

Charity Finance

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SURVEY AUDIT 2019

Charity satisfaction levels high despite audit profession's 'crisis'

Scrutiny of annual reports and accounts within the charity sector is taking place at the same time as the spotlight falls on standards in the audit profession, says Ian Allsop.

THE CHARITY FINANCE audit survey, now in its 27th year, once again features data from well over 1,000 charities. Responses to the survey questionnaire have been augmented with data from the *Charity Finance*

100/250 Index charities.

In total, the survey covers 1,175 organisations, with a combined income of £29.9bn, paying total fees of £29.8m. Crowe has retained its position at the top of the table

(see figure 1). Elsewhere, for the first time, MHA, an association of eight accountancy firms, is reporting as one entity, and as a result appears in the top ten. Those firms include MHA MacIntyre Hudson, MHA Monahans, MHA Henderson Loggie and MHA Larking Gowen, all of whom were included separately last year.

A further MHA firm from the 2018 survey, Broomfield Alexander, has merged with Baldwins, which appears in the top 40 for the first time as a consequence.

Moore Stephens is another name missing from this year's list, having merged with BDO in February. Finally, taylorcocks has renamed itself the TC Group.

Charity auditor awards 2019

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 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 ten ratings have been excluded from the rankings.

Overall service (30+ responses)

1	Baldwins
2	BHP
3	MHA
4=	Sayer Vincent
4=	Kingston Smith

Charity expertise (30+ responses)

1	Kingston Smith
2	Baldwins
3	Crowe
4	BHP
5	MHA

Overall service (10-30 responses)

1	Chariot House
2	Griffin Stone Moscrop
3=	Goldwins
3=	HW Fisher
5=	Godfrey Wilson
5=	Price Bailey

Charity expertise (10-30 responses)

1	Price Bailey
2=	Chariot House
2=	RSM
4	Griffin Stone Moscrop
5=	Goldwins
5=	HW Fisher

PRIZE DRAW WINNER 2019

All charities responding to the survey in full were entered into a prize draw for a luxury Christmas hamper. Congratulations to Zhanar Tabeyeva, finance officer at Learning Disability Wales, who is this year's winner.

QUALITY SHEET

One of the biggest current concerns in the wider audit industry currently is around quality. Following the collapse in September of Thomas Cook, Elizabeth Barrett, executive counsel and director of enforcement at the Financial Reporting Council (FRC), told a committee of MPs that major auditors were failing in their duty to adequately challenge management. She accused them of having lost their objectivity and of being too close to the firms they are assessing. The travel company collapsed despite being given a clean bill of health by auditors PwC and EY.

Audit quality is still not consistently reaching the necessary high standards expected, according to the FRC's *Developments in Audit* report, particularly when it concerns routine procedures such as revenue recognition. FRC is working with audit firms to ensure quality improves and will hold them to account where remedial action is not taken to an appropriate level or on a sufficiently timely basis.

Earlier this year, David Ainsworth of the Charity Finance Group published a blog post which considered whether charities should be asking for their auditor's QAD score. ICAEW QAD – or the Quality Assurance Department at the Institute of Chartered Accountants for England

and Wales – inspects auditors. Although auditors cannot publish the contents of the QAD report, they can reveal the scores, and many already do. ICAEW's position is that it is reasonable for those being audited to ask for scores and thinks that auditors should provide them,

or give a reason why not. And broadly, CFG is advising charities and their auditors along the same lines.

Pesh Framjee, global head of non-profits at Crowe, says that CFG makes an important point about client satisfaction not being the same as audit quality. "A client can be eminently satisfied by an audit that is delivered on time and at low cost without too much disruption. Client satisfaction is often focused on things such as staff continuity, speed to deliver and fees. These say little about the quality of an audit.

"Having the same staff doing the audit year on year, cutting corners by not digging enough and providing a cut price audit can all score high on client satisfaction but can also lead to a deterioration in audit quality. Trustees and management should be considering whether the audit they receive is rigorous, with appropriate challenge and proper testing.

"Charities are facing greater demands for transparency on how they do things rather than just what they do, and it is only right that they should expect the same from their auditors. Many auditors publish transparency reports that include the scores provided by the ICAEW following QAD reviews of audit files and working papers. Charities should be requiring auditors to provide their QAD scores when they tender for audits and on an ongoing basis."

Sudhir Singh, head of not-for-profit at MHA, warns, however, that it would not be unusual for a firm to have a number of QAD reviews completed and for no charities to be in the sample selected for that firm. "While QAD conclusions may provide some insight into audit quality, the total numbers of audits reviewed is small, so any grading would not be statistically valid for comparing firms, even if any firms were willing to provide information. So if a charity requested the score as part of the tendering this may be misleading. An auditor could have a full complement of the highest scores, but with no charities included."

He believes that studies completed by the Charity Commission on the quality of charity financial reporting may be more relevant.

FIGURE 1: TOP 40 AUDIT FIRMS USED BY SURVEYED CHARITIES, RANKED BY AUDIT FEES

	Last year	Audit firm	Audit fees (£, including VAT)	Income of audit clients (£)	No. of clients
1	1	Crowe	4,290,378	4,715,512,790	118
2	3	PwC	2,970,238	4,181,477,916	34
3	2	Deloitte	2,861,300	3,391,510,000	19
4	5	BDO	1,995,406	2,859,054,002	45
5	6	RSM	1,911,683	1,648,676,153	45
6	4	Grant Thornton	1,906,860	2,297,783,428	25
7	7	haysmacintyre	1,504,587	1,420,407,406	69
8	8	Kingston Smith	1,327,217	778,585,441	56
9	-	MHA	1,229,443	708,711,754	144
10	10	Sayer Vincent	1,119,262	805,491,074	59
11	9	KPMG	896,616	1,566,189,648	15
12	11	Public audit bodies	881,200	1,214,007,000	15
13	13	Buzzacott	650,475	645,975,408	19
14	17	Saffery Champness	450,641	296,816,355	17
15	21	BHP	447,655	266,790,382	38
16	-	Baldwins	355,072	197,931,351	58
17	14	Mazars	345,076	304,205,739	16
18	19	Price Bailey	325,830	186,789,664	29
19	16	PKF Littlejohn	242,765	164,484,981	14
20	28	TC Group	234,525	78,567,801	29
21	15	PKF Francis Clark	205,750	122,807,404	21
22	30	James Cowper Kreston	193,453	70,578,380	16
23	34	Kreston Reeves	187,051	35,940,308	31
24	25	Knox Cropper	173,000	279,858,000	2
25	24	Lovewell Blake	165,234	46,682,006	30
26	29	EY	155,600	180,713,000	4
27	22	HW Fisher	155,291	84,915,355	11
28	23	Bishop Fleming	138,567	37,569,243	17
29	40	Chariot House	114,764	30,186,679	21
30	36	Godfrey Wilson	90,066	19,696,412	29
31	37	Griffin Stone Moscrop	87,797	35,428,719	14
32	32	Goldwins	64,780	16,791,039	11
33	-	Garbutt & Elliott	64,281	29,680,788	11
34	-	Calcut Matthews	54,000	138,516,000	2
35	18	Scott-Moncrieff	53,400	60,286,527	3
36	38	Menzies	47,000	68,536,000	2
37	-	DSG	45,000	51,525,000	1
38	-	UHY Hacker Young	39,600	101,992,000	2
39	31	PEM	35,722	11,787,773	5
40	-	PKF Cooper Parry	34,700	42,835,983	4
		Other firms	716,605	727,669,729	74
		Total	28,767,890	29,922,964,638	1,175

In August the Charity Commission reported that the accounts of only three-quarters of charities with incomes over £1m met its external scrutiny benchmark. And this fell to 51 per cent or less for charities with lower income levels.

The Commission stated that it was concerned that so many accounts submissions did not meet its benchmark. “While the trustees are responsible for their charity’s accounts, our findings also raise concerns about the work done by the auditors and independent examiners who scrutinised these accounts.”

The regulator has published benchmark guidance, which aims to enable charity trustees to check whether their independent examiner or auditor has an adequate understanding of the necessary requirements.

It looked in detail at the results for each of the three documents that make up a set of charity accounts (the trustees’ annual report, the external scrutiny report and the accounts) for a sample of 296 charities across different income samples (£25,000 – £250,000, £250,000 – £1m and over £1m).

For the external scrutiny report, there was a high level of compliance from the charities in the two largest income samples. The two main reasons, however, why charities in these samples failed to meet the benchmark for their accounts were incomplete reporting of related party transactions, and not providing a separate summary income and expenditure account, or not stating that it was included in the Statement of Financial Activities (SOFA).

about audit performance, it allowed the firm or individual a chance to explain themselves.

“Now we understand it just reports them directly to their professional association, who presumably would consider regulatory action with its members. Potentially therefore charities could ask their mooted auditor whether they have had any regulatory enquiries or disciplinary action arising from this Commission whistleblowing. I feel that could be a little unfair, as it is quite

“ Potentially therefore charities could ask their mooted auditor whether they have had any regulatory enquiries ”

ICAEW responded by saying that the number of accounts not meeting the external scrutiny benchmark was disappointing and that it has agreed a plan “to improve the quality of work of our members.”

Singh points out: “In the past where the Commission has been concerned

possible that what the Commission reports as a significant failure may well be a result of something less so or an oversight. Completed results of disciplinary investigations are, however, typically published.”

He thinks it could be interesting to know how many charities are required

to undertake a prior year adjustment in the first year of a new auditor that is not related to a change of accounting policy. “This would tend to suggest that something was wrong the previous year which had not been identified by external scrutiny.”

trustees’ annual report (TAR) is fit for purpose. Jonathan Orchard, partner at Sayer Vincent, suggests that some are – and some are not. “We’ve been actively working with our clients to understand how they can be better used as a basis for telling the charity’s story in both

recognised in the sector that reports and accounts which contain extensive narrative are quite difficult to absorb and fully understand. As a consequence many charities are gradually moving towards increased reporting of impact as it is easier for the reader of the accounts to assimilate and it is a more attractive presentation to stakeholders and funders.”

“ Many charities are gradually moving towards increased reporting of impact as it is easier for the reader ”

FIT FOR PURPOSE?

Auditors note that there have not been a lot of new audit or reporting issues over the last year, other than ongoing matters arising from the Charities SORP Update Bulletin 2 (October 2018).

However, there has been considerable debate in the sector about whether the

words and numbers. Too many reports are boilerplate in style and focus on the compliance aspects without explaining the context. Examples are the required statements on fundraising, risk, remuneration and public benefit.”

Neil Finlayson, partner at Kingston Smith, argues: “It is generally

Eddie Finch, partner at Buzzacott, feels that for charities built around voluntary models (donations, legacies, volunteer time, project work funded from these sources and grantmaking), the SORP is generally fine. “However, its approach to dealing with funded delivery of projects and with primary purpose trading is creaking. Although the grey areas between true grants and contracts have been acknowledged in the SORP for a long time, the compromise accounting solutions adopted often don’t facilitate clear or understandable financial reporting.”

Alastair Duke, partner at PKF Littlejohn, thinks most TARs meet the criteria set out in the applicable regulations, but adds: “a wide variety is seen in terms of how engaging the reports are, and how they communicate the impact of the charity’s activities. There is still a lack of use of financial and non-financial KPIs. The best combine facts and figures with case studies and impact studies to bring things to life for the reader.

“It depends on how the charity views the annual report and accounts – as a statutory compliance exercise or a marketing document.”

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

■ Over a quarter of charities have used the same auditor for more than 10 years ■

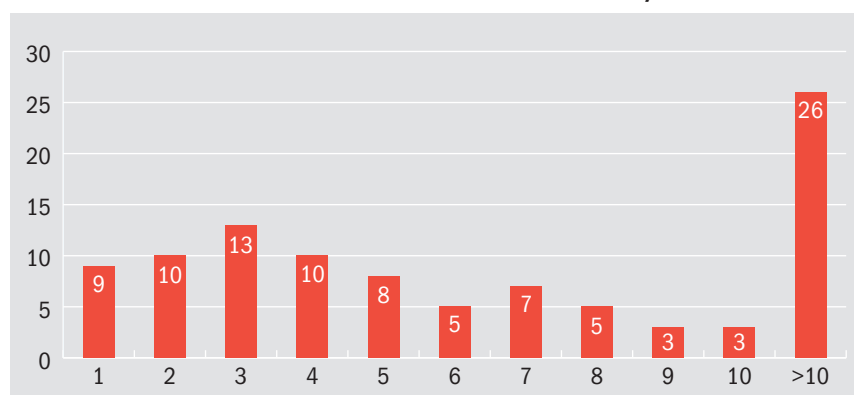


FIGURE 3: AUDIT FEES BY CHARITY INCOME BAND

Income band (£m)	No. of charities	Highest fee £	Lowest fee £	Median fee						
				This year	Last year	2016	2014	1 year change %	3 year change %	5 year change %
<0.1	42	5,550	45	1,242	1,200	1,095	1,650	4%	13%	-25%
0.1 - 0.25	43	13,000	450	2,500	1,854	2,100	2,466	35%	19%	1%
0.25 - 0.5	82	12,616	800	3,105	3,342	4,000	3,441	-7%	-22%	-10%
0.5 - 1	109	22,680	630	5,130	5,375	6,453	5,419	-5%	-21%	-5%
1 - 2	144	23,283	680	7,620	7,320	7,875	7,225	4%	-3%	5%
2 - 5	181	34,000	3,500	10,800	10,450	10,833	10,440	3%	0%	3%
5 - 10	119	69,000	1,080	13,776	13,000	14,400	13,820	6%	-4%	0%
10 - 25	105	73,800	5,220	21,350	19,380	22,000	20,000	10%	-3%	7%
25 - 50	188	669,000	2,160	33,000	32,000	33,300	34,000	3%	-1%	-3%
50 - 75	72	206,000	10,675	45,000	44,500	43,000	44,000	1%	5%	2%
75 - 100	25	208,000	12,700	50,000	49,000	43,900	46,000	2%	14%	9%
>100	65	600,000	23,000	73,000	84,000	89,333	102,500	-13%	-18%	-29%

Liz Hazell, head of not-for-profits at Saffery Champness, thinks that trustees need to continue to embrace transparency and accountability, and more rules won't necessarily help. "Simplification for smaller charities could help both the preparers of the accounts as well as the readers. Currently there's a real danger that more and more is required which muddies the water

in terms of the messaging, and clarity and accessibility."

Framjee agrees. "The big question is what are the accounts for and who is the audience. I hear the comment that you need a degree to understand them but I would say that statutory accounts of housing associations, universities, pension funds, banks etc are no less complex. If accounts are to provide information about

the financial activities and financial position, and have to comply with charity law and accounting standards, then I would say they are fit for purpose. The problem we are hearing in the sector is that there is a risk that they are becoming more and more complex as the regulators try to use them as a regulatory tool."

Singh says: "We have noticed an increasing number of charities wanting to consider the presentation of the financial statements and the messaging they provide. This includes giving more attention to the good practice trustees' report aspects such as seeking to consider impact reporting, though much of that remains quite rudimentary, commentary on areas of compliance with the governance codes, or going beyond minimum requirements on remuneration and other HR matters. We recognise that charity

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

■ Over half of charities review their auditor every five years or more ■

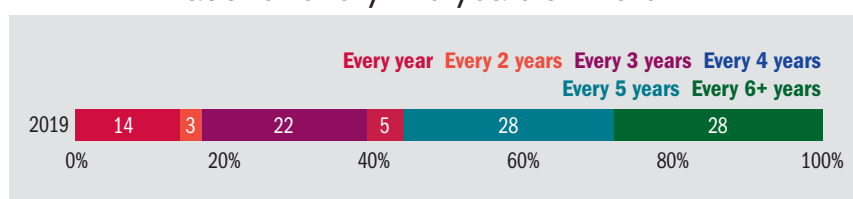


FIGURE 5: DO YOU HAVE ANY OF THE FOLLOWING PROBLEMS WITH YOUR AUDITOR?

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
Baldwins	58	2	3	1	0	1	0	0	0	0	0	1
BDO	10	5	7	1	0	0	0	3	1	1	0	1
BHP	38	2	4	0	0	0	0	1	2	1	0	0
Bishop Fleming	17	6	12	0	0	3	1	3	3	2	0	0
Buzzacott	8	1	1	0	0	1	0	0	0	0	0	0
Chariot House	21	2	2	0	0	0	0	0	1	0	0	1
Crowe	61	10	13	2	0	6	0	1	1	1	0	2
Garbutt & Elliott	11	2	3	0	0	1	0	0	0	1	0	1
Godfrey Wilson	29	1	1	0	0	0	0	1	0	0	0	0
Goldwins	10	0	0	0	0	0	0	0	0	0	0	0
Griffin Stone Moscrop	14	0	0	0	0	0	0	0	0	0	0	0
HW Fisher	10	0	0	0	0	0	0	0	0	0	0	0
haysmacintyre	44	7	17	2	0	1	3	4	2	2	1	2
James Cowper Kreston	16	4	5	0	0	1	0	1	0	0	1	2
Kingston Smith	48	7	13	2	0	4	0	1	4	1	1	0
Kreston Reeves	31	7	9	0	0	3	0	3	1	0	0	2
Lovewall Blake	30	4	8	0	0	4	1	0	1	1	1	0
Mazars	9	3	6	0	0	1	0	3	1	1	0	0
MHA	140	23	36	1	0	10	1	11	4	3	4	2
PKF Francis Clark	19	5	8	1	0	2	0	2	1	2	0	0
PKF Littlejohn	14	3	6	0	0	0	0	3	2	1	0	0
Price Bailey	29	3	4	0	0	1	0	0	2	0	0	1
RSM	21	6	11	0	0	2	1	3	1	2	0	2
Saffery Champness	9	5	8	1	0	4	0	1	0	1	0	1
Sayer Vincent	52	11	15	2	0	2	1	4	3	0	1	2
TC Group	28	6	10	1	0	3	0	1	3	1	0	1
Other firms	82	19	55	5	3	9	4	7	12	10	0	5
Total	859	144	257	19	3	59	12	53	45	31	9	26

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
Baldwins	58	98	2	0	78	21	1	98	2	0
BDO	10	90	10	0	10	80	10	70	20	10
BHP	38	97	3	0	68	32	0	97	3	0
Bishop Fleming	17	88	12	0	71	29	0	76	24	0
Buzzacott	8	100	0	0	75	25	0	100	0	0
Chariot House	21	100	0	0	86	14	0	100	0	0
Crowe	61	98	2	0	56	44	0	90	10	0
Garbutt & Elliott	11	91	9	0	64	36	0	91	9	0
Godfrey Wilson	29	97	3	0	86	14	0	97	3	0
Goldwins	10	100	0	0	80	20	0	100	0	0
Griffin Stone Moscrop	14	100	0	0	57	43	0	100	0	0
HW Fisher	10	100	0	0	60	40	0	100	0	0
haysmacintyre	44	93	7	0	66	32	2	86	9	5
James Cowper Kreston	16	88	6	6	75	19	6	81	19	0
Kingston Smith	48	100	0	0	73	27	0	94	6	0
Kreston Reeves	31	90	10	0	81	19	0	90	10	0
Lovewall Blake	30	87	13	0	80	20	0	93	7	0
Mazars	9	100	0	0	56	44	0	78	22	0
MHA	140	96	4	0	78	22	0	94	5	1
PKF Francis Clark	19	84	16	0	42	53	5	89	11	0
PKF Littlejohn	14	93	7	0	64	36	0	86	14	0
Price Bailey	29	100	0	0	83	17	0	97	3	0
RSM	21	100	0	0	67	33	0	81	19	0
Saffery Champness	9	89	11	0	44	56	0	78	22	0
Sayer Vincent	52	96	4	0	62	38	0	94	6	0
TC Group	28	96	4	0	71	29	0	86	14	0
Other firms	82	74	22	4	45	49	6	74	21	5
All respondents	859	94	6	0	68	31	30	90	9	1

financial reporting is highly technical and often counter-intuitive, so despite there being little that has changed fundamentally we regularly find ourselves reconfirming well-established accounting principles.”

Jill Halford, partner at BDO, sums up the issue by pointing out that the issue is that “many charities have so many different stakeholders, that meeting all their needs is difficult.”

SORP DEVELOPMENT

Against this background, an expert oversight panel was set up to review the sector’s accounting requirements and the whole process by which the Charities SORP is formulated and developed in four jurisdictions:

England and Wales, Scotland, Northern Ireland and Ireland, the latter of which will soon also adopt the SORP. A consultation was opened in November 2018, and the panel responded by publishing in June 2019, *Guiding the Development of the Charities SORP*, which makes several recommendations aimed at refocusing the SORP. This included the appointment of a new committee and the establishment of seven stakeholder groups. It also called for a simplification of the reporting needs of smaller charities.

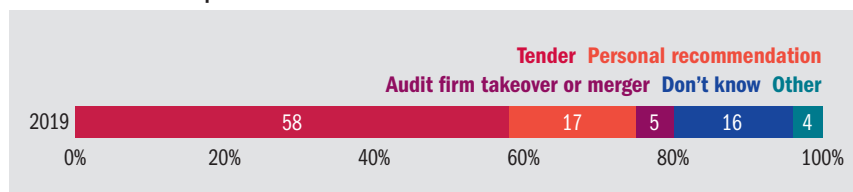
Now that this new governance arrangement is established, how do auditors see the SORP developing in the future?

While Neal Gilmore, charities principal at HW Fisher, agrees that the SORP ensures technical compliance with the accounting standards, he says the challenge is to produce summary information in a standardised form that can provide key measures to satisfy the requirements of other stakeholders. However, he adds: “it is important to ensure that summary information is not too standardised in that it masks key information or makes it difficult to explain differences between charities. Will charities accept further costs if auditors have to undertake work to verify the additional information disclosed?”

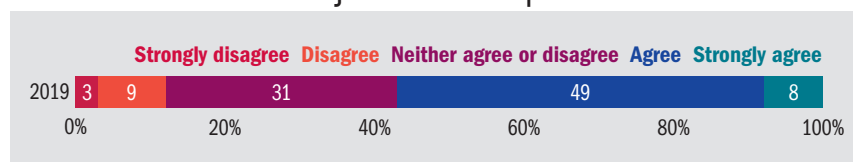
He says: “It is not immediately obvious how a SORP for smaller

FIGURE 7: HOW WAS YOUR AUDITOR CHOSEN? (% OF RESPONDENTS)

- 58 per cent of charities use a tender process to select their auditor ■

**FIGURE 8: TO WHAT EXTENT DO YOU AGREE THAT WITH THE STATEMENT THAT CHARITY ANNUAL REPORTS AND ACCOUNTS ARE FIT FOR PURPOSE? (% RESPONDENTS)**

- 57 per cent believe annual reports and accounts do the job that is expected of them ■



charities would impact on reporting. If a charity has less complex affairs the SORP will naturally produce a simpler set of accounts already.”

Richard Weaver, head of charities and not-for-profit at haysmacintyre, says that there is a need to reconsider the usefulness of some of the additional disclosures that charities are required to make, and more closely align the reporting of those giving money with those that receive it.

Nick Sladden, head of charities at RSM, points out that the need for the accounting disclosures to align with the FRS 102 framework has been well documented. “Therefore, we see future SORP development as largely being more focused on the trustees’ report. Lengthy reports rather than succinct clarity in reporting continues to be an issue for most users of accounts.”

Singh says that the governance review has thrown up some interesting challenges for financial reporting. “Some of the themes of simplification and proportionality have been explored extensively in the past. This does not mean we should not strive for better charity reporting, but it instils a sense of déjà vu since such improvements have been sought since the deregulation initiatives of the 1980s, and it is clear that the

silver bullet is not easy to find.

In an era of big data, interpretation is going to be increasingly important, but harder to achieve when the sources of information are so widespread.”

He adds that another development related to this is that the International Auditing and Assurance Standards Board (IAASB) has issued a discussion paper on the audit of less complex entities. “It will be interesting to see how that develops and whether a reduced audit framework for smaller charities will ever be available.”

Halford envisages clearer separation of requirements between smaller and larger charities, with smaller ones being given more scope to adopt simpler presentations. “This could possibly lead to a three or even four-tier structure.”

While Orchard welcomes the proposed wider membership of the SORP committee, he says that its ability to make radical changes will always be constrained by accounting standards. “We do not believe that there is anything fundamentally wrong with the SORP. The problem is how it is being interpreted and put into practice. If charities embraced more of the original spirit and intent of the SORP then overall reporting would be significantly improved.”

PAY ATTENTION

Levels of executive pay continue to be an issue for the charity sector, with more negative press in the last year about the salaries of some individual CEOs. Over 60 per cent of charities responding to the audit survey feel that charities are sufficiently transparent about how CEO pay levels are set and reported. But does disclosing remuneration in bands of £10,000 tick the box on transparency?

Gilmore summarises that charities – especially the larger ones – are sensitive to the public perception of high pay on the one hand and requesting donations from the public on the other. “For many charities it is recognised as important to recruit individuals with the level of skill and experience necessary to run quite complex organisations, but this is not an easy message to get across.

Admittedly the levels of pay are lower than in the corporate sector, but while the SORP has required charities to disclose who are key management personnel and their remuneration in aggregate as a minimum, we have found there is some resistance to our suggestion that greater transparency can be beneficial by providing details on key individuals, even in smaller charities where the levels of pay are not out of proportion.”

Halford says that disclosure is clear if applied correctly. “What isn’t helpful is that the annual return has different figures than the accounts, which has caused confusion.”

The reporting of senior management remuneration is intended to allow for comparison between different charities, says Duke. “However, in our experience there is a wide range of interpretation of who constitutes key management personnel, which reduces the ability for useful comparisons to be made. This can even be within charity sub-sectors, for example independent schools.”

FEES

The charity audit firms identify some areas which could put pressure on audit fees. Framjee says there appears to be recognition in some quarters that charities should be focusing on quality rather than the cheapest fee, and Halford agrees.

“Audit committees and senior management are recognising that audit costs are increasing.

across the charity sector, regardless of size. None of us can rest on our laurels, and all must focus on adopting

is sometimes harder to pass on to the client.”

Hazell considers that generally fees are holding up at sensible levels, but adds: “there are some instances that we see through invitations to tender where there are some unrealistic expectations. That said, we need to be realistic too and ensure that the balance of quality of service versus fee is appropriate otherwise it’s not sustainable in the longer term for either party.”

“ Look out for firms raising their digital investment, particularly in the areas of data analytics, digital solutions and AI ”

“Recent corporate failures have highlighted the importance of robust, quality audits. Financial reporting standards are under regular review, and every change increases the complexity of our work. Auditing standards are also regularly updated, which, again, leads to an inexorable increase in both the time and skills required to complete a high quality audit.”

Singh thinks that it is arguable that statutory auditing may be going through an existential crisis. “The impression that the audit profession is failing is suggested by concerns over audit quality for large corporates, while studies by the Charity Commission have highlighted poor practice right

an even more thorough approach. This is likely to increase costs, so firms will need to find efficiencies to avoid these being passed on to their clients. It is likely that technology will help, so look out for firms raising their digital investment, particularly in the areas of data analytics, digital solutions and AI.”

For Finch, charity audit remains a competitive market, but increasingly the value of sub-sector specialisms is recognised. He adds that cost pressures are an issue though. “Increasing expectations around going concern, and more formal consideration of assertions in narrative reporting put pressure on audit cost budgets that

TENDER TIMES

All audit firms report plenty of tender activity, and this is backed up the charities in our survey. Within the last year, 16 per cent of respondents have actively reviewed their choice of auditor, with 12 per cent of those opting for a change.

The frequency with which some charities tender may result in firms being more bullish with fee quotes, as shorter relationships provide less opportunity to recoup the investments that are made by audit firms in new clients, according to Weaver.

He adds: “Unlike the corporate sector where you tend to meet and

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quote directly with the owners of the business, charities rely on a two-phased approach to tendering. Firstly a meeting with management, and then a presentation to a panel of trustees. It would be really useful to have more trustees involved in the first phase of the selection process as they are ultimately the engagers.

“We have also seen an increase in the number of tender processes that do not allow a meeting, more aligned to public procurement processes. We are more reluctant to engage in this as there is a large investment in an audit tender process and a significant part of that engagement is a good and effective professional working relationship, which this type of process does not allow for.”

Framjee also identifies an increase in tenders led by procurement people. “They often ask for the proposals to be made in a very stultifying way – in text boxes with word and sometimes character-count limits. They also use mechanistic scoring – so small fee differences can make a big difference on overall score.

“Some have shortlisted based on the quality of the proposals without initially asking for the fee so as to try and get the best ones on their shortlist. In an attempt to create level playing fields some also share information and answers to queries. The more progressive ones do not do this as they recognise that they need auditors that ask the right questions and seek out the useful information for themselves.”

In the light of the fact that almost a third of charities have been shown to have had the same auditor for over ten years, Gilmore reminds charities

that it is all about re-assessing the quality of service and also the ability to advise and assist in an environment with greater change and challenges. “We have seen many clients embarking on new developments to ensure they remain adaptable to changes around them, and having an adviser that knows your operations in depth is an advantage.”

Finch points out that trustees often don't realise that a review needn't necessarily lead to a tender exercise. “A review in which the relationship and service levels are evaluated and found to be working, and the appointment is reconfirmed, is often appropriate. This will often initiate a refreshed audit approach and deepen trustee/auditor links without the costs, risks and disruption of changing firm.”

BREXIT

Although the possibility of a no-deal Brexit seems less likely than it might have at the point charities were responding to the survey (42 per cent of whom said they had done some planning for the no-deal scenario), a lack of clarity remains – which is causing problems.

Richard Hill, partner at Griffin Stone Moscrop, says that Brexit uncertainty has affected the property market significantly. “Where charity clients have investment properties, this has meant needing to adopt a pragmatic approach when evaluating how the carrying value of such a property within accounts compares to the market value basis required by the SORP.”

Sladden has seen a wide variation in the completeness and robustness

of Brexit planning across charity clients, often based on the perceived risk that Brexit may pose to their organisation. “Some charities have very detailed plans and sensitivity modelling based on supply chain and funding impacts, as well as staffing considerations. Other charities have failed to develop plans at all.”

Duke adds: “The scenarios are too disparate to really plan for. It's been very much wait and see. What we have noticed is charities reviewing their reserves policies to ensure these are fit for purpose, closely monitoring their budgets and forecasts, and looking for non-EU funding sources or alternative income streams where there is a reliance on funding from the EU.”

Hazell emphasises that Brexit is still very much a moving target, but says the areas in which she is seeing plans being made also include responding to workforce changes. She adds: “Changes in foreign exchange are also impacting some, as are the costs of and access to raw materials for building projects and drugs (eg for hospices). Many of these are hard to plan for at present but there is a much greater awareness of the potential areas of impact.”

Halford concludes that while there is a fear of the impact that Brexit will have on the wider economy in terms of donations and legacies, estimating the quantum of this is nearly impossible. “Lots of charities are feeling helpless and are guessing at the moment.”

Weaver agrees, while noting that the risk is on registers as a “keep monitoring”, but “for some charities it is far more important than others.” ●