of this year's survey report having more discussions about going concern, especially with charities that rely heavily on government funding.

"A succession of public funding cuts has exhausted the scope to subsidise services from other sources of income or pare them down still further," says Sayer Vincent partner Kate Sayer. "At the same time, costs are going up due to compliance with minimum wage requirements and other employment measures affecting charities active in the health and social care sectors, so some charities are really struggling."

Helena Wilkinson, head of charities and not-for-profit at Price Bailey, adds: "A charity that is 85 per cent reliant on public funding and facing a 20-30 per cent cut can't just suddenly look to other sources to fill that gap. There is already huge competition for voluntary and trading income – charities are all chasing the same pound and facing diminishing returns on their investments in these areas."

According to Jill Halford, director of PwC's charity audit practice, "there is undoubtedly more competition among charities for voluntary income, along with increased costs as a result of greater fundraising regulation and less competition between fewer third-party fundraising agencies".

And as Motazedi at Deloitte points out: "Charities with long-established track records in raising voluntary income are already suffering from a gradual fall-off in the regular donor base and recurrent income from direct debits."

Neil Finlayson, who took over the leadership of Kingston's Smith's not-for-profit group from Nick Brooks earlier this year, states: "The increased disclosure and transparency required by the new SORP does mean that financial difficulties, where they exist, are more clearly signposted. While increased clarity is to be welcomed, there is of course an attendant risk that it will serve to increase the incidence of negative press coverage about the sector."

An issue related to going concern on which charities have sought more guidance this year is holding appropriate reserve levels, according to Richard Weaver, who heads up the charity and not-for-profit team at haysmacintyre. "We have been helping clients to think more strategically about the level of reserves they hold and why they hold them. There are still a large number of charities which report three to six months' expenditure without analysing whether or not this is right for them and their future strategy."

Independent examination

Another change in reporting requirements which has had an impact over the last year or so is the increase in the audit threshold from £0.5m to £1m in England and Wales from 31 March 2015. This has meant that around 4,000 charities that would routinely have had an audit are now eligible to have an independent examination instead.

In practice, many charities that could now have an independent examination are choosing to have a statutory audit because they prefer the higher level of assurance it confers. "For those charities in receipt of

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
BDO	28	4	9	1	0	3	0	1	1	2	1	0
BHP	29	7	9	0	0	3	0	4	1	1	0	0
Bishop Fleming	19	2	2	0	0	0	0	1	0	0	0	1
Critchleys	11	1	1	0	0	0	0	0	1	0	0	0
Crowe Clark Whitehill	49	12	17	0	0	4	0	4	5	1	1	2
Godfrey Wilson	18	0	0	0	0	0	0	0	0	0	0	0
Goldwins	18	0	0	0	0	0	0	0	0	0	0	0
Griffin Stone Moscrop	11	2	2	0	0	1	1	0	0	0	0	0
haysmacintyre	87	12	18	0	0	3	1	6	3	4	1	0
HW Fisher	20	3	5	0	0	0	0	2	2	1	0	0
James Cowper Kreston	14	5	9	0	0	1	1	1	4	2	0	0
Kingston Smith	29	0	0	0	0	0	0	0	0	0	0	0
Kreston Reeves	13	0	0	0	0	0	0	0	0	0	0	0
Lovewell Blake	18	2	4	0	0	1	0	1	1	0	1	0
MHA MacIntyre Hudson	49	7	12	1	0	2	0	5	1	1	1	1
Monahans	21	2	4	0	0	2	1	0	0	0	1	0
Moore Stephens	59	11	20	1	0	3	0	5	5	1	3	2
Price Bailey	31	7	10	0	0	2	0	2	4	1	1	0
RSM	19	6	15	2	0	4	0	5	0	2	1	1
Sayer Vincent	18	3	8	0	0	3	0	1	2	1	1	0
Scott-Moncrieff	28	5	8	0	0	3	0	1	2	1	1	0
Other firms	103	25	53	4	3	5	3	14	10	8	2	4
Total	**692**	**116**	**206**	**9**	**3**	**40**	**7**	**53**	**42**	**26**	**15**	**11**

government or local authority funding, many have chosen to continue with audit regulation because of the additional comfort it provides and because, in certain cases, funders expect charities that they fund to be audited," says Weaver at haysmacintyre.

It is also possible that charities that have recently become eligible for independent examination are waiting to see the changes to the directions and guidance to be made by the Charity Commission following their recent consultation on the subject. These are not yet published but are intended to take effect for reporting periods ending on or after 31 March 2017.

As the revised directions and guidelines will need to accommodate larger charities than previously, several auditors surveyed are anticipating a tiered approach, so that any new requirements will not be unduly onerous for smaller charities.

> "HMRC has refused to exempt charities from the Common Reporting Standard"

New reporting requirements

While implementation of the new SORP has been the dominant theme of this year's survey, there are other new reporting requirements that have either been recently introduced or are on the near horizon.

Some grantmaking charities, for example, have been affected by the Common Reporting Standard, which came into effect earlier this year. Aimed at preventing tax evasion, it requires "financial institutions" to report on the tax status of their accountholders, which can also include charities reporting on grant recipients.

Following lobbying from sector bodies including the Association of Charitable Foundations (ACF), the Charity Finance Group (CFG) and the Association of Charitable Organisations (ACO), HMRC has refused to give a blanket exemption

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

Audit firm	Total responses	Charity expertise			Corporate social responsibility			Overall service		
		Good	Average	Poor	Good	Average	Poor	Good	Average	Poor
BDO	28	96	4	0	41	59	0	86	14	0
BHP	29	97	3	0	68	29	3	93	7	0
Bishop Fleming	19	89	11	0	44	56	0	83	17	0
Critchleys	11	91	9	0	55	45	0	82	18	0
Crowe Clark Whitehill	49	100	0	0	68	30	2	94	6	0
Godfrey Wilson	18	94	6	0	67	33	0	89	11	0
Goldwins	18	100	0	0	100	0	0	94	6	0
Griffin Stone Moscrop	11	100	0	0	70	30	0	91	9	0
haysmacintyre	87	100	0	0	70	30	0	95	5	0
HW Fisher	20	95	5	0	75	25	0	95	5	0
James Cowper Kreston	14	86	14	0	71	21	7	79	21	0
Kingston Smith	29	100	0	0	75	25	0	100	0	0
Kreston Reeves	13	100	0	0	85	15	0	100	0	0
Lovewell Blake	18	94	6	0	83	11	6	94	6	0
MHA MacIntyre Hudson	49	98	2	0	72	26	2	94	6	0
Monahans	21	100	0	0	83	17	0	90	10	0
Moore Stephens	59	97	3	0	69	31	0	95	5	0
Price Bailey	31	97	3	0	70	30	0	97	3	0
RSM	19	89	11	0	56	44	0	84	16	0
Sayer Vincent	18	100	0	0	61	39	0	94	6	0
Scott-Moncrieff	28	96	4	0	54	42	4	89	11	0
Other firms	103	79	18	3	53	44	3	80	18	2
Total	**692**	**94**	**5**	**1**	**66**	**33**	**1**	**91**	**9**	**0**

for charities but has promised a "soft landing" approach to compliance, due to the late start in considering the impact on charities. Several auditors interviewed this year have, however, been successful in helping incorporated clients gain exemptions from the rules on an individual basis.

HMRC has since clarified the rules, saying that incorporated charities will not have to provide evidence of the tax status of all grant-holders, but all unincorporated charities relying on discretionary investments (excluding those in unit trusts) for more than half their income will still have to do so. Sector bodies are still seeking further clarifications and concessions for charities.

In addition to the rules on fundraising reporting in the SORP, the Charities (Protection and Social Investment) Act 2016 requires charities that are audited to include new statements in the trustees' annual report on their fundraising practices and arrangements with professional fundraisers or commercial participators. Effective for accounting periods beginning on or after 1 November 2016, these include statements on the fundraising approach, any fundraising scheme or standards voluntarily subscribed to, the monitoring of those standards, and reporting of any failure to comply with the rules.

> "Stakeholders have wanted more transparency about fundraising policies"

According to many of the charity auditors interviewed this year, these new requirements are not likely to be onerous. Indeed, many charities have already voluntarily started to include more narrative disclosure in the trustees' annual report on the governance of their fundraising function, says Sladden at RSM.

"Stakeholders have wanted more transparency about fundraising policies, more information about third-party relationships and reassurance about how donor data is being stored and used," he adds.

Looking further ahead, Buzzacott managing partner Amanda Francis states: "Charities in common with commercial organisations are going to be affected by new data protection and cyber security rules that come into force in 2018, though work on systems and policies will need to start well in advance."

The new SORP – again!

Over the longer term, charities have the next new SORP to look forward to, which is expected to take effect from 2019. In May, the Charity Commission (for England and Wales) and the Office of the Scottish Regulator (OSCR) opened the consultation process, which ends on 11 December. This has restarted the debate on what overall form annual reporting should take. "The SORP Committee really needs to take on board that less is more – the amount of disclosure in accounts now means no-one reads them anymore, except perhaps the FD and auditor, and that means they have lost their value," observes Wilkinson at Price Bailey.

Simkins at Moore Stephens notes a tendency on the part of charities to over-report, even when there is nothing to say, for fear of not complying with the rules. "As is the nature with disclosure requirements, some charities have struggled and thought that they must come up with something to disclose, but it is important to remember the underlying principle of transparency within the accounts. They need to ensure that the accounts are not over-complicated for the sake of having something to write about."

One area of concern for CCW's not-for-profit head Pesh Framjee, who is also an observer member of the SORP Committee, is the proposal for a key facts summary to be appended to the trustees' annual report. Views are being sought on whether the summary should include charitable expenditure as a percentage of total gross income, expressed as the equivalent pence in the pound.

"Any endorsement from the regulator or the SORP Committee of a cost-ratio-based approach will be a retrograde step. There are just too many issues to factor in that can make such comparators unworkable. It is not possible for analyses to cater for all the nuances that would give credibility to the percentages shown," argues Framjee.

"The reality is that with most forms of fundraising, there is very little correlation between what the accounts report as fundraising costs in a year and the actual amount raised in a year," he continues. "There is a real concern that a well-intentioned suggestion to improve the usability of financial statements and reports will lead to flawed and spurious comparisons and even support the views of some that there should be a mandated level for spend."

A summary of responses to the current consultation is expected in

Charity auditor awards 2016

With over 90 per cent of respondents rating the charity expertise and overall service levels provided by their auditors 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 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 ten ratings have been excluded from the rankings.

Overall service (30+ responses)

1	Price Bailey
2	haysmacintyre
3	Moore Stephens
=4	Crowe Clark Whitehill
=4	MHA MacIntyre Hudson

Charity expertise (30+ responses)

1	haysmacintyre
2	Crowe Clark Whitehill
3	MHA MacIntyre Hudson
=4	Moore Stephens
=4	Price Bailey

Overall service (10-30 responses)

1	Kingston Smith
2	Kreston Reeves
3	HW Fisher
=4	Goldwins
=4	Lovewell Blake
=4	Sayer Vincent

Charity expertise (10-30 responses)

1	Kingston Smith
2	Monahans
=3	Goldwins
=3	Sayer Vincent
=5	Kreston Reeves
=5	Griffin Stone Moscrop

Prize draw winner 2016

All charities responding to the survey in full were entered into a prize draw for a luxury Christmas hamper. Congratulations to Richard Thomas, finance manager & company secretary at Treetops Hospice Trust, who is this year's winner.

the second quarter of 2017 and will be used to prepare the new exposure draft SORP, expected in 2018.

Matters of material significance

An issue that is causing some consternation in the charity audit world is the recent consultation by all three UK charity regulators (covering England and Wales, Scotland and Northern Ireland) on reporting of matters of material significance by auditors and independent examiners, which ran from May to September.

The consultation proposed that auditors and examiners should report to the regulator on three new issues. These are: any qualification, modification or emphasis of matter added to their reports; evidence that trustees have failed to take action, with no good reason, over matters highlighted in the previous year's management letter; and evidence that demonstrates that trustees have not managed conflicts of interest in line with guidance from the regulator.

The proposals have been prompted by the collapse of Kids Company and the desire, on the part of the regulators, to institute an early warning system for failures in corporate governance so that they may take timely action.

In response, the Charity Finance Group (CFG) has warned that "auditors are increasingly being asked to police the charity sector", and highlighted the negative impact that the changes could have on the relationship between audit firms and charities. "Our discussions with auditors and independent examiners have highlighted the risk that advisers may take a step back from working with their clients for fear of the regulatory consequences of not reporting on those discussions.

> There is a trend towards greater distance between charities and auditors

"Trustees and charities often rely on their auditors for good-practice recommendations in open conversations. With an increased burden on auditors to monitor and report more, as underlined in this consultation, these open dialogues might cease to exist."

PwC director and head of charities Ian Oakley-Smith agrees: "The proposed additional disclosure requirements do risk endangering the dynamic of the relationship between auditors and their charity clients. Charities benefit from having issues brought to their attention, but if everything that the audit raises is going to be reported to the regulator, the client will be less willing to see things on record, with negative consequences for the value that the management letter currently confers."

Many auditors consulted in the course of this year's survey have been critical of the proposals. And while the proposals could change following the consultation, there is a general trend towards greater professional distance between charities and their auditors.

This is summed up by Don Bawtree, lead audit partner for charities at BDO, who says that "the collapse of Kids Company acted as a wake-up call for charities to understand the nature of audit and for auditors to become more independent, professional and challenging in their dealings with charities". ■

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