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# Charity Finance

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The growing trend of reporting on your environmental,  
social and governance impact

Also inside:

**Charity Audit Survey 2021**

The importance of resilience

**Should charities continue to fund trading subsidiaries?**

The impact of Covid-19 on reserves policies

## Sustainability and Covid recovery dominate audit concerns

*The environmental and financial sustainability of charities as they move into the post-pandemic world is a priority for their auditors, Ian Allsop finds*

IN THIS survey 12 months ago, common concerns centred around remote audits. This year, this topic seems less of a challenge. But as both charities and auditors move to hybrid models of working, organisations still have plenty of issues to deal with, including new regulatory and reporting requirements, and ensuring sustainability as we move further into what will hopefully be a truly post-pandemic world.

This year, over 600 charities responded to Charity Finance's 29th annual charity audit survey, and once their information is augmented by data from the Charity Finance 100 and 250 Index charities, the survey covers 938 charities with combined income of £31.6bn, paying audit fees of £30.7m.

Crowe consolidated its position at the top of the table of firms ranked by audit fees (figure 1), having picked up 100 Index charity Aga Khan Foundation. BDO replaced PwC in third spot, largely due to two more Index charities, RNIB and WaterAid, changing hands between the two firms. BDO also won the Francis Crick Institute and Marie Curie, while other significant audits to move included Jewish Care to RSM and Fusion Lifestyles to McCabe Ford Williams.

Henderson Loggie returns as a separate firm in the table after leaving the MHA stable, along with Larking Gowen and Carpenter Box.

So, what have been the main audit and reporting issues for charities in the last 12 months? Nick Sladden, head of charities at RSM, says that many charities have reflected, and

refreshed or refocused their overall strategy. "They have considered how they deliver their charitable work and what the move to remote provision means for them. In some cases, this has resulted in increased investment in IT – after long periods of under-investment – and the disposal of premises that are no longer needed. This, along with significant variances

in income, has resulted in challenges with the accuracy and robustness of medium-term financial planning. Some charities have moved to six-month rolling budget processes to reflect the dynamic environment."

For John Howard, charity partner at Azets, going concern remains the single largest issue. "In many cases uncertainty over the future remains, which is a challenge for both boards and auditors. For a number of charities, the financial effect of the last 12 months has actually not been as bad as was first expected, because of the assistance provided by the job

“In many cases uncertainty over the future remains, which is a challenge for both boards and auditors”

### Charity auditor awards 2021

With around 90% of respondents rating their auditors' charity expertise and overall service as "good", the charities surveyed are clearly satisfied with the audit services they receive. Nonetheless, we have highlighted a few firms as worthy of special mention based on the ratings they have received.

These firms are grouped by the number of clients rating them, on the basis that the larger the sample gets, the harder it is to maintain a consistently high rating. For this reason, firms with fewer than 10 ratings have been excluded from the rankings.

#### Overall service (>30 responses)

|   |                      |
|---|----------------------|
| 1 | Garbutt & Elliott    |
| 2 | Azets                |
| 3 | Price Bailey         |
| 4 | Moore Kingston Smith |

#### Overall service (10-30 responses)

|   |                       |
|---|-----------------------|
| 1 | Godfrey Wilson        |
| 2 | Buzzacott             |
| 3 | Griffin Stone Moscrop |
| 4 | Goldwins              |

#### Charity expertise (>30 responses)

|   |                   |
|---|-------------------|
| 1 | Crowe             |
| 2 | Price Bailey      |
| 3 | Azets             |
| 4 | Garbutt & Elliott |

#### Charity expertise (10-30 responses)

|   |                |
|---|----------------|
| 1 | Godfrey Wilson |
| 2 | BHP            |
| 3 | haysmacintyre  |
| 4 | Chariot House  |

retention scheme and other sources. Thoughts have now turned to the next 12-24 months as that government support ends and any reserves that have been built up as a result may be required to cover future funding uncertainties.”

BDO’s head of charities, Jill Halford, agrees about going concern, both in terms of reporting and cash flow tracking. “Charities have had the cushion of government funding for the last financial year and many have reported surpluses following restructures and robust cost control.

“ It is important to ensure that charities don’t shy away from being honest about what they achieved ”

Explaining this in the trustees’ report has been a challenge, as has accounting for and reporting government grants, especially those where the funding qualifies as State Aid. Charities are also still struggling to articulate the key judgements and estimates in the accounting policies, and the disclosures

in this area are surprisingly weak in many accounts.” She also highlights increasing demands on the finance team such as restructures, new systems implementation and cyber-attacks.

Stephen Dean, audit director at Grant Thornton, adds that the days of simple forecasts based on the annual budget are gone. “There is a need for scenario planning and reverse stress testing to really get an understanding as to what might need to happen for the charity to fail and how likely it is that this scenario might happen.

“From a financial reporting perspective, this all led to the need to enhance the disclosures in both the trustees’ report and in the accounting policies. Financial statements have moved from disclosing fairly bland statements to including much more detailed disclosures that really made clear the rigour that has gone on in the background in drawing the going concern conclusion. The bar has now shifted on going concern, and although the financial risk from the pandemic may be lessening, these enhanced requirements seem set to stay.”

He also raises the more general messaging that charities need to convey in their financial statements. “It is important to ensure that charities don’t shy away from being honest about what they achieved and failed to achieve as a result of the restrictions we have all suffered.”

Richard Weaver, head of charities and not-for-profit at haysmacintyre, suggests that the new standard causing the most additional work is the new one on judgements and estimate (ISA540). “It is the one area where by its very nature it is subjective, and the standard requires clients to consider and/or justify why the approach they take in these judgemental areas is reasonable and appropriate. Some areas such as depreciable lives of assets are easier to validate; it is the areas such as dilapidations provisions, pension assumptions and legacy debtors for example that are taking

**FIGURE 1: TOP 35 AUDIT FIRMS USED BY SURVEYED CHARITIES, RANKED BY AUDIT FEES**

| Last year | Audit firms | Audit fees (£, including VAT) | Income of audit clients | No. of clients        |            |
|-----------|-------------|-------------------------------|-------------------------|-----------------------|------------|
| 1         | 1           | Crowe                         | 4,454,289               | 4,887,738,712         | 109        |
| 2         | 2           | Deloitte                      | 3,710,800               | 4,337,189,000         | 19         |
| 3         | 4           | BDO                           | 3,444,019               | 4,195,731,458         | 57         |
| 4         | 3           | PwC                           | 2,769,100               | 3,674,169,534         | 26         |
| 5         | 5           | RSM                           | 2,261,421               | 1,647,902,590         | 46         |
| 6         | 6           | Grant Thornton                | 1,929,900               | 1,977,804,000         | 21         |
| 7         | 7           | Moore Kingston Smith          | 1,781,169               | 1,036,897,469         | 66         |
| 8         | 9           | haysmacintyre                 | 1,438,482               | 1,384,420,256         | 47         |
| 9         | 12          | Public audit bodies           | 1,145,100               | 1,371,526,000         | 16         |
| 10        | 11          | KPMG                          | 1,136,700               | 1,605,713,827         | 14         |
| 11        | 13          | Azets                         | 713,675                 | 398,617,009           | 93         |
| 12        | 14          | Buzzacott                     | 685,318                 | 669,794,207           | 26         |
| 13        | 8           | Sayer Vincent                 | 627,991                 | 466,209,680           | 20         |
| 14        | 17          | Price Bailey                  | 530,152                 | 274,281,671           | 44         |
| 15        | 18          | Saffery Champness             | 361,097                 | 331,769,780           | 12         |
| 16        | 16          | BHP                           | 325,214                 | 138,894,601           | 29         |
| 17        | 20          | HW Fisher                     | 321,411                 | 139,022,475           | 18         |
| 18        | 15          | Mazars                        | 305,700                 | 247,924,000           | 7          |
| 19        | 19          | Knox Cropper                  | 242,000                 | 479,249,000           | 2          |
| 20        | 23          | Garbutt & Elliott             | 195,911                 | 70,402,841            | 35         |
| 21        | 21          | Cooper Parry                  | 187,360                 | 160,793,378           | 12         |
| 22        | 28          | PKF Francis Clark             | 157,520                 | 139,938,961           | 10         |
| 23        | 10          | MHA                           | 140,196                 | 93,564,812            | 14         |
| 24        | 27          | PKF Littlejohn                | 133,532                 | 69,557,000            | 2          |
| 25        | -           | Henderson Loggie              | 117,029                 | 98,430,842            | 10         |
| 26        | 24          | Godfrey Wilson                | 114,160                 | 24,305,602            | 28         |
| 27        | 22          | EY                            | 110,700                 | 198,864,000           | 3          |
| 28        | 29          | Goldwins                      | 110,200                 | 31,851,711            | 20         |
| 29        | 25          | Chariot House                 | 105,910                 | 31,090,879            | 17         |
| 30        | 26          | UHY Hacker Young              | 90,777                  | 126,255,070           | 11         |
| 31        | 30          | Griffin Stone Moscrop         | 87,423                  | 20,831,408            | 11         |
| 32        | -           | Bishop Fleming                | 80,845                  | 20,890,450            | 7          |
| 33        | 32          | DSG                           | 63,000                  | 60,662,000            | 1          |
| 34        | -           | Haines Watts                  | 53,200                  | 166,177,397           | 5          |
| 35        | 34          | Calcutt Matthews              | 51,400                  | 172,567,000           | 2          |
|           |             | Other firms                   | 702,079                 | 830,835,654           | 78         |
|           |             | <b>Total</b>                  | <b>30,684,780</b>       | <b>31,581,874,274</b> | <b>938</b> |

more time to consider and document fully and evidence audit challenge.”

Daniel Chan, director at PwC, says that challenges have varied for charities of different sizes and across different sectors. “A key principle is that the running of charities, and the associated business decisions, drives their financial reporting – not the other way round. Some charities have changed their business model, including organisational restructures in some instances, and that will lead to different reporting considerations. Those that have turned their investments into cash when the pandemic hit are taking a closer look at their investment policies going forward. And there have been property considerations, such as how best to use their space, early termination of leases, sub-letting offices and dilapidation costs.”

Richard Hill, principal charity partner at Griffin Stone Moscrop, says that while his firm’s charity

## “ Some charities have changed business model, and that will lead to different reporting ”

clients have been impacted by the pandemic in different ways, all have thankfully survived so far. “Where an entity’s income and activities are linked to being able to provide services in-person and the delivery of these has been disrupted by the pandemic, then naturally the management team and trustees have needed to carefully manage the finances and operations of the charity to plot a course to enable them to survive, utilising the support measures that have been made available to them by government and financial stakeholders.”

Nick Hume, director at Calcutt Matthews, adds that charities without hosted solutions or cloud accounting

have found it hard to coordinate information in time to make funding and reporting deadlines.

### HORIZON SCANNING

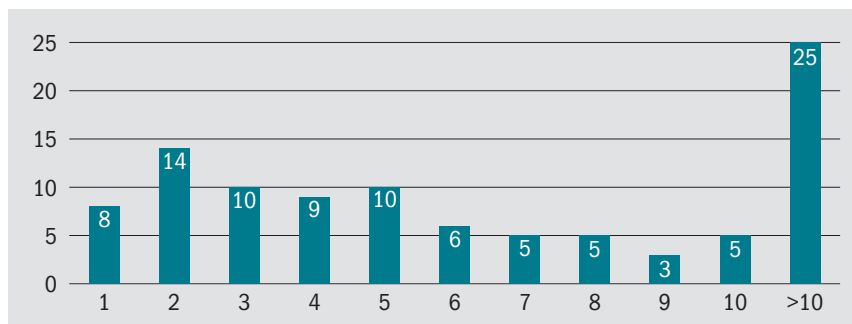
Looking ahead, Helena Wilkinson, head of charities and NFP at Price Bailey, says that from the perspective of her involvement in the professional and technical strand for the SORP development process, she can see significant trustees’ reporting changes likely to arise as a result of the next SORP. “This ranges from impact reporting (on strategy and evidence around how it is delivered) to more disclosure on free reserves and Charity Governance Code compliance.”

As well as the SORP, the immediate headline requirement that charities should monitor, in the opinion of Tracey Moore, national head of charities and not-for-profit at UHY Hacker Young, is the triennial review of FRS 102, currently ongoing.

“This was delayed due to the pandemic so the timeline on both this and the SORP has shifted. The Charities SORP Committee appears to be aiming for a simplification of charity accounts, which have become quite cluttered in recent years due to the FRS 102 requirements. FRS 102 is becoming more and more targeted

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

■ 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 | 2017   | 2015   | 1 year change | 3 year change | 5 year change |
| <0.1             | 27              | 7,200         | 175          | 1,420      | 1,700     | 1,200  | 1,095  | -16           | 18            | 30            |
| 0.1 - 0.25       | 22              | 11,697        | 870          | 2,600      | 2,469     | 1,854  | 2,100  | 5             | 40            | 24            |
| 0.25 - 0.5       | 44              | 10,920        | 900          | 3,240      | 3,600     | 3,342  | 4,000  | -10           | -3            | -19           |
| 0.5 - 1          | 85              | 18,000        | 1,400        | 5,100      | 4,920     | 5,375  | 6,453  | 4             | -5            | -21           |
| 1 - 2            | 102             | 38,400        | 2,268        | 7,335      | 8,038     | 7,320  | 7,875  | -9            | 0             | -7            |
| 2 - 5            | 150             | 46,200        | 1,400        | 11,640     | 10,037    | 10,450 | 10,833 | 16            | 11            | 7             |
| 5 - 10           | 80              | 62,000        | 2,500        | 15,800     | 15,072    | 13,000 | 14,400 | 5             | 22            | 10            |
| 10 - 25          | 73              | 98,700        | 4,380        | 23,000     | 20,045    | 19,380 | 22,000 | 15            | 19            | 5             |
| 25 - 50          | 187             | 905,000       | 3,900        | 35,000     | 34,000    | 32,000 | 33,300 | 3             | 9             | 5             |
| 50 - 75          | 65              | 262,000       | 3,300        | 47,500     | 46,300    | 44,500 | 43,000 | 3             | 7             | 10            |
| 75 - 100         | 30              | 272,000       | 15,000       | 58,050     | 51,000    | 49,000 | 43,900 | 14            | 18            | 32            |
| >100             | 73              | 900,000       | 25,000       | 91,000     | 81,000    | 84,000 | 89,333 | 12            | 8             | 2             |

at large for-profits as opposed to smaller entities and is particularly excessive for most not-for-profits. This should be welcome news to the sector.”

She also cites the “exciting project of IFR4NPO” to develop a global reporting standard for not-for-profits. “This would be useful for large charities, which have a number of overseas operations.”

Edward Finch, partner in Buzzacott’s charity and not-for-profit team, identifies increasing numbers of financial instruments with some

“ One of the BEIS proposals is around what should be included in the definition of public interest entities ”

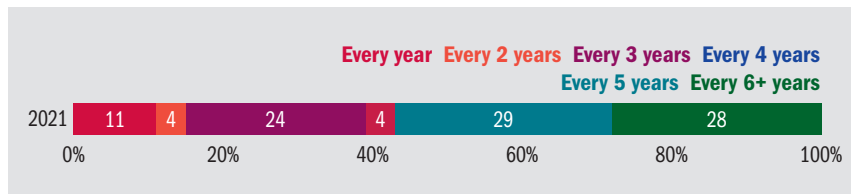
part of the return based on delivery of impact targets. “Accounting for these as complex financial instruments could be very costly in relation to the information benefit. It will be quite difficult to structure and ultimately not necessarily very meaningful

or reliable. It will be necessary to develop some consensus on what might be practicable and meaningful without resorting to overly convoluted methodologies.”

Anthony Epton, charities partner at Goldwins, raises the Department for Business, Energy & Industrial Strategy’s (BEIS) consultation on restoring trust in audit and corporate governance. “One of its proposals is around what should be included in the definition of public interest entities (PIEs). While the Charity Commission backs the government’s aim to enhance the UK’s audit and governance framework, it does not accept that the framework for the interest of shareholders can be aligned to the interests of the charity sector.

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

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



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

| Audit firm            | No. of charities responding | No. of charities reporting problems | No. of problems reported | Poor understanding of own charity | Poor understanding of charity sector | Fees too high | Lack of technical competence | Staff changes | Slow to deliver | Poor liaison | Lack of access to partner | Other     |
|-----------------------|-----------------------------|-------------------------------------|--------------------------|-----------------------------------|--------------------------------------|---------------|------------------------------|---------------|-----------------|--------------|---------------------------|-----------|
| Azets                 | 90                          | 7                                   | 13                       | 0                                 | 0                                    | 5             | 0                            | 1             | 1               | 3            | 1                         | 2         |
| BDO                   | 13                          | 9                                   | 33                       | 2                                 | 1                                    | 7             | 1                            | 9             | 6               | 4            | 2                         | 1         |
| BHP                   | 27                          | 1                                   | 2                        | 1                                 | 0                                    | 0             | 0                            | 1             | 0               | 0            | 0                         | 0         |
| Bishop Fleming        | 7                           | 0                                   | 0                        | 0                                 | 0                                    | 0             | 0                            | 0             | 0               | 0            | 0                         | 0         |
| Buzzacott             | 16                          | 1                                   | 3                        | 0                                 | 0                                    | 1             | 1                            | 1             | 0               | 0            | 0                         | 0         |
| Chariot House         | 17                          | 1                                   | 3                        | 0                                 | 0                                    | 0             | 0                            | 0             | 1               | 1            | 0                         | 1         |
| Cooper Parry          | 12                          | 3                                   | 4                        | 0                                 | 0                                    | 1             | 0                            | 0             | 2               | 0            | 0                         | 1         |
| Crowe                 | 51                          | 8                                   | 13                       | 0                                 | 0                                    | 2             | 0                            | 3             | 1               | 1            | 1                         | 5         |
| Garbutt & Elliott     | 34                          | 2                                   | 4                        | 0                                 | 0                                    | 1             | 0                            | 1             | 2               | 0            | 0                         | 0         |
| Godfrey Wilson        | 28                          | 0                                   | 0                        | 0                                 | 0                                    | 0             | 0                            | 0             | 0               | 0            | 0                         | 0         |
| Goldwins              | 20                          | 0                                   | 0                        | 0                                 | 0                                    | 0             | 0                            | 0             | 0               | 0            | 0                         | 0         |
| Griffin Stone Moscrop | 11                          | 2                                   | 2                        | 0                                 | 0                                    | 2             | 0                            | 0             | 0               | 0            | 0                         | 0         |
| haysmacintyre         | 19                          | 7                                   | 16                       | 1                                 | 0                                    | 3             | 0                            | 3             | 3               | 4            | 1                         | 1         |
| Henderson Loggie      | 9                           | 0                                   | 0                        | 0                                 | 0                                    | 0             | 0                            | 0             | 0               | 0            | 0                         | 0         |
| HW Fisher             | 17                          | 3                                   | 3                        | 0                                 | 0                                    | 0             | 0                            | 0             | 1               | 0            | 1                         | 1         |
| MHA                   | 12                          | 3                                   | 9                        | 1                                 | 0                                    | 2             | 1                            | 1             | 1               | 1            | 2                         | 0         |
| Moore Kingston Smith  | 54                          | 10                                  | 16                       | 1                                 | 0                                    | 6             | 0                            | 4             | 2               | 2            | 0                         | 1         |
| PKF Francis Clark     | 7                           | 2                                   | 5                        | 1                                 | 1                                    | 1             | 1                            | 0             | 0               | 0            | 0                         | 1         |
| Price Bailey          | 43                          | 5                                   | 11                       | 0                                 | 0                                    | 1             | 0                            | 3             | 3               | 2            | 0                         | 2         |
| RSM                   | 22                          | 6                                   | 17                       | 2                                 | 0                                    | 6             | 1                            | 3             | 2               | 2            | 0                         | 1         |
| Saffery Champness     | 6                           | 2                                   | 4                        | 0                                 | 0                                    | 1             | 0                            | 0             | 2               | 0            | 0                         | 1         |
| Sayer Vincent         | 10                          | 2                                   | 4                        | 0                                 | 0                                    | 1             | 1                            | 1             | 1               | 0            | 0                         | 0         |
| UHY Hacker Young      | 9                           | 1                                   | 1                        | 0                                 | 0                                    | 0             | 0                            | 0             | 0               | 0            | 0                         | 1         |
| Other firms           | 76                          | 24                                  | 62                       | 6                                 | 5                                    | 8             | 5                            | 10            | 13              | 6            | 3                         | 6         |
| <b>Total</b>          | <b>610</b>                  | <b>99</b>                           | <b>225</b>               | <b>15</b>                         | <b>7</b>                             | <b>48</b>     | <b>11</b>                    | <b>41</b>     | <b>41</b>       | <b>26</b>    | <b>11</b>                 | <b>25</b> |

## “ Many of the recommendations in the consultation are about good governance, not just audits ”

It therefore concluded the charities should not be classified as PIEs. This is an area which larger charities, possibly with income exceeding £100m, should certainly monitor.”

Sudhir Singh, head of not-for-profit at MHA, also highlights the BEIS consultation. “The sector discussion concerning this has centred too much on the possible future definition of PIEs to include large third sector entities with public benefit purposes – potentially capturing charities, universities, colleges, academies and housing associations. We would certainly agree with the sentiment that regulation needs to be proportionate, though we should not forget that only five years ago the largest charity audits were subject to a very similar regime

which may have been unwelcome but was managed. And it is important to recognise that there are some charities which, for specific reasons, are currently already defined as PIEs. Instead, we consider it is important to recognise the potential positive actions that could, or perhaps should, arise when the government implements proposed changes.”

He also says that the Charity Commission has made it clear from reviews carried out in 2019 and 2021 that there are real concerns about the quality standards of some charity audits. “While the details remain confidential, the underlying concerns regarding the audit profession which led to the government consultation founded on shoring up the confidence

of the users of financial statements, must apply equally to the charity as the commercial sector. Furthermore, many of the recommendations in the consultation are about good corporate governance, not just audits and auditors.”

### REPORTING ENVIRONMENT

There has been much written recently about environmental, social and governance (ESG) reporting, and it is an area that all charities should be monitoring. Streamlined energy and carbon reporting (SECR) on emissions and energy consumption has been mandatory for large unquoted companies, including larger charitable companies (those with two of the following: gross annual income of over £36m, balance sheet assets of over £18m and over 250 employees), for some time. Therefore, it isn’t an immediate concern for the majority of charities – only 16% of survey respondents are currently doing it (see figure 9, page 38). However,

**FIGURE 6: SATISFACTION – HOW DO YOU RATE YOUR AUDITOR ON THE FOLLOWING?**

| Audit firm            | Total responses | Charity expertise (%) |          |          | Corporate social responsibility (%) |           |          | Overall service (%) |           |          |
|-----------------------|-----------------|-----------------------|----------|----------|-------------------------------------|-----------|----------|---------------------|-----------|----------|
|                       |                 | Good                  | Average  | Poor     | Good                                | Average   | Poor     | Good                | Average   | Poor     |
| Azets                 | 90              | 99                    | 1        | 0        | 70                                  | 30        | 0        | 93                  | 7         | 0        |
| BDO                   | 13              | 77                    | 15       | 8        | 23                                  | 77        | 0        | 38                  | 31        | 31       |
| BHP                   | 27              | 100                   | 0        | 0        | 74                                  | 26        | 0        | 93                  | 4         | 4        |
| Bishop Fleming        | 7               | 100                   | 0        | 0        | 71                                  | 29        | 0        | 86                  | 14        | 0        |
| Buzzacott             | 16              | 100                   | 0        | 0        | 75                                  | 25        | 0        | 100                 | 0         | 0        |
| Chariot House         | 17              | 100                   | 0        | 0        | 94                                  | 6         | 0        | 94                  | 6         | 0        |
| Cooper Parry          | 12              | 100                   | 0        | 0        | 75                                  | 25        | 0        | 83                  | 17        | 0        |
| Crowe                 | 51              | 100                   | 0        | 0        | 57                                  | 43        | 0        | 88                  | 12        | 0        |
| Garbutt & Elliott     | 34              | 100                   | 0        | 0        | 71                                  | 29        | 0        | 100                 | 0         | 0        |
| Godfrey Wilson        | 27              | 100                   | 0        | 0        | 85                                  | 15        | 0        | 100                 | 0         | 0        |
| Goldwins              | 20              | 95                    | 5        | 0        | 90                                  | 10        | 0        | 95                  | 5         | 0        |
| Griffin Stone Moscrop | 11              | 100                   | 0        | 0        | 55                                  | 45        | 0        | 100                 | 0         | 0        |
| haysmacintyre         | 19              | 100                   | 0        | 0        | 63                                  | 37        | 0        | 79                  | 21        | 0        |
| Henderson Loggie      | 9               | 100                   | 0        | 0        | 89                                  | 11        | 0        | 100                 | 0         | 0        |
| HW Fisher             | 17              | 94                    | 6        | 0        | 59                                  | 41        | 0        | 88                  | 12        | 0        |
| MHA                   | 11              | 91                    | 9        | 0        | 64                                  | 36        | 0        | 91                  | 9         | 0        |
| Moore Kingston Smith  | 54              | 96                    | 4        | 0        | 74                                  | 26        | 0        | 91                  | 9         | 0        |
| PKF Francis Clark     | 7               | 86                    | 14       | 0        | 29                                  | 57        | 14       | 57                  | 43        | 0        |
| Price Bailey          | 43              | 100                   | 0        | 0        | 77                                  | 23        | 0        | 93                  | 7         | 0        |
| RSM                   | 22              | 95                    | 5        | 0        | 55                                  | 45        | 0        | 86                  | 9         | 5        |
| Saffery Champness     | 6               | 83                    | 17       | 0        | 33                                  | 67        | 0        | 83                  | 17        | 0        |
| Sayer Vincent         | 10              | 100                   | 0        | 0        | 80                                  | 20        | 0        | 80                  | 20        | 0        |
| UHY Hacker Young      | 9               | 100                   | 0        | 0        | 100                                 | 0         | 0        | 100                 | 0         | 0        |
| Other firms           | 76              | 79                    | 17       | 4        | 53                                  | 39        | 8        | 75                  | 21        | 4        |
| <b>Total</b>          | <b>608</b>      | <b>95</b>             | <b>4</b> | <b>1</b> | <b>67</b>                           | <b>32</b> | <b>1</b> | <b>88</b>           | <b>10</b> | <b>2</b> |

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

interestingly, a third were unaware of SECR reporting, even though further disclosure on environmental issues is clearly the direction of travel.

Such reporting can be regarded as using up valuable charitable time and resource – indeed, some auditors question the increasing desire to make public everything in the report and accounts and whether this the right media for some of these statements. However, post-COP26, political pressure will continue to grow.

new frameworks to ensure they are in a good place when the new requirements come in. Some charities may wish to adopt future reporting requirements even if they don't meet the size criteria, for example, where they have environmental objectives or to pre-empt stakeholder questions or concerns."

However, Alison Godfrey, director at Godfrey Wilson, says its clients have not yet been affected by this. "We often struggle to get our smaller charity clients to meet the basic

piece of reporting, for others "it simply codifies what they have been reporting for many years as they already felt passionate about their environmental impact and have welcomed the focus brought by this legislation".

Collating the information has been a challenge, says Halford at BDO. "Some charities have engaged a third-party firm to assist in this reporting and that has worked well. Charities need to be cognisant of their mission and objectives and what they are reporting in terms of their own environmental impact, as they are coming under more scrutiny to walk the walk as well as talk the talk."

## “ Some charities may wish to adopt future reporting requirements even if they don't meet the size criteria ”

Carol Rudge, head of not-for-profit at HW Fisher, says that while only large charities have to comply with SECR reporting, ESG goes considerably further than this. "Much of it is not mandatory yet but it is a fairly rapidly evolving area and some organisations are voluntarily adopting

reporting requirements of the SORP within their annual report, so additional SECR reporting, while an essential part of the future landscape, may be a step too far for smaller entities at this time."

For Howard at Azets, while some see SECR as an onerous additional

### FEES AND TENDERS

While the survey finds that fees are not regarded as important as sector knowledge when choosing an auditor, at 60% and 70% respectively (see figure 8, page 37), they are clearly still an understandably vital part of the relationship. The fact that high fees remain the most common cause for complaint (see figure 6, page 34) means they can often trigger a decision to put the audit out to tender.

## Your charity has many stakeholders. A robust audit will ensure they all pull together



Now more than ever your charity's audit needs to satisfy multiple stakeholders' interests. Yet if they are not onboard with the direction of travel, have misgivings about what is presented, or worse still misinterpret figures, through a lack of clarity in the information provided, it is likely they will pull in an altogether different direction.

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so stakeholders gain clarity on tax, financial strategies and have confidence in the figures.

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Within the last year, 17% of respondents reviewed their auditor, although over 70% stayed with the incumbent. Some 13% expect to change their auditor in the next two years though, so there is likely to be plenty of tender activity.

if we can't do the audit at a lower fee. Increasingly, firms are taking on audits based on whether they fit with their sub-sectoral expertise and client profile. They are being selective and this is polarising firms into concentrating on their sweet spots."

be interesting to see how this coming year's audit cycle is affected by this."

Godfrey at Godfrey Wilson notes a slight decrease in tenders in the first year of the pandemic. "This seemed logical given that charities were contending with much higher-priority issues. 2021 has seen a noticeable increase, which we attribute to postponed tenders from 2020, charities receiving new Covid funding which has taken them over the audit threshold, and charities feeling dissatisfied with the service provision of their incumbent auditors."

In the view of Epton from Goldwins, audit fees have remained quite stable although the significant increase in the number of charities going out to tender is because "the pandemic has made charities more aware of where they have been or have not been receiving value-for-money audits and a good service".

Weaver at haysmacintyre says that while the pandemic hasn't in itself

## “ We have noticed that many firms have turned down tender opportunities because of a lack of staff resources ”

Liz Hazell, partner at Saffery Champness, confirms that the number of tenders is going up. "Some are simply from charities who have been with a firm for a number of years, so they are reviewing as a matter of good governance. Therefore, you have to be realistic about how many tenders you take on. We are upfront and say

Neil Finlayson, partner at Moore Kingston Smith, observes that while there appeared to be a delay in the tendering process due to the problems of the pandemic, in recent months this has corrected, as restrictions eased. "We have noticed that many firms have turned down tender opportunities because of a lack of staff resources, and it will

**FIGURE 7: DURING THE COVID-19 PANDEMIC, HOW WOULD YOU RATE YOUR AUDITOR ON THE FOLLOWING?**

| Audit firm            | Total responses | Proactive advice on technical accounting issues |           |          | Proactive advice on general financial support |           |          | Additional services |           |          | Being contactable |           |          | Online seminars/training |           |           |
|-----------------------|-----------------|---|-----------|----------|---|-----------|----------|---------------------|-----------|----------|-------------------|-----------|----------|--------------------------|-----------|-----------|
|                       |                 | Good  | Average   | Poor     | Good  | Average   | Poor     | Good                | Average   | Poor     | Good              | Average   | Poor     | Good                     | Average   | Poor      |
| Azets                 | 90              | 84  | 16        | 0        | 84  | 16        | 0        | 67                  | 33        | 0        | 92                | 8         | 0        | 58                       | 36        | 7         |
| BDO                   | 11              | 55  | 45        | 0        | 36  | 55        | 9        | 27                  | 55        | 18       | 73                | 18        | 9        | 27                       | 64        | 9         |
| BHP                   | 26              | 96  | 4         | 0        | 85  | 12        | 4        | 77                  | 19        | 4        | 92                | 8         | 0        | 58                       | 38        | 4         |
| Bishop Fleming        | 7               | 100   | 0         | 0        | 71  | 29        | 0        | 57                  | 29        | 14       | 100               | 0         | 0        | 71                       | 14        | 14        |
| Buzzacott             | 16              | 88  | 13        | 0        | 75  | 25        | 0        | 56                  | 44        | 0        | 81                | 13        | 6        | 44                       | 56        | 0         |
| Chariot House         | 17              | 71  | 29        | 0        | 76  | 24        | 0        | 53                  | 47        | 0        | 88                | 12        | 0        | 53                       | 41        | 6         |
| Cooper Parry          | 12              | 100   | 0         | 0        | 92  | 8         | 0        | 58                  | 33        | 8        | 75                | 17        | 8        | 42                       | 58        | 0         |
| Crowe                 | 51              | 84  | 16        | 0        | 71  | 29        | 0        | 59                  | 41        | 0        | 90                | 10        | 0        | 71                       | 27        | 2         |
| Garbutt & Elliott     | 31              | 90  | 10        | 0        | 90  | 10        | 0        | 61                  | 39        | 0        | 90                | 10        | 0        | 52                       | 48        | 0         |
| Godfrey Wilson        | 23              | 91  | 9         | 0        | 87  | 13        | 0        | 65                  | 35        | 0        | 96                | 4         | 0        | 17                       | 74        | 9         |
| Goldwins              | 19              | 89  | 11        | 0        | 95  | 5         | 0        | 84                  | 16        | 0        | 100               | 0         | 0        | 42                       | 47        | 11        |
| Griffin Stone Moscrop | 11              | 91  | 9         | 0        | 55  | 45        | 0        | 27                  | 64        | 9        | 82                | 18        | 0        | 0                        | 64        | 36        |
| haysmacintyre         | 19              | 74  | 21        | 5        | 58  | 37        | 5        | 37                  | 63        | 0        | 79                | 21        | 0        | 42                       | 42        | 16        |
| Henderson Loggie      | 8               | 88  | 13        | 0        | 88  | 13        | 0        | 63                  | 38        | 0        | 100               | 0         | 0        | 63                       | 38        | 0         |
| HW Fisher             | 17              | 82  | 18        | 0        | 76  | 24        | 0        | 53                  | 41        | 6        | 88                | 12        | 0        | 35                       | 53        | 12        |
| MHA                   | 10              | 80  | 10        | 10       | 80  | 10        | 10       | 60                  | 30        | 10       | 90                | 10        | 0        | 80                       | 10        | 10        |
| Moore Kingston Smith  | 54              | 81  | 19        | 0        | 83  | 15        | 2        | 65                  | 31        | 4        | 89                | 11        | 0        | 67                       | 31        | 2         |
| PKF Francis Clark     | 6               | 50  | 50        | 0        | 50  | 50        | 0        | 50                  | 50        | 0        | 67                | 33        | 0        | 17                       | 50        | 33        |
| Price Bailey          | 43              | 77  | 19        | 5        | 74  | 23        | 2        | 56                  | 42        | 3        | 88                | 12        | 0        | 51                       | 37        | 12        |
| RSM                   | 20              | 80  | 20        | 0        | 70  | 25        | 5        | 45                  | 55        | 0        | 90                | 5         | 5        | 60                       | 30        | 10        |
| Saffery Champness     | 6               | 67  | 33        | 0        | 50  | 50        | 0        | 17                  | 83        | 0        | 100               | 0         | 0        | 33                       | 50        | 17        |
| Sayer Vincent         | 9               | 67  | 33        | 0        | 45  | 55        | 0        | 22                  | 78        | 0        | 78                | 22        | 0        | 45                       | 55        | 0         |
| UHY Hacker Young      | 9               | 89  | 11        | 0        | 78  | 22        | 0        | 67                  | 33        | 0        | 100               | 0         | 0        | 22                       | 78        | 0         |
| Other firms           | 73              | 55  | 33        | 12       | 52  | 34        | 14       | 37                  | 45        | 18       | 74                | 21        | 5        | 16                       | 49        | 34        |
| <b>Total</b>          | <b>588</b>      | <b>80</b>                                       | <b>18</b> | <b>2</b> | <b>74</b>                                     | <b>23</b> | <b>3</b> | <b>56</b>           | <b>40</b> | <b>4</b> | <b>87</b>         | <b>11</b> | <b>1</b> | <b>47</b>                | <b>42</b> | <b>10</b> |

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



**FIGURE 8: WHICH OF THE FOLLOWING ARE MOST IMPORTANT TO YOU WHEN CHOOSING AN AUDITOR? (CHOICE OF UP TO THREE OPTIONS)**

|                                 | %  |
|---------------------------------|----|
| Understanding of charity sector | 70 |
| Fee                             | 60 |
| Understanding of your charity   | 60 |
| Technical competence            | 48 |
| Personalities/attitude          | 42 |
| Firm's breadth of expertise     | 29 |
| Firm's reputation               | 17 |
| Firm has similar clients        | 17 |
| Non-audit specialist advice     | 7  |
| Geographical location           | 5  |
| Size of firm                    | 3  |
| Other                           | 2  |

resulted in an increase in fees, new auditing standards for 2020/21 year-ends have led to increased costs and therefore fees. “Going forward, the pandemic has changed a charity’s use of IT, the control environment and the business risks. As a result, the needs of trustees and principal audit risks will have changed. Tendering may be used

## “ The pandemic has changed a charity’s use of IT, the control environment and the business risks ”

to ensure an auditor can meet these needs at the right price.”

Pesh Framjee, global head of social purpose and non-profits at Crowe, says that while there may have been a temptation for firms to raise their fees due to extra work associated with the pandemic, his firm tried to make the point that charities were stretched financially so they shouldn’t be charged extra. “Auditing remotely didn’t cost more if you had the right processes in place, and we were used to digital auditing when dealing with our international NGO clients. Indeed, even if there were added costs, this was countered by a saving on travel.”

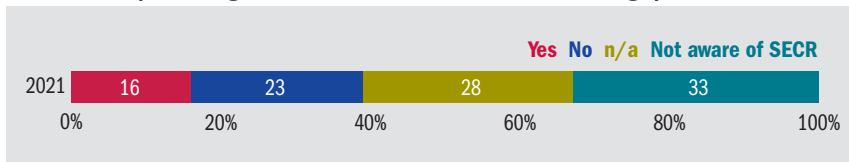
### STEPS TO SUSTAINABILITY

So, how can charities best equip themselves for the years ahead and maximise their chances of sustainability, both financially

and environmentally? Jane Marshall, partner at BHP, highlights how reporting requirements, especially in the trustees’ report, have driven better governance. “For instance, if we look at reserves, I think far more charities are aware of the importance of this and the need to combine this with their strategic plans, risk management and financial management of their resources. This all then leads into improving their chances of sustainability by preparing forecasts of income and expenditure and cash flows for a two-year period, doing proper sensitivity analysis and monitoring the financial position by having up-to-date management accounts so that they can take appropriate action if things are not going to plan. Those that don’t will find themselves going from one crisis to another.”

**FIGURE 9: HAVE YOU DONE WORK TOWARDS FULFILLING YOUR STREAMLINED ENERGY AND CARBON REPORTING (SECR) REQUIREMENTS? (% RESPONDENTS)**

■ Auditors predict the trend to adopt environmental reporting will increase in the coming years ■



“Some have started to develop sustainability plans but are yet to define how these will be monitored”

Moore at UHY Hacker Young’s advice would be for charities to ensure that their recording of day-to-day transactions is as clear and transparent as possible. “Having that foundation makes anything else a lot easier to identify and adapt to. Charities can use these basic building blocks to prepare detailed cash flow forecasts for the future and identify potential cash flow pinch points, or to highlight areas of income which the charity is perhaps becoming too reliant upon so that it can potentially think about diversifying. Although forecasts are less reliable the further ahead you look, it gives charities time to put in place strategies to mitigate any potential issues they might be facing rather than being reactive. Taking the time to do this forward planning is just as important as the historical finances.”

Wilkinson at Price Bailey encourages charities to engage in the SORP-making process as it is likely to bring some fundamental changes in narrative reporting. “Charities also need to look at income generation opportunities and whether these need to be enhanced through active engagement, such as recruiting into the income generation team.”

RSM’s Sladden says that ESG and the need to have a clear strategy is still a work in progress for many charities. “Some have started to implement sustainability plans but are yet to define how these will be monitored and measured going forward. Charities cannot afford to ignore the net-zero carbon and social responsibility agenda. The best charities are driven by genuine commitment to sustainability, communicating values to their beneficiaries, and creating a

positive environment for staff. ESG is, however, more than just the ‘E’, even though most conversations inevitably gravitate towards this. Charities are already well-placed to promote the ‘S’ through public benefit and the ‘G’ through initiatives such as the Charity Governance Code.”

PwC’s Chan notes that some charities have been able to increase their impact during the pandemic. “For these charities, their work has made them more visible, with greater recognition of the difference they make, both locally and nationally. It’s important that this is fully reflected in their reporting.”

Framjee at Crowe concludes by observing that productivity has gone up. “There has been more board engagement, and many charities have taken a hard look at themselves out of necessity. A lot of CEOs and finance directors are saying that things that previously would have taken three years to get agreement on have taken three months. Therefore, many charities will come out of the pandemic stronger because they have been able to pivot to more agile and nimble decision-making.” ●

**PRIZE DRAW WINNER 2021**

All charities responding to the survey in full were entered into a prize draw for a luxury Christmas hamper. Congratulations to Nataliya Izedinova, finance director at the Verification Research, Training and Information Centre (VERTIC), who has won this year.